

INTERLINK ELECTRONICS INC
Form 10-12G
February 17, 2016
[Table of Contents](#)

As filed with the Securities and Exchange Commission on February 17, 2016

File No.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

INTERLINK ELECTRONICS, INC.

(Exact Name of Registrant as Specified in Its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

31248 Oak Crest Drive
Westlake Village, California
(Address of Principal Executive Offices)

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

91361
(Zip Code)

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(805) 484-8855

(Registrant's Telephone Number, Including Area Code)

Securities to be registered pursuant to Section 12(b) of the Act: **None**

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

Common Stock, \$0.001 par value

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

Large accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)

Accelerated filer

Smaller reporting company

Table of Contents

INTERLINK ELECTRONICS, INC.

FORM 10

TABLE OF CONTENTS

| | Page |
|--|--|
| <u>Special Note Regarding Forward-Looking Statements</u> | 3 |
| <u>Item 1.</u> | <u>Business</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u> |
| <u>Item 2.</u> | <u>Financial Information</u> |
| <u>Item 3.</u> | <u>Properties</u> |
| <u>Item 4.</u> | <u>Security Ownership of Certain Beneficial Owners and Management</u> |
| <u>Item 5.</u> | <u>Directors and Executive Officers</u> |
| <u>Item 6.</u> | <u>Executive Compensation</u> |
| <u>Item 7.</u> | <u>Certain Relationships and Related Transactions and Director Independence</u> |
| <u>Item 8.</u> | <u>Legal Proceedings</u> |
| <u>Item 9.</u> | <u>Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters</u> |
| <u>Item 10.</u> | <u>Recent Sales of Unregistered Securities</u> |
| <u>Item 11.</u> | <u>Description of Registrants Securities to be Registered</u> |
| <u>Item 12.</u> | <u>Indemnification of Directors and Officers</u> |
| <u>Item 13.</u> | <u>Financial Statements and Supplementary Data</u> |
| <u>Item 14.</u> | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> |
| <u>Item 15.</u> | <u>Financial Statements and Exhibits</u> |
| <u>Signatures</u> | 43 |

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Registration Statement on Form 10 contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The words believe, may, will, potentially, estimate, continue, anticipate, intend, could, 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 include, but are not limited to, statements concerning the following:

- our future financial and operating results;
- our business strategy;
- our intentions, expectations and beliefs regarding anticipated growth, market penetration and trends in our business;
- our dependence on growth in our customers' businesses;
- the effects of market conditions on our stock price and operating results;
- our ability to maintain our competitive technological advantages against competitors in our industry;
- our ability to timely and effectively adapt our existing technology and have our technology solutions gain market acceptance;
- our ability to introduce new products and bring them to market in a timely manner;
- our ability to maintain, protect and enhance our intellectual property;

- the effects of increased competition in our market and our ability to compete effectively;
- costs associated with defending intellectual property infringement and other claims;
- our expectations concerning our relationships with customers and other third parties;
- our expectations concerning relationships between our customers and their manufacturers;
- the attraction and retention of qualified employees and key personnel;
- future acquisitions of or investments in complementary companies or technologies; and
- our ability to comply with evolving legal standards and regulations, particularly concerning requirements for being a public company and United States export regulations.

These forward-looking statements speak only as of the date of this Form 10 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 Item 1A, Risk Factors, and in our other reports filed with the Securities and Exchange Commission, or SEC. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Form 10 may not occur, and actual results could differ materially and adversely from those anticipated or implied in our forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances described in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Form 10 to conform these statements to actual results or to changes in our expectations, except as required by law.

Table of Contents

You should read this Registration Statement on Form 10 and the documents that we have filed with the Securities and Exchange Commission as exhibits hereto with the understanding that our actual future results and circumstances may be materially different from what we expect.

Table of Contents

ITEM 1. BUSINESS

Our Company

Interlink Electronics, Inc. (Interlink , the Company , we , us , our) designs, develops, manufactures and sells a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard products and custom solutions. These include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel 3 dimensional user inputs. Our disruptive, leading edge human machine interface, or HMI, technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical. Our solutions have focused on handheld user input, menu navigation, cursor control, and other intuitive interface technologies for the world's top electronics manufacturers.

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

Market requirements for innovative solutions that enable smaller, thinner devices, lower power consumption, highly refined designs, better navigation and more intuitive usability in all environments, are also driving increased demand for our products. Consumers expect to use multi-modal HMI in the home, industrial and medical environments, automotive spaces (both inside and outside the vehicle), and in all technology interactions where they formerly used switches and knobs. Interlink delivers cutting edge solutions for all of these environments.

Significant market opportunities are rapidly emerging for us to improve upon the functionality of standard capacitive sensors which are widely available and competitively priced. Inadvertent activation, where users unintentionally activate a control, is a common problem with capacitive technology. In contrast, force sensing solutions require a deliberate application of force to operate. We have had recent success in using our force sensing solutions in combination with capacitive technologies to minimize the latter's performance issues, enabling force sensing solutions to complement competitive technologies and provide us with new opportunities for growth. We continue to simultaneously expand our standard product portfolio and develop new technology platforms to grow existing markets and capture emerging markets.

We serve a global customer base from our corporate headquarters in Westlake Village, California, our research and development center in Singapore, our manufacturing facility in Shenzhen, China and our regional offices in Hong Kong and Tokyo. We sell our products in a wide range of markets, including consumer electronics, automotive, industrial, and medical, and to some of the world's largest companies and most recognizable brands.

Our competitive strengths include:

- Innovative technology platforms that focus on disruptive technology and sensor fusion to enable scalable product architecture;
- Global expertise and resources for research and development, product development and manufacturing to deliver timely and cost effective solutions to our customers; and
- Proven track record by our senior management and world-class research and development teams to be the trusted advisor in HMI solutions.

We were incorporated in California on February 27, 1985. We reincorporated in Delaware on July 10, 1996 and again reincorporated in Nevada on July 20, 2012. On May 29, 2014, we effected a four-for-one forward

Table of Contents

split of our common stock, and on February 24, 2015, we effected a two-for-one forward split of our common stock. The information in this Registration Statement on Form 10 gives effect to each of these forward splits of our common stock.

Our principal executive office is located at 31248 Oak Crest Drive, Westlake Village, California 91361 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com. None of the information on our website is part of this Registration Statement.

Our Industry

HMI technologies have been available since the early 1970 s, but were used almost exclusively in industrial products during the first 20 years of their existence. The introduction of touchpad mouse devices for laptop computers in the early 1990 s represented the first significant transition of HMI technologies into the consumer electronics market. Personal devices utilizing touch sensitive technology became ubiquitous in our daily human-machine interactions with the introduction in 2007 of smart phone technology incorporating capacitive screens. As the smart phone became an integral part of the consumers daily life throughout the world, it influenced consumers expectations of how we should interact with all types of devices. Whether those devices are personal electronics, industrial and medical equipment, or our automobiles, purchasers of equipment expect sleek, highly-functioning design including touch-sensing technology. Consumers no longer want to push buttons or flip switches; rather, they expect smooth touch pads and gesture-driven input. Engineers are responding to this demand by incorporating touch sensitive technology into a wide range of products, and any device that can utilize force and position sensing inputs to control or enhance its functionality is a candidate for use of the technology.

The products and solutions that we design, develop and manufacture for HMI applications are primarily printed electronic products. Printed electronics is a set of printing methods used to create electrical devices on various substrates. For over 30 years, we have honed and developed the processes necessary to manufacture high quality printed electronic products for HMI applications. According to industry analyst group IDTechEx, the market for printed and potentially printed products is expected to grow from more than \$29.8 billion in 2013 to nearly \$74 billion in 2025.

Our Strategy

Our primary objective is to be the global leader in providing force-sensing HMI solutions for the automotive, consumer electronics, medical and industrial automation markets. We also intend to utilize our role as a disruptive technology provider to bring our HMI solutions to new markets. To achieve our strategy, we intend to:

- ***Expand our presence in the markets we occupy.*** We will continue to exploit new opportunities in the markets we occupy by leveraging our demonstrable success in the solutions we re providing today.
- ***Expand into new and emerging markets.*** We are bringing our highly-successful product lines and technologies to markets previously unaware of the opportunities provided by force-sensing solutions.

- ***Expand our presence with our current customers.*** We work with some of the world's largest companies and most recognizable brands and are providing second and third-generation turn-key solutions to meet their technology needs. We will continue to develop these existing relationships by working closely with our customers to understand how we can support their product and technology strategies.
- ***Pursue a multi-technology roadmap.*** We utilize multiple technologies in our HMI solutions, and we will continue to expand our offerings to include resistive, piezo, capacitive and other emerging touch technologies.

Our product development teams are skilled in concept definition, rapid prototyping, hardware and firmware development and integration support. Interlink benefits from its own world-class manufacturing facility in Shenzhen, China, allowing us to react quickly to customer needs, while ensuring the highest quality standards. We also maintain a sales force that can address new and existing customer opportunities worldwide.

Table of Contents

Our Technology Platforms and Products

Interlink was founded on the invention and commercialization of the Force Sensing Resistor – the industry’s first force sensing solution using printed electronics manufacturing. As we transition from an FSR sensor supplier to an HMI solutions provider, we pursue and embrace leading edge force sensing technology platforms. Our chief technology officer and global research and development center, both located in Singapore, along with our US-based research and development team, are focused on strategic technology roadmaps, research and development of scalable technology platform architectures and synergistic technology partnerships. In an ever changing and competitive landscape, Interlink is committed to staying ahead of the technology curve.

The two primary types of user-input technologies common in today’s devices are capacitive and resistive. Capacitive sensors are used in the touch screens found in all smart phones and similar devices used globally by millions of consumers. The most significant drawback to the capacitive technology is its inability to measure force, although there has been some progress recently in enhancing the technology with pseudo force sensing. Capacitive sensors have become a high-volume, low margin commodity product.

Our patented FSR technology consists of a bottom layer of conductor traces, a proprietary resistive ink top layer and a spacer that separates the two layers. An additional top layer that contains graphics and protects the sensor can also be added. FSR sensors can be as thin as eight thousandths of an inch, making them particularly well suited for use where space is a critical issue, as in portable electronics. Our force sensing technology enables the sensor to be used for continuously variable control functions. For example, in a pointing device, increased pressure can be used to produce faster cursor movement. Unlike capacitive devices, an FSR sensor’s performance is not impeded by the presence of moisture, dirt or dust, making the sensor suitable for use outdoors and in moist and other hostile environments. Our FSR sensors have no moving parts, can be packaged in a sealed environment, and consume substantially lower power and are less susceptible to false readings or unintended touches than capacitive sensors. We have developed sophisticated firmware that allows our FSR technology to become a complete solution delivering effective HMI functionality to our customers.

Custom Solutions

Interlink offers a comprehensive portfolio of standard solutions, from simple force sensors to multi-finger capable rugged trackpads. The largest part of our business, however, is the development and manufacture of custom solutions for our major customers. We offer full turnkey capability spanning initial concept to large volume manufacturing. Custom solutions can be a single or multi-technology platform to meet customer requirements, and include both input and output technologies. We also offer full firmware development and integration support.

Standard Solutions

Our portfolio of standard solutions include:

- Our Force Sensing Resistor® technology is the most versatile force sensing technology on the market today.

These innovative sensors provide an inverse change in resistance in response to an increase or decrease in applied force. Our standard range of sensors provides engineers and designers with a durable, reliable, easy to measure, thin form factor and low-cost solution for HMI touch solutions and analog data capture for machines. The sensors are available in a range of sizes, shapes and lengths and with several connection options.

- Force sensing linear potentiometers, or FSLP, are sensors which can be used for menu navigation and control. Our use of force allows for high-rate scrolling and a more intuitive user experience. The FSLP is an easy to integrate, high resolution, ultra-low power based solution that brings intuitive user controls to reduced form factor hand-held consumer electronic devices. These sensors are available in multiple lengths. We also offer a ring sensor for full 360-degree position sensing. These sensors are designed to be integrated into a device's host processor without the need for a dedicated microprocessor.
- Our integrated mouse modules and pointing solutions can add touchpad or 360-degree pointing control to virtually any electronic device. Ranging from simple mouse button integration to National Electrical Manufacturer Association, or NEMA, rated industrial pointing devices, these solutions are ideal for

Table of Contents

applications away from the desktop. The modules use Force Sensing Resistor technology and measurement firmware in a four-zone sensor or 4-wire resistive touchpad configuration along with a micro-controller to provide pressure sensitive cursor direction and speed control in a durable and easy to integrate form factor.

Intellectual Property

We believe that intellectual property protection is crucial to our business. We rely on a combination of patents, copyrights, trade secrets, trademarks, nondisclosure agreements with employees and third parties, licensing and other contractual agreements with third parties to protect our intellectual property. We maintain and support an active program to protect our intellectual property primarily through the filing of patent applications and the defense of issued patents against infringement.

Our failure to obtain or maintain adequate protection for our intellectual property rights for any reason could hurt our competitive position. There is no guarantee that patents will be issued from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. See Risk Factors under Item 1A of this Registration Statement for further discussion of the risks associated with patents and intellectual property.

Our FSR sensors are manufactured using proprietary screen-printing techniques. All proprietary aspects of the manufacturing process are currently conducted in-house at our US and China manufacturing facilities to maintain quality and protect our force sensing technology from infringement. While screen-printing is a common process in various industries, the quality and precision of printing, as well as the specific processes required to make high-quality FSR sensors require considerable expertise. We believe this expertise is difficult to replicate over the short term and, to our knowledge, no unrelated party has done so. As a result, we consider this expertise to be one of our more important trade secrets. We require our employees to sign nondisclosure agreements and seek to limit access to sensitive information to the greatest practical extent.

As of October 30, 2015, we held 15 United States patents, and had two patents pending in the United States and three foreign pending patent applications. We group our patents into three general categories: sensors, which includes four patents expiring between 2022 and 2027; sensing systems, which includes two patents expiring in 2026 and 2031; and human interface devices, which includes nine patents expiring between 2017 and 2026. Our intellectual property strategy involves filing additional patent applications in our strategic focus markets on a regular basis. We do not expect that the upcoming expiration of a portion of our patents will have a material adverse impact on our business.

Competition

The markets for our products are highly competitive and subject to rapid advancement in design technology. We must identify and capture future market opportunities by developing and deploying value-added products.

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We compete for market share based on our customers' selection of our components over our competitors during the design phase of their products. Our ability to compete is dependent on the needs of our customers, how well our products address those needs, our corporate relationships, and a variety of other factors.

We offer a disruptive technology that is replacing outdated and undesirable approaches including switch technology. We must convince companies to abandon older, proven but less elegant technologies and adopt our solutions. This change is supported by significant end-user demand for touch-sensitive solutions. We also compete against the highly commoditized capacitive resistor technology. However, our solutions are focused on providing functionality in situations where capacitive is unreliable or entirely unavailable.

The markets for our products are characterized by significant price competition and we anticipate that our products will continue to face substantial pricing pressure.

Sales and Marketing

We sell our HMI solutions and force sensing devices through our direct sales employees as well as outside sales representatives and distributors. We work directly with Fortune 500 customers, technology design houses and original equipment manufacturers, or OEMs. Our sales personnel have extensive engineering backgrounds and receive substantial support from our internal engineering resources. Sales frequently result from interactions

Table of Contents

between senior management, design engineers, procurement departments, and our sales personnel. We interact with our customers throughout the product development and order process. We maintain sales offices at our Corporate Headquarters in the United States, and in Hong Kong and Japan.

Due to the technical nature of our products, the length of our sales cycle can vary from a few months to several years and requires continued participation from our sales, engineering and management teams. Our sales cycle for our custom solutions generally includes the following two phases.

Design Opportunity to Design Win

Our sales and engineering team engages with the customer to establish the nature of the design and explore various technical applications that may fit the customer's need.

- A customer might select one of our standard solutions or a custom design might be required to fulfill the customer's product needs. Custom solutions might require engineering design fees and tooling costs.
- Product samples are provided to the customer and our team works with the customer to ensure product performance and address customer needs and specifications.
- A firm commitment from a customer's engineering and/or purchasing organization or pre-production orders indicate a design win. In most cases, we are a sole-source supplier to our customer and cannot be easily and/or quickly replaced once the product goes into production.

Mass Production

Once the customer has chosen our solution, they may move their product into the production phase. It may take several months or more to go from design win to production. Product lifespan varies dramatically depending on the market place and product. Consumer electronics may have a lifespan of six months to five years, industrial and automotive applications may continue for three to ten years, and medical product lifespans may continue past 20 years.

Our Customers

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As of December 31, 2015, we had almost 200 active customers, including many of the world's leading electronics companies. Our customers are diverse and include Fortune 500 companies as well as start-ups, design houses, original design manufacturers, OEMs and universities. We supply some of the world's largest consumer electronics manufacturers, luxury and mid-market car companies, familiar names in the medical and industrial equipment markets, research engineers and designers entering the Internet-Of-Things market, and companies of all different sizes in other markets.

Our customer base is widely dispersed geographically. Sales to customers located outside the United States have historically accounted for a significant percentage of our revenues, a trend we expect to continue. On a bill-to basis, international sales constituted 42% and 40% of our revenues for the nine months ended September 30, 2015 and fiscal year 2014, respectively.

Future sales of our products will be based on, among other elements, expansion into adjacent markets, continued expansion of our product line, the acceptance of our product line, expansion into additional domestic and international markets, and our ability to maintain a competitive position against other technology providers.

For the year ended December 31, 2014, we had three customers that represented 19%, 17% and 10% of revenues, respectively. For the nine months ended September 30, 2015, we had three customers that represented 21%, 17% and 17% of revenues, respectively.

Manufacturing Operations

We have our own, world-class manufacturing facility in Shenzhen, China that is ISO 9001 compliant. We also maintain a small manufacturing facility in Simi Valley, California. We purchase our materials from outside suppliers. We carefully select suppliers based on their ability to provide quality parts and components that meet

Table of Contents

technical specifications. We actively monitor these suppliers, but we are subject to substantial risks associated with the performance of our suppliers. We source certain of our components from a single supplier, which increases the risk of shortages and shipment delays and decreases our ability to negotiate with that supplier.

Engineering, Research and Development

Rapid advancements in process technologies, and increasing levels of functional integration characterize the market for our products. We believe that our future success will depend largely on our ability to continue improving our products and our process technologies, and to develop new technologies.

Our chief technology officer and global research and development center are located in Singapore, where we focus on product innovation. We intend to grow this facility substantially over the next five years, including by expanding our research and development team by approximately 20% per year, expanding the size of the facility, and investing in additional tools and equipment. We also operate research and development centers in the United States and China, primarily focused on customer support and product integration.

Our Employees

As of December 31, 2015, we had 112 employees worldwide. Our employees, listed in population size order from largest to smallest, are in the following departments: operations, research and development, sales, and administration. Our ability to attract and retain qualified personnel is essential to our continued success. None of our employees are represented by a collective bargaining agreement, and we have never experienced a work stoppage. We believe our employee relations are good.

Table of Contents

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Form 10, including our consolidated financial statements and related notes, before investing in our common stock. If any of the following risks materialize, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

If we are unable to keep pace with rapid technological change and gain market acceptance of new products, we may not be able to compete effectively.

Technology, both in our markets and in our customers' markets, is undergoing rapid change. In order to maintain our leadership position in our existing markets and to emerge as a leader in new markets, we will have to maintain a leadership position in the technologies supporting those markets. Doing so will require, among other things, that we accomplish the following:

- accurately predict the evolving needs of our customers and develop, in a timely manner, the technology required to support those needs;

- provide products that are not only technologically sophisticated and well supported but are also available at a price within market tolerances and competitive with comparable products;

- establish and effectively defend our ownership on the intellectual property supporting our products; and

- enter into relationships with other companies that have developed complementary technology on which our products also depend.

We cannot assure you that we will be able to achieve any of these objectives.

If we fail to manage change successfully, our operations could be adversely impacted and our business could be impaired.

The ability to operate our business in rapidly evolving markets requires an effective planning and management process. We expect that responding to changes in our business will place a significant strain on our personnel, management systems, infrastructure and other resources. Our ability to manage change effectively will require us to attract, train, motivate and manage new employees, to reallocate human and other resources to support new undertakings and to restructure our operations to manage a restructured business effectively. If we are unable to respond effectively to change, our operations could be adversely affected and our business could be impaired.

We rely on third parties for the materials that we use to manufacture our products and a shortage of supply could adversely affect our revenues, operating results and customer relationships.

We rely on third-party suppliers for the raw material components of our products. We cannot assure you that our suppliers will be able to maintain an adequate supply of these raw materials to enable us to fulfill all of our customers' orders on a timely basis. A failure to obtain an adequate supply of the materials for our products could increase our costs of goods sold, cause us to fail to meet delivery commitments and cause our customers to purchase from our competitors, which could adversely affect our operating results and customer relationships. In some situations, we rely on a single supplier for raw material components of our products. Any disruption in these supplier relationships could prevent us from maintaining an adequate supply of materials and could adversely affect our results of operation and financial position.

Table of Contents

Disruptions in our manufacturing facilities or arrangements could cause our revenues and operating results to decline.

We currently manufacture the majority of our products in Shenzhen, China. This facility is vulnerable to damage from earthquakes, floods, fires, power loss and similar events. It could also be subject to break-ins, sabotage and intentional acts of vandalism. Our insurance may not cover such events and, if the event is covered, our insurance may not be sufficient to compensate us for any losses that may occur. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problem at our manufacturing facility could result in delayed shipment of products, missed delivery deadlines and harm to our reputation, which may cause our revenues and operating results to decline. Performance, reliability or quality problems with our products may cause our customers to reduce or cancel orders which would harm our operating results.

We regularly introduce new products with new technologies or manufacturing processes. Our products have in the past contained, and may in the future contain, errors or defects that may be detected at any point in the life of the product. Detection of such errors could result in delays in shipping and sales during the period required to correct such errors. Defects may also result in product returns, loss of sales and cancelled orders, delays in market acceptance, injury to our reputation, injury to customer relationships and increased warranty costs, which could have an adverse effect on our business, operating results and financial condition.

International sales and manufacturing risks could adversely affect our operating results.

Our revenue from international sales accounted for approximately 42% and 40% of revenue for the nine months ended September 30, 2015 and for the year ended December 31, 2014, respectively. We believe that international sales will represent a substantial portion of our sales for the foreseeable future. The majority of our manufacturing is currently performed in China. Our international operations involve a number of risks, including with respect to:

- import-export license agreements, tariffs, taxes and other trade barriers;
- staffing and managing foreign operations;
- securing credit and funding;
- maintaining an effective system of internal controls at our foreign manufacturing facility;
- collecting foreign receivables;

- currency exchange fluctuations;
- reduced protection of intellectual property rights
- political and economic instability, and terrorism; and
- transportation risks.

Any of the above factors could adversely affect our operating results.

Our markets are intensely competitive and many of our potential competitors have resources that we lack.

Our markets are competitive and we expect competition in our newer markets to increase. Our competitors include companies with similar products or technologies, companies that sell complementary products to our target markets and our customers themselves, who could choose to manufacture products that they currently buy from us. Our competitors and potential competitors may have established business relationships that afford them a competitive advantage or may create technologies that are superior to ours or that set a new industry standard that will define the successful product for that market. If any of our competitors establish a close working relationship with our customers, they may obtain advance knowledge of our customers' technology choices or may be afforded an opportunity to work in partnership to develop compatible technologies and may therefore achieve a competitive advantage. We may be unable to compete successfully against our current and future competitors.

Table of Contents

We cannot guarantee that our HMI solutions for new markets will be successful or that we will be able to continue to generate significant revenue from these markets.

Our HMI solutions may not be successful in new markets despite the fact that these product solutions are capable of enabling people to interact more easily and intuitively with a wide variety of electronic devices. Various target markets for our interface solutions may develop slower than anticipated or could utilize competing technologies. The markets for certain of these products depend in part upon the continued development and deployment of wireless and other technologies, which may or may not address the needs of the users of these products.

Our ability to generate significant revenue from new markets will depend on various factors, including the following: the development and growth of these markets; the ability of our technologies and product solutions to address the needs of these markets, the price and performance requirements of our customers and the preferences of end users; and our ability to provide our customers with HMI solutions that provide advantages in terms of size, power consumption, reliability, durability, performance, and value-added features compared with alternative solutions.

The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings. We cannot predict the size or growth rate of these markets or the market share we will achieve or maintain in these markets in the future.

If we fail to maintain and build relationships with our customers, or our customers' products which utilize our human-machine interface solutions do not gain widespread market acceptance, our revenue may stagnate or decline.

We do not sell products to end users and we do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our HMI solutions. Instead, we sell component products that our customers incorporate into their products, and we depend on our customers to successfully manufacture and distribute products incorporating our component products and to generate consumer demand through marketing and promotional activities. As a result of this, our success depends almost entirely upon the widespread market acceptance of our customers' products that incorporate our HMI solutions. Even if our technologies successfully meet our customers' price and performance goals, our sales would decline or fail to develop if our customers do not achieve commercial success in selling their products that incorporate our HMI solutions.

Our customers generally do not provide us with firm, long-term volume purchase commitments, opting instead, to issue purchase orders that they can cancel, reduce, or delay at any time. In order to meet the expectations of our customers, we must provide innovative HMI solutions on a timely and cost-effective basis. This requires us to match our design and production capacity with customer demand, maintain satisfactory delivery schedules, and meet performance goals. If we are unable to achieve these goals for any reason, our sales may decline or fail to develop, which would result in decreasing revenue.

We cannot provide any assurance that current environmental laws and product quality specification standards, or any laws or standards enacted in the future, will not have a material adverse effect on its business.

Our operations are subject to environmental and various other regulations in each of the jurisdictions in which we conduct business. Regulations have been enacted in certain jurisdictions which impose restrictions on waste disposal of electronic products and electronics recycling obligations. If we fail to comply with applicable rules and regulations in connection with the use and disposal of such substances or other environmental or recycling legislation, we could be subject to significant liability or loss of future sales.

If we are not able to protect our intellectual property or if we infringe on the intellectual property of others, our business and operating results could be adversely affected.

We consider our intellectual property to be a key element of our ability to compete in our chosen markets. We rely on a combination of patents, trade secrets and proprietary software to establish and protect our intellectual property rights. We cannot assure you that patents will be issued from any of our pending applications or that any

Table of Contents

claims allowed from existing or pending patents will be sufficiently broad to protect our technology. We also cannot assure you that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights granted will provide proprietary protection. Litigation may be necessary to enforce our patents, trade secrets and other intellectual property rights, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, regardless of the final outcome of the litigation.

We are not currently engaged in any patent infringement suits. Despite our efforts to maintain and safeguard our proprietary rights, we cannot assure you that we will be successful in doing so or that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technologies. If any of the holders of these patents assert claims that we are infringing them, we could be forced to incur substantial litigation expenses, and if we were found to be infringing on someone else's patent, we could be required to pay substantial damages, pay royalties in the future or be enjoined from infringing in the future.

We face risks associated with security breaches or cyber attacks.

We face risks associated with security breaches or cyber attacks of our computer systems or those of our third-party representatives, vendors, and service providers. Although we have implemented security procedures and controls to address these threats, our systems may still be vulnerable to data theft, computer viruses, programming errors, attacks by third parties, or similar disruptive problems. If our systems, or systems owned by third parties affiliated with our company, were breached or attacked, the proprietary and confidential information of our company and our customers could be disclosed and we may be required to incur substantial costs and liabilities, including the following: expenses to rectify the consequences of the security breach or cyber attack; liability for stolen assets or information; costs of repairing damage to our systems; lost revenue and income resulting from any system downtime caused by such breach or attack; loss of competitive advantage if our proprietary information is obtained by competitors as a result of such breach or attack; increased costs of cyber security protection; costs of incentives we may be required to offer to our customers or business partners to retain their business; and damage to our reputation. In addition, any compromise of security from a security breach or cyber attack could deter customers or business partners from entering into transactions that involve providing confidential information to us. As a result, any compromise to the security of our systems could have a material adverse effect on our business, reputation, financial condition, and operating results.

Our ability to operate effectively could be impaired if we were to lose the services of key personnel, or if we are unable to recruit qualified managers and key personnel in the future.

Our success is substantially dependent on the continued availability of our key management and technical personnel. Several of our key management personnel have been with us throughout most of our history and have substantial experience with our business and technology. If one or more of our key management personnel leaves Interlink and we are unable to find a replacement with the combination of skills and attributes necessary to execute our business plan, it may have an adverse impact on our business. Our success will also depend, in part, on our ability to attract and retain additional qualified professional, technical, production, managerial and marketing personnel, both domestically and internationally.

Risks Relating to the Securities Markets and Ownership of Our Common Stock

We intend to apply for listing of our common stock on the NASDAQ Capital Market. If our listing is approved, and we subsequently fail to comply with the continuing listing standards of The NASDAQ Capital Market, our securities could be delisted.

We expect that our common stock will be eligible to be quoted on the NASDAQ Capital Market. For our common stock to be listed on the NASDAQ Capital Market, we must meet the current NASDAQ Capital Market listing requirements. If we were unable to meet these requirements in the future, our common stock could be delisted from the NASDAQ Capital Market. If our common stock were to be delisted from the NASDAQ Capital Market, our common stock could continue to trade over-the-counter following such delisting. Any such delisting of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and less coverage of us by securities analysts, if any. Also, if in the

Table of Contents

future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public or private equity markets.

Our CEO has control over key decision making as a result of his control of a majority of our voting stock.

Steven N. Bronson, our Chairman, President and CEO, beneficially owns approximately 71% of the outstanding shares of our common stock as of December 31, 2015. As a result, Mr. Bronson has the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, Mr. Bronson has the ability to control the management and affairs of our company as a result of his position as our CEO and his ability to control the election of our directors. As a board member and officer, Mr. Bronson owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, Mr. Bronson may have interests that differ from yours and he may vote in a manner that is adverse to your interests. This concentration of ownership may have the effect of deterring, delaying or preventing a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

The price of our common stock may be volatile and the value of your investment could decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock may fluctuate substantially, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new offerings, products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes or fluctuations in our results of operations;

- whether our results of operations meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- litigation involving us, our industry, or both;
- regulatory developments in the United States, foreign countries, or both;
- general economic conditions and trends;
- major catastrophic events;
- lockup releases, sales of large blocks of our common stock;
- departures of key employees; or
- an adverse impact on the company from any of the other risks cited herein.

In addition, if the market for technology stocks or the stock market, in general, experience a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our product candidates on unfavorable terms to us.

We may seek additional capital through a variety of means, including through private and public equity offerings and debt financings. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds from third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us. If we are unable to raise additional funds through equity or debt financing when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts for our product candidates, or grant to others the rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

The requirements of being a public company may strain our resources, divert our management's attention and affect our ability to attract and retain qualified board members.

As a public company, we will be subject to the reporting requirements of the Exchange Act, and will be required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the securities exchange on which our common stock is traded and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. We may need to hire additional employees to comply with these requirements, which will increase our costs and expenses.

In addition, we also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

We will be required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required to furnish a report by our management on our internal control over financial reporting the year following our first annual report required to be filed with the SEC. When required, such report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. If we are unable to assert that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which could

have an adverse effect on our stock price.

We are an emerging growth company, as defined by the JOBS Act. For as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various public company reporting requirements. These exemptions include, but are not limited to, (i) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, (ii) reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, and (iii) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In this Form 10, we have elected to take advantage of

Table of Contents

certain of the reduced disclosure obligations regarding financial statements and executive compensation. In addition, Section 107(b) of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are choosing to opt in to such extended transition period election under Section 107(b). Therefore we are electing to delay adoption of new or revised accounting standards, and as a result, we may choose to not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. As a result of such election, our financial statements may not be comparable to the financial statements of other public companies.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our common stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our business prospects, our share price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

Our charter documents and Nevada law could discourage takeover attempts and lead to management entrenchment.

Our articles of incorporation and bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to take other corporate actions, including effecting changes in our management. These provisions include:

- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the requirement that a special meeting of stockholders may be called only by our board of directors, by majority vote, or by any shareholder or group of shareholders who own and have the right to vote more than 25% of our issued and outstanding securities, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- the ability of our board of directors, by majority vote, to amend our bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend our amended and restated bylaws to facilitate an unsolicited takeover attempt.

We also are subject to provisions of Nevada law found in Nevada Revised Statutes, Sections 78.411 to 78.444, inclusive, that prohibit us from engaging in any business combination with any interested stockholder, meaning generally that a stockholder who beneficially owns 10 percent or more of our stock, cannot acquire us for a period of time after the date this person became an interested stockholder, unless various conditions are met, such as approval of the transaction by our board of directors and stockholders.

Table of Contents

Risks Related to Government Regulation

Our failure to comply with U.S. laws and regulations relating to the export and import of goods, technology, and software could subject us to penalties and other sanctions and restrict our ability to license and develop our circuit designs.

We are obligated by law to comply with all U.S. laws and regulations governing the export and import of goods, technology, and services, including the International Traffic in Arms Regulations, or ITAR, the Export Administration Regulations, or EAR, regulations administered by the Department of Treasury's Office of Foreign Assets Control, and regulations administered by the Bureau of Alcohol Tobacco Firearms and Explosives governing the importation of items on the U.S. Munitions Import List. Pursuant to these regulations, we are responsible for determining the proper licensing jurisdiction and export classification of our products, and obtaining all necessary licenses or other approvals, if required, for exports and imports of technical data, and software, or for the provision of technical assistance or other defense services to or on behalf of foreign persons. We are also required to obtain export licenses, if required, before employing or otherwise utilizing foreign persons in the performance of our contracts if the foreign person will have access to export-controlled technical data or software. The violation of any of the applicable laws and regulations could subject us to administrative, civil, and criminal penalties.

These regulations could restrict our ability to sell products and develop new products. For example, as a result of ITAR requirements, we are unable to supply certain products to China satellite companies or end users, which comprise a significant part of the overall satellite market. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying products incorporating our products throughout their global systems or, in some cases, prevent the export or import of products that include our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons, or technologies targeted by such regulations, could result in decreased use of our products by, or our ability to export or license our products to, existing or potential customers with international operations and decreased revenue. Additionally, failure to comply with these laws could result in sanctions by the U.S. government, including substantial monetary penalties, denial of export privileges, and debarment from government contracts.

If we fail to comply with anti-bribery laws, including the U.S. Foreign Corrupt Practices Act, or FCPA, we could be subject to civil and/or criminal penalties.

As a result of our international operations, we may be subject to anti-bribery laws, including the FCPA, which prohibits companies from making improper payments to foreign officials for the purpose of obtaining or keeping business. If we fail to comply with these laws, the U.S. Department of Justice, the Securities and Exchange Commission, or SEC, or other U.S. or foreign governmental authorities could seek civil and/or criminal sanctions, including monetary fines and penalties against us or our employees, as well as additional changes to our business practices and compliance programs, which could have a material adverse effect on our business, results of operations, or financial condition.

Table of Contents

ITEM 2. FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and the related notes to the consolidated financial statements included later in this Registration Statement on Form 10. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, beliefs and expectations that involve risks and uncertainties. Our actual results and the timing of events could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Registration Statement on Form 10, particularly in Risk Factors and Special Note Regarding Forward-Looking Statements.

Overview

Interlink Electronics, Inc. (Interlink , the Company , we , us , our) designs, develops, manufactures and sells a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard products and custom solutions. These include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel 3 dimensional user inputs. Our disruptive, leading edge human machine interface, or HMI, technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical. Our solutions have focused on handheld user input, menu navigation, cursor control, and other intuitive interface technologies for the world's top electronics manufacturers.

We sell our products globally to a diverse array of customers that include the Fortune 500 as well as start-ups, design houses, original design manufacturers, original equipment manufacturers and universities. Our technology has been deployed in the consumer electronics, industrial automation, automotive and medical markets. Our global presence in the United States, China, Singapore and Japan, allows us to provide local sales and engineering support services to our existing and future customers. Our products are manufactured by our wholly-owned subsidiary in a state-of-the-art facility in Shenzhen, China. We also maintain manufacturing operations in Simi Valley, California. We control 100% of the manufacturing and shipping process which enables us to respond quickly to customer product demand and design requirements.

Over the next five years, we anticipate investing significantly in the expansion of our technology platforms through our own internal development to ensure we provide the market with leading-edge HMI solutions that are seamless to deploy and preform flawlessly. We anticipate dramatically growing our R&D organization in Singapore to ensure we have the right team to launch our current designs and develop new product offerings that will meet the market's growing demand for touch technology. Our Singapore location will allow us to take advantage of the abundance of engineering talent for future new product development. We also plan to explore potential strategic relationships with Singapore-based companies and technology institutes that will support our growth initiatives.

Table of Contents**Results of Operations**

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

| | Year Ended December 31, | | | |
|---|-------------------------|--|----------|------|
| | 2014 | (in thousands, except for percentages) | | 2013 |
| Revenues, net | \$ 10,278 | 100% | \$ 7,551 | 100% |
| Cost or revenues | 5,200 | 51 | 4,360 | 58 |
| Gross profit | 5,078 | 49 | 3,191 | 42 |
| Operating expenses: | | | | |
| Product development and research | 811 | 8 | 660 | 9 |
| Selling, general and administrative | 2,719 | 26 | 2,595 | 34 |
| Total operating expenses | 3,530 | 34 | 3,255 | 43 |
| Operating income (loss) | 1,548 | 15 | (64) | (1) |
| Other income (expense): | | | | |
| Interest income | 2 | | 4 | |
| Other income (expense), net | (16) | | 39 | 1 |
| Other income (expense), net | (14) | | 43 | 1 |
| Income (loss) from continuing operations, before provision for income taxes | 1,534 | 15 | (21) | |
| Provision for income taxes | 13 | | 1 | |
| Income (loss) from continuing operations, net of tax | 1,521 | 15 | (22) | |
| Income from discontinued operations, net of tax | 34 | | 34 | |
| Net income | \$ 1,555 | 15% | \$ 12 | % |

| | For the Nine Months Ended September 30, | | | |
|--|---|--|----------|------|
| | 2015 | (in thousands, except for percentages) | | 2014 |
| Revenues, net | \$ 7,744 | 100% | \$ 7,321 | 100% |
| Cost or revenues | 3,638 | 47 | 3,830 | 52 |
| Gross profit | 4,106 | 53 | 3,491 | 48 |
| Operating expenses: | | | | |
| Engineering, research and development | 637 | 8 | 650 | 9 |
| Selling, general and administrative | 2,291 | 30 | 2,094 | 29 |
| Total operating expenses | 2,928 | 38 | 2,744 | 38 |
| Income from operations | 1,178 | 15 | 747 | 10 |
| Other income: | | | | |
| Interest income | 1 | | 2 | |
| Other income | 31 | 1 | 22 | 1 |
| Other income | 32 | 1 | 24 | 1 |
| Income before income tax expense (benefit) | 1,210 | 16 | 771 | 11 |
| Income tax expense (benefit) | (3) | | 1 | |
| Net income | \$ 1,213 | 16% | \$ 770 | 11% |

Table of Contents*Comparison of the Years Ended December 31, 2014 and 2013*

| | 2014 | | December 31, | | 2013 | | Change | % Change |
|---------------|------------------------------------|-------------------|--------------|-------------------|----------|-------------------|--------|----------|
| | Amount | % of Net Revenues | Amount | % of Net Revenues | Amount | % of Net Revenues | | |
| | (in thousands, except percentages) | | | | | | | |
| Automotive | \$ 2,431 | 24% | \$ 1,752 | 23% | \$ 679 | 39% | | |
| Industrial | 1,936 | 19% | 994 | 13% | 942 | 95% | | |
| Medical | 1,024 | 10% | 1,412 | 19% | (388) | (27)% | | |
| Consumer | 754 | 7% | 366 | 5% | 388 | 106% | | |
| Standard | 4,133 | 40% | 3,027 | 40% | 1,106 | 37% | | |
| Revenues, net | 10,278 | 100% | 7,551 | 100% | \$ 2,727 | 36% | | |

We sell our custom products into the following markets: automotive, industrial, medical and consumer. We sell our standard products in many different markets which are often unknown to us at the time of sale.

The increase in revenues, net is driven by the growth in both our custom and standard products. The increase in our custom products relates primarily to growth in orders from current customers. Our growth in standard products is due to both increased orders from current customers as well as first time orders from new customers. Revenues for our products sold into medical markets can fluctuate due to both permanent and temporary changes in the market; however, design wins in the medical market tend to have a long life-cycle, often exceeding twenty years.

| | 2014 | | December 31, | | 2013 | | Change | % Change |
|------------------|------------------------------------|-------------------|--------------|-------------------|--------|-------------------|--------|----------|
| | Amount | % of Net Revenues | Amount | % of Net Revenues | Amount | % of Net Revenues | | |
| | (in thousands, except percentages) | | | | | | | |
| Cost of revenues | \$ 5,200 | 51% | \$ 4,360 | 58% | \$ 840 | 19% | | |

Our cost of revenues is affected by various factors including product mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and any provisions for excess and obsolete inventories. The increase in cost of revenues is primarily due to increased material costs to support higher sales in the period. Labor costs also increased to support higher demand. In addition, we temporarily increased our Shenzhen manufacturing space during 2014. Cost of revenues decreased as a percentage of revenues primarily due to efficiencies gained, including improved utilization of fixed costs, as revenues increase.

| | 2014 | | December 31, | | 2013 | | Change | % Change |
|----------------------------------|------------------------------------|-------------------|--------------|-------------------|--------|-------------------|--------|----------|
| | Amount | % of Net Revenues | Amount | % of Net Revenues | Amount | % of Net Revenues | | |
| | (in thousands, except percentages) | | | | | | | |
| Product development and research | \$ 811 | 8% | \$ 660 | 9% | \$ 151 | 23% | | |

Table of Contents

Product development and research, or R&D, expenses consist primarily of compensation expenses for employees engaged in research, design and development activities. Our R&D team focuses both on internal design development, as well as design development aimed at addressing customer design challenges, in order to develop our HMI solutions. The increase in R&D costs resulted from additional compensation and materials costs relative to the growth of our Singapore technology team.

| | 2014 | | December 31, | | 2013 | | Change | % Change |
|-------------------------------------|----------|-------------------|--------------|-------------------|--------|-------------------|--------|----------|
| | Amount | % of Net Revenues | Amount | % of Net Revenues | Amount | % of Net Revenues | | |
| Selling, general and administrative | \$ 2,719 | 26% | \$ 2,595 | 34% | \$ 124 | 5% | | |

(in thousands, except percentages)

Selling, general and administrative, or SG&A, expenses consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. The increase in SG&A expense is driven by increased travel costs to our international locations as well as an increased, non-refundable VAT assessment at our China manufacturing facility. SG&A decreased as a percentage of sales due to improved utilization of fixed costs as revenues increase.

Comparison of the Nine Months Ended September 30, 2015 and 2014

| | For the Nine Months Ended September 30, | | 2014 | | Change | % Change |
|---------------|---|-------------------|----------|-------------------|--------|----------|
| | 2015 | % of Net Revenues | Amount | % of Net Revenues | | |
| Automotive | \$ 2,142 | 28% | \$ 1,752 | 24% | \$ 390 | 22% |
| Industrial | 745 | 10% | 1,428 | 20% | (683) | (48)% |
| Medical | 1,335 | 17% | 708 | 10% | 627 | 89% |
| Consumer | 1,329 | 17% | 600 | 8% | 729 | 122% |
| Standard | 2,193 | 28% | 2,833 | 38% | (640) | (23)% |
| Revenues, net | 7,744 | 100% | 7,321 | 100% | \$ 423 | 6% |

(in thousands, except percentages)

The increase in revenues, net was driven by increased sales of our custom products in automotive, medical and consumer markets, partially offset by decreased sales of our custom products into the industrial markets and a decrease in sales of our standard products. The growth in our custom product sales was driven by increased sales to our current customers. The decrease in custom industrial market sales was driven by the absorption of product purchased in the previous year by two of our larger customers. Standard product sales decreased primarily due to a customer's decision to put a product through end-of-life, resulting in decreased sales of the product in 2015.

| | For the Nine Months Ended September 30, | | 2014 | | Change | % Change |
|------------------|---|-------------------|----------|-------------------|----------|----------|
| | 2015 | % of Net Revenues | Amount | % of Net Revenues | | |
| Cost of revenues | \$ 3,638 | 47% | \$ 3,830 | 52% | \$ (192) | (5)% |

(in thousands, except percentages)

Table of Contents

The decrease in cost of revenues was primarily due to savings obtained upon the relocation of our corporate headquarters along with decreased compensation costs as we aligned our quality processes to support our Shenzhen manufacturing facility.

| | For the Nine Months Ended September 30, 2015 | | 2014 | | Change | % Change |
|---------------------------------------|---|-------------------|--|-------------------|---------|----------|
| | Amount | % of Net Revenues | Amount (in thousands, except percentages) | % of Net Revenues | | |
| Engineering, research and development | \$ 637 | 8% | \$ 650 | 9% | \$ (13) | (2)% |

The decrease in engineering, research and development is due to the temporary reallocation of staff to manufacturing processes in order to meet the rapid growth in sales. In future periods, we anticipate engineering, research and development costs will meet and ultimately surpass prior years as we normalize manufacturing staffing to meet our current production levels and then increase our engineering, research and development staffing to enhance our technology and product offerings. We intend to grow our global research and development center in Singapore substantially over the next five years, including by expanding our research and development team by approximately 20% per year, expanding the size of the facility, and investing in additional tools and equipment.

| | For the Nine Months Ended September 30, 2015 | | 2014 | | Change | % Change |
|-------------------------------------|---|-------------------|--|-------------------|--------|----------|
| | Amount | % of Net Revenues | Amount (in thousands, except percentages) | % of Net Revenues | | |
| Selling, general and administrative | \$ 2,291 | 30% | \$ 2,094 | 29% | \$ 197 | 9% |

The increase in selling, general and administrative is driven by increased compensation costs as we expand our sales and marketing team to support our customer and revenue growth initiatives, as well as increased insurance costs. The increase was partially offset by decreased facilities costs due to the relocation of our headquarters and decreased attendance at tradeshows as we refocus our marketing strategy.

Liquidity and Capital Resources

As of September 30, 2015, we had cash and cash equivalents of \$3.6 million of which \$259,000 was held by our foreign subsidiaries, working capital of \$5.9 million and no indebtedness. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of September 30, 2015.

We believe that our existing cash and cash equivalents balance will be sufficient to meet our business requirements for at least the next twelve months. If we require additional cash, we may attempt to raise additional capital through equity, equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional needed funds, we may also take measures to reduce expenses to offset any shortfall.

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

Table of Contents*Cash Flow Analysis*

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

| | Year Ended December 31, | | Nine Months Ended September 30, | |
|---|-------------------------|----------|---------------------------------|----------|
| | 2014 | 2013 | 2015 | 2014 |
| | (in thousands) | | (in thousands) | |
| Net Cash Provided By (Used In) Operating Activities | \$ 1,007 | \$ (533) | \$ 1,316 | \$ 333 |
| Net Cash Used In Investing Activities | \$ (130) | \$ (83) | \$ (83) | \$ (118) |
| Net Cash Provided By Financing Activities | \$ 16 | \$ | \$ | \$ 16 |

Net Cash Provided By (Used In) Operating Activities

For the year ended December 31, 2014, the \$1.0 million in net cash provided by operating activities was primarily attributable to net income of \$1.6 million. The net change to operating assets of \$551,000 was primarily due to the increase of \$291,000 in accounts receivable and \$343,000 in inventory partially offset by a decrease of \$156,000 in accounts payable, accrued expenses and other liabilities and \$60,000 in deferred revenue.

For the year ended December 31, 2013, the \$533,000 in net cash used in operating activities was primarily attributable to the net loss of \$22,000 and the net change in operating assets of \$696,000 partially offset by non-cash charges of \$15,000.

Accounts receivable increased from \$1.5 million at December 31, 2013 to \$1.8 million at December 31, 2014 due to the timing of shipments at year end. Inventories increased from \$670,000 at December 31, 2013 to \$1.1 million at December 31, 2014 as we increased materials on hand to meet increased sales demand. Inventory balances will fluctuate depending on the timing of materials purchases and product shipment. Accounts payable and accrued expenses increased from \$617,000 at December 31, 2013 to \$773,000 at December 31, 2014 primarily due to the timing of payment for materials purchases. Deferred revenue decreased from \$205,000 at December 31, 2013 to \$145,000 at December 31, 2014 primarily due to the recognition of non-recurring engineering fees as deliverables were provided to the customer.

For the nine months ended September 30, 2015, the \$1.3 million in net cash provided by operating activities was primarily attributable to net income of \$1.2 million and adjustments for non-cash charges of \$92,000. Operating assets and liabilities had no significant net change due to the decrease of \$122,000 in inventory and \$129,000 in prepaid expenses and other assets being offset by a decrease of \$183,000 in accounts payable, accrued expenses and other liabilities.

For the nine months ended September 30, 2014, the \$335,000 in net cash provided by operating activities was primarily attributable to net income of \$770,000 and the net change in operating assets of \$450,000.

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Inventories decreased \$122,000 from \$1.1 million at September 30, 2014 to \$0.9 million at September 30, 2015 as we utilized stock on hand to meet increased sales demand. Inventory balances will fluctuate depending on the timing of materials purchases and product shipment. Prepaid expenses and other assets decreased \$129,000 primarily due to the amortization of insurance premiums paid in advance. Accounts payable and accrued expenses decreased primarily due to the timing of payment for materials purchases.

Net Cash Used In Investing Activities

Net cash used in investing activities of \$130,000 and \$83,000 for the years ended December 31, 2014 and 2013, respectively, related to the purchase of capital equipment in the US and China and patent costs.

Net cash used in investing activities of \$83,000 and \$118,000 for the nine months ended September 30, 2015 and 2014, respectively, related to the purchase of capital equipment in the US and China and patent costs.

Table of Contents

Net Cash Provided By Financing Activities

Net cash provided by financing activities of \$16,000 for the year ended December 31, 2014 was due to the exercise of stock options by an employee. There were no financing activities for the year ended December 31, 2013.

There were no financing activities for the nine months ended September 30, 2015. Net cash provided by financing activities of \$16,000 for the nine months ended September 30, 2014 was due to the exercise of stock options by an employee.

Off-Balance Sheet Transactions

We do not have any off-balance sheet arrangements.

Contractual Obligations and Known Future Cash Requirements

Indemnification Agreements

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

Operating Leases

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

Commitments

As of September 30, 2015, our principal commitments consisted of obligations under the operating leases for our offices. The following table summarizes our future minimum payments under these arrangements as of September 30, 2015 (in thousands):

| | Total | Less Than 1 Year | Payments Due | | 3-5 Years | More Than 5 Years |
|-------------------------|--------------|-------------------------|---------------------|-------|------------------|--------------------------|
| | | | 1-3 Years | | | |
| Contractual Obligations | \$ 395 | \$ 146 | \$ 231 | \$ 18 | \$ | \$ |

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with U.S. 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.

We believe that the assumptions and estimates associated with revenue recognition, inventory valuation, accounts receivable, stock-based compensation expense and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Table of Contents

For further information on all of our significant accounting policies, see the notes to our consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification, or ASC, Topic 605, *Revenue Recognition*, when there is persuasive evidence that an arrangement exists, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment. In limited circumstances where either title or risk of loss pass upon destination or acceptance or when collection is not reasonably assured, we defer revenue recognition until such events occur.

To satisfy the criteria, we input orders based upon receipt of a customer purchase order, record revenue upon shipment of goods and when risk of loss and title transfer, confirm pricing through the customer purchase order, and validate credit worthiness through past payment history or other financial data. All customers have warranty rights, and some customers have explicit or implicit rights of return. We record reserves for potential customer returns and warranty rights.

Inventory Valuation

Inventories are stated at lower of cost or market and consist of materials, labor and overhead. Inventory costs are determined using standard costs which approximate actual costs under the first-in, first-out method. We evaluate inventories for excess quantities and obsolescence. Our evaluation considers market and economic conditions; technology changes, new product introductions, and changes in strategic business direction; and requires estimates that may include elements that are uncertain. In order to state the inventory at lower of cost or market, we maintain reserves against individual stocking units. Inventory write-downs, once established, are not reversed until the related inventories have been sold or scrapped. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of goods sold in the period the revision is made.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoice amount and presented net of the allowance for doubtful accounts; they do not bear interest. We evaluate the collectability of accounts receivable at each balance sheet date using a combination of factors, such as historical experience, credit quality, age of the accounts receivable balances, and economic conditions that may affect a customer's ability to pay. We included any accounts receivable balances that are determined to be uncollectible in the overall allowance for doubtful accounts using the specific identification method. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Stock Based Compensation

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We account for stock based compensation under ASC Topic 718, *Compensation-Stock Compensation*, which requires us to record related compensation costs. Calculating the fair value of stock-based compensation awards requires the input of highly subjective assumptions, including the expected life of the awards and expected volatility of our stock price. Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. Our estimates of expected volatilities are based on weighted historical implied volatility. The expected forfeiture rate applied in calculating stock-based compensation cost is estimated using historical data and is updated annually.

The assumptions used in calculating the fair value of stock-based awards involve estimates that require management judgment. If factors change and we use different assumptions, our stock-based compensation expense could change significantly in the future. In addition, if our actual forfeiture rate is different from our estimate, our stock-based compensation expense could change significantly in the future.

Income Taxes

We account for income taxes in accordance with ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been

Table of Contents

included in the financial statements or tax returns. Under this method, we must make estimates and judgments in determining the provision for taxes for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to uncertain tax positions. Significant changes in these estimates may result in an increase or decrease to our tax provision in a subsequent period. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We must assess the likelihood that we will be able to recover our deferred tax assets. Our valuation allowance against the deferred tax assets is based on our assessments of historical losses and projected operating results in future periods on a more likely than not basis. If and when we generate future taxable income in our tax jurisdictions against which these tax assets may be applied, some portion or all of the valuation allowance would be reversed and an increase in net income would consequently be reported in future years.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period in which a change in judgment occurs.

Recently Issued and Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments to this update supersede nearly all existing revenue recognition guidance under GAAP. The core principle of this Topic is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. A nonpublic entity may elect to apply this guidance earlier, however, only as of the following: (1) an annual reporting period beginning after December 15, 2016, including interim periods within that reporting period (public entity effective date), (2) an annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017, (3) an annual reporting period beginning after December 15, 2017, including interim periods within that reporting period. The Company has not yet assessed the impact of ASU 2014-09 but does not believe it will have a material effect on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (a consensus of the FASB Emerging Issues Task Force), effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. This update is intended to resolve the diverse accounting treatment of share-based payment awards whose performance target may be achieved after the requisite service period. An entity may apply the standards (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (2) retrospectively to all awards with performance targets that are outstanding as of the

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beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. The Company has not yet assessed the impact of ASU 2014-12 but does not believe it will have a material effect on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Sub-Topic 205-40)*, which provides guidance in GAAP about management's responsibility to evaluate

Table of Contents

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

In February 2015, the Financial Accounts Standards Board, or FASB, issued Accountings Standards Update, or ASU, 2015-02 to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The standard is effective for fiscal and interim periods within those fiscal years, beginning after December 15, 2015. We are currently evaluating this standard and after adoption, we will incorporate this guidance in our analysis for consolidations.

ITEM 3. PROPERTIES

We maintain our principal office, totaling approximately 3,000 square feet, in Westlake Village, California, under a lease that expires in 2020. We maintain additional leased spaces, totaling approximately 21,000 square feet, in several locations, including manufacturing facilities in Simi Valley, California and Shenzhen, China, a research and development center in Singapore, and regional offices in Hong Kong, China and Tokyo, Japan. We believe that our facilities are adequate to meet our needs for the immediate future, and that, should it be needed, we will be able to secure additional space to accommodate any expansion of our operations.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of January 11, 2016, for:

- each of our named executive officers;
- each of our directors;
- all of our executive officers and directors as a group; and
- each person, or group of affiliated persons, who beneficially owned more than 5% of our common stock.

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We have determined beneficial ownership in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as indicated by the footnotes below, we believe, based on information furnished to us, that the persons and entities named in the table below have sole voting and sole investment power with respect to all shares of common stock that they beneficially owned, subject to applicable community property laws.

We have based percentage ownership of our common stock on 5,861,018 shares of our common stock outstanding as of January 11, 2016. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of such person, we deemed to be outstanding all shares of common stock subject to options held by the person that are currently exercisable or exercisable within 60 days of January 11, 2016, as well as all shares of common stock issuable pursuant to restricted stock units held by the person that are subject to vesting conditions expected to occur within 60 days of January 11, 2016. However, we did not deem such shares outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Interlink Electronics, Inc., 31248 Oak Crest Drive, Westlake Village, California 91361.

Table of Contents

| Name of Beneficial Owner | Common Stock Beneficially Owned | |
|--|---------------------------------|--------------|
| | Number | Percentage |
| Named Executive Officers and Directors: | | |
| Steven N. Bronson (1) | 4,179,523 | 71.3% |
| Albert Lu | | * |
| Mark Bailey | | * |
| Angela Blatteis | 17,357 | * |
| Frank Levinson | 101,334 | 1.7% |
| Howard Goldberg | | * |
| All executive officers and directors as a group (5 persons) | 4,298,214 | 73.3% |
| Other 5% Stockholders: | | |
| BKF Capital Group, Inc. (2) | | |