

INTERLINK ELECTRONICS INC

Form 10-K

March 02, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                      to                      .

Commission file number 001-37659

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INTERLINK ELECTRONICS, INC.

(Exact Name of Registrant as Specified in Its charter)

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Nevada 77-0056625  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

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

(Address of Principal Executive Offices) (Zip Code)

(805) 484-8855

(Registrant's Telephone Number, Including Area Code)

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Securities 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of June 30, 2016, the aggregate market value of the voting and non-voting common equity held by non-affiliates was \$22,991,474, based on the closing price on that date. As of March 1, 2017, the registrant had 7,328,055 shares of common stock issued and outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of December 31, 2016, the last day of the fiscal year covered by this Annual Report on Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “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-K and are subject to uncertainties, assumptions and business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part I, Item 1A, "Risk Factors," and in our other reports filed with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of



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these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Form 10-K 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-K, to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed with the Securities and Exchange Commission as exhibits thereto with the understanding that our actual future results and circumstances may be materially different from what we expect.

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PART I

ITEM 1. BUSINESS

Our Company

Interlink Electronics, Inc. (“we”, “us”, “our”, “Interlink” or the “Company”) designs, develops, manufactures and sells a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard products and custom solutions. These include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel three-dimensional user inputs. Our human machine interface (“HMI”) technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical. The application of our HMI technology platforms includes vehicle entry, vehicle multi-media control interface, rugged touch controls, presence detection, collision detection, speed and torque controls, biological monitoring and others.

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

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

Market requirements for innovative solutions that enable smaller, thinner devices, lower power consumption, highly refined designs, better navigation and more intuitive usability in all environments, are also driving increased demand for our products. 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.

Interlink serves our world-wide customer base from our corporate headquarters in Westlake Village, California (greater Los Angeles area), our global research and development ("R&D") and engineering center in Singapore, our printed-electronics manufacturing facility in Shenzhen, China and our global distribution and logistics center in Hong Kong. We also maintain engineering, assembly and prototyping capabilities in Simi Valley, California along with technical and sales offices in Japan and at multiple locations in the United States. We sell our products in a wide range of markets, including consumer electronics, automotive, industrial and medical, to some of the world's largest companies and most recognizable brands.

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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. On July 10, 1996, we re-incorporated into a Delaware corporation and, on July 20, 2012, we again changed our domicile from Delaware to Nevada by completing a merger with a newly formed Nevada corporation named Interlink Electronics, Inc. On May 29, 2014, we effected a four-for-one forward split of our common stock, and on February 24, 2015, we effected a two-for-one forward split of our common stock. Our board of directors declared a 25% stock dividend payable on April 1, 2016 to stockholders of record at the close of business on March 29, 2016. Each stockholder received one quarter of a share of common stock for every one share of common stock issued and outstanding at the record date. The stock dividend is the equivalent of a five-for-four forward split of our common stock. The information in this Form 10-K 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](http://www.interlinkelectronics.com). None of the information on our website is part of this Form 10-K.

## 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 consumers' daily lives 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 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. Printed electronic technologies are emerging as potential low-cost replacements to silicon based electronics in many specific application areas. According to industry analyst group IDTechEx, the projected market for printed sensor components will be \$2.1 billion by 2021, and the market share for printed force sensors alone will be approximately 20% by 2020.

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### 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 are 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 technical sales force that can address new and existing customer opportunities worldwide.

### Our Technology Platforms and Products

Interlink was founded on the invention and commercialization of FSR®, 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 R&D team, are focused on strategic technology roadmaps, development of scalable technology platform architectures and pursuit of 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 most 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

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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 integration 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 includes:

- Our FSR® 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. FSR® sensors are available in a range of sizes, shapes and lengths and with several connection options.
- Force sensing linear potentiometers (“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 (“NEMA”) rated industrial pointing devices, these solutions are ideal for applications away from the desktop. The modules use FSR® 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. We are not currently engaged in any patent infringement suits. Part of our strategy involves ring-fencing our intellectual property. Ring-fencing involves patenting not only the core technology, but also every improvement or piece of technology around the core technology. This strategy is designed to make it more difficult for competitors to design around the invention, while ensuring some areas of competitive advantage remain in the event a competitor successfully attacks the core patent.

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

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commercial advantage. See “Risk Factors” under Item 1A of this Form 10-K 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 December 31, 2016, we held 16 patents, and had six patents-pending. We group our patents into three general categories: sensors, which includes four patents expiring between 2022 and 2027; sensing systems, which includes three patents expiring between 2026 and 2034, respectively; 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.

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 often 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 large multi-national companies, small start-up companies, technology design houses and original equipment manufacturers (“OEMs”). Our sales personnel have extensive engineering backgrounds and receive substantial support from our internal engineering resources. Sales frequently result from interactions 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 in the United States, 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:

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### 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

Our customers include many of the world's leading electronics companies. They encompass large multi-national organizations 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 ("IoT") 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 42.5% and 43.3% of our net revenues for the years ended December 31, 2016 and 2015, 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, 2016, we had three customers that represented 22.4%, 11.7% and 11.3% of net revenues, respectively. For the year ended December 31, 2015, we had four customers that represented 22.2%, 15.6%, 12.7% and 10.0% of net revenues, respectively.

### Manufacturing Operations

We have our own modern manufacturing facility in Shenzhen, China, that is ISO 9001 compliant. We also maintain an engineering, assembly and prototyping 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 technical specifications. We actively monitor these suppliers, but we are subject to substantial risks associated with the

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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 R&D center are located in Singapore, where we focus on product innovation. We intend to grow this facility substantially over the next three-to-five years, including expanding our R&D engineering team, expanding the size of the facility, and investing in additional tools and equipment. We also operate engineering centers in the United States and China, primarily focused on customer support, quality control and product integration.

### Our Employees

As of December 31, 2016, we had 111 employees worldwide. Our employees, listed in population size order from largest to smallest, are in the following departments: operations, R&D, administration, and sales. 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.

## 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-K, 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, continues to undergo 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 an important 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.

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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 an evolving 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.

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 problems 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, any of 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 represents a substantial portion of our overall sales, and this trend will continue 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;

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- securing credit and funding;
- maintaining an effective system of internal controls at our foreign manufacturing facility;
- collecting foreign receivables;
- transfer pricing and other tax uncertainties;
- 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.

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.

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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 if our customers' products which utilize our HMI solutions do not gain widespread market acceptance, our revenue may stagnate or decline.

We generally do not sell products to end-users. 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 their marketing and promotional activities. We do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our HMI solutions. 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 our 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. There is no assurance that patents will be issued from any of our pending applications or that any claims allowed from existing or pending patents will be sufficiently broad to protect our technology. We also cannot assure 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.

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.

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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

Our common stock is listed on the NASDAQ Capital Market. If we fail to comply with the continuing listing standards of the NASDAQ Capital Market, our securities could be delisted.

Our common stock is listed 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 are unable to meet these

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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 the reduction in our coverage by securities analysts, if any. Also, if in the future we were to determine that we need to seek additional equity capital, delisting 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 of the Board, President and Chief Executive Officer, beneficially owns 71.3% of the outstanding shares of our common stock as of December 31, 2016. 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 other stockholders and he may vote in a manner that is adverse to their 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.

Our success depends in part on our CEO, who simultaneously leads other public corporations.

Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, simultaneously serves as the President and Chief Executive Officer of Qualstar Corporation (NASDAQ: QBAK), and as the Chairman of the Board and Chief Executive Officer for BKF Capital Group, Inc. (OTCMKTS: BKFG). As a result, he divides his time among these companies and does not devote his full business time and attention to Interlink’s business. Mr. Bronson currently works an equivalent full-time schedule for Interlink; however, there can be no assurance that the amount of time Mr. Bronson devotes to our company will not diminish from time to time for limited or extended periods as his other business obligations require a greater portion of his attention. Mr. Bronson is not required to spend a minimum amount of time on Interlink business. Our continued success depends in part upon the availability and performance of Mr. Bronson, who possesses unique and extensive industry knowledge and experience as well as a deep understanding of our business and strategy. A reduction in Mr. Bronson’s services to Interlink from their current levels due to his obligations to Qualstar Corporation, BKF Capital Group, Inc. or other organizations with which he is affiliated could have a disruptive effect, adversely impacting our ability to manage our business effectively and execute our business strategy.

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 investors to lose all or part of their 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;

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- actual or anticipated changes or fluctuations in our results of operations;
- failure of our results of operations to 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.

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, ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect stockholder rights. 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 we may need to 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 are 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

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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 improve our disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight is 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, being a public company subject to these rules and regulations 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 executive officers and qualified members of our board of directors, particularly to serve on our audit committee and compensation committee.

We are 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 are required to furnish a report by our management on our internal control over financial reporting. Such report contains, 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.

As a smaller public company (non-accelerated filer), we are required to evaluate and report on the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting, however, our independent registered public accounting firm may communicate to us if they are not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future.

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, to some extent, depends 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, stockholders' ability to achieve a return on their 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, stockholders may only receive a return on their investment in our common stock if the market price of our common stock increases.

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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.

## 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 (“ITAR”), the Export Administration Regulations (“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,

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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 (“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 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.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.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 in several locations, including production facilities in Simi Valley, California and Shenzhen, China, an R&D center in Singapore, and regional offices in Hong Kong, Tokyo, and various locations in the United States. In total, we lease approximately 27,000 square feet, and do not own any real estate. 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 3.LEGAL PROCEEDINGS



We are not party to any legal proceedings. We may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As our growth continues, we may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect our future financial position, results of operations or cash flows.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information for Common Stock

Until April 25, 2016, our common stock was quoted on the OTC Pink marketplace of the OTC Markets Group under the symbol "LINK". Effective Monday, April 25, 2016, our stock began trading on the NASDAQ Capital Market, also under the symbol "LINK". The following table sets forth, for the periods indicated, the high and low closing bid prices of our common stock as reported by the OTC Markets Group or the NASDAQ Capital Market. The OTC Markets Group quotations reflect inter-dealer prices, without retail mark-ups, markdowns, or commissions, and do not necessarily represent actual transactions:

	High	Low
Year ended December 31, 2016		
Fourth quarter	\$ 10.33	\$ 6.75
Third quarter	\$ 12.30	\$ 10.00
Second quarter	\$ 13.10	\$ 7.00
First quarter	\$ 7.16	\$ 5.60
Year ended December 31, 2015		
Fourth quarter	\$ 9.55	\$ 7.06
Third quarter	\$ 8.80	\$ 7.00
Second quarter	\$ 9.00	\$ 6.00
First quarter	\$ 9.75	\$ 7.00

On March 1, 2017, the last reported sale price of our common stock on the NASDAQ Capital Market was \$9.28 per share.

## Holders of Record

As of March 1, 2017 we had 39 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

## Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future, if at all. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

## Recent Sale of Unregistered Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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ITEM 7.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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K, particularly in “Risk Factors” and “Special Note Regarding Forward-Looking Statements.”

Overview and Outlook

Overview

Interlink Electronics, Inc. (“we”, “us”, “our”, “Interlink” or the “Company”) designs, develops, manufactures and sells a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard products and custom solutions. These include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel three-dimensional user inputs. Our HMI technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical. The application of our HMI technology platforms includes vehicle entry, vehicle multi-media control interface, rugged touch controls, presence detection, collision detection, speed and torque controls, biological monitoring and others.

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

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, OEMs 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, Hong Kong, 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 engineering, assembly and prototyping capabilities 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 three-to-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.

## Outlook

We follow market research conducted by IDTechEx and other independent parties in the printed, flexible electronics industry. Market research indicates that the sensor portion of the printed electronics market is a \$6.5 billion industry and continues to grow. We maintain our focus on developing solutions around scalable sensor and product architectures and emerging applications in order to capitalize on this growth. We believe there are significant innovation opportunities for

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sensors with novel functions and form factors, which is why we have invested heavily in R&D to develop disruptive technology platforms and a robust patent portfolio. We expect to accelerate such investments over the next 12 – 18 months as we continue to build out our R&D engineering center in Singapore.

The industrial markets we serve (automotive, medical, rugged computing, industrial tools and equipment, among others) face challenges driven by product innovation, changes in talent requirements, and disruptions in energy markets. Such challenges present an opportunity for us to emerge as a solution provider for these markets. These opportunities include: new technologies such as the industrial IoT, robotics and advanced manufacturing, and the skills and solutions needed to manage embedded technology and data analytics. If capitalized and managed correctly, these innovations can support step changes in productivity by allowing companies to more actively monitor and optimize plant, asset, and supply chain performance.

The consumer market faces an unprecedented confluence of changes such as declining brand loyalty, rapidly evolving technologies, changing demographics and consumer preferences, and economic uncertainty. The opportunities for us are to provide solutions to help consumer products companies keep up with the frantic pace of innovation to maintain performance of existing categories while also building the breakthrough new businesses of the future. The advent of smarter products (e.g., products with embedded sensor technologies) provides an opportunity for us to deliver unique solutions to build and nurture breakthrough innovation.

Overall, our customers tend to be market leaders, and have been stable enough to manage their businesses through any challenging market cycle. We are very pleased with our performance in 2016 and expect increased demand for our products as the overall market continues to recover. We are confident that our leadership position in providing HMI solutions remains strong.

We remain committed to our strategy to create shareholder value through earnings growth and balanced capital allocation, including disciplined investments for organic growth and innovation and strategic bolt-on acquisitions. In connection with our growth strategy, we will continue to evaluate potential acquisitions in 2017; however, the effect of such acquisitions cannot be predicted and therefore is not reflected in this outlook.

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## Results of Operations

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

	Year ended December 31,			
	2016		2015	
	\$	%	\$	%
	(in thousands, except percentages)			
Revenue, net	\$ 11,886	100.0%	\$ 10,514	100.0%
Cost of revenue	4,880	41.1 %	4,869	46.3 %
Gross profit	7,006	58.9 %	5,645	53.7 %
Operating expenses:				
Engineering, research and development	623	5.2 %	841	8.0 %
Selling, general and administrative	3,536	29.7 %	3,122	29.7 %
Total operating expenses	4,159	34.9 %	3,963	37.7 %
Income from operations	2,847	24.0 %	1,682	16.0 %
Other income (expense):				
Interest income	1	0.0 %	1	0.0 %
Other income (expense), net	39	0.3 %	37	0.3 %
Total other income (expense), net	40	0.3 %	38	0.3 %
Income from continuing operations before income tax benefit (expense)	2,887	24.3 %	1,720	16.3 %
Income tax benefit (expense)	6	0.1 %	11	0.1 %
Net income	2,893	24.3 %	1,731	16.4 %
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(77)	(0.6) %	(21)	(0.2) %
Comprehensive income	\$ 2,816	23.7 %	\$ 1,710	16.2 %

## Comparison of the Years Ended December 31, 2016 and 2015

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

Year ended December 31,		2015			
2016					
	% of		% of		
Amount	Net Revenue	Amount	Net Revenue	Change	% Change



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(in thousands, except percentages)

Automotive	\$ 3,670	30.9	%	\$ 3,023	28.8	%	\$ 647	21.4	%
Industrial	1,608	13.5	%	1,277	12.1	%	331	25.9	%
Medical	1,399	11.8	%	1,335	12.7	%	64	4.8	%
Consumer	1,340	11.3	%	1,641	15.6	%	(301)	(18.3)	%
Standard	3,869	32.5	%	3,238	30.8	%	631	19.5	%
Revenue, net	\$ 11,886	100.0	%	\$ 10,514	100.0	%	\$ 1,372	13.0	%

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

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The increase in net revenues was driven by increased sales of our custom products in the automotive and industrial markets, partially offset by decreased sales of our custom products into the consumer market. Sales of our custom products into the medical market was relatively flat. We also had a significant increase in sales of our standard products. The overall growth in our custom product sales was driven by increased sales to our current customers for use in ongoing product lines. Some of our more recent custom product success for new product lines in the automotive and medical markets will not be realized until late 2017 or early 2018. However, as these revenues materialize, revenues from current product lines that reach the end of their life cycle will likely offset some of this expected growth.

The decrease in custom consumer market sales was driven primarily by the timing of orders from our current customers in these markets. Some of our larger consumer customers purchase product in bulk quantities and absorption of these products can straddle several financial reporting periods. The timing of orders from our customers is not always predictable and can be concentrated in varying periods during the year to coincide with their project and building plans.

	Year ended December 31, 2016		2015		Change	% Change
	Amount	% of Net Revenue	Amount	% of Net Revenue		
Cost of revenue	\$ 4,880	41.1 %	\$ 4,869	46.3 %	\$ 11	0.2 %

Our cost of revenue is impacted by various factors including product mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and any provisions for excess and obsolete inventories. Cost of revenues was flat compared with the prior year despite our increase in revenues. Cost of revenues decreased as a percentage of revenues primarily due to efficiencies gained, including improved utilization of fixed costs, as revenues increased. Some of the savings included the relocation of our facility in Camarillo, California to a smaller facility in Simi Valley in 2015, which did not repeat in 2016 and also decreased production overhead costs overall. We also benefited from reduced manufacturing related compensation costs in 2016 as we aligned our quality processes to support our Shenzhen manufacturing facility along with efficiencies gained in manufacturing scheduling and staffing.

	Year ended December 31, 2016		2015		Change	% Change
	Amount	% of Net	Amount	% of Net		

	Revenue			Revenue					
	(in thousands, except percentages)								
Engineering, research and development	\$ 623	5.2	%	\$ 841	8.0	%	\$ (218)	(25.9)	%

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

Our engineering and R&D costs decreased as compared with the prior year primarily due to a temporary decrease in R&D staffing resulting from restructuring our operations in the United Kingdom in July 2015. R&D costs also decreased in 2016 due to government grants received to develop R&D capabilities in strategic areas of technology. We intend to seek such grants where available, but they may not be granted in the future. Similarly, we anticipate engineering and R&D costs to increase as we invest in our Singapore R&D center and increase our engineering and R&D staffing worldwide in order to enhance our technology and product offerings. We intend to grow the global R&D center in Singapore substantially over the next three-to-five years, including expanding our R&D team, expanding the size of the facility, and investing in additional tools and equipment. On February 24, 2016, we entered into a five-year lease agreement for a new R&D facility in Singapore and moved into the new facility in July 2016.

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	Year ended December 31, 2016		2015		Change	% Change
	Amount (in thousands, except percentages)	% of Net Revenue	Amount	% of Net Revenue		
Selling, general and administrative	\$ 3,536	29.7 %	\$ 3,122	29.7 %	\$ 414	13.3 %

Selling, general and administrative expenses (“SG&A”) consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. SG&A expenses increased as compared with the prior year driven by increased professional fees and filing expenses as a result of our successful efforts to regain active filing status with the SEC and our relisting on the NASDAQ Capital Market in March, 2016. We added a Vice President of Sales and Marketing in August 2016 and have already begun to realign our sales and marketing strategy. Future periods will likely see additional SG&A expenses related to focused efforts to reach a larger share of the markets we serve.

Year ended  
December 31,