

REFINITIV

## DELTA REPORT

### 10-Q

LINK - INTERLINK ELECTRONICS INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 2565

■ CHANGES	115
■ DELETIONS	282
■ ADDITIONS	2168

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 **September 30, 2023** **March 31, 2024**

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.)**

**15707 Rockfield Boulevard, Suite 105**

**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:

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 9, 2023 May 9, 2024, the issuer had 6,573,570 9,860,368 shares of common stock issued and outstanding.

---

---

[Table of Contents](#)

INTERLINK ELECTRONICS, INC.  
TABLE OF CONTENTS

	Page No.
<b><u>PART I -- FINANCIAL INFORMATION</u></b>	
<a href="#">Item 1. Financial Statements (unaudited)</a>	3
<a href="#">Condensed Consolidated Balance Sheets</a>	3
<a href="#">Condensed Consolidated Statements of Operations</a>	4
<a href="#">Condensed Consolidated Statements of Comprehensive Income (Loss)</a>	5
<a href="#">Condensed Consolidated Statements of Stockholders' Equity</a>	6
<a href="#">Condensed Consolidated Statements of Cash Flows</a>	7
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	8
<a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	23 22
<a href="#">Item 3. Quantitative and Qualitative Disclosures about Market Risk</a>	30 27
<a href="#">Item 4. Controls and Procedures</a>	30 27
<b><u>PART II -- OTHER INFORMATION</u></b>	
<a href="#">Item 1A. Risk Factors</a>	32 29
<a href="#">Item 5. Other Information</a>	29
<a href="#">Item 6. Exhibits</a>	32 30
<a href="#">Signatures</a>	33 31

[Table of Contents](#)

**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 5,207	\$ 10,091	\$ 4,367	\$ 4,304
Accounts receivable, net	1,622	1,178	1,772	2,167
Inventories	2,875	2,112	2,570	2,476
Prepaid expenses and other current assets	226	321	368	381
Total current assets	<u>9,930</u>	<u>13,702</u>	<u>9,077</u>	<u>9,328</u>
Property, plant and equipment, net	305	184	289	313
Intangible assets, net	289	76	2,437	2,654
Goodwill	4,392	650	2,435	2,461
Right-of-use assets	181	172	99	143
Deferred tax assets	128	134	82	83
Other assets	69	65	79	80
Total assets	<u>\$ 15,294</u>	<u>\$ 14,983</u>	<u>\$ 14,498</u>	<u>\$ 15,062</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities				
Accounts payable	\$ 909	\$ 273	\$ 965	\$ 464
Accrued liabilities	443	568	416	492
Lease liabilities, current	141	131	112	126
Accrued income taxes	468	117	342	293
Total current liabilities	<u>1,961</u>	<u>1,089</u>	<u>1,835</u>	<u>1,375</u>
Long-term liabilities				
Lease liabilities, long term	54	46	2	33
Deferred tax liabilities			581	626
Total long-term liabilities	54	46	583	659
Total liabilities	<u>2,015</u>	<u>1,135</u>	<u>2,418</u>	<u>2,034</u>
Commitments and contingencies (Note 10)	—	—		
Commitments and contingencies (Note 8)			—	—
Stockholders' equity				

Preferred stock, \$0.01 par value: 1,000 shares authorized, 200 shares of Series A Convertible Preferred Stock issued and outstanding at both September 30, 2023 and December 31, 2022 (\$5.0 million liquidation preference)	2	2		
Common stock, \$0.001 par value: 30,000 shares authorized, 6,574 shares issued and outstanding at September 30, 2023; 6,610 shares issued and outstanding at December 31, 2022	7	7		
Preferred stock, \$0.01 par value: 1,000 shares authorized, 200 shares of Series A Convertible Preferred Stock issued and outstanding at both March 31, 2024 and December 31, 2023 (\$5.0 million liquidation preference)	2	2		
Common stock, \$0.001 par value: 30,000 shares authorized, 9,860 shares issued and outstanding at both March 31, 2024 and December 31, 2023	10	10		
Additional paid-in-capital	62,282	62,617	62,279	62,279
Accumulated other comprehensive income (loss)	(97)	(98)		
Accumulated other comprehensive income			93	200
Accumulated deficit	(48,915)	(48,680)	(50,304)	(49,463)
Total stockholders' equity	13,279	13,848	12,080	13,028
Total liabilities and stockholders' equity	\$ 15,294	\$ 14,983	\$ 14,498	\$ 15,062

See accompanying notes to these unaudited condensed consolidated financial statements.

3

[Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Revenue, net	\$ 3,075	\$ 1,851	\$ 10,402	\$ 5,882	\$ 3,124	\$ 3,278
Cost of revenue	1,616	979	5,295	2,817	1,871	1,691
Gross profit	1,459	872	5,107	3,065	1,253	1,587
Operating expenses:						
Engineering, research and development	588	319	1,765	912	576	527
Selling, general and administrative	963	743	3,201	2,476	1,428	1,233
Total operating expenses	1,551	1,062	4,966	3,388	2,004	1,760
Income (loss) from operations	(92)	(190)	141	(323)		
Loss from operations					(751)	(173)
Other income (expense):						
Other income (expense), net	26	207	154	704	32	64
Income before income taxes	(66)	17	295	381		
Loss before income taxes					(719)	(109)

Income tax expense	59	11	230	121	22	82
Net income (loss)	\$ (125)	\$ 6	\$ 65	\$ 260		
Net loss					\$ (741)	\$ (191)
Net income (loss) applicable to common stockholders	\$ (225)	\$ (94)	\$ (235)	\$ (40)		
Net loss applicable to common stockholders					\$ (841)	\$ (291)
Earnings (loss) per common share – basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.03)
Weighted average common shares outstanding – basic and diluted	6,582	6,603	6,597	6,603	9,860	9,915

See accompanying notes to these unaudited condensed consolidated financial statements.

4

[Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three months ended March 31,	
	2023		2022			
	(in thousands)				2024	2023
Net income (loss)	\$ (125)	\$ 6	\$ 65	\$ 260		
Net loss					\$ (741)	\$ (191)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(194)	(80)	1	(229)	(107)	182
Comprehensive income (loss)	\$ (319)	\$ (74)	\$ 66	\$ 31		
Comprehensive loss					\$ (848)	\$ (9)

See accompanying notes to these unaudited condensed consolidated financial statements.

5

[Table of Contents](#)

**INTERLINK ELECTRONICS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(unaudited)

Three Months Ended September 30, 2023	Accumulated									
	Preferred Stock		Common Stock		Additional		Other		Total	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity		
(in thousands)										
Balance at June 30, 2023	200	\$ 2	6,591	\$ 7	\$ 62,440	\$ 97	\$ (48,690)	\$ 13,856		
Net income (loss)	—	—	—	—	—	—	—	(125)	(125)	
Preferred stock dividends	—	—	—	—	—	—	—	(100)	(100)	
Foreign currency translation adjustment	—	—	—	—	—	(194)	—	—	(194)	
Stock-based compensation expense	—	—	1	—	15	—	—	—	15	
Repurchases of common stock	—	—	(18)	—	(173)	—	—	—	(173)	
Balance at September 30, 2023	200	\$ 2	6,574	\$ 7	\$ 62,282	\$ (97)	\$ (48,915)	\$ 13,279		

Three months ended March 31, 2024	Accumulated									
	Preferred Stock		Common Stock		Additional		Other		Total	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity		
(in thousands)										
Balance at December 31, 2023	200	\$ 2	9,860	\$ 10	\$ 62,279	\$ 200	\$ (49,463)	\$ 13,028		
Net loss	—	—	—	—	—	—	—	(741)	(741)	
Preferred stock dividends	—	—	—	—	—	—	—	(100)	(100)	
Foreign currency translation adjustment	—	—	—	—	—	(107)	—	—	(107)	
Balance at March 31, 2024	200	\$ 2	9,860	\$ 10	\$ 62,279	\$ 93	\$ (50,304)	\$ 12,080		

Nine Months Ended September 30, 2023	Accumulated									
	Preferred Stock		Common Stock		Additional		Other		Total	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity		
(in thousands)										
Balance at December 31, 2022	200	\$ 2	6,610	\$ 7	\$ 62,617	\$ (98)	\$ (48,680)	\$ 13,848		
Net income (loss)	—	—	—	—	—	—	—	65	65	
Preferred stock dividends	—	—	—	—	—	—	—	(300)	(300)	
Foreign currency translation adjustment	—	—	—	—	—	1	—	—	1	
Stock-based compensation expense	—	—	1	—	15	—	—	—	15	
Repurchases of common stock	—	—	(37)	—	(350)	—	—	—	(350)	
Balance at September 30, 2023	200	\$ 2	6,574	\$ 7	\$ 62,282	\$ (97)	\$ (48,915)	\$ 13,279		

Three Months Ended September 30, 2022	Accumulated									
	Preferred Stock		Common Stock		Additional		Other		Total	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Equity		
(in thousands)										
Balance at June 30, 2022	200	\$ 2	6,602	\$ 7	\$ 62,552	\$ (53)	\$ (49,898)	\$ 12,610		
Net income	—	—	—	—	—	—	—	6	6	
Preferred stock dividends	—	—	—	—	—	—	—	(100)	(100)	
Foreign currency translation adjustment	—	—	—	—	—	(80)	—	—	(80)	
Stock-based compensation expense	—	—	2	—	15	—	—	—	15	
Balance at September 30, 2022	200	\$ 2	6,604	\$ 7	\$ 62,567	\$ (133)	\$ (49,992)	\$ 12,451		

Preferred Stock	Common Stock	Accumulated				Preferred Stock	Common Stock	Accumulated			
		Additional	Other	Total	Stockholders'			Additional	Other	Accumulated	

Nine Months Ended September 30,		Nine Months Ended December 31,													
2022	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Deficit	Equity	Shares	Amount	Shares	Amount	Capital	Income (Loss)	De-
Three months ended March 31, 2023															
(in thousands)															
Balance at December 31, 2021	200	\$ 2	6,602	\$ 7	\$ 62,552	\$ 96	\$ (49,952)	\$ 12,705	200	\$ 2	9,915	\$ 10	\$ 62,614	\$ (98)	\$ (4
Net income	—	—	—	—	—	—	260	260	—	—	—	—	—	—	—
Balance at December 31, 2022	200	\$ 2	9,915	\$ 10	\$ 62,614	\$ (98)	\$ (4	182	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(300)	(300)	—	—	—	—	—	—	—	—
Preferred stock dividends	—	—	—	—	—	—	(300)	(300)	—	—	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	(229)	—	(229)	—	—	—	—	—	—	182
Stock-based compensation expense	—	—	2	—	15	—	—	15	—	—	—	—	—	—	—
Balance at September 30, 2022	200	\$ 2	6,604	\$ 7	\$ 62,567	\$ (133)	\$ (49,992)	\$ 12,451	200	\$ 2	9,915	\$ 10	\$ 62,614	\$ 84	\$ (4
Balance at March 31, 2023	200	\$ 2	9,915	\$ 10	\$ 62,614	\$ 84	\$ (4	182	—	—	—	—	—	—	—

See accompanying notes to these unaudited condensed consolidated financial statements.

6

## Table of Contents

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

	Nine Months Ended September 30,		Three months ended March 31,	
	2023	2022	2024	2023
	(in thousands)			

		(in thousands)			
Cash flows from operating activities:					
Net income		\$	65	\$	260
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Net loss				\$	(741)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization		266	192	229	49
Unrealized and realized (gains) on marketable securities		—	(562)		
Stock-based compensation expense		15	15		
Adjustment to reconcile operating lease expense to cash paid		11	(6)	(2)	(1)
Deferred income taxes				(39)	—
Changes in operating assets and liabilities:					
Accounts receivable		229	121	387	(396)
Inventories		(158)	(318)	(111)	(208)
Prepaid expenses and other assets		103	(36)	14	(179)
Accounts payable		(72)	33	505	375
Accrued liabilities		(231)	(154)	(74)	(149)
Accrued income taxes		(73)	70	54	80
Net cash provided by (used in) operating activities		155	(385)	222	(620)
Cash flows from investing activities:					
Acquisition of Calman Technology Limited, net of cash acquired		(4,278)	—	—	(2,740)
Purchases of marketable securities		—	(6,027)		
Proceeds from sales of marketable securities		—	15		
Purchases of property, plant and equipment		(44)	(9)	(18)	(10)
Net cash used in investing activities		(4,322)	(6,021)		
Net cash (used in) investing activities				(18)	(2,750)
Cash flows from financing activities:					
Payment of dividends on preferred stock		(300)	(300)	(100)	(100)
Repurchases of common stock		(350)	—		
Net cash used in financing activities		(650)	(300)		
Net cash (used in) financing activities				(100)	(100)
Effect of exchange rate changes on cash and cash equivalents		(67)	(187)		
Net (decrease) in cash and cash equivalents		(4,884)	(6,893)		
Effect of exchange rate changes on cash				(41)	69
Net increase (decrease) in cash and cash equivalents				63	(3,401)
Cash and cash equivalents, beginning of period		10,091	10,782	4,304	10,091
Cash and cash equivalents, end of period		\$ 5,207	\$ 3,889	\$ 4,367	\$ 6,690
Supplemental disclosure of cash flow information:					
Income taxes paid		\$ 331	\$ 167		
Income taxes paid, net				\$ 6	\$ 19
Interest paid		—	—	—	—
Supplemental disclosure of non-cash investing and financing activities:					
Lease liabilities arising from obtaining right-of-use assets		\$ 55	\$ 178		

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") **operates** is a global sensor and printed electronics company **operating** in two principal sensor technology divisions: force/touch sensors, and gas and environmental sensors. Our Force-Sensing Resistor (FSR®) and related technologies, including membrane keypads, graphic overlays and printed electronics, are used extensively in human-machine interface ("HMI") devices, while our gas sensors and instruments are used in environmental and air quality monitoring across a broad range of applications.

We design, develop, manufacture and sell a range of force-sensing and gas-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard sensor-based products and custom sensor system solutions. Our force-sensing products and solutions include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel three-dimensional user inputs. Our HMI Human Machine Interface ("HMI") technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical. Our membrane keypads, graphic overlays, printed electronics and other printed circuits **industrial label products** are **also deployed** applicable for use in HMI markets a wide range of fields, from industrial automation, process control and integrated into products such as monitoring to medical and diagnostic devices and defense systems. Our electrochemical gas-sensing technology instruments, products and solutions are deployed in industry, community, health and home settings, with uses in fields such as carbon monoxide and ozone detection and air quality monitoring.

We serve our world-wide customer base from our corporate headquarters in Irvine, California; our Global Product Development and Materials Science Center and distribution and logistics center in Camarillo, California; our printed electronics printed-electronics manufacturing facilities in Shenzhen, China, and Irvine, Scotland; our advanced and proprietary production and product development facility in Newark, Silicon Valley, California; our engineering, research and development center in Singapore; our technical sales office in Japan; and our distribution and logistics center in Hong Kong. We also maintain a technical and sales office in Japan. Our principal executive office is located at 15707 Rockfield Boulevard, Suite 105, Irvine, California 92618 and our telephone number is (805) 484-8855. Our website address is [www.interlinkelectronics.com](http://www.interlinkelectronics.com).

**March 2024 Common Stock Dividend**

On March 1, 2024, the Board of Directors declared a 50% common stock dividend with a record date of March 11, 2024, that was paid on March 22, 2024. Settlement of fractional share interests was made by issuing one full share of common stock in lieu of a fractional share. The stock dividend increased the number of issued and outstanding shares of common stock from 6,573,570 to 9,860,368. Except as otherwise noted, all references to common stock, common stock issuable upon conversion of preferred stock, and corresponding per share information throughout this Quarterly Report on Form 10-Q have been retroactively adjusted to reflect the stock dividend, which is accounted for as a stock split effected in the form of a stock dividend.

**Fiscal Year**

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

**Basis of Presentation**

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

The accompanying unaudited interim consolidated financial statements for the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in annual consolidated financial statements have been condensed or omitted in accordance with Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments and the elimination of intra-entity accounts) considered necessary for a fair presentation of all periods presented. The results of the Company's operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K, which was filed the Securities and Exchange Commission on **March 29, 2023** **March 25, 2024**.

---

[Table of Contents](#)
**Use of Estimates**

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes to the consolidated financial statements. Management regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, warranty reserves, inventory valuation reserves, stock-based compensation, purchased intangible asset valuations and useful lives, asset retirement obligations, and deferred income tax asset valuation allowances. These estimates and assumptions are based on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results we experience may differ materially and adversely from our original estimates. To the extent there are material differences between the estimates and the actual results, our future results of operations will be affected.

**Revenue Recognition**

We recognize revenue in accordance with Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"), when our customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that are within the scope of ASC 606, we perform the following five steps; (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when (or as) we satisfy a performance obligation. The five-step model is applied to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assess whether each promised good or service is distinct. We then recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Delivery occurs when goods are shipped and title and risk of loss transfer to the customer, in accordance with the terms specified in the arrangement with the customer. Revenue recognition is deferred until the earnings process is complete.

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

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

**Shipping and Handling Fees and Costs**

Amounts billed to customers for shipping and handling fees are presented in revenues. Costs incurred for shipping and handling are included in cost of revenues.

**Engineering, Research and Development Costs**

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

**Marketing and Advertising Costs**

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

---

## [Table of Contents](#)

### **Stock-Based Compensation**

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

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

As of **September 30, 2023** **March 31, 2024**, there were no stock-based compensation awards outstanding.

### **Other Income (Expense)**

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

### **Income Taxes**

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

We operate within multiple tax jurisdictions and are subject to audit in these jurisdictions. Our foreign subsidiaries are subject to foreign income taxes on earnings in their respective jurisdictions. Earnings of our foreign subsidiaries are included in our U.S. federal income tax return as they are earned.

### **Foreign Currency Translation**

The functional currency of our Chinese subsidiary is the Chinese Yuan Renminbi. The functional currency of our United Kingdom subsidiaries is the British pound sterling. The functional currency for our Hong Kong and Singapore subsidiaries is the United States dollar. Assets and liabilities are translated into United States dollars at the exchange rate in effect on the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the respective periods.

### **Comprehensive Income (Loss)**

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

## [Table of Contents](#)

### **Segment Reporting**

We operate in one reportable segment: the manufacture and sale of force/touch sensors and gas sensors.

### **Earnings Per Share**

Basic earnings per share is computed by dividing net income (loss) applicable to common stockholders (i.e., net income (loss) adjusted for preferred stock dividends declared or accumulated) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of diluted common shares, which includes common stock equivalents from, if applicable, and if dilutive, unexercised stock options, unvested restricted stock units, and shares issuable upon conversion of convertible preferred stock. Unexercised stock options and unvested restricted stock units are considered to be common stock equivalents if, using the treasury stock method, they are determined to be dilutive. Convertible preferred stock is considered to be common stock equivalents if, using the if-converted 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**

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

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

### **Risk and Uncertainties**

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

Our operations and financial results may be adversely affected by outbreaks of viruses, widespread illness, infectious diseases, contagions and unforeseen epidemics (such as the COVID-19 coronavirus) in countries in which our products are manufactured and sold. We experienced delays in the receipt of certain goods and the supply of our products from international and domestic shipping origins as a result of the COVID-19 pandemic and more general global supply chain constraints in fiscal 2021, and to a lesser extent in fiscal 2022 and 2023, and so far in fiscal 2023, 2024. Depending on the continued extent and duration of these and similar constraints and disruptions, our supply chain, results of operations (including sales) or future business may be materially and adversely impacted. These and other issues affecting our international suppliers or internationally manufactured merchandise could have a material adverse effect on our business, results of operations and financial condition.

## [Table of Contents](#)

### **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**

We have evaluated subsequent events through **November 9, 2023** **May 9, 2024**, being the date these condensed consolidated financial statements were issued.

#### **Note 2 – Details of Certain Financial Statement Components**

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

Inventories	September 30,		December 31,		March 31,	
	2023	2022	2022	2023	2024	2023
	(in thousands)					
Raw materials	\$ 2,398	\$ 1,635	\$ 2,049	\$ 1,986		
Work-in-process	205	192	225	232		
Finished goods	272	285	296	258		
Total inventories	<u>\$ 2,875</u>	<u>\$ 2,112</u>	<u>\$ 2,570</u>	<u>\$ 2,476</u>		

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

Property, plant and equipment, net	September 30,		December 31,		March 31,	
	2023	2022	2022	2023	2024	2023
	(in thousands)					
Property, plant and equipment, net						
Furniture, machinery and equipment	\$ 1,910	\$ 1,688	\$ 2,014	\$ 2,009		
Leasehold improvements	403	417	406	412		
	<u>2,313</u>	<u>2,105</u>	<u>2,420</u>	<u>2,421</u>		
Less: accumulated depreciation	(2,008)	(1,921)	(2,131)	(2,108)		
Total property, plant and equipment, net	<u>\$ 305</u>	<u>\$ 184</u>	<u>\$ 289</u>	<u>\$ 313</u>		

Depreciation expense totaled \$42,000 and \$48,000 for the three months ended September 30, 2023 and March 31, 2024 and 2022, respectively. Depreciation expense totaled \$125,000 and \$150,000 for the nine months ended September 30, 2023 and 2022, 2023, respectively.

## Table of Contents

Intangible assets, net, consisted of the following:

Amortization expense totaled \$36,000 \$189,000 and \$14,000 \$12,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Amortization expense totaled \$142,000 and \$42,000 for the nine months ended September 30, 2023 and 2022, 2023, respectively. Future amortization expense on existing intangible assets is as follows:

Years ending December 31,	(in thousands)	(in thousands)
2023 (remainder of year)	\$ 35	
2024	125	
2024 (remainder of year)		\$ 559
2025	48	663
2026	27	539
2027	25	332
2028		261
Thereafter	29	83
	\$ 289	\$ 2,437

The changes in the carrying amount of goodwill for the periods ended March 31, 2024 and 2023 are as follows:

	(in thousands)
Balance as of January 1, 2024	\$ 2,461
Adjustment to goodwill, foreign currency exchange rate changes	(26)
<b>Balance as of March 31, 2024</b>	<b>\$ 2,435</b>

	(in thousands)
Balance as of January 1, 2023	\$ 650
Goodwill acquired in acquisition of Calman (before December 2023 adjustment to allocation)	4,052
Adjustment to goodwill, foreign currency exchange rate changes	154
<b>Balance as of March 31, 2023</b>	<b>\$ 4,856</b>

Accrued liabilities consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(in thousands)			
<b>Accrued liabilities</b>				
Accrued compensation and benefits	\$ 172	\$ 320		
Accrued liabilities				
Accrued wages and benefits			\$ 146	\$ 204
Accrued vacation	205	223	190	185
Other accrued liabilities	66	25	80	103
<b>Total accrued liabilities</b>	<b>\$ 443</b>	<b>\$ 568</b>	<b>\$ 416</b>	<b>\$ 492</b>

### Note 3 – Acquisitions

#### Acquisition of Assets of SPEC Sensors and KJW Engineering

On December 16, 2022, we acquired substantially all of the assets of SPEC Sensors, LLC ("SPEC"), and KJW Engineering, Inc. ("KJW") (collectively, "SPEC/KJW"), two designers and manufacturers of gas, air and environmental quality sensors that were under common ownership, pursuant to an Asset Purchase Agreement, dated as of December 16, 2022 (the "Asset Purchase Agreement"), by and among the Company, SPEC/KJW, and the respective equity holders of SPEC and KJW. The Asset Purchase Agreement contains customary representations, warranties and covenants, including non-competition covenants. Under the terms of the Asset Purchase Agreement, the purchase price for both companies' assets was \$2,000,000 plus the amount by which the combined companies' net working capital at closing was more than \$1,350,000. At closing, the purchase price was preliminarily calculated as \$2,269,000, of which \$1,519,000 was paid to SPEC/KJW, and \$750,000 was paid into escrow against purchase price adjustments and potential claims for breaches of representations and warranties by SPEC/KJW or the equity holders. Subsequent to the closing, the parties reached an agreement pursuant to which (i) the purchase price was reduced to \$2,102,313 resulting from the determination that the closing date net working capital was \$166,687 lower than was preliminarily calculated, with such funds having been distributed back to the Company from the escrow account in May 2023, and (ii) the remaining funds in the escrow account were released to SPEC/KJW in May 2023 without prejudice to the Company's rights in respect of breaches of representations, warranties or covenants.

#### Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date, giving effect to the post-closing purchase price adjustment (in thousands).

Cash	\$ 541
Accounts receivable	306
Inventories	952
Prepaid expenses and other current assets	52
Property and equipment	50
Deposits	16
Accounts payable and accrued liabilities	(415)
Net identifiable tangible assets acquired	1,502
Developed technology	134
Customer relationships	96
Trademarks and trademarks	47
In-process research and development	29
Non-compete agreements	26
Order backlog	22
Goodwill	246
Net assets acquired	<u>\$ 2,102</u>

The fair value of accounts receivable is equal to the \$306,000 gross contractual amount, as we expect the entire balance to be collectible.

The goodwill recognized is attributable primarily to expected synergies and the assembled workforces of SPEC/KWJ. The goodwill is expected to be deductible for income tax purposes.

#### **Note 3 – Acquisition of Calman Technology Limited**

On March 17, 2023, we acquired all of the outstanding shares in Calman Technology Limited ("Calman"), a Scotland-based designer and manufacturer of membrane keypads, graphic overlays and printed electronics, pursuant to a Share Purchase Agreement (the "Share Purchase Agreement") by and among the Company's wholly owned United Kingdom subsidiary, Interlink Electronics Limited, and the shareholders of Calman. The Share Purchase Agreement contains customary representations, warranties and covenants, including non-competition covenants on the part of the sellers, who continue to be employed by Calman. Under the terms of the Share Purchase Agreement, the purchase price was GB£4,127,000 (approximately \$4,912,000), of which GB£3,627,000 (approximately \$4,317,000) was paid at closing and the remaining GB£500,000 (approximately \$595,000) is being held back for up to nine months against potential claims for breaches of representations and warranties (subject to certain deductibles and caps). The and was paid to the sellers in December 2023. The purchase price was subject to adjustment based on the extent, if any, to which Calman's net working capital at closing was more or less than GB£600,000 (approximately \$714,000), which resulted in additional purchase consideration of approximately GB£1,292,000 (approximately \$1,538,000).

14

---

#### [Table of Contents](#)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date, giving effect to the post-closing purchase price adjustment and the revised allocation based on the results of the valuation report (in thousands). We are in the process of identifying and measuring the fair value of certain property and equipment assets, intangible assets, and working capital balances, and accordingly the following measurements of these assets and goodwill are provisional and subject to change.

Cash	\$ 1,577	\$ 1,577
Accounts receivable	656	656
Inventories	622	622
Prepaid expenses and other current assets	12	12
Property, plant, and equipment	146	146
Right-of-use assets	91	91
Accounts payable and accrued liabilities	(615)	(615)
Lease liabilities	(91)	(91)
Net identifiable tangible assets acquired	<u>2,398</u>	<u>2,398</u>

Developed technology	381
Tradenames and trademarks	214
Customer relationships	1,260
Non-compete agreements	843
Deferred tax liabilities	(710)
Goodwill	4,052
Net assets acquired	\$ 6,450
	<u>\$ 6,450</u>

The fair value of accounts receivable is equal to the \$656,000 gross contractual amount, as we expect the entire balance to be collectible.

The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Calman. The goodwill is not expected to be deductible for income tax purposes.

The following represents the pro forma consolidated statement of operations as if both SPEC/KWJ and Calman had been included in our consolidated results for the periods full quarters ended September 30, 2023 March 31, 2024 and 2022 (unaudited): 2023:

	Pro Forma		Pro Forma	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(in thousands)				
Revenue	\$ 3,075	\$ 3,866	\$ 11,163	\$ 12,042
Net income (loss)	\$ (125)	\$ (93)	\$ 552	\$ 815

#### Note 4 – Marketable Securities

Our marketable securities consist of equity securities classified as available-for-sale ("AFS"). AFS securities are carried at fair value on the condensed consolidated balance sheets. Realized and unrealized gains and losses are reported in earnings within "other income (expense), net". The specific identification method is used to determine realized gains and losses on AFS securities. During the three months ended September 30, 2023 and 2022, we purchased \$0 and \$0 of marketable securities, respectively, and we sold \$0 and \$15,000 of marketable equity securities, respectively. During the nine months ended September 30, 2023 and 2022, we purchased \$0 and \$6.0 million of marketable securities, respectively, and we sold \$0 and \$15,000 of marketable equity securities, respectively. During the three months ended September 30, 2023 and 2022, gross realized and unrealized gains were \$0 and \$2,000, respectively, and gross realized and unrealized losses were \$0 and \$0, respectively. During the nine months ended September 30, 2023 and 2022, gross realized and unrealized gains were \$0 and \$2,000, respectively, and gross realized and unrealized losses were \$0 and \$0, respectively. As of September 30, 2023, we had no marketable equity securities.

	Pro Forma	
	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Revenue	\$ 3,124	\$ 4,039
Net income (loss)	\$ (741)	\$ 296

15 14

---

#### Table of Contents

#### Note 54 – Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) by the weighted average number of common shares

outstanding during the period, plus the dilutive effect of any dilutive securities.

On March 1, 2024, the Board of Directors declared a 50% common stock dividend with a record date of March 11, 2024, that was paid on March 22, 2024. The effect of this stock dividend (which is accounted for as a stock split effected in the form of a stock dividend) has been applied retroactively to weighted average common shares outstanding, earnings per share, and the conversion rate and conversion price applicable for our Series A Convertible Preferred Stock, as if the 50% common stock dividend had occurred at the beginning of the earliest period presented.

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

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
(in thousands, except per share data)						
Net income (loss)	\$ (125)	\$ 6	\$ 65	\$ 260		
Net loss					(in thousands, except per share data)	
Less: Preferred stock dividends	(100)	(100)	(300)	(300)	\$ (100)	\$ (100)
Net income (loss) applicable to common stockholders	(225)	(94)	(235)	(40)		
Net loss applicable to common stockholders					\$ (841)	\$ (291)
Weighted average common shares outstanding – basic	6,582	6,603	6,597	6,603	9,860	9,915
Dilutive potential common shares from convertible preferred stock	—	—	—	—	—	—
Weighted average common shares outstanding – diluted	6,582	6,603	6,597	6,603	9,860	9,915
Earnings (loss) per common share, basic	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.03)
Earnings (loss) per common share, diluted	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.03)
Shares subject to anti-dilutive Series A Convertible Preferred Stock excluded from calculation	400	400	400	400		
Anti-dilutive shares issuable upon conversion of Series A Convertible Preferred Stock excluded from calculation					600	600

200,000 shares of Series A Convertible Preferred Stock convertible into 400,000 600,000 shares of common stock were outstanding but were not included in the computation of diluted earnings (loss) per share for because their effect would be anti-dilutive due to the periods presented because net losses and due to the \$12.50 \$8.33 conversion price per share was greater being higher than the average market price of the common stock for the applicable period stock.

#### Note 5 – Significant Customers, Concentrations of Credit Risk, and Geographic Information

**Note 6 – Stockholders' Equity** We manage and operate our business through one operating segment.

#### Stock Repurchase Transaction

In May 2023, the Company's board Net revenues from customers equal to or greater than 10% of directors approved the Company's repurchase of 5,500 shares of common stock that were previously issued and sold in a private transaction to an individual in December 2022. The Company repurchased the shares for \$50,050 (\$9.10 per share), which is the same price at which the Company issued and sold the shares in December 2022.

#### Stock Repurchase Program

In May 2023, the Company's board of directors approved a Stock Repurchase Program to repurchase up to 100,000 shares of the Company's common stock. During the three and nine months ended September 30, 2023, the Company repurchased 18,217 and 32,120 shares, respectively, for aggregate purchase prices of approximately \$173,000 and \$300,000, respectively. total net revenues are as follows:

Three months ended March 31,

	2024	2023
Customer A	16 %	32 %
Customer B	17 %	* %

\* Less than 10% of total net revenues

[Table of Contents](#)

**Note 7 – Significant Customers, Concentrations of Credit Risk, and Geographic Information**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Customer A	11 %	20 %	22 %	27 %
Customer B	19 %	* %	11 %	* %
Customer C	11 %	15 %	* %	18 %

	Three months ended March 31,	
	2024	2023
	(in thousands)	
United States	\$ 1,445	\$ 2,153
Asia and Middle East	729	826
Europe and other	950	299
Revenue, net	\$ 3,124	\$ 3,278

\* Less than 10%

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, 2024, two customers accounted for 24% and 19% of total net revenues accounts receivable. At December 31, 2023, two customers accounted for 35% and 16% of total accounts receivable. Our allowance for doubtful accounts was \$0 at both March 31, 2024 and December 31, 2023.

Our long-lived assets were geographically located as follows:

	March 31,		December 31,	
	2024	2023	2024	2023
	(in thousands)			
United States	\$ 674	\$ 733	4,565	4,784
Europe			182	217
Asia				
Total long-lived assets	\$ 5,421	\$ 5,734		

[Table of Contents](#)

Net revenues by geographic area are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
United States	\$ 1,257	\$ 661	\$ 5,357	\$ 2,657
Asia and Middle East	816	1,069	2,770	2,849
Europe and other	1,002	121	2,275	376
Revenue, net	<u>\$ 3,075</u>	<u>\$ 1,851</u>	<u>\$ 10,402</u>	<u>\$ 5,882</u>

Revenues by geographic area are based on the country of shipment destination. The geographic location of distributors and third-party manufacturing service providers may be different from the geographic location of the purchasers and/or ultimate end users.

We provide credit only to creditworthy customers 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 September 30, 2023, two customers accounted for 26% and 17% of total accounts receivable. At December 31, 2022, two customers accounted for 20% and 13% of total accounts receivable. Our allowance for doubtful accounts was \$0 at both September 30, 2023 and December 31, 2022.

Our long-lived assets were geographically located as follows:

	September 30,		December 31,	
	2023	2022	2023	2022
	(in thousands)			
United States	\$ 717	\$ 935		
Europe	4,358	—		
Asia	289	344		
Total long-lived assets	<u>\$ 5,364</u>	<u>\$ 1,279</u>		

[Table of Contents](#)

**Note 86 – Related Party Transactions**

**Qualstar Corporation (OTCMKTS:QBAK)**

Qualstar Corporation (OTCMKTS:QBAK) ("Qualstar") is a related party. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the President, Chief Executive Officer and a director of Qualstar. Ryan J. Hoffman, our Chief Financial Officer, was is also previously the Acting Chief Financial Officer of Qualstar. Mr. Bronson, together with BKF Capital Group, Inc. (OTCMKTS:BKFG) which he controls, have 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, and also our former Los Angeles, 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 and its subsidiaries are as follows:

	Three Months Ended September 30,							
	2023		2022		2023		2022	
	Due from	Due to	Due from	Due to	Due from	Due to	Due from	Due to
	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar
	(in thousands)							
Balance at July 1,	\$ 86	\$ 9	\$ 23	\$ 7				
Billed (or accrued) to Qualstar by Interlink	196	—	206	—				
Paid by Qualstar to Interlink	(255)	—	(203)	—				
Billed (or accrued) to Interlink by Qualstar	—	31	—	29				
Paid by Interlink to Qualstar	—	(28)	—	(28)				
Balance at September 30,	<u>\$ 27</u>	<u>\$ 12</u>	<u>\$ 26</u>	<u>\$ 8</u>				

	Nine Months Ended September 30,				Three months ended March 31,			
	2023		2022		2024		2023	
	Due from	Due to	Due from	Due to	Due from	Due to	Due from	Due to
	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar	Qualstar
	(in thousands)							
Balance at January 1,	\$ 6	\$ —	\$ 85	\$ 8	\$ 2	\$ 32	\$ 6	\$ —
Billed (or accrued) to Qualstar by Interlink	630	—	592	—	76	—	225	—
Paid by Qualstar to Interlink	(609)	—	(651)	—	(65)	—	(210)	—
Billed (or accrued) to Interlink by Qualstar	—	87	—	74	—	37	—	25
Paid by Interlink to Qualstar	—	(75)	—	(74)	—	(44)	—	(25)
Balance at September 30,	<u>\$ 27</u>	<u>\$ 12</u>	<u>\$ 26</u>	<u>\$ 8</u>				
Balance at March 31,					<u>\$ 13</u>	<u>\$ 25</u>	<u>\$ 21</u>	<u>\$ —</u>

1817

#### [Table of Contents](#)

#### **BKF Capital Group (OTCMKTS:BKFG)**

BKF Capital Group, Inc. (OTCMKTS:BKFG) ("BKF Capital") is a related party. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the Chief Executive Officer and Chairman of BKF Capital. Ryan J. Hoffman, our Chief Financial Officer, is also the Chief Financial Officer of BKF Capital. Mr. Bronson, together with BKF Capital, has a controlling interest in Interlink. We have a facilities agreement with BKF Capital to allow BKF Capital to

use a portion of our Irvine, California office facility, for which we have agreed to split substantially all rent and lease-related costs on an apportioned basis according to the approximate relative usage levels by each entity. In addition, we have consulting agreements with BKF Capital for certain of our respective employees and/or independent contractors that provide certain operational and general and administrative services to the other entity. We entered into a M&A advisory consulting services agreement with Bronson Financial LLC ("BF"), a wholly owned subsidiary of BKF Capital, **in** pursuant to which BF provides M&A advisory consulting services to us. Interlink and BKF Capital also agree to reimburse, or be reimbursed by, one another for expenses paid by one company on behalf of the other. Transactions with BKF Capital and its subsidiaries are as follows:

	Three Months Ended September 30,							
	2023		2022		2023		2022	
	Due from	Due to	Due from	Due to	Due from	Due to	Due from	Due to
	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital
	(in thousands)							
Balance at July 1,	\$ 5	\$ —	\$ 6	\$ —	\$ 3	\$ —	\$ 12	\$ —
Billed (or accrued) to BKF Capital by Interlink	8	—	20	—				
Paid by BKF Capital to Interlink	(10)	—	(14)	—				
Billed (or accrued) to Interlink by BKF Capital	—	56	—	37				
Paid by Interlink to BKF Capital	—	(56)	—	(37)				
Balance at September 30,	\$ 3	\$ —	\$ 12	\$ —				

	Nine Months Ended September 30,				Three months ended March 31,			
	2023		2022		2024		2023	
	Due from	Due to	Due from	Due to	Due from	Due to	Due from	Due to
	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital	BKF Capital
	(in thousands)							
Balance at January 1,	\$ 2	\$ —	\$ 12	\$ —	\$ 2	\$ —	\$ 2	\$ —
Billed (or accrued) to BKF Capital by Interlink	41	—	81	—	2	—	23	—
Paid by BKF Capital to Interlink	(40)	—	(81)	—	(3)	—	(8)	—
Billed (or accrued) to Interlink by BKF Capital	—	136	—	97	—	56	—	50
Paid by Interlink to BKF Capital	—	(136)	—	(97)	—	(56)	—	(50)
Balance at September 30,	\$ 3	\$ —	\$ 12	\$ —				
Balance at March 31,					\$ 1	\$ —	\$ 17	\$ —

#### Note 97 – Income Taxes

Our income tax expense is impacted by the mix of our domestic and foreign pre-tax earnings and losses. Our effective income tax rates are generally higher than the blended statutory tax rates of the jurisdictions in which we operate due to having incurred income tax expense on taxable income in certain jurisdictions, while not being able to benefit from losses in other jurisdictions for which our net operating loss carryovers ("NOLs") are subject to valuation

allowance. Income tax expense as a percentage of income/pre-tax loss before income taxes was 89.3% 3.1% for the three months ended September 30, 2023 March 31, 2024 versus 64.7% 75.2% for the comparable quarter period in the prior year. Our income tax expense as a percentage is primarily impacted by the mix of income before income taxes was 78.0% domestic and foreign pre-tax earnings, permanent differences between book income/loss and taxable income/loss, and our ability to utilize prior net operating loss carryovers ("NOLs"). Accordingly, our effective tax rate can vary from the U.S. statutory tax rate of 21% from quarter to quarter. The effective tax rates for the nine months ended September 30, 2023 versus 31.8% for the first nine months each of the prior year.

19

---

[Table](#) three-month periods ended March 31, 2024 and 2023 were impacted by the amount of [Contents](#) our foreign pre-tax income and the tax expense thereon while not realizing a benefit on our domestic pre-tax loss due to the valuation allowance on our domestic NOLs.

We experienced an ownership change under IRC Section 382 in 2010. In general, a Section 382 ownership change occurs if there is a cumulative change in our ownership by "5% shareholders" (as defined in the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. An ownership change generally affects the rate at which NOLs and potential other deferred tax assets are permitted to offset future taxable income. Certain state jurisdictions within which we operate contain similar provisions and limitations. As of September 30, 2023 March 31, 2024, all of the remaining federal and state NOLs are subject to annual limitations due to the 2010 ownership change.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. We analyzed our need to record a valuation allowance against our otherwise recognizable net deferred tax assets in the federal, state and foreign jurisdictions, and we determined that a valuation allowance on federal and state deferred tax assets was necessary at both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, while no valuation allowance on foreign deferred tax assets was necessary at both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The amount of deferred tax assets considered realizable could be adjusted in future periods if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for future profitability.

18

---

## [Table of Contents](#)

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

Of our \$5.2 million \$4.4 million of cash balance at September 30, 2023 March 31, 2024, \$1.6 million \$2.7 million was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S. or for acquisitions, we have several methods to repatriate the funds without significant tax effects, including repayment of intercompany loans or distributions of previously taxed income. Other distributions may require us to incur U.S. or foreign taxes to repatriate these funds. 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.

### **Note 108 – Commitments and Contingencies**

#### **Lease Agreements**

We lease facilities under non-cancellable operating leases. Our current leases expire at various dates through fiscal 2025 and frequently include renewal provisions for varying periods of time, provisions which require us to pay taxes, insurance and maintenance costs, and provisions for minimum rent increases. Minimum leases payments, including scheduled rent increases are recognized as rent expenses on a straight-line basis over the term of the lease.

The rate implicit in each lease is not readily determinable, and we therefore use our incremental borrowing rate to determine the present value of the lease payments. The weighted average incremental borrowing rate used to determine the initial value of No new right-of-use ("ROU") assets and lease liabilities were

capitalized during the nine months ended September 30, 2023 was 5.5%, and during the nine months ended September 30, 2022 was 7.0%. March 31, 2024 or 2023.

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 September 30, 2023 March 31, 2024, 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 2023, we entered into a lease agreement to lease 1,560 square feet of office space in Irvine, California for approximately \$4,000 per month for a term commencing June 2023 and ending May 2024. In March 2024 we extended the term of this lease through May 2025 for the same approximately \$4,000 per - month rental fee. Our Irvine, California office is used for executive offices, sales, finance and administration. We previously occupied a different 4,351 square-foot office space in Irvine, California from June 2020 to May 2023 under a sublease agreement for approximately \$6,000 per month, plus common area maintenance costs.

We lease a 14,476 square-foot manufacturing facility and administrative office in Shenzhen, China. In May 2022, we renewed this lease for the period June 2022 June 1, 2022 through May 2024 May 31, 2024 for approximately \$8,000 per month.

20

---

#### [Table of Contents](#)

We lease a 10,635 square-foot manufacturing facility and administrative offices in Newark, California. In February 2023, we renewed this lease for the period March 2023 March 1, 2023 through February 2024 February 28, 2024 for approximately \$18,000 per month. In March 2024, we entered into a new lease for a 5,183 square - foot facility in Fremont, California for a five - year and three - month period commencing May 1, 2024 (subject to completion of tenant improvements) for \$10,625 per month, escalating 3.5% annually, plus a share of common area operating expenses.

We lease a 9,800 square-foot manufacturing facility and administrative offices in Irvine, Scotland for approximately \$5,000 per month (with a 50% discount through October 2023). month. This lease term ends February 2028, with an option for us to terminate the lease in February 2025.

We lease a 275 square-foot engineering and administrative office in Singapore for approximately \$1,000 per month. This lease term ends May 2024.

We lease a 3,000 square-foot logistics and distribution facility in Hong Kong for approximately \$2,000 per month. This lease term ends April 2025.

19

---

#### [Table of Contents](#)

We lease a 500 square-foot sales office in Tokyo, Japan for approximately \$1,000 per month. This lease term ends November 2024.

As of September 30, 2023 March 31, 2024, we had current and long-term lease liabilities of \$141,000 \$112,000 and \$54,000, \$2,000, respectively, and right-of-use assets of \$181,000, \$99,000. As of December 31, 2022 December 31, 2023, we had current and long-term lease liabilities of \$131,000 \$126,000 and \$46,000, \$33,000, respectively, and right of use assets of \$172,000, \$143,000. Future imputed interest as of September 30, 2023 March 31, 2024 totaled \$10,000, \$4,000. The weighted average remaining lease term of our leases as of September 30, 2023 March 31, 2024 is 0.9 0.5 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)	(in thousands)
---------------------------	----------------	----------------

2023 (remainder of year)	\$ 43	
2024	129	
2024 (remainder of year)	\$ 85	
2025	33	33
2026	—	—
2027	—	—
2028	—	—
Thereafter	—	—
Total undiscounted future non-cancelable minimum lease payments	205	118
Less: imputed interest	(10)	(4)
<b>Present value of lease liabilities</b>	<b>\$ 195</b>	<b>\$ 114</b>

During the three months ended **September 30, 2023** **March 31, 2024**, we incurred approximately **\$129,000** **\$124,000** in operating lease costs. Operating lease costs of **which \$54,000 is \$67,000** are included in cost of revenue, and **\$75,000 is \$57,000** are included in operating expenses in our condensed consolidated statements of operations. **operations for the three months ended March 31, 2024.**

During the three months ended **September 30, 2022** **March 31, 2023**, we incurred approximately **\$67,000** **\$119,000** in operating lease costs. Operating lease costs of **which \$33,000 is \$41,000** are included in cost of revenue, and **\$34,000 is \$78,000** are included in operating expenses in our condensed consolidated statements of operations.

**During operations for the nine three months ended September 30, 2023, we incurred approximately \$379,000 in operating lease costs, of which \$149,000 is included in cost of revenue and \$230,000 is included in operating expenses in our condensed consolidated statements of operations. During the nine months ended September 30, 2022, we incurred approximately \$189,000 in operating lease costs, of which \$94,000 is included in cost of revenue and \$95,000 is included in operating expenses in our condensed consolidated statements of operations.** **March 31, 2023.**

#### **Litigation**

We are not party to any legal proceedings as of **September 30, 2023** **March 31, 2024**. 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

**21**

---

#### **[Table of Contents](#)**

time of sale and **are** updated throughout the warranty period based upon numerous factors including historical warranty return rates and **claim costs 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.

**20**

---

[Table of Contents](#)**Director and Officer Indemnities and Contractual Guarantees**

Pursuant to our bylaws, we will indemnify our directors and executive officers to the fullest extent permitted by Nevada law, without limitation as to amount or duration, in the event of any actual or threatened lawsuit or proceeding. 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 or proceeding has been threatened or 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) immediate and full vesting of all unvested equity and/or options issued by the Company. 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 401(k) or other retirement contribution; and (vi) immediate and full vesting of all unvested equity and/or options issued by the Company.

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) immediate and full vesting of all unvested equity and/or options issued by the Company.

**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 ~~on~~ 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.

2221

---

[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, 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

We operate Interlink Electronics, Inc. is a global sensor and printed electronics company operating in two principal sensor technology divisions: force/touch sensors, and gas and environmental sensors. Our force/touch sensors, including our Force-Sensing Resistor (FSR® ("FSR®")) technology and related technologies, including and our membrane keypads, graphic overlays and printed electronics, are used extensively in human-machine interface Human-Machine Interface ("HMI") devices, while our gas and environmental sensors and instruments are used in environmental and air quality monitoring across a broad range of applications. We design, develop, manufacture and sell a range of technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard products and custom solutions.

**On March 1, 2024, the Board of Directors declared a 50% common stock dividend that was paid on March 22, 2024. For all years presented, all share and per share data have been retroactively adjusted for the effect of the 50% common stock dividend, which is accounted for as a stock split effected in the form of a stock dividend.**

Our principal products are:

### Force/Touch Sensors

**HMI.** We design, develop, manufacture and Force-Sensing Technology. Our HMI sell a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and force-sensing technology is used in 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 and is inputs. Our HMI technology platforms are deployed in a wide range of markets, including consumer electronics, automotive, industrial and medical. The application of our HMI technology platforms includes vehicle entry, vehicle multi-media control interface, rugged touch controls, presence detection, collision detection, speed and torque controls, pressure mapping, biological monitoring and others. Interlink has been a leader in the printed electronics industry for over 38 years with the commercialization of Additionally, through our patented 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.

**Membrane Keypads, Graphic Overlays and Printed Electronics.** Through our acquisition in March 2023 of Calman Technology Limited in March 2023, we offer customized membrane keypads, graphic overlays, printed electronics and industrial label products for use in a wide range of fields, from industrial instrumentation, process control and monitoring to medical and diagnostic devices and defense systems. With over 25 years as a leading HMI provider, Calman Technology has developed to also become a specialized provider of printed electronics for use the medical sector in fields such as medical devices the UK and defense systems. Europe.

### Gas-Sensing Technology

**Through Gas and Environmental Sensors.** We entered the gas and environmental sensing market in 2022 through our acquisition in December 2022 of the business assets of SPEC Sensors, LLC ("SPEC") and KWJ Engineering, Inc. ("KWJ"), early pioneers in miniaturized, low-cost gas-sensing technologies, gas and environmental sensing technologies. Following our acquisition of these operations, we also now offer electrochemical gas-sensing technology products and solutions for industry, community, health and home, with uses in fields such as carbon monoxide and ozone detection safety, personal wellness and air quality monitoring.

23

---

### [Table of Contents](#)

We sell our products and solutions globally to a diverse array of customers that include Fortune Global 500 companies with the Fortune 500 world's most recognizable brands, as well as start-ups, design houses, original design and equipment manufacturers, OEMs and universities. Our customers are some of the world's largest companies and most recognizable brands. Our technology has been deployed in the consumer electronics, automotive, industrial automation, automotive, medical, defense and

22

---

## [Table of Contents](#)

environmental monitoring markets. Our global presence in the United States, China, United Kingdom, Hong Kong, Singapore and Japan allows us to broadly provide local sales and engineering support services to our existing and future worldwide customers. We manufacture our products in a state-of-the-art facility in Shenzhen, China, and in our advanced and proprietary facilities in Newark, Silicon Valley, California and Irvine, Scotland. We control 100% of the manufacturing and shipping process, which enables us to respond quickly to customer product demand and design requirements.

We have invested significantly in the expansion of our technology platforms through our own internal development to ensure we continue to provide the market with leading-edge solutions that are seamless to deploy and perform flawlessly. Having previously built a research and development (R&D) an R&D organization in Singapore to develop new product offerings that will meet the market's growing demand for touch technology and smart surfaces, in 2020 we made the strategic decision to relocate relocated a majority of our R&D and product development efforts to Camarillo, California, where we have established a Global Product Development and Materials Science Center. Combined with the advanced and proprietary facilities in Silicon Valley and Scotland that were acquired in connection with the SPEC acquisitions of SPEC and KJW and Calman, transactions, we believe this will allow us to grow our business and be more closely aligned with current and future large-tier top-tier customers. We also plan to explore potential strategic relationships with companies and technology institutes that will support our growth initiatives.

We were incorporated in California in 1985. In 1996, we re-incorporated into a Delaware corporation and, in 2012, we again changed our domicile from Delaware to Nevada by completing a merger with a newly formed Nevada corporation named Interlink Electronics, Inc. Our principal executive office is located at 15707 Rockfield Boulevard, Suite 105, Irvine, California 92618 and our telephone number is (805) 484-8855. Our website address is [www.interlinkelectronics.com](http://www.interlinkelectronics.com). We make available our annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on our website as soon as reasonably practicable after such reports are prepared.

### **Critical Accounting Policies and Estimates**

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

A description of our critical accounting policies that represent the more significant judgments and estimates used in the preparation of our financial statements was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2023 March 25, 2024. There have been no changes to our critical accounting policies and estimates described in the Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes.

### **Recently Issued and Adopted Accounting Pronouncements**

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

2423

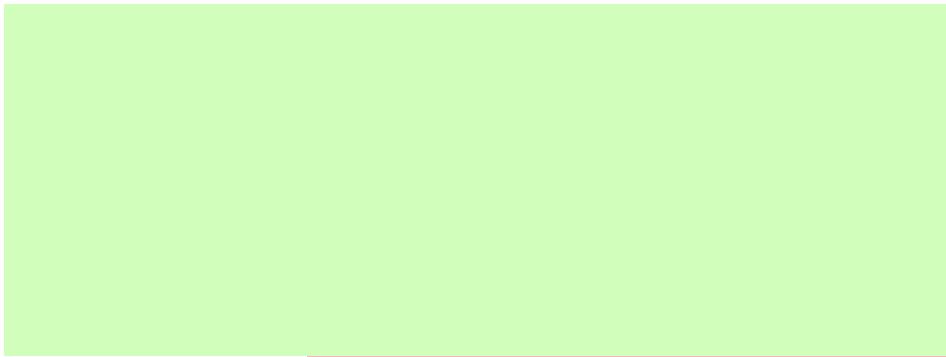
---

## [Table of Contents](#)

### **Results of Operations**

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

Three Months Ended September 30,		Nine Months Ended September 30,		Three months ended March 31	
2023	2022	2023	2022	2024	2023
\$	%	\$	%	\$	%



	(in thousands, except percentages)							(in thousands, except percentages)				
	\$ 3,075	100.0 %	\$ 1,851	100.0 %	\$ 10,402	100.0 %	\$ 5,882	100.0 %	\$ 3,124	100.0 %	\$ 3,278	100.0 %
Revenue, net	<u>1,616</u>	<u>52.6 %</u>	<u>979</u>	<u>52.9 %</u>	<u>5,295</u>	<u>50.9 %</u>	<u>2,817</u>	<u>47.9 %</u>	<u>1,871</u>	<u>59.9 %</u>	<u>1,691</u>	<u>51.6 %</u>
Cost of revenue	<u>1,459</u>	<u>47.4 %</u>	<u>872</u>	<u>47.1 %</u>	<u>5,107</u>	<u>49.1 %</u>	<u>3,065</u>	<u>52.1 %</u>	<u>1,253</u>	<u>40.1 %</u>	<u>1,587</u>	<u>48.4 %</u>
Gross profit												
Operating expenses:												
Engineering, research and development	<u>588</u>	<u>19.1 %</u>	<u>319</u>	<u>17.2 %</u>	<u>1,765</u>	<u>17.0 %</u>	<u>912</u>	<u>15.5 %</u>	<u>576</u>	<u>18.4 %</u>	<u>527</u>	<u>16.1 %</u>
Selling, general and administrative	<u>963</u>	<u>31.3 %</u>	<u>743</u>	<u>40.1 %</u>	<u>3,201</u>	<u>30.8 %</u>	<u>2,476</u>	<u>42.1 %</u>	<u>1,428</u>	<u>45.7 %</u>	<u>1,233</u>	<u>37.6 %</u>
Total operating expenses	<u>1,551</u>	<u>50.4 %</u>	<u>1,062</u>	<u>57.4 %</u>	<u>4,966</u>	<u>47.7 %</u>	<u>3,388</u>	<u>57.6 %</u>	<u>2,004</u>	<u>64.1 %</u>	<u>1,760</u>	<u>53.7 %</u>
Income (loss) from operations	<u>(92)</u>	<u>(3.0)%</u>	<u>(190)</u>	<u>(10.3)%</u>	<u>141</u>	<u>1.4 %</u>	<u>(323)</u>	<u>(5.5)%</u>	<u>(751)</u>	<u>(24.0)%</u>	<u>(173)</u>	<u>(5.3)%</u>
Other income (expense):												
Other income (expense), net	<u>26</u>	<u>0.8 %</u>	<u>207</u>	<u>11.2 %</u>	<u>154</u>	<u>1.5 %</u>	<u>704</u>	<u>12.0 %</u>	<u>32</u>	<u>1.0 %</u>	<u>64</u>	<u>2.0 %</u>
Income (loss) before income taxes	<u>(66)</u>	<u>(2.1)%</u>	<u>17</u>	<u>0.9 %</u>	<u>295</u>	<u>2.8 %</u>	<u>381</u>	<u>6.5 %</u>	<u>(719)</u>	<u>(23.0)%</u>	<u>(109)</u>	<u>(3.3)%</u>
Income tax expense	<u>59</u>	<u>1.9 %</u>	<u>11</u>	<u>0.6 %</u>	<u>230</u>	<u>2.2 %</u>	<u>121</u>	<u>2.1 %</u>	<u>22</u>	<u>0.7 %</u>	<u>82</u>	<u>2.5 %</u>
Net income (loss)	<u>\$ (125)</u>	<u>(4.1)%</u>	<u>6</u>	<u>0.3 %</u>	<u>\$ 65</u>	<u>0.6 %</u>	<u>\$ 260</u>	<u>4.4 %</u>	<u>\$ (741)</u>	<u>(23.7)%</u>	<u>\$ (191)</u>	<u>(5.8)%</u>

**Comparison of Three Months Ended September 30, 2023 March 31, 2024 and 2022**

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

	Three Months Ended September 30,						Three months ended March 31,					
	2023		2022				2024		2023			
	Amount	% of Revenue	Amount	% of Revenue	\$ Change	% Change	Amount	% of Revenue	Amount	% of Revenue	\$ Change	% Change
(in thousands, except percentages)												
Industrial	\$ 988	32.1 %	\$ 535	28.9 %	\$ 453	84.7 %	\$ 677	21.7 %	\$ 1,027	31.3 %	\$ (350)	(34.1)%
Medical	831	27.0 %	450	24.3 %	381	84.7 %	1,185	37.9 %	1,351	41.2 %	(166)	(12.3)%

Consumer	56	1.8 %	537	29.0 %	(481)	(89.6)%	132	4.2 %	228	7.0 %	(96)	(42.1)%
Standard	1,200	39.0 %	329	17.8 %	871	264.7 %	1,130	36.2 %	672	20.5 %	458	68.2 %
Revenue, net	\$ 3,075	100.0 %	\$ 1,851	100.0 %	\$ 1,224	66.1 %	\$3,124	100.0 %	\$3,278	100.0 %	\$ (154)	(4.7)%

We sell our custom products into the industrial, medical, and consumer markets. We sell our standard products to customers in many markets through various distribution networks. The ultimate customer for standard our 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. Products for the industrial, medical and automotive markets 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 September 30, 2023 compared to the same quarter in 2022 in the industrial and medical markets and for our standard products, and were down in the consumer and automotive markets. The increase in revenue from our industrial market customers is due to increased demand from customers in this market and also due to sales to new industrial market customers resulting from our acquisitions of SPEC/KWJ and Calman. The increase in revenue from our medical market customers is primarily due to sales to new medical market customers resulting from our acquisitions of SPEC/KWJ and Calman. The increase in revenue for our standard products is also primarily due to the addition of new customers resulting from our acquisitions of SPEC/KWJ and Calman. The decrease in revenue from our consumer market customers is primarily due to fluctuations in the timing of receipt and

2524

#### [Table of Contents](#)

fulfilment have much longer product life cycles. Industrial, medical, and environmental monitoring products generally have longer design and life cycles than consumer products. We currently have products with life cycles that have exceeded 20 years and are ongoing.

Revenues were down in the three months ended March 31, 2024 as compared to the three months ended March 31, 2023 for sales to customers in the industrial, medical, and consumer markets into which we sell our custom products, while revenues for sales of orders our standard products were up in the first quarter of 2024 compared to the prior year. Fluctuations in our revenue result from some variations in the trends and timing of shipments of our products which are impacted by fluctuations in customer demand. In the first quarter of 2024, we experienced lower demand from certain of our larger consumer products customers, force-sensor customers in the industrial and medical markets compared to the first quarter of 2023. 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 demand our customers' project and production building plans.

Three Months Ended September 30,							Three months ended March 31,						
2023		2022					2024		2023				
Amount	Revenue	Amount	Revenue	% of	% of		Amount	Revenue	Amount	Revenue	% of	% of	
(in thousands, except percentages)													

	(in thousands, except percentages)									
Gross profit	\$ 1,459	47.4 %	\$ 872	47.1 %	\$ 587	67.3 %	\$ 1,253	40.1 %	\$ 1,587	48.4 %

Our gross profit and gross margin percentage are impacted by various factors including product mix, customer mix, sales volume, and fluctuations in our cost of revenues, which are comprised of material costs, direct and indirect production labor costs, warehousing and logistics costs, facilities costs, and other costs related to production activities. Gross profit and gross margin percentage were down during the three months ended September 30, 2023 was up March 31, 2024 compared to the three months ended September 30, 2022 March 31, 2023 due primarily to higher revenues (resulting from our acquisitions of SPEC/KWJ and Calman). Gross margin percentage declined slightly due to changes in product and customer mix and also in part to lower revenues.

	Three Months Ended September 30,						Three months ended March 31,					
	2023			2022			2024			2023		
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(in thousands, except percentages)											
Engineering, research and development												
Engineering, research and development	\$ 588	19.1 %	\$ 319	17.2 %	\$ 269	84.3 %	\$ 576	18.4 %	\$ 527	16.1 %	\$ 49	9.3 %

Engineering and R&D expenses consist primarily of compensation expenses for employees engaged in research, design and product development activities, and plus the cost of those employees' indirect supplies and allocation of facilities expenses. Our R&D team focuses both on internal design development in support of our technology roadmap and in order to develop our standard sensor products and solutions, as well as custom design development aimed at addressing our customers' unique design challenges. Engineering and R&D costs for the three months ended September 30, 2023 March 31, 2024 were up compared to the three months ended September 30, 2022 March 31, 2023 due to increased engineering employee headcount following our acquisition of SPEC/KWJ in December 2022, the inclusion in the current year period of approximately \$26,000 of non-cash amortization expense on intangible assets acquired in the SPEC/KWJ acquisition, and consultation compensation costs and increased prototyping and product-development activities this year as compared to the prior year. intangible asset amortization expense.

	Three Months Ended September 30,						Three months ended March 31,					
	2023			2022			2024			2023		
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(in thousands, except percentages)											
Selling, general and administrative												
Selling, general and administrative	\$ 963	31.3 %	\$ 743	40.1 %	\$ 220	29.6 %						

Selling, general and administrative	\$ 1,428	45.7 %	\$ 1,233	37.6 %	\$ 195	15.8 %
-------------------------------------	----------	--------	----------	--------	--------	--------

Selling, general and administrative expenses consist primarily of compensation expenses for employees in the sales marketing, finance and executive functions, administrative employees, legal and other professional fees, communication facilities expenses and facilities costs, communication expenses. Selling, general and administrative expenses costs for the three months ended September 30, 2023 March 31, 2024 were up compared to the three months ended September 30, 2022 March 31, 2023 due to increased employee intangible asset amortization expense due to the Calman acquisition and the inclusion of Calman's operating costs, partly offset by lower sales and administrative compensation expense on lower headcount following our acquisitions of SPEC/KWJ in December 2022 and Calman in March 2023, lower professional services expenses.

Three Months Ended September 30,						Three months ended March 31,					
2023			2022			2024			2023		
Amount	Revenue	% of	Amount	Revenue	% of	Amount	Revenue	% of	Amount	Revenue	% of
(in thousands, except percentages)											
Other income (expense), net	\$ 26	0.8 %	\$ 207	11.2 %	\$ (181)	87.4 %	\$ 32	1.0 %	\$ 64	2.0 %	\$ (32) (50.0)%

25

---

[Table of Contents](#)

Other income (expense), net consists of non-operating income and expenses, such as gains and losses on marketable securities, foreign currency transaction gains and losses, interest income and expense, and other non-operating income and expenses. Other income (expense), net for the three months ended September 30, 2023 March 31, 2024 was comprised of \$31,000 \$18,000 of interest income, and \$5,000 \$14,000 of foreign

26

---

[Table of Contents](#)

currency transaction losses, gains, while other income (expense), net for the three months ended September 30, 2022 March 31, 2023 was comprised of \$181,000 \$67,000 of gains on marketable securities, \$24,000 interest income, and \$3,000 of foreign currency transaction gains, and \$2,000 of other non-operating income.

	Three Months Ended September 30,					
	2023		2022		Change	
	% of Pre-tax		% of Pre-tax		in % of Pre-tax	
	Amount	Income	Amount	Income	\$ Change	Income
(in thousands, except percentages)						
Income tax expense	\$ 59	89.4 %	\$ 11	64.7 %	\$ 48	24.7 %

losses.

Income tax expense reflects statutory tax rates as a percentage of pre-tax loss was 3.1% for the three months ended March 31, 2024 versus 75.2% for the comparable period in the jurisdictions in which we operate, adjusted for prior year. Our income tax expense is primarily impacted by the mix of domestic and foreign pre-tax earnings, permanent book/tax differences. Our differences between book income/loss and taxable income/loss, and our ability to utilize prior net operating loss carryovers ("NOLs"). Accordingly, our effective tax rate is directly affected can vary from the U.S. statutory tax rate of 21% from quarter to quarter. The effective tax rates for each of the three-month periods ended March 31, 2024 and 2023 were impacted by the relative proportions amount of earnings our foreign pre-tax income and losses in the jurisdictions in which we operate, including tax expense thereon while not realizing a benefit on our current limitation on realizing tax benefits on domestic losses pre-tax loss due to the valuation allowance on our domestic net operating loss carryforward. Based on the expected mix of domestic and foreign earnings and losses, we anticipate our effective tax rate to generally remain higher than the U.S. statutory rate of 21% primarily due to a significant portion of our consolidating earnings being recorded in the jurisdictions of China (25% tax rate) and the United Kingdom (25% tax rate), while our domestic losses do not benefit our effective tax rate due to the valuation allowance. State income taxes also have an impact in the U.S. NOLs.

Discrete tax events may cause our effective rate to fluctuate on a quarterly basis. Certain events, including, for example, acquisitions and other business changes, which are difficult to predict, may also cause our effective tax rate to fluctuate. We are subject to changing tax laws, regulations, and interpretations in multiple jurisdictions. Corporate tax reform continues to be a priority in the U.S. and other jurisdictions. Additional changes to the tax system in the U.S. could have significant effects, positive and negative, on our effective tax rate and on our deferred tax assets and liabilities.

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

	Nine Months Ended September 30,					
	2023		2022		%	
	% of		% of		%	
	Amount	Revenue	Amount	Revenue	\$ Change	% Change
(in thousands, except percentages)						
Industrial	\$ 3,173	30.5 %	\$ 2,131	36.2 %	\$ 1,042	48.9 %
Medical	3,871	37.2 %	1,776	30.2 %	2,095	118.0 %
Consumer	350	3.4 %	993	16.9 %	(643)	(64.8)%
Standard	3,008	28.9 %	982	16.7 %	2,026	206.3 %
Revenue, net	\$ 10,402	100.0 %	\$ 5,882	100.0 %	\$ 4,520	76.8 %

Revenues were up in the nine months ended September 30, 2023 compared to the first nine months of 2022 in the industrial and medical markets, and for our standard products, and were down in the consumer and automotive markets. The increase in revenue from our industrial market customers is due to increased shipments resulting from increased demand by customers in this market, and also due to sales to new industrial market customers resulting from our acquisitions of SPEC/KWJ and Calman. The increase in revenue from our medical market customers is primarily due to a continued increase in orders from and shipments to our largest medical customer, whose purchasing volume increased following the COVID-19 pandemic, and also due to sales of our force-sensing technologies to new medical market customers and also due to sales of our new gas-sensing and membrane keypads products resulting from our acquisitions of SPEC/KWJ and Calman. The increase in revenue for our standard products is primarily due to the addition of new customers resulting from our acquisitions of SPEC/KWJ and Calman. The decrease in revenue from our consumer market customers is primarily due to fluctuations in the timing of receipt and fulfilment of orders from some of our larger consumer products customers, and cyclical in their product designs that cause our products to be included in or excluded from their programs from time to time. 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 demand and production plans.

[Table of Contents](#)

	Nine Months Ended September 30,					
	2023		2022			
	% of		% of			
	Amount	Revenue	Amount	Revenue	\$ Change	% Change
(in thousands, except percentages)						
Gross profit	\$ 5,107	49.1 %	\$ 3,065	52.1 %	\$ 2,042	66.6 %

Gross profit during the nine months ended September 30, 2023 was up compared to the nine months ended September 30, 2022 due to higher revenues (resulting in large part from our acquisitions of SPEC/KWJ and Calman), while gross margin percentage was down due to higher materials and components costs on certain orders and unfavorable changes in product and customer mix.

	Nine Months Ended September 30,					
	2023		2022			
	% of		% of			
	Amount	Revenue	Amount	Revenue	\$ Change	% Change
(in thousands, except percentages)						
Engineering, research and development	\$ 1,765	17.0 %	\$ 912	15.5 %	\$ 853	93.5 %

Engineering and R&D costs for the nine months ended September 30, 2023 were up compared to the nine months ended September 30, 2022 due to increased engineering employee headcount following our acquisition of SPEC/KWJ in December 2022, the inclusion in the current year period of approximately \$108,000 of non-cash amortization expense on intangible assets acquired in the SPEC/KWJ acquisition, and increased prototyping and product-development activities this year as compared to the prior year.

	Nine Months Ended September 30,					
	2023		2022			
	% of		% of			
	Amount	Revenue	Amount	Revenue	\$ Change	% Change
(in thousands, except percentages)						
Selling, general and administrative	\$ 3,201	30.8 %	\$ 2,476	42.1 %	\$ 725	29.3 %

Selling, general and administrative expenses for the nine months ended September 30, 2023 were up compared to the nine months ended September 30, 2022 due to increased employee headcount following our acquisitions of SPEC/KWJ in December 2022 and Calman in March 2023, and increased legal and other professional fees.

	Nine Months Ended September 30,					
	2023		2022			
	% of		% of			
	Amount	Revenue	Amount	Revenue	\$ Change	% Change
(in thousands, except percentages)						
Other income (expense), net	\$ 154	1.5 %	\$ 704	12.0 %	\$ (550)	(78.1)%

Other income (expense), net for the nine months ended September 30, 2023 was comprised of \$129,000 of interest income, \$19,000 of foreign currency transaction gains, and \$6,000 of other non-operating income, while other income (expense), net for the nine months ended September 30, 2022 was comprised of \$562,000 of gains on marketable securities, \$139,000 of foreign currency transaction gains, and \$3,000 of other non-operating income.

	Nine Months Ended September 30,		Change
	2023	2022	

	% of		% of		in % of	
	Pre-tax		Pre-tax		Pre-tax	
	Amount	Income	Amount	Income	\$ Change	Income
	(in thousands, except percentages)					
Income tax expense	\$ 230	78.0 %	\$ 121	31.8 %	\$ 109	46.2 %

Income tax expense reflects statutory tax rates in the jurisdictions in which we operate, adjusted for permanent book/tax differences. Our effective tax rate is directly affected by the relative proportions of earnings and losses in the jurisdictions in which we operate, including our current limitation on realizing tax benefits on domestic losses due to the valuation allowance on our domestic net operating loss carryforward.

28

---

[Table of Contents](#)

**Liquidity and Capital Resources**

Cash requirements for working capital and capital expenditures have been funded from cash balances on hand, cash generated from operations, and sales of equity securities. As of **September 30, 2023** **March 31, 2024**, we had cash and cash equivalents of **\$5.2 million** **\$4.4 million**, working capital of **\$8.0 million** **\$7.2 million** and no indebtedness. Cash and cash equivalents consist of cash and money market funds. Of our **\$5.2 million** **\$4.4 million** of cash, **\$1.6 million** **\$2.7 million** was held by foreign subsidiaries. If these funds are needed for our operations in the U.S. or for acquisitions, we have several methods to repatriate without significant tax effects, including repayment of intercompany loans or distributions of previously taxed income. Other distributions may require us to incur U.S. or foreign taxes to repatriate these funds.

We have outstanding 200,000 shares of our 8.0% Series A Convertible Preferred Stock (the "Preferred Stock") that have an aggregate liquidation preference of \$5.0 million. We pay, when, as and if declared by our board of directors, monthly cumulative cash dividends on the Preferred Stock at an annual rate of 8.0%; this is equivalent to \$0.16667 per month and \$2.00 per annum per share, based on a per share liquidation preference of \$25.00. Dividends on the Preferred Stock are payable monthly in arrears on the 15th day of each calendar month. Our board of directors has declared, and we have paid, cash dividends on the Preferred Stock each month since the Preferred Stock was issued in October 2021, and we expect that the board will continue to declare, and we will continue to pay, such cash dividends on the Preferred Stock each month while the Preferred Stock is outstanding, subject to applicable limitations under Nevada law.

We believe that our existing cash and cash equivalents balance will be sufficient to maintain our current operations considering our current financial condition, obligations, and other expected cash flows. If our circumstances change, however, we may require additional cash. If we require additional cash, we may attempt to raise additional capital through equity, equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we could be subject to fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional needed funds, we may also take measures to reduce expenses to offset any shortfall.

26

---

[Table of Contents](#)

**Cash Flow Analysis**

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

Nine Months Ended		Three Months Ended	
September 30,		March 31,	
2023	2022	2024	2023

	(in thousands)				
Net cash provided by (used in) operating activities	\$ 155	\$ (385)	\$ 222	\$ (620)	(in thousands)
Net cash (used in) investing activities	(4,322)	(6,021)	(18)	(2,750)	
Net cash (used in) financing activities	(650)	(300)	(100)	(100)	

#### Net Cash Provided By (Used In) Operating Activities

For the **nine** three months ended **September 30, 2023** **March 31, 2024**, the **\$155,000** **\$222,000** of cash provided by operating activities was attributable to net **income** loss of **\$65,000**, **\$741,000**, adjusted for non-cash charges of **\$292,000** **\$188,000** and **offset** cash provided by changes in operating assets and liabilities of **\$775,000**. For the three months ended **March 31, 2023**, the **\$620,000** of cash used in operating activities was attributable to net loss of **\$191,000**, adjusted for non-cash charges of **\$48,000** and cash used in changes in operating assets and liabilities of **\$202,000**, **\$477,000**.

Accounts receivable **increased decreased** from **\$1.2 million** **\$2.2 million** at **December 31, 2022** **December 31, 2023** to **\$1.6 million** **\$1.8 million** at **September 30, 2023** **March 31, 2024** due to **higher lower** shipments during the **third** **first** quarter of **2023** **2024** compared to the **third** **fourth** quarter of 2022, and the **addition of** accounts receivable from our **March 2023** **acquisition of Calman** **2023**. Many of our customers pay promptly and the accounts receivable **are** **balance** is generally related to the most recent shipments. Inventories increased **slightly** from **\$2.1 million** **\$2.5 million** at **December 31, 2022** **December 31, 2023** to **\$2.9 million** **\$2.6 million** at **September 30, 2023** **March 31, 2024**. Inventory balances fluctuate depending on the timing of materials purchases and product shipments, and also increased due to our **March 2023** **acquisition of Calman** **shipments**. Prepaid expenses and other current assets decreased **slightly** from **\$321,000** **\$381,000** at **December 31, 2022** **December 31, 2023** to **\$226,000** **\$368,000** at **September 30, 2023** **March 31, 2024** due primarily to the **receipt timing** of **making** **prepayments** versus when the **amount collected from the SPEC/KWJ acquisition escrow** resulting from the reduction in the **purchase price upon** **finalization** **benefits of their closing-date working capital**, those prepayments are consumed. Accounts payable, **accrued liabilities**, and **accrued liabilities** **income** **taxes** increased from **\$841,000** **\$1.2 million** at **December 31, 2022** **December 31, 2023** to **\$1.4 million** **\$1.7 million** at **September 30, 2023** **March 31, 2024**, primarily due to **purchase consideration that remains payable to the prior owners of Calman**, offset by other factors such as the timing of payment for purchases of materials, compensation accruals, and payments on inventories and other accruals of employee compensation and outside services, and the **addition of Calman's accounts payable and accrued liabilities to our consolidated balances**.

29

#### Table of Contents

For the **nine** months ended **September 30, 2022**, the **\$385,000** of cash used in operating activities was attributable to net income of **\$260,000**, adjusted for non-cash charges of **\$201,000** and unrealized gains on marketable securities of **\$562,000** and cash used in changes in operating assets and liabilities of **\$284,000**, **services**.

#### Net Cash Used In (Used In) Investing Activities

Net cash used in investing activities of **\$4.3 million** for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** consisted of **\$4.3 million** **\$18,000** of purchases of property, plant, and equipment. Net cash used in investing activities of **\$2.8 million** for the three months ended **March 31, 2023** consisted of **\$2.7 million** used to acquire the equity interests of Calman (which is net of **\$1.6 million** of cash acquired), and **\$44,000** used for purchases of property, plant, and equipment. Net cash used in investing activities of **\$6.0 million** for the **nine** months ended **September 30, 2022** consisted **\$10,000** of purchases of **\$6.0 million** of marketable securities (net of sales) and **\$9,000** of property, plant, and equipment.

#### Net Cash Used In (Used In) Financing Activities

Net cash used in financing activities of **\$650,000** **\$100,000** for the **nine** **each of the three** months ended **September 30, 2023** **March 31, 2024** and **2023** consisted of **\$350,000** used for repurchases of 32,120 shares of common stock and **\$300,000** used for payments of dividends on our Preferred Stock. Net cash used in financing activities of **\$300,000** for the **nine** months ended **September 30, 2022** was for payments **payment** of dividends on our Preferred Stock.

## 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

27

---

### [Table of Contents](#)

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 **September 30, 2023** **March 31, 2024**, 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 **September 30, 2023** **March 31, 2024**, 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 **September 30, 2023** **March 31, 2024** that materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

### Limitations on Effectiveness of Controls and Procedures

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

30

---

### [Table of Contents](#)

generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

3128

---

[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 filed with the SEC on **March 29, 2023** **March 25, 2024**. There have been no material changes to such risk factors during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

### Item 5. Other Information

#### Insider Trading Arrangements

None.

29

---

[Table of Contents](#)

### Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	<a href="#">Articles of Incorporation of the Registrant</a>	10	000-21858	3.1	February 17, 2016	
3.2	<a href="#">Certificate of Designations of Series A Preferred Stock</a>	8-K	001-37659	3.1	October 25, 2021	
3.3	<a href="#">Bylaws of the Registrant</a>	10	000-21858	3.2	February 17, 2016	
3.4	<a href="#">Amendment to Bylaws of the Registrant</a>	10	000-21858	3.3	February 17, 2016	
31.1	<a href="#">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</a>					X
31.2	<a href="#">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</a>					X

32.1*	<a href="#">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</a>	X
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema Document	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X
104	The cover page from Interlink Electronics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language) and contained in Exhibit 101.	X

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	<a href="#">Articles of Incorporation of the Registrant</a>	10	000-21858	3.1	February 17, 2016	
3.2	<a href="#">Certificate of Designations of Series A Preferred Stock</a>	8-K	001-37659	3.1	October 25, 2021	
3.2.1	<a href="#">Certificate of Amendment of Certificate of Designations of Series A preferred Stock</a>	8-K	001-37659	3.1	November 23, 2021	
3.3	<a href="#">Bylaws of the Registrant</a>	10	000-21858	3.2	February 17, 2016	
3.4	<a href="#">Amendment to Bylaws of the Registrant</a>	10	000-21858	3.3	February 17, 2016	
4.1	<a href="#">Form of the Registrant's common stock certificate</a>	10	000-21858	4.1	February 17, 2016	
10.1	<a href="#">Lease, dated February 29, 2024 between Dollinger Fremont Associates and Interlink Electronics, Inc.</a>					X
31.1	<a href="#">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</a>					X
31.2	<a href="#">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</a>					X
32.1*	<a href="#">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</a>					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	The cover page from Interlink Electronics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language) and contained in Exhibit 101.					X

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

[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: **November 9, 2023** May 9, 2024

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

By: /s/ Ryan J. Hoffman

Ryan J. Hoffman  
Chief Financial Officer

*(Principal Financial and Accounting Officer)*

**Exhibit 10.1****STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE MODIFIED NET**

**1. Basic Provisions ("Basic Provision").**

**1.1 Parties:** This Lease ("Lease"), dated, February 29, 2024, is made by and between Dollinger Fremont Associates ("Landlord") and Interlink Electronics, Inc., a Nevada corporation ("Tenant"), (collectively the "Parties," or individually a "Party").

**1.2(a) Premises:** A portion of that certain building containing approximately 5,183 usable square feet, including all improvements therein or to be provided by Landlord under the terms of this Lease, commonly known by the street address of 48389 Fremont Blvd, Suite 110 located in the City of Fremont, County of Alameda, State of California, with zip code 94538 as outlined on Exhibit A attached hereto ("Premises"). The "Building" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): a multi-tenant R&D building. In addition to Tenant's rights to use and occupy the Premises as hereinafter specified, Tenant shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center." (Also see Paragraph 2.)

**1.2(b) Parking:** 21 unreserved vehicle parking spaces ("Unreserved Parking Spaces"); and no reserved vehicle parking spaces ("Reserved Parking Spaces"). (Also, see Paragraph 2.5)

**1.3 Term:** Five (5) years and three (3) months ("Original Term") commencing on the first day of the calendar month immediately following the month in which Landlord's work has been substantially completed (as mutually agreed by Landlord and Tenant in good faith) ("Commencement Date") and ending on the last day of the sixty-three (63) month period following such the Commencement Date ("Expiration Date"). (Also Paragraph 3.)

**1.4 Early Possession:** Tenant shall have access to the Premises thirty (30) days prior to the Commencement Date ("Early Possession Date") to make certain improvements beginning April 1, 2024, provided such work does not unreasonably interfere with Landlord's work. Tenant's work will include installing additional ventilation for specific areas of the lab and will require installation of ductwork, a number of roof penetrations, and air handling equipment.. (Also Paragraphs 3.2 and 3.3.)

1.5 **Base rent:** \$10,625.00 per month ("Base Rent"), payable on the first day of each month commencing in the fourth month of the Original Term (Also see Paragraph 4.) Base Rent to be adjusted as follows:

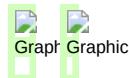
Months 0-3	Abated
Months 4-15	\$10,625.00 per month
Months 16-27	\$10,997.00 per month
Months 28-39	\$11,382.00 per month
Months 40-45	\$11,780.00 per month
Months 46-51	\$12,192.00 per month
Months 52-63	\$12,619.00 per month

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



1.6(a) **Base Rent Paid Upon Execution:** \$13,112.84 as Base Rent and NNN's for the four months of the Original Term.

1.6(b) **Tenant's Share of Common Area Operating Expenses:** 4.19% ("Tenant's Share") as determined by prorata square footage of the Premises as compared to the total square footage of the Industrial Center.

1.7 **Security Deposit:** \$15,107.00 (Security Deposit). (Also see Paragraph 5)

1.8 **Permitted Use:** Research and development, light assembly, testing, sales and distribution of gas, environmental air quality sensors and other sensor-related products, and associated administrative uses. ("Permitted Use") (Also see Paragraph 5.)

1.9 **Insuring Party.** Landlord is the "Insuring Party." (Also see Paragraph 8)

1.10(a) **Real Estate Brokers.** The following real estate broker(s) (collectively, the "Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

CBRE represents Landlord exclusively ("Landlord's Broker");

Newmark represents Tenant exclusively ("Tenant's Broker"); or

represents both Landlord and Tenant ("Dual Agency"). (Also see Par. 15.)

1.10(b) **Payment to Brokers.** Upon the execution of this Lease by both Parties, Landlord shall pay to said Broker(s) according to separate written agreement between Landlord and said Broker(s). Tenant shall have no obligation or other liability to compensate any such Brokers.

1.11 **Guarantor.** The obligations of the Tenant under this Lease are to be guaranteed by NONE ("Guarantor"). (Also see Paragraph 37.)

1.12 **Addenda and Exhibits.** Attached hereto is Exhibit A through B, all of which constitute a part of this Lease.

**2. Premises, Parking and Common Areas.**

2.1 **Letting.** Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. The leaseable area is measured to the outside edge of the outside walls and drip lines to the centerline of any demising walls, including a pro rata share of the electrical room and other common spaces. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental and/or Common Area Operating Expenses, is an approximation which Landlord and Tenant agree is reasonable and the rental and Tenant's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 **Condition.** Landlord shall deliver the Premises to Tenant clean and free of debris on the Commencement Date and warrants to Tenant that the existing plumbing, electrical systems, fire sprinkler system, lighting, air conditioning, ventilation and heating systems and loading doors, if any, and all other such elements in the Premises, other than those constructed by Tenant, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Landlord shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Tenant setting forth with specificity the nature and extent of such non-compliance, rectify same at Landlord's expense. If Tenant does not give Landlord written notice of a non-

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



compliance with this warranty within ninety (90) days after the Commencement Date, correction of that non-compliance shall be the obligation of Tenant at Tenant's sole cost and expense.

2.3 **Warranties.** Tenant acknowledges that neither Landlord nor any of its agents made any representations or warranties respecting the Industrial Center, the Building or the Premises, upon which Tenant relied in entering into this Lease, which are not expressly set forth in this Lease. Tenant further acknowledges that neither Landlord nor any of its agents made any representations as to (i) whether the Premises may be used for Tenant's intended use under existing law or; (ii) the suitability of the Premises for the conduct of Tenant's business or; (iii) the exact square footage of the Premises; that Tenant relied solely upon its own investigations respecting said Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the American with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations and any covenants or restrictions of record (collectively, "Applicable Laws") and that upon its execution of this Lease, accepts the Premises as specified herein. Tenant expressly waives any and all claims for damage by reason of any statement, representation, warranty, promise or other agreement of Landlord or Landlord's agent(s), if any, not contained in this lease or in any addenda hereto. Tenant has 6-month warranty on existing HVAC and roofing systems, not including the HVAC and roof penetrations included in the Tenant's own initial improvement work. Without limiting the generality of this Section 2.3, Landlord represents and warrants that, to the best of its knowledge, the Premises and Common Areas will be in compliance with the building codes in effect pursuant to Applicable Laws as of the the date the building was constructed..

**2.4 Intentionally Omitted.**

2.5 **Vehicle Parking.** Tenant shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Landlord for parking. Tenant shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "**Permitted Size Vehicles.**" Vehicles other than Permitted Size Vehicles shall be parked and loaded or unloaded as directed by Landlord in the Rules and Regulations (as defined in Paragraph 40) issued by Landlord. (Also see Paragraph 2.9.)

(a) Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities.

(b) If Tenant permits or allows any of the prohibited activities described in this Paragraph 2.6, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



(c) Landlord shall at the Commencement Date of this Lease, provide the parking facilities required by Applicable Law.

**2.6 Common Areas - Definition.** The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and Interior utility raceways within the Premises that are provided and designated by the Landlord from time to time for the general non-exclusive use of Landlord, Tenant and other tenants of the Industrial Center and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

**2.7 Common Areas - Tenant's Rights.** Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

**2.8 Common Areas - Rules and Regulations.** Landlord or such other person(s) as Landlord may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable Rules and Regulations with respect thereto subject to and in accordance with Paragraph 40. Tenant agrees to abide by and conform to all such Rules and Regulations and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Landlord shall not be responsible to Tenant for the non-compliance with said rules and regulations by other tenants of the Industrial Center.

**2.9 Common Areas - Changes.** Landlord shall have the right, in Landlord's sole discretion, from time to time:

- (a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;
- (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;
- (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

....

Initials



Areas:

- (d) To add additional buildings and improvements to the Common Areas;
- (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; and
- (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

### **3. Term.**

**3.1 Term.** The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

**3.2 Early Possession.** If an Early Possession Date is specified in Paragraph 1.4 and if Tenant totally or partially occupies the Premises after the Early Possession Date but prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early occupancy (in addition to any other abatement provided herein). All other terms of this Lease, however, (including but not limited to the obligations to pay Tenant's Share of Common Area Operating Expenses and to carry the insurance required by Paragraph 8) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

**3.3 Delay in Possession.** If for any reason Landlord cannot, using commercially reasonable efforts, deliver possession of the Premises to Tenant by April 1, 2024 as the Early Possession Date, Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Tenant hereunder, or extend the term hereof, but in such case, Tenant shall not, except as otherwise provided herein, be obligated to pay rent or Tenant's Share of Common Area Operating Expenses or perform any other obligation of Tenant under the terms of this Lease until Landlord delivers possession of the Premises to Tenant. If possession of the Premises is not delivered to Tenant within sixty (60) days after the May 1, 2024, Tenant may, at its option, by notice in writing to Landlord within ten (10) days after the end of sixty (60) day period, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder and all amounts theretofore paid by Tenant to Landlord shall be immediately refunded to Tenant in full; provided further, however, that if such written notice of Tenant is not received by Landlord within said ten (10) day period, Tenant's right to cancel this Lease hereunder shall terminate and be of no further force or effect. If possession of the Premises is not delivered within 120 days after April 1, 2024, this Lease shall automatically terminate, and all amounts theretofore paid by Tenant to Landlord shall be immediately refunded to Tenant in full, unless other arrangements are reached between Landlord and Tenant, in writing.

#### 4. Rent

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



**4.1 Base Rent.** Tenant shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time in accordance with the terms hereof, to Landlord in lawful money of the United States, without offset or deduction, on or before the 1st day of each month, commencing after the initial abatement period provided in Section 1.5 above. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made via electronic payment in accordance with Landlord's bank account information specified herein or otherwise in writing by Landlord.

**4.2 Common Area Operating Expenses.** Tenant shall pay to Landlord during the term hereof, in addition to the Base Rent, Tenant's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Common Area Operating Expenses" are defined, for purposes of this Lease, as all costs incurred by Landlord relating to the ownership and operation of the Industrial Center, including, but not limited to, the following:

- (i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:
  - (aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators and roof.
  - (bb) Exterior signs and any tenant directories.
  - (cc) Fire detection and sprinkler systems located in the Common Areas.
- (ii) The cost of water, gas, electricity and telephone to service the Common Areas.
- (iii) Trash disposal, property management fees equal to 4% of the gross monthly rental and security services, and the costs of any environmental inspections.
- (iv) Reasonable reserves set aside for the replacement of Common Areas.
- (v) Real Property Taxes (as defined in Paragraph 10.2) to be paid by Landlord for the Building and the Common Areas under Paragraph 10 hereof.
- (vi) The cost of the premiums for the insurance policies maintained by Landlord under

Paragraph 8 hereof.

- (vii) Any deductible portion of an insured loss concerning the building or the Common Areas.
- (viii) Any other services to be provided by Landlord, including the pro-rata share of the on-site building manager's salary, that are expressly stated elsewhere in this Lease to be a Common Area Operating Expense.
- (b) Any common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Landlord to all buildings in the Industrial Center. Common Area Operating Expenses shall not include any expenses paid by any tenant directly to third parties, or as to which Landlord is otherwise reimbursed by any third party, other tenant, or insurance proceeds.
- (c) The inclusion of the improvements, facilities and services set forth in subparagraph 4.2(a) shall not be deemed to impose an obligation upon Landlord to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Landlord already provides the services, or Landlord has agreed elsewhere in this Lease to provide the same or some of them.
- (d) Tenant's Share of Common Area Operating Expenses shall be payable by Tenant within ten (10) days after a reasonably detailed statement of actual expenses is presented to Tenant by Landlord. At Landlord's option, however, an amount may be estimated by Landlord from time to time of Tenant's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Landlord shall designate, during each 12- month period of the Lease term, on the same day as the Base Rent is due hereunder. Landlord shall deliver to Tenant within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Tenant's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Tenant's payments under this Paragraph 4.2(d) during said preceding year exceed Tenant's Share as indicated on said statement, Landlord shall be credited the amount of such over-payment against Tenant's Share of Common Area Operating Expenses next becoming due. If Tenant's payments under this Paragraph 4.2(d) during said preceding year were less than Tenant's Share as indicated on said statement, Tenant shall pay to Landlord the amount of the deficiency within ten (10) days after delivery by Landlord to Tenant of said statement.
- (e) In the event that during all or any portion of any Lease Year, the Building is not fully rented and occupied Landlord shall make an appropriate adjustment in occupancy-related Common Area Operating Expenses for such year for the purpose of avoiding distortion of the amount of such Expenses to be attributed to Tenant by reason of variation in total occupancy of the Building, by employing consistent and sound accounting and management

principles to determine Expenses that would have been paid or incurred by Landlord had the Building been at least ninety-five percent (95%) rented and occupied, and the amount so determined shall be deemed to have bee Expenses for such Lease Year.

5. **Security Deposit.** Tenant shall deposit with Landlord upon Tenant's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Tenant's faithful performance of Tenant's obligations under this Lease. If Tenant fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Landlord may use, apply or retain all or any portion of said Security Deposit, and Tenant shall within ten (10) days after written request therefor deposit monies with Landlord sufficient to restore said Security Deposit to the full amount required by this Lease. At any time that the Base Rent increases during the term of this Lease, Tenant shall, upon written request from Landlord, deposit additional monies with Landlord

as an addition to the Security Deposit so that the total amount of the Security Deposit shall at all times bear the same proportion to the then current Base Rent as the initial Security Deposit bears to the initial Base Rent set forth in Paragraph 1.5. Landlord shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Landlord shall, within sixty (60) days of the expiration or earlier termination of the term hereof and after Tenant has vacated the Premises, return to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest herein), that portion of the Security Deposit not used or applied by Landlord. Unless otherwise expressly agreed in writing by Landlord, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Tenant under this Lease.

## 6. Use.

### 6.1 Permitted Use.

(a) Tenant shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Tenant shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Landlord hereby agrees to not unreasonably withhold or delay its consent to any written request by Tenant, Tenant's assignees or subtenants, and by prospective assignees and subtenants of Tenant, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by other Tenants, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Landlord elects to withhold such consent, Landlord shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Landlord's reasonable objections to the change in use.

### MULTI-TENANT - MODIFIED NET

Eight-L 1993

----

Initials



### 6.2 Hazardous Substances.

(a) **Reportable Uses Require Consent.** The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Tenant shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but upon notice to Landlord and in compliance with all Applicable requirements, use any ordinary and customary materials reasonably required to be used by Tenant in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Landlord to any liability therefor. In addition, Landlord may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Tenant upon Tenant's giving Landlord such additional assurances as Landlord, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including but not limited to the installation (and, at Landlord's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) **Duty to Inform Landlord.** If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Landlord, Tenant shall immediately give Landlord written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received

from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including but not limited to all such documents as may be involved in any Reportable Use involving the Premises. Tenant shall not cause or permit any Hazardous Substance to be spilled or

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

----

Initials



released in, on, under or about the Premises (including, without limitation, through the prompting or sanitary sewer system).

(c) **Indemnification.** Tenant shall indemnify, protect, defend and hold Landlord, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Tenant or by anyone under Tenant's control. Tenant's obligations under this paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Landlord in writing at the time of such agreement.

**6.3 Tenant's Compliance with Requirements.** Except as otherwise provided in this Lease, Tenant shall, at Tenant's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and ground water conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Tenant shall, within five (5) days after receipt of Landlord's written request, provide Landlord with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any applicable Requirements specified by Landlord, and shall promptly upon receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Requirements.

**6.4 Inspection; Compliance with Law.** Landlord, Landlord's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("Lenders") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Landlord shall be entitled to employ experts and/or consultants in connection therewith to advise Landlord with respect to Tenant's activities, including but not limited to Tenant's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

----

Initials



on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease by Tenant or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Tenant, is found to exist or to be imminent, or

unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Tenant shall upon request reimburse Landlord or Landlord's Lender, as the case may be, for the costs and expenses of such inspections.

## 7. Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations.

### 7.1 Tenant's Obligations.

(a) Subject to the provision of Paragraphs 2.2 (Condition), 7.2 (Landlord's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Tenant shall, at Tenant's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Tenant, and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings (including its components such as tiles, t-bar grid), floors, floor coverings, windows, doors, any and all glass (including frames or glazing) including doors and hardware which may become broken in and on the Premises, and skylights, but excluding any items which are the responsibility of Landlord pursuant to Paragraph 7.2 below. Tenant, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Tenant's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Tenant shall, at Tenant's sole cost and expense, procure and maintain a contract, with copies to Landlord, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. However, Landlord reserves the right, upon notice to Tenant, to procure and maintain the contract for the heating, air conditioning and ventilating systems, and if Landlord so elects, Tenant shall reimburse Landlord, upon demand, for the cost thereof.

(c) If Tenant fails to perform Tenant's obligations under this Paragraph 7.1, Landlord may enter upon the Premises after ten (10) days' prior written notice to Tenant (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Tenant's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



(d) Subject to Tenant's indemnification of Landlord as set forth herein, and without relieving Tenant of liability resulting from Tenant's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaid other than at a cost in excess of 50% of the cost of replacing such item, then such item shall be replaced by Landlord, and the cost thereof shall be prorated between the Parties and Tenant shall only be obligated to pay, each month during the remainder of the Original Term of the Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (i.e., 1/144<sup>th</sup> of the cost per month). Tenant shall pay interest on the unamortized balance but may prepay its obligation at any time.

(e) If during the term of this Lease, Tenant makes any improvements on the roof including but not limited to changes in the air conditioning, penetrations for its equipment, installation of coolers or fans or other equipment used by Tenant, than in that event Tenant shall be liable for all roof repairs and damage that results from leaks that result from these improvements. This obligation shall supersede Landlord's obligations under this lease to repair the roof.

**7.2 Landlord's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 4.2 (Common Area Operating Expenses), 7 (Use), 7.1 (Tenant's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Landlord, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including fire alarm and/or smoke detection systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Landlord shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Landlord be obligated to maintain, repair or replace windows, any and all glass (including frames or glazing) including doors and hardware which may become broken in and on the Premises. Tenant expressly waives the benefit of any statute now or hereafter in effect which would

otherwise afford Tenant the right to make repairs at Landlord's expense or terminate this Lease because of Landlord's failure to keep the Building, Industrial Center or Common Areas in good order, condition and repair.

### 7.3 Utility Installations, Trade Fixtures, Alterations.

(a) **Definitions; Consent Required.** The term "Utility Installations" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "Trade Fixtures" shall mean Tenant's machinery and equipment which can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises which are provided by Landlord under the terms of this Lease, other than Utility Installations or Trade Fixtures. "Tenant-

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



**Owned Alterations and/or Utility Installations** are defined as Alterations and/or Utility Installations made by Tenant that are not yet owned by Landlord pursuant to Paragraph 7.4(a). Tenant shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises without Landlord's prior written consent. Tenant may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without Landlord's consent but upon notice to Landlord, so long as they are not visible from the outside of the Premises, do not involve puncturing, relocating or removing the roof or any existing exterior walls, or changing or interfering with the fire sprinkler or fire detection systems and the cumulative cost thereof during the term of this Lease as extended does not exceed \$25,000.00.

(b) **Consent.** Any Alterations or Utility Installations that Tenant shall desire to make and which require the consent of the Landlord shall be presented to Landlord in written form with detailed plans. All consents given by Landlord, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Tenant's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Landlord prior to commencement of the work thereon; and (iii) the compliance by Tenant with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Tenant during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Tenant shall promptly upon completion thereof furnish Landlord with as-built plans and specifications therefor. Landlord may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs \$25,000.00 or more upon Tenant's providing Landlord with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation.

(c) **Lien Protection.** Tenant shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Tenant at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Tenant shall give Landlord not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Landlord shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Tenant shall, in good faith, contest the validity of any such lien, claim or demand, then Tenant shall, at its sole expense, defend and protect itself, Landlord and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Landlord or the Premises. If Landlord shall require, Tenant shall furnish to Landlord a surety bond satisfactory to Landlord in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Landlord against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Landlord may require Tenant to pay Landlord's attorneys' fees and costs in participating in such action if Landlord shall decide it is to its best interest to do so.

### 7.4 Ownership, Removal, Surrender, and Restoration.

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



(a) **Ownership.** Subject to Landlord's right to require their removal and to cause Tenant to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Tenant shall be the property of and owned by Tenant, but considered a part of the Premises. Landlord may, at any time and at its option, elect in writing to Tenant to be the owner of all or any specified part of the Tenant-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Tenant-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Landlord and remain upon the Premises and be surrendered with the Premises by Tenant.

(b) **Removal.** Unless otherwise agreed in writing, Landlord may require that any or all Tenant-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their installation may have been consented to by Landlord, by providing not less than sixty (60) notice to Tenant prior to such expiration or early termination of the Lease. Landlord may require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Landlord.

(c) **Surrender/Restoration.** The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to Landlord of any or all such subleases or subtenancies. Immediately prior to the expiration or sooner termination of this Lease, Tenant shall remove all of Tenant's signs from the exterior of the Building and shall remove all of Tenant's equipment, trade fixtures, furniture, supplies, wall decorations and other personal property from the Leased Premises, and shall vacate and surrender the Leased Premises to Landlord in the same condition, broom clean and freshly repainted, as existed at the Lease Commencement Date. Only to the extent not covered in a contract between Tenant and its contractor, Landlord, at Tenant's expense, shall retain a mechanical contractor to service all heating, ventilation and air conditioning equipment, and Tenant shall pay the cost to restore (or replace as required), said equipment to good working order. Tenant shall repair all damage to the Leased Premises caused by Tenant or by Tenant's removal of Tenant's property and all damage to the exterior of the Building caused by Tenant's removal of Tenant's signs. Tenant shall patch and refinish, to Landlord's reasonable satisfaction, all penetrations made by Tenant or its employees to the floor, walls or ceiling of the Leased Premises, whether such penetrations were made with Landlord's approval or not. Tenant shall replace all stained or damaged ceiling tiles and shall repair or replace, as necessary, all wall coverings and clean or replace, as may be required, floor coverings to the reasonable satisfaction of Landlord. Tenant shall replace all burned out light bulbs and damaged or stained light lenses, and shall repaint all painted walls. Tenant shall repair all damage caused by Tenant to the exterior surface of the Building and the paved surfaces of the outside areas adjoining the Leased Premises and, where necessary, replace or resurface same. Additionally, Tenant shall, upon the expiration or sooner termination of this Lease, remove any improvements, constructed or installed by Tenant which Landlord requests be so removed by Tenant and repair all damage caused by such removal. If the Leased Premises are not surrendered to Landlord in the condition required by this Article at the expiration or sooner termination of this Lease, Landlord may, at

#### MULTI-TENANT - MODIFIED NET

Eight-L 1993

---

Initials



Tenant's expense, so remove Tenant's signs, property and/or improvements not so removed and make such repairs and replacements not so made or hire, at Tenant's expenses, independent contractors to perform such work. Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Leased Premises to the required condition and Tenant shall be deemed to have impermissibly held over until such time as such required work is completed. Tenant shall pay Base Monthly Rent and Additional Rent in accordance with the terms of the Holding Over paragraph until such work is completed.

#### 8. Insurance; Indemnity.

8.1 **Payment of Premiums.** The cost of the premiums for the insurance policies maintained by Landlord under this Paragraph 8 shall be a Common Area Operating Expense pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

#### 8.2 **Liability Insurance.**

(a) **Carried by Tenant.** Tenant shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Tenant, Landlord and any Lender(s) whose names have been provided to Tenant in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas

appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an "Additional Insured-Managers or Landlords of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. Tenant must either cause their liability policy to be endorsed to include pollution liability coverage, onsite and off site, including release of any pollutants, toxins, or contaminants, whether such release is sudden or prolonged or willful or accidental OR Tenant must procure a separate policy which provides coverage for pollution, liability, premises pollution, on site and off site, including release of any pollutants, toxins, or contaminants, whether such release is sudden or prolonged or willful or accidental. The policy shall not contain any intra-insured exclusions as between insured persons or organizations but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Tenant's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Tenant shall not, however, limit the liability of Tenant nor relieve Tenant of any obligation hereunder. All insurance to be required by this Lease or as carried by Tenant shall not, however, limit the liability of Tenant nor relieve Tenant of any obligation hereunder. All insurance to be carried by Tenant shall be primary to and not contributory with any similar insurance carried by Landlord, whose insurance shall be considered excess insurance only.

(b) **Carried by Landlord.** Landlord shall also maintain liability insurance described in Paragraph 8.2(a)

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



above, in addition to and not in lieu of, the insurance required to be maintained by Tenant except coverage for pollution liability, premises pollution, on site and off site, including release of any pollutants, toxins, or contaminants, whether such release is sudden or prolonged or willful or accidental, shall only be carried solely by Tenant. Tenant shall not be named as an additional insured therein.

**8.3 Property Insurance-Building, Improvements and Rental Value.**

(a) **Building and Improvements.** Landlord shall obtain and keep in force during the term of this Lease a policy or policies in the name of Landlord, with loss payable to Landlord and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Tenant-Owned Alterations and Utility Installations, Trade Fixtures and Tenant's personal property shall be insured by Tenant pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Landlord's policy or policies shall insure against all risks of direct physical loss or damage (and at Landlord's option the perils of flood and/or earthquake), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) **Rental Value.** Landlord shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Landlord, with loss payable to Landlord and any Lender(s), insuring the loss of the full rental and other charges payable by all tenants of the Building to Landlord for at least one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) **Adjacent Premises.** Tenant shall pay for any increase in the premiums for the property insurance

of the Building and for the Common Areas or other buildings in the Industrial Center if said increase is caused by Tenant's acts, omissions, use or occupancy of the Premises.

(d) **Tenant's Improvements.** Since Landlord is the Insuring Party, Landlord shall not be required to insure Tenant-Owned Alterations and Utility Installations unless the item in question has become the property of Landlord under the terms of this Lease.

8.4 **Tenant's Property Insurance.** Subject to the requirements of Paragraph 8.5, Tenant at its cost shall either by separate policy or, at Landlord's option, by endorsement to a policy already carried, maintain insurance coverage on all of Tenant's personal property, Trade Fixtures and Tenant-Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that carried by Landlord as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement cost coverage with a deductible not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Tenant for the replacement of personal property and the restoration of Trade Fixtures and Tenant-Owned Alterations and Utility Installations. Upon request from Landlord, Tenant shall provide Landlord with written evidence that such insurance is in force.

8.5 **Insurance Policies.** Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A-VII, or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance Guide." Tenant shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. Tenant shall cause to be delivered to Landlord, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior written notice to Landlord. Tenant shall at least thirty (30) days prior to the expiration of such policies, furnish Landlord with evidence of renewals or "insurance binders" evidencing renewal thereof, or Landlord may order such insurance and charge the cost thereof to Tenant, which amount shall be payable by Tenant to Landlord upon demand.

8.6 **Waiver of Subrogation.** Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Landlord and Tenant agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

8.7 **Indemnity.** Except for Landlord's gross negligence and willful misconduct, Tenant, shall, during the term of this lease, indemnify and save harmless Landlord and any agents of Landlord from any and all loss, damage, claims of damage, obligations, cause or causes of action, or liabilities of any kind or nature (including reasonable costs of attorney's fees if Landlord is made a party to any action which Tenant's indemnity runs hereunder) by reason of injury or death of any person or persons or damage to any property of any kind and to whomsoever belonging, including injury or death to the person or damage to the property of Tenant, Tenant's officers, directors, employees, agents, guests, subtenants and assignees, concessionaires and licensees, and any other person, firm or corporation selling or manufacturing merchandise or services upon or from the demised premises, or any part thereof, from any cause or cause whatsoever which result from Tenant's use or from any other activity done, permitted or suffered by Tenant. As a material part of the consideration to Landlord, Tenant hereby assumes all risk of damage to property or injury to persons in or about the Premises from any cause whatsoever (except that which is cause by the sole active negligence or willful misconduct by Landlord or its Agents or by the failure of Landlord to observe any of the terms and conditions of this lease, if such

failure has persisted for an unreasonable period after written notice of such failure). Tenant's obligations under this paragraph shall survive the termination of this lease.

**8.8 Exemption of Landlord from Liability.** Landlord shall not be liable for injury or damage which may be sustained by Tenant or to the person or goods, wares, merchandise or other property of Tenant, Tenant's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, earthquake, steam, electricity, gas, water or rain, which may leak or from or into any part of the premises or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such damage or injury or the means of preparing the same is accessible or not. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant of Landlord nor from the failure by Landlord to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Landlord's negligence or breach of this Lease, Landlord shall under no circumstances be liable for injury to Tenant's business or for any loss of income or profit therefrom.

## 9. Damage or Destruction.

### 9.1 Definitions.

(a) **"Premises Partial Damage"** shall mean damage or destruction to the Premises, other than Tenant- Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding the Tenant-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



(b) **"Premises Total Destruction"** shall mean damage or destruction to the Premises, other than Tenant-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Tenant-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building, other than Tenant-Owned Alterations and Utility Installations and Trade Fixtures of any tenants of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Tenant-Owned Alterations and Utility Installations and Trade Fixtures of any Tenants of the Building) of the Building shall, at the option of Landlord, be deemed to be Premises total Destruction.

(c) **"Industrial Center Total Destruction"** shall mean damage or destruction to the Industrial Center or the Building in which the Premises are located, regardless of the damage to the Premises, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Industrial Center or the Building (excluding Tenant-Owned Alterations and Utility Installations and Trade Fixtures of any Tenants of the Industrial Center or the Building) immediately prior to such damage or destruction.

(d) **"Insured Loss"** shall mean damage or destruction to the Premises, other than Tenant-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coverage limits involved.

(e) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Landlord at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(f) **"Hazardous Substance Condition"** shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

**9.2 Premises Partial or Total Damage - Insured or Uninsured Loss.** If Premises Partial or Total Damage that is an Insured Loss occurs, unless caused by a negligent or willful act of Tenant (in which event Tenant shall make the repairs at Tenant's expense and this Lease shall continue in full force and effect), then Landlord shall, at Landlord's expense, repair such damage (but not Tenant's Trade Fixtures or Tenant-Owned Alterations and Utility Installations) as soon as reasonably possible, and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such

shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, then Landlord shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Tenant provides Landlord with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Landlord

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



receives said funds or adequate assurance thereof within said ten (10) day period, Landlord shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Landlord does not receive such funds or assurance within said period, Landlord may nevertheless elect by written notice to Tenant within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Landlord paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If Landlord does not receive such funds or assurance within such ten (10) day period, and if Landlord does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Tenant shall in no event have any right to reimbursement from Landlord for any funds contributed by Tenant to repair any such damage or destruction.

**9.3     Intentionally Deleted.**

**9.4     Industrial Center Destruction.** Notwithstanding any other provision hereof, if the Industrial Center in which the Premises are located suffers Total Destruction (including any destruction required by any authorized public authority), this Lease at Landlord's or Tenant's option shall terminate sixty (60) days following the date of such Total Destruction, whether or not the damage or destruction affected the Premises. In the event, however, that the damage or destruction was caused by Tenant, Landlord shall have the right to recover Landlord's damages from Tenant except as released and waived in Paragraph 9.7.

**9.5     Damage Near End of Term.** If at any time during the last six (6) months of the term of this Lease there is damage to the Premises not caused by Landlord for which the cost to repair exceeds one month's Base Rent or such repaid is not an Insured Loss, Landlord may, at Landlord's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Tenant of Landlord's election to do so within thirty (30) days after the date of occurrence of such damage; provided, however, if Tenant at that time has an exercisable option to extend this Lease, then Tenant may preserve this Lease by (a) exercising such option, and (b) providing Landlord with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Tenant's receipt of Landlord's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Tenant duly exercises such option during such period and provides Landlord with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Landlord shall, at Landlord's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Tenant fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

**9.6     Abatement of Rent; Tenant's Remedies.**

(a)     In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Tenant

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



is not legally responsible, the Base Rent, Common Area Operating Expenses and other charges, if any, payable by Tenant hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Tenant's use of the

Premises is impaired, but not in excess in aggregate of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Tenant hereunder shall be performed by Tenant, and Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

(b) If Landlord shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within thirty (30) days after such obligation shall accrue, Tenant may, at any time prior to the commencement of such repair or restoration, give written notice to Landlord and to any Lenders of which Tenant has actual notice of Tenant's election to terminate this Lease on a date not less than thirty (30) days following the giving of such notice. If Tenant gives such notice to Landlord and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Landlord or a Lender commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

**9.7 Hazardous Substance Conditions.** If a Hazardous Substance Condition occurs, unless Tenant is legally responsible therefor (in which case Tenant shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect, but subject to Landlord's rights under Paragraph 6.2(c) and Paragraph 13), Landlord may at Landlord's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$50,000, whichever is greater, give written notice to Tenant within thirty (30) days after receipt by Landlord of knowledge of the occurrence of such Hazardous Substance Condition of Landlord's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Landlord elects to give such notice of Landlord's intention to terminate this Lease, Tenant shall have the right within ten (10) days after receipt of such notice to give written notice to Landlord of Tenant's commitment to pay for the excess costs of (a) investigation and remediation of such Hazardous Substance Condition to the extent required by Applicable Requirements, over (B) an amount equal to twelve (12) times the then monthly Base Rent or \$50,000 whichever is greater. Tenant shall provide Landlord with the funds required of Tenant or satisfactory assurance thereof within thirty (30) days following said commitment by Tenant. In such event this Lease shall continue in full force and effect, and Landlord shall proceed to make such investigation and remediation as soon as reasonably possible after the required funds are available. If Tenant does not give such notice and provide the required funds or assurance thereof within the

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



time period specified above, this Lease shall terminate as of the date specified in Landlord's notice of termination.

**9.8 Termination - Advance Payments.** Upon termination of this Lease pursuant to this Paragraph 9, Landlord shall return to Tenant any advance payment made by Tenant to Landlord and so much of Tenant's Security Deposit as has not been, or is not then required to be, used by Landlord under the terms of this Lease.

**9.9 Waiver of Statutes.** Landlord and Tenant agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

#### **10. Real Property Taxes.**

**10.1 Payment of Taxes.** Landlord shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Industrial Center, and except as otherwise provided in Paragraph 10.3, any such amounts shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

**10.2 Real Property Tax Definition.** As used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Industrial Center by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Landlord in the Industrial Center or any portion thereof, Landlord's right to rent or other income therefrom, and/or Landlord's business of leasing the Premises. The term "Real

**Property Taxes**" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the term of this Lease, including but not limited to a change in the ownership of the Industrial Center or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

**10.3 Additional Improvements.** Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Building or Industrial Center by other tenants or by Landlord for the exclusive enjoyment of such other tenants; provided, however, that Tenant shall pay to Landlord the Common Area Operating Expenses as payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Tenant or at Tenant's request.

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



**10.4 Joint Assessment.** If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed or the industrial center, such proportion to be determined by Landlord from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Landlord's reasonable determination thereof, in good faith, shall be conclusive.

**10.5 Tenant's Property Taxes.** Tenant shall pay prior to delinquency all taxes assessed against and levied upon Tenant-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Tenant contained in the Premises or stored within the Industrial Center. When possible, Tenant shall cause its Tenant- Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Landlord. If any of Tenant's said property shall be assessed with Landlord's real property, Tenant shall pay Landlord the taxes attributable to Tenant's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Tenant's property.

**11. Utilities.** Tenant shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, water, telephone, security, gas, sewer, trash removal and cleaning of the Premises, together with any taxes thereon. If any such utilities or services are not separately metered to the Premises or separately billed to the Premises, Tenant shall pay to Landlord a reasonable proportion to be determined by Landlord of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d). Landlord shall not be liable to Tenant for injury, damage, loss of Tenant's business or profits, from any failure, interruption, rationing or other curtailment in the supply of electric, gas, water or other utilities from whatever cause. Tenant shall not consume water in excess of that usually furnished or supplied for reasonable and normal drinking and lavatory use in connection with an office environment (as determined by Landlord), without first procuring the written consent of Landlord, which Landlord may refuse, and in the event of consent, Landlord may have installed a water meter in the Premises to measure the amount of water consumed. The cost of any such meter and of its installation, maintenance and repair shall be paid for by the Tenant, and Tenant agrees to pay to Landlord promptly upon demand for all such water consumed as shown by said meters, at the rates charged for such services by the local public utility plus any additional expense incurred in keeping account of the water so consumed. If a separate meter is not installed, the excess cost for such water shall be established by an estimate made by a utility company or electrical engineer hired by Landlord at Tenant's expense.

**12 Assignment and Subletting.**

**12.1 Landlord's Consent Required.**

(a) Tenant shall not assign this Lease, nor any right hereunder, nor sublet the Premises, nor any part

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



thereof, without the prior written consent of Landlord. In exercising its reasonable discretion, Landlord may consider all commercially relevant factors involved in the leasing of the Premises including but not limited to the a) the creditworthiness and financial stability of the prospective assignee or subtenant; b) references of prior landlords; c) the past history of such subtenant, with respect to involvement in litigation and bankruptcy proceedings; d) the impact of said subtenant or assignee and proposed use of the premises on pedestrian and vehicular traffic, other tenants, and parking; e) the use, generation or disposal of hazardous materials. The presence of one negative factor enumerated above shall be deemed reasonable justification for Landlord's withholding consent.

(b) Unless Tenant is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Tenant shall constitute an assignment requiring Landlord's consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Tenant shall constitute a change in control for this purpose.

(c) The involvement of Tenant or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Tenant's assets occurs, which results or will result in a reduction of the Net Worth of Tenant, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such Net Worth of Tenant as it was represented to Landlord at the time of full execution and delivery of this Lease or at the time of the most recent assignment to which Landlord has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Tenant was or is greater, shall be considered an assignment of this Lease by Tenant to which Landlord may reasonably withhold its consent. "Net Worth of Tenant" for purposes of this Lease shall be the net worth of Tenant (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Tenant's interest in this Lease without Landlord's specific prior written consent shall, at Landlord's option, be a Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Landlord elects to treat such unconsented to assignment or subletting as a non-curable Breach, Landlord shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days' written notice ("Landlord's Notice"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the Premises, as reasonably determined by Landlord, or one hundred ten percent (110%) of the Base Rent then in effect. Pending determination of the new fair market rental value, if disputed by Tenant, Tenant shall pay the amount set forth in Landlord's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Tenant shall be subject to similar adjustment to the then fair market value as reasonably determined by Landlord (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new rental bears to the Base Rent in effect immediately prior to the adjustment specified in Landlord's Notice.

(e) Tenant's remedy for any breach of this Paragraph 12.1 by Landlord shall be limited to compensatory damages and/or injunctive relief.

**12.2 Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Landlord's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or subtenant of the obligations of Tenant under this Lease, (ii) release Tenant of any obligations hereunder, nor (iii) alter the primary liability of Tenant

for the payment of Base Rent and other sums due Landlord hereunder or for the performance of any other obligations to be performed by Tenant under this Lease.

(b) Landlord may accept any rent or performance of Tenant's obligations from any person other than Tenant pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver or estoppel of Landlord's right to exercise its remedies for the Default or Breach by Tenant of any of the terms, covenants or conditions of this Lease.

(c) The consent of Landlord to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Tenant or to any subsequent or successive assignment or subletting by the assignee or subtenant. However, Landlord may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Tenant or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

(d) In the event of any Default or Breach of Tenant's obligation under this Lease, Landlord may proceed directly against Tenant, any guarantors or anyone else responsible for the performance of the Tenant's obligations under this Lease, including any subtenant, without first exhausting Landlord's remedies against any other person or entity responsible therefor to Landlord, or any security held by Landlord.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Landlord's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or subtenant, including but not limited to the intended use and/or required modification of the

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

....

Initials



Premises, if any, together with a non-refundable deposit of \$1,000, as reasonable consideration for Landlord's considering and processing the request for consent. Tenant agrees to provide Landlord with such other or additional information and/or documentation as may be reasonably requested by Landlord.

(f) Any assignee of, or subtenant under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Landlord, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Tenant during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Landlord has specifically consented in writing.

(g) If Tenant desires to sublet the Premises or assign this Lease prior to the expiration of the term of the Lease and obtains an acceptable subtenant or assignee, then the Landlord shall have the option prior to the execution of the sublease or assignment agreement to cancel this lease. Landlord, in Landlord's sole discretion, may then enter into a new lease with any prospective subtenant as the substitute Tenant. If Landlord exercises this option, then this present lease shall be terminated by mutual agreement as of that time. The original Tenant agrees to pay all leasing commissions for the new lease payable to third party brokers according to their standard schedules of lease commissions for that period of time applicable to the remaining period of this lease at the present rental rate. Landlord shall pay all additional commissions for periods of time extending beyond this original lease.

**12.3 Additional Terms and Conditions Applicable to Assignment and Subletting.** The following terms and conditions shall apply to any subletting or assignment by Tenant of all or any part of the Premises and shall be deemed included in all subleases and assignments under this Lease whether or not expressly incorporated therein:

(a) Tenant hereby assigns and transfers to Landlord all of Tenant's interest in all rentals, income or other consideration arising from any sublease or assignment of all or a portion of the Premises heretofore or hereafter made by Tenant, and Landlord may collect such sums and apply same toward Tenant's obligations under this Lease. Landlord shall not, by reason of the foregoing provision or any other assignment of such sublease to Landlord, nor by reason of the collection of the rents from a subtenant, be deemed liable to the subtenant for any failure of Tenant to perform and comply with any of Tenant's obligations to such subtenant under such Sublease. Tenant hereby irrevocably authorizes and directs any such subtenant, upon receipt of a written notice from Landlord, to pay to Landlord the rents and other charges due and to become due under the sublease. Subtenant shall rely upon any such statement and request from Landlord and shall pay such rents and other charges to Landlord without any obligation or right to inquire as to whether any Breach exists and notwithstanding any notice from or claim from Tenant to the contrary. Tenant shall have no right or claim against such subtenant, or, until the Breach has been cured, against Landlord, for any such rents and other charges so paid by said subtenant to Landlord.

(b) In the event of a Breach by Tenant in the performance of its obligations under this Lease, Landlord, at its option and without any obligation to do so, may require any subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of the sub landlord under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Landlord shall not be liable for any prepaid rents or security deposit paid by such subtenant to such sub landlord or for any other prior defaults or breaches of such sub landlord under such sublease.

(c) Any matter or thing requiring the consent of the sub landlord under a sublease shall also require the consent of Landlord herein.

(d) No subtenant under a sublease or assignee approved by Landlord shall further assign or sublet all or any part of the Premises without Landlord's prior written consent.

(e) Landlord shall deliver a copy of any notice of Default or Breach by Tenant to the subtenant, who shall have the right to cure the Default of Tenant within the grace period, if any, specified in such notice. The subtenant shall have a right of reimbursement and offset from and against Tenant for any such Defaults cured by the subtenant.

### 13. Default; Breach; Remedies.

**13.1 Default; Breach.** Landlord and Tenant agree that if any attorney is consulted by Landlord in connection with a Tenant Default or Breach (as hereinafter defined), \$350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Landlord may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "Default" by Tenant is defined as a failure by Tenant to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Tenant under this Lease. A "Breach" by Tenant is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Tenant to cure such Default prior to the expiration of the applicable grace period, and shall entitle Landlord to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3.

(a) The vacating of the Premises without providing a commercially reasonable level of security, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Tenant to make any payment of Base Rent, Tenant's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Tenant hereunder as and when due, the failure by Tenant to provide Landlord with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Tenant to fulfill any obligation under this Lease which

endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Landlord to Tenant.

(c) Except as expressly otherwise provided in this Lease, the failure by Tenant to provide Landlord with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Tenant's obligations under this

Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Landlord may reasonably require of Tenant under the terms of this lease, where any such failure continues for a period of five (5) business days following written notice by or on behalf of Landlord to Tenant.

(d) A Default by Tenant as to the terms covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Tenant, other than those described in Subparagraphs 13.1(a), (b), or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Landlord to Tenant; provided however, that if the nature of Tenant's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Tenant if Tenant commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Tenant of any general arrangement or assignment for the benefit of creditors; (ii) Tenant's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Landlord that any financial statement of Tenant or of any Guarantor, given to Landlord by Tenant or any Guarantor, was materially false.

(g) If the performance of Tenant's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

----

Initials



refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Tenant's failure, within sixty (60) days following written notice by or on behalf of Landlord to Tenant of any such event, to provide Landlord with written alternative assurances of security, which, when coupled with the then existing resources of Tenant, equals or exceeds the combined financial resources of Tenant and the Guarantors that existed at the time of the execution of this Lease.

**13.2 Remedies.** If Tenant fails to perform any affirmative duty or obligation of Tenant under this Lease, within ten (10) days after written notice to Tenant (or in case of an emergency, without notice), Landlord may at its option (but without obligation to do so), perform such duty or obligation on Tenant's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Landlord shall be due and payable by Tenant to Landlord upon invoice therefor. If any check given to Landlord by Tenant shall not be honored by the bank upon which it is drawn, Landlord, at its own option, may require all future payments to be made under this Lease by Tenant to be made only by cashier's check. In the event of a Breach of this Lease by Tenant (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Landlord in the exercise of any right or remedy which Landlord may have by reason of such Breach, Landlord may:

(a) Terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Tenant proves could be reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by the Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Landlord in connection with this Lease applicable to

the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Landlord to mitigate damages caused by Tenant's Default or Breach of this Lease shall not waive Landlord's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Landlord shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Landlord may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



Graph Graphic

Subparagraph 13.1 (b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Tenant under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1 (b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Tenant to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Landlord to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Tenant's right to possession in effect (in California under California Civil Code Section 1951.4) after Tenant's Breach and recover the rent as it becomes due, provided Tenant has the right to sublet or assign, subject only to reasonable limitations. Landlord and Tenant agree that the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Landlord's interest under this Lease, shall not constitute a termination of the Tenant's right to possession.

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Tenant's right to possession shall not relieve Tenant from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Tenant's occupancy of the Premises.

**13.3 Inducement Recapture in Event of Breach.** Any agreement by Landlord for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Landlord to or for Tenant of any cash or other bonus, inducement or consideration for Tenant's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**" shall be deemed conditioned upon Tenant's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Tenant. Upon Breach of this Lease by Tenant, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Landlord under such an Inducement Provision shall be immediately due and payable by Tenant to Landlord, and recoverable by Landlord, as additional rent due under this Lease. The acceptance by Landlord of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Landlord of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Landlord at the time of such acceptance.

**13.4 Late Charges.** Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



Graph Graphic

charges which may be imposed upon Landlord by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) business days after such amount shall be due, then, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's Default or Breach with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Landlord's option, become due and payable quarterly in advance.

**13.5 Breach by Landlord.** Landlord shall not be deemed in breach of this Lease unless Landlord fails within a reasonable time to perform an obligation required to be performed by Landlord. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Landlord, and by any Lender(s) whose name and address shall have been furnished to Tenant in writing for such purpose, of written notice specifying wherein such obligation of Landlord has not been performed; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Landlord shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

**14. Condemnation.** If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than twenty five percent (25%) of the floor area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Tenant's parking, is taken by condemnation, Tenant may, at Tenant's option, to be exercised in writing within ten (10) days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of the Base Rent shall occur if the condemnation does not apply to any portion of the Premises or effect Tenant's rights hereunder with respect to designated parking in the Common Areas. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Tenant shall be entitled to any compensation separately awarded

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



to Tenant for Tenant's relocation expenses and/or loss of Tenant's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, (i) Landlord shall to the extent of its net severance damages received, over and above Tenant's Share of the legal and other expenses incurred by Landlord in the condemnation matter, repair any damage to the Premises caused by such condemnation authority, and (ii) Tenant shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

**15. Broker's Fees.**

**15.1 Procuring Cause.** The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

**15.2 Additional Terms.** Unless Landlord and Broker(s) have otherwise agreed in writing, Landlord agrees that: (a) if Tenant exercises any Option (as defined in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Tenant acquires any rights to the Premises or other premises in which Landlord has an interest, or (c) if Tenant remains in possession of the Premises with the consent of Landlord after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Landlord has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Landlord shall not be liable to said Broker(s) to pay a fee.

**15.3 Assumption of Obligations.** Any buyer or transferee of Landlord's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Landlord's obligation under this Paragraph 15.

15.4 **Representations and Warranties.** Tenant and Landlord each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Tenant and Landlord do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. **Tenancy and Financial Statements.**

16.1 **Estoppel & Tenancy Statement.** Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current Estoppel or "Tenancy Statement" form published by the

MULTI-TENANT - MODIFIED NET

Eight-L 1993

---

Initials



\_\_\_\_\_

American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 **Financial Statement.** If Landlord desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Tenant and all the Guarantors shall deliver to any potential lender or purchaser designated by Landlord such financial statements of Tenant and such Guarantors as may be reasonably required by such lender or purchaser, including but not limited to Tenant's financial statements for the past three (3) years. All such financial statements shall be received by Landlord and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Landlord's Liability.** The term "Landlord" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Landlord's title or interest in the Premises or in this Lease, Landlord shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Landlord at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Landlord shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by Landlord. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Landlord shall be binding only upon the Landlord as herein above defined. Notwithstanding any other terms or provisions of this lease, Tenant agrees that in the event of any default or breach by Landlord with respect to any of the terms of the Lease to be observed and performed by Landlord (a) Tenant shall look solely to the estate and property (which is the subject of this lease) of Landlord or any successor in interest in the property and the Building, for the satisfaction of Tenant's remedies for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord; (b) no other property or assets of Landlord, its partners, members, shareholders, officers or any successor in interest shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies; and (c) no personal liability shall at any time be asserted or enforceable against Landlord, its partner's, members or successors in interest (except to the extent permitted in (a) above), and no judgment will be taken against any partner, member, shareholder, officer or director of Landlord. The provisions of this section shall apply only to the Landlord and the parties herein described, and shall not be for the benefit of any insurer nor any other third party.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Interest on Past-Due Obligations.** Any monetary payment due Landlord hereunder, other than late charges, not received by Landlord within ten (10) days following the date on which it was due, shall bear interest from the date due at the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

\_\_\_\_\_

20. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. **Rent Defined.** All monetary obligations of Tenant to Landlord under the terms of this Lease are deemed to be rent.

22. **No Prior or other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Landlord and Tenant each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. Each Broker shall be an intended third party beneficiary of the provisions of this Paragraph 22.

23. **Notices.**

23.1 **Notice Requirements.** All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Tenant's taking possession of the Premises, the Premises shall constitute Tenant's address for the purpose of mailing or delivering notices to Tenant. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereafter designate by written notice to Tenant.

23.2 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. **Waivers.** No waiver by Landlord of the Default or Breach of any term covenant or condition hereof by Tenant shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by

Tenant of the same or any other term, covenant or condition hereof. Landlord's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Landlord's consent to, or approval of, any subsequent or similar act by Tenant, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Landlord's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Landlord shall not be a waiver of any Default or Breach by Tenant of any provision hereof. Any payment given Landlord by Tenant may be accepted by Landlord on account of moneys or damages due Landlord, notwithstanding any qualifying statements or conditions made by Tenant in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Landlord at or before the time of deposit of such payment.

25. **Recording.** Either Landlord or Tenant shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. **No Right To Holdover.** Tenant has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. In the event the Tenant holds over in violation of this article 26, then the Base Rent payable from and after the term of the expiration or earlier termination of this Lease shall be increased to two hundred percent (200%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination plus Tenant's Proportionate Share of Expenses and Taxes under Article 4.2, and Tenant shall also pay all damages sustained by Landlord by reason of such retention. If Landlord gives notice to Tenant of Landlord's election to such effect, such holding over shall constitute a renewal of this Lease for a period from month to month or one (1) year, whichever shall be specified in such notice, in either case at the Holdover Rate, but if the Landlord does not so elect, no such renewal shall result notwithstanding acceptance by Landlord of any sums due hereunder after such termination; and instead, a tenancy at sufferance at the Holdover Rate shall be deemed to have been created. In any event, no provision of this article 26 shall be deemed to waive Landlord's right to reentry or any other right under this Lease or at Law.

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions.** All provisions of this Lease to be observed or performed by Tenant are both covenants and conditions.

29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

----

Initials



**30. Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed by Landlord upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Tenant agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Landlord under this Lease, but that in the event of Landlord's default with respect to any such obligation, Tenant will give any Lender whose name and address have been furnished Tenant in writing for such purpose notice of Landlord's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Tenant, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment.** Subject to the non-disturbance provisions of Paragraph 30.3, Tenant agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior Landlord or with respect to events occurring prior to acquisition of ownership, or (ii) be subject to any offsets or defenses which Tenant might have against any prior Landlord.

30.3 **Non-Disturbance.** With respect to Security Devices entered into by Landlord after the execution of this lease, Tenant's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "non-disturbance agreement") from the Lender, at no cost to Tenant, that Tenant's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Tenant is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, if requested by Tenant, Landlord shall use commercially reasonable efforts to obtain a non-disturbance agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event Landlord is unable to provide the non-disturbance agreement within said sixty (60) day period, then Tenant may, at Tenant's option, directly contact Lender and attempt to negotiate for the execution and delivery of such a non-disturbance agreement.

30.4 **Self-Executing.** The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Landlord or a Lender in connection with a sale, financing or refinancing of Premises, Tenant and Landlord shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. **Attorneys' Fees.** If any Party brings an action or proceeding to enforce the terms hereof or declare rights

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees, costs and expenses. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "Prevailing Party" shall include, without limitation, a Party who substantially obtains or defeats the relief sought, as the case may be whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees, cost and expenses reasonably incurred. Landlord shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. **Landlord's Access; Showing Premises; Repairs.** Landlord and Landlord's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times on reasonable prior notice to Tenant for the purpose of showing the same to prospective purchasers, lenders, or tenants, and make such alterations, repairs, improvements or additions to the Premises or to the Building, as Landlord may reasonably deem necessary. Landlord may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Landlord may at any time during the last one hundred eighty (180) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Landlord shall be without abatement of rent or liability to Tenant.

33. **Auctions.** Tenant shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Landlord's prior written consent. Notwithstanding anything to the contrary in this Lease, Landlord shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. **Signs.** Tenant shall not place any sign upon the exterior of the Premises or the Building, except that Tenant may, with Landlord's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Tenant's own business so long as such signs are in a location designated by Landlord and comply with Applicable Requirements and the signage criteria established for the Industrial Center by Landlord. The installation of any sign on the Premises by or for Tenant shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Landlord reserves all rights to the use of the roof of the Building and the right to install advertising signs on the Building, including the roof, which do not unreasonably interfere with the conduct of Tenant's business; Landlord shall be entitled to all revenues from such advertising signs.

35. **Termination; Merger.** Unless specifically stated otherwise in writing by Landlord, the voluntary or other surrender of this Lease by Tenant, the mutual termination or cancellation hereof, or a termination hereof by Landlord for Breach by Tenant, shall automatically terminate any sublease or lesser estate in the Premises; provided, however,

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



Landlord shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies upon Landlord's mutual agreement with such subtenant(s). Landlord's failure within ten (10) days of following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Landlord's election to have such event constitute the termination of such interest.

36. **Consents.**

(a) Except for Paragraph 12 (subleases) and Paragraph 33 (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld, conditioned or delayed. Landlord's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Tenant for any Landlord consent pertaining to this Lease or the Premises, including but not limited to consents to an assignment a subletting or the presence or use of a Hazardous Substance, shall be paid by Tenant to Landlord upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Landlord may, as condition to considering any such request by Tenant, require that Tenant deposit with Landlord the amount of money (in addition to the Security Deposit held under Paragraph 5), if any, in excess of the deposit described in Paragraph 12(e) reasonably calculated by Landlord to represent the cost Landlord will incur in considering and responding to Tenant's request. Any unused portion of said deposit shall be refunded to Tenant without interest. Landlord's consent to any act, assignment of this Lease or subletting of the Premises by Tenant shall not constitute an acknowledgment that no Default or Breach by Tenant of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Landlord at the time of such consent.

(b) All conditions to Landlord's consent authorized by this Lease are acknowledged by Tenant as being reasonable. The failure to specify herein any particular condition to Landlord's consent shall not preclude the impositions by Landlord at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. **Guarantor.**

37.1 **Form of Guaranty.** If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Tenant under this lease, including but not limited to the obligation to provide the Tenancy Statement and information required in Paragraph 16.

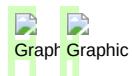
37.2 **Additional Obligations of Guarantor.** It shall constitute a Default of the Tenant under this Lease if any such

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

----

Initials



Guarantor fails or refuses, upon reasonable request by Landlord to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Landlord, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. **Quiet Possession.** Upon payment by Tenant of the rent for the Premises and the performance of all of the covenants, conditions and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. **Options.**

39.1 **Definition.** As used in this Lease, the word "Option" has the following meaning: the right to extend the term of this Lease or to extend or renew any lease that Tenant has on other property of Landlord.

39.2 **Options Personal to Original Tenant.** Each Option granted to Tenant in this Lease is personal to the original Tenant named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Tenant while the original Tenant is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Tenant are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 **Multiple Options.** In the event that Tenant has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 **Effect of Default on Options.**

(a) Tenant shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Landlord from Tenant is past due (without regard to whether notice thereof is given Tenant), or (iii) during the time Tenant is in Breach of this Lease, or (iv) in the event that Landlord has given to Tenant three (3) or more notices of separate Defaults under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



reason of Tenant's inability to exercise an Option because of the provisions of Paragraph 39.4(a)

(c) All rights of Tenant under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Tenant's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Tenant fails to pay to Landlord a monetary obligation of Tenant for a period of thirty (30) days after such obligation becomes due (without any necessity of Landlord to give notice thereof to Tenant), or (ii) Landlord gives to Tenant three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Tenant commits a Breach of this Lease.

**40. Rules and Regulations.** Tenant agrees that it will abide by, and keep and observe all reasonable rules and regulations ("Rules and Regulations") which Landlord may make from time to time and for which Tenant has been provided written notice for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees, provided that no such Rules or Regulations shall be in conflict with or otherwise inconsistent with the express terms and conditions of this Lease.

**41. Security Measures.** Tenant hereby acknowledges that the rent payable to Landlord hereunder does not include the cost of guard service or other security measures with respect to the Premises, and that Landlord shall have no obligation whatsoever to provide same. Tenant assumes all responsibility for the protection of the Premises, Tenant, its agents and invitees and their property from the acts of third parties.

**42. Reservations.** Landlord reserves the right, from time to time, to grant, without the consent or joinder of Tenant, such easements, rights of way, utility raceways, and dedications that Landlord deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not unreasonably interfere with the use or occupancy of the Premises by Tenant. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any such easement rights, dedication, map or restrictions.

**43. Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

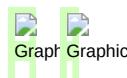
**44. Authority.** If either Party hereto is a corporation, trust, limited liability company, or general or limited

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



---

partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf and that such entity is duly authorized and existing and qualified to do business in California and that Tenant has the full right and legal authority to enter into this lease.

45. **Conflict.** Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. **Offer.** Preparation of this Lease by either Landlord or Tenant or Landlord's agent or Tenant's agent and submission of same to Tenant or Landlord shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. **Amendments.** This Lease may be modified only in writing, signed by the parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Tenant's use or occupancy of the Premises, or any of Tenant's obligations hereunder, Tenant agrees to make such reasonable and customary non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. **Multiple Parties.** Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Landlord or Tenant, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Landlord or Tenant.

49. **CASP.** This is notice that the Landlord has not inspected the premises. A Certified Access Specialist (CASP) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASP inspection of the subject premises, the commercial property owner or Lessor may not prohibit the lessee or tenant from obtaining a CASP inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASP inspection, the payment of the fee for the CASP inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises.

50. **OFAC.** Tenant represents and warrants to Landlord that Tenant is not a party with whom Landlord is prohibited from doing business pursuant to the regulations of the Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury, including those parties named on OFAC's Specially Designated Nationals and Blocked Persons List. Tenant is currently in compliance with, and shall at all times during the lease term remain in compliance with, the regulations of OFAC and any other governmental requirement relating thereto. In the event of

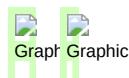
---

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



---

any violation of this section, Landlord shall be entitled to immediately terminate this Lease and take such other actions as are permitted or required to be taken under law or in equity. TENANT SHALL DEFEND, INDEMNIFY AND HOLD HARMLESS LANDLORD FROM AND AGAINST ANY AND ALL CLAIMS, DAMAGES, LOSSES, RISKS, LIABILITIES AND EXPENSES (INCLUDING ATTORNEYS' FEES AND COSTS) INCURRED BY LANDLORD ARISING FROM OR RELATED TO ANY BREACH OF THE FOREGOING CERTIFICATIONS. These indemnity obligations shall survive the expiration or earlier termination of this Lease.

51. **Landlord's Work.** Landlord shall construct the improvements shown in Exhibit A, at Landlord's sole cost and expense, to include:

1. Upgrade power service to 300 Amps at 480 Volt. (Note: This will include tapping into a house meter that will have a separate E-mon D-mon submeter. This meter provides 100 Amps but does service the exterior lighting and will need to be properly handled, as there is a small usage at night.)
2. Install new VCT flooring in the lab areas per DPM standards.
3. Install new carpet in office and conference room areas per DPM standards.

4. Install new fixtures in restrooms per DPM standards.
5. Create a room (approx. 16' x 22') to close off the office area (per Exhibit A)-standard walls, flooring, hvac.
6. Add wall to close off break room per Exhibit A.
7. Remove wall in the side room and install plumbing (no drain) for emergency shower and wet chem lab (per Exhibit A).
8. Outdoor concrete slab to be installed and paid for by Tenant.

52. **Option to Extend.** Subject to the terms and conditions set forth below, Tenant may at its option extend the Terms of this Lease for one (1) period of three (3) years. Such period is called the "Renewal Term." The Renewal Term shall be upon the same terms contained in this Lease, except that (i) Landlord shall have no obligation to provide Tenant with any Tenant Improvement Allowance or demolition in connection with the Renewal Term, (ii) the Base Rental during the Renewal Term shall be \$13,060.00 and increase 3.5% annually during each year of the Renewal Term. Tenant shall have no additional extension options. To exercise any option, Tenant must deliver a binding written notice to Landlord not sooner than ten (10) months nor later than six (6) months prior to the expiration of the initial Term of this Lease.

LANDLORD AND TENANT HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



EFFECTUATE THE INTENT AND PURPOSE OF LANDLORD AND TENANT WITH RESPECT TO THE PREMISES.

THIS LEASE PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO THE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures..

Executed at: redwood city

Executed at: Irvine, CA

on: 3/26/2024

on: 3/26/2024

By **Landlord: Dollinger Fremont Associates**

By **Tenant: Interlink Electronics, Inc.**

By: /s/ David Dollinger

By: /s/ Steve Bronson

Name Printed: DAVID DOLLINGER

Steve Bronson

Title: General Partner

CEO

**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



Address:

Telephone: ( )

\_\_\_\_\_

Facsimile: ( )

\_\_\_\_\_

**MULTI-TENANT - MODIFIED NET**

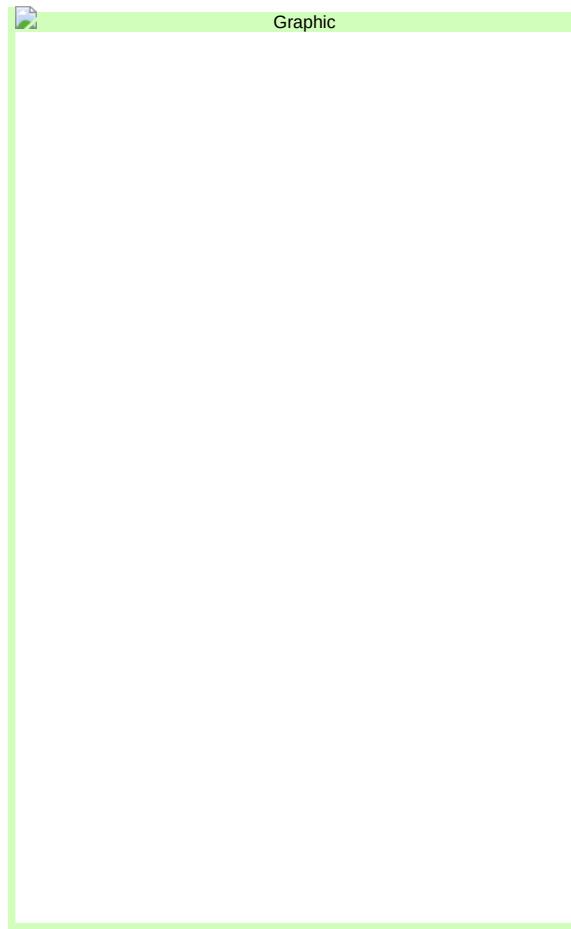
Eight-L 1993

---

Initials



Exhibit A



**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



---

Exhibit B

---



**MULTI-TENANT - MODIFIED NET**

Eight-L 1993

---

Initials



**Exhibit 31.1**

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

I, Steven N. Bronson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Interlink Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 9, 2023** **May 9, 2024**

*/s/ Steven N. Bronson*

Steven N. Bronson, Chief Executive Officer

*(Principal Executive Officer)*

---

**Exhibit 31.2**

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

I, Ryan J. Hoffman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Interlink Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 9, 2023** **May 9, 2024**

/s/ Ryan J. Hoffman

Ryan J. Hoffman, Chief Financial Officer

*(Principal Financial and Accounting Officer)*

---

**Exhibit 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**

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

1. Our Quarterly Report on Form 10-Q for the quarter ended **September 30, 2023** **March 31, 2024**, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **November 9, 2023** **May 9, 2024**

/s/ Steven N. Bronson

Steven N. Bronson

Chief Executive Officer

*(Principal Executive Officer)*

Date: **November 9, 2023** May 9, 2024

/s/ Ryan J. Hoffman

Ryan J. Hoffman

Chief Financial Officer

*(Principal Financial and Accounting Officer)*

---

#### DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.