LOUISIANA-PACIFIC CORP
Form SC 13G/A
January 09, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No: 8)

LOUISIANA PACIFIC CORP

(Name of Issuer)

Common Stock

(Title of Class of Securities)

546347105

(CUSIP Number)

December 31, 2014

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 546347105

(1)Names of reporting persons. BlackRock, Inc.

(2) Check the appropriate box if a member of a group
(a) [ ]

(b) [X]

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power

15169352

(6) Shared voting power

NONE

(7) Sole dispositive power

16222142

(8) Shared dispositive power

NONE

(9) Aggregate amount beneficially owned by each reporting person

16222142

(10) Check if the aggregate amount in Row (9) excludes certain shares

(11) Percent of class represented by amount in Row 9

11.4%

(12) Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:

LOUISIANA PACIFIC CORP

Item 1(b) Address of issuer's principal executive offices:

414.Union.Street Suite 2000
Nashville TN 37219

Item 2.

2(a) Name of person filing:

BlackRock, Inc.

2(b) Address or principal business office or, if none, residence:

BlackRock Inc.
55 East 52nd Street
New York, NY 10022

2(c) Citizenship:

See Item 4 of Cover Page

2(d) Title of class of securities:

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
[ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;
[ ] A non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

16222142

Percent of class

11.4%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

15169352

Shared power to vote or to direct the vote

NONE

Sole power to dispose or to direct the disposition of

16222142

Shared power to dispose or to direct the disposition of

NONE

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following [ ].

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of
LOUISIANA PACIFIC CORP.
No one person's interest in the common stock of
LOUISIANA PACIFIC CORP
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: January 9, 2015
BlackRock, Inc.

Signature: Matthew J. Fitzgerald

Name/Title Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock (Luxembourg) S.A.
BlackRock (Netherlands) B.V.
BlackRock Advisors (UK) Limited
BlackRock Advisors, LLC
BlackRock Asset Management Canada Limited
BlackRock Asset Management Ireland Limited
BlackRock Financial Management, Inc.
BlackRock Fund Advisors*
BlackRock Fund Managers Ltd
BlackRock Institutional Trust Company, N.A.
BlackRock International Limited
BlackRock Investment Management (Australia) Limited
BlackRock Investment Management (UK) Ltd
BlackRock Investment Management, LLC
BlackRock Japan Co Ltd
BlackRock Life Limited

*Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.

Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized under the laws of the State of Delaware, United States (the "Company"), does hereby make, constitute and appoint each of Matthew Mallow, Howard Surloff, Herm Howerton, Bartholomew Battista, Dan Waltcher, Karen Clark, Daniel Ronnen, John Stelley, Brian Kindelan, Matthew Fitzgerald, Charles Park, Carsten Otto and Con Tzatzakis acting severally, as its true and lawful attorneys-in-fact, for the purpose of, from time to time, executing in its name and on its behalf, whether the Company is acting individually or as representative of others, any and all documents, certificates, instruments, statements, other filings and amendments to the foregoing (collectively, "documents") determined by such person to be necessary or appropriate to comply with ownership or control-person reporting requirements imposed by any United States or non-United States governmental or regulatory authority, including without limitation Forms 3, 4, 5, 13D, 13F, 13G and 13H and any amendments to any of the foregoing as may be required to be filed with the Securities and Exchange Commission, and delivering, furnishing or filing any such documents with the appropriate governmental, regulatory authority or other person, and giving and granting to each such attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. Any such determination by an attorney-in-fact named herein shall be conclusively evidenced by such person's execution, delivery, furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney dated 10th day of July,2012 in respect of the subject matter hereof, shall be valid from the date hereof and shall remain in full force and effect until either revoked in writing by the Company, or, in respect of any attorney-in-fact named herein, until such person ceases to be an employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of attorney to be executed as of this 28th day of July, 2014.

BLACKROCK, INC.

By:_ /s/ Chris Jones
Name: Chris Jones
Title: Chief Investment Officer

VALIGN="bottom">

-Revenue

$25,265 100% $25,043 100% $31,042 100%

-Gross Profit

8,811 7,916 12,680

-Gross Profit % of Segment Revenue

35% 32% 41%

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Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Business Communications

In our business communications segment, we sell wireless remote controls on an OEM basis to the leading manufacturers of presentation projectors. We also sell Interlink-branded wireless remote controls and keyboards direct to computer products retailers, corporate resellers and distributors. In 2003, OEM revenues comprised approximately 60% of business communications revenues as compared to 65% in 2002.

Overall, 2003 business communication revenues grew 24%. OEM revenues grew 19%, reflecting an approximate 34% growth in units coupled with an approximate 15% decline in average selling prices. In 2003, OEM average selling prices ranged from $10-$15. Revenues from branded products, which had average selling prices of approximately $80-$90 (before special price reductions) grew 33%. The growth in OEM units is consistent with the growth in the presentation projector market. The OEM average selling price decline is reflective of competitive price pressure affecting the industry as a whole. The branded unit volume increase results from our efforts to expand our channel customer base and broaden our product line.

Business communication gross margin in 2003 was 33% compared to 22% in 2002 but the gross margin in 2002 was reduced by approximately 15% by the inventory write-off ($2.3 million) recorded in fourth quarter of 2002. The decline in gross margin, excluding the impact of inventory write-offs, was due to the OEM average selling price decline discussed above.

Home Entertainment

In our home entertainment segment, we sell remote controls on an OEM basis to manufacturers of advanced TV viewing devices (including projectors sold for TV viewing) and FSR sensors to Microsoft for integration into their Xbox game controller. Revenues related to the Xbox program accounted for approximately 80% of our home entertainment revenues in 2003.

2003 home entertainment revenues remained relatively flat as compared to 2002, reflecting a slight decline in Xbox related revenues and an offsetting improvement in sales of remote controls for advanced TV viewing devices.

Home entertainment gross margin improved to 46% in 2003 from 44% in 2002 due to increased sales of higher-margin remote controls for advanced TV viewing devices.

E-Transactions

In our e-transactions segment, we sell electronic signature capture devices and, depending on the customer requirement, signature capture software. We offer annual software maintenance agreements and hardware upgrade programs to our existing customers; however, historically we have not recorded significant revenues from those type of sales.

2003 e-transaction revenues increased 140% over 2002 due to greater industry adoption of the e-pad product line and a large sale to a major U.S. bank recorded in fourth quarter of 2003.

E-transaction gross profit as a percentage of sales remained relatively consistent with 2002. We expect e-transaction gross profit margins to remain relatively the same in 2004.

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Specialty Components

In our specialty components segment, we sell custom FSR s and FSR-based subassemblies to many customers in several vertical markets, such as medical devices, industrial input and military input products.

Specialty components revenues were down 4% in 2003 as compared to 2002 due to greater competition in the industrial input market.

Specialty component gross margin improved to 64% in 2003 as compared to 49% in 2002 due to the lower amount of relatively lower margin industrial input sales in 2003.

Operating Expenses

Product development and research costs include internal engineering labor, contract engineering and outside processing costs for the design and development of our OEM and branded designs and products and the research of our technologies. For 2003, our product development and research costs increased 2% over 2002 due to development of new products in our branded business communication and e-transaction segments. As a percentage of revenues, product development and research costs declined to 11% in 2003 from 13% in 2002 due to sales growth leverage. However, we expect that product development and research costs will continue to exceed 10% of revenues for the foreseeable future.

Sales, general and administrative costs (SG&A) include sales, marketing, accounting and administrative labor, sales commissions, advertising, general marketing, branded business communications channel marketing and travel and entertainment costs. For 2003, SG&A grew 10% over 2002 due to increased branded business communication channel marketing costs and increased sales commissions and general marketing commensurate with sales growth. As a percentage of revenues, SG&A declined to 26% in 2003 versus 30% in 2002 due to sales growth leverage.

In summary, our improved operating results in 2003 were attributable to the following factors:

- 24% growth in revenues that occurred in our business communications and e-transactions sectors;
- the inventory write-off in 2002 that did not occur in 2003; and
- 7.4% growth in operating expenses supporting the 24% growth in revenues.

Total other income (expense) improved to a positive $4,000 in 2003 versus a negative $86,000 in 2002 due to lower interest expense due to lower debt levels partially offset by lower interest income from lower invested cash levels.

We have $32 million in net operating loss carryforwards (NOLs) for U.S. federal tax purposes. In 2000 and 2001, for accounting purposes, we recognized some of those NOLs as an accrued tax benefit. However, because of our subsequent losses in 2001 and 2002, in the fourth quarter of 2002 we recorded a valuation allowance of $1.3 million against our deferred tax assets. This non-cash charge reduced the net value of the deferred tax assets on the balance sheet to zero. Current accounting standards place significant weight on a history of recent cumulative losses in determining whether or not a valuation allowance is necessary. Forecasts of future taxable income are not considered sufficient positive

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evidence to outweigh a history of losses. Accordingly, the assets were reserved in full. The Company s federal net operating loss carryforwards are not impacted and can continue to be utilized for up to 19 years. The net income generated in 2003 is not necessarily indicative of future results. Therefore we have maintained the full valuation allowance against our deferred tax assets as of December 31, 2003. In 2003, we recorded income tax expense related to our Hong Kong subsidiary.

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Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Business Communications

Our principal source of revenue in 2002 continued to be our business communications market. Sales in this segment recorded a net decline of 2% in fiscal 2002 as compared to fiscal 2001. However, the quarterly sales decline, a result of overall economic conditions that began in first quarter 2001, reversed direction in first quarter 2002 and we recorded a sequential quarterly improvement throughout 2002. This improvement was led by increased revenue in our U.S.-based OEM business, which increased 43% over 2001 due to the addition of new customers. Our Japan-based OEM business declined 28% compared to 2001 due to lower unit sales with existing customers. Our OEM business comprised 65% of total business communications revenues in 2002 as compared to 74% 2001. Our branded business improved 37% over 2001 with the expansion of our branded product line and increased number of distribution and reseller customers.

Gross margins for the business communications segment declined in 2002 due to the $2.3 million fourth quarter write-off of obsolete inventory related to our Japanese subsidiary, partially offset by the improving product mix of branded products.

Home Entertainment

Home entertainment revenues increased by 26% in 2002 due to the success of the Microsoft Xbox program. The Xbox program accounted for 92% and 75% of total home entertainment revenues in 2002 and 2001, respectively.

Home entertainment gross margin declined in 2002 due to the shift of the product mix to higher volume-lower margin programs (e.g. the Xbox program).

E-Transactions

E-transactions segment revenues increased 80% in 2002 over 2001 due to an increase in the number of larger volume customers and a slight improvement in the general economic climate for corporate capital expenditures for information technology products. Also, in late 2002, we introduced ePad-Ink to the ePad product line.

Gross margin for e-transactions for 2002 remained consistent with 2001.

Specialty Components

Specialty components revenues declined in 2002 due to the termination in third quarter of 2001 of the licensing agreement with IEE. 2001 revenues associated with the IEE program totaled $1.5 million.

Gross margin for the specialty components segment improved in 2002 due to the allocation to this segment of a portion of the $2 million write-off of obsolete inventory recorded in second quarter of 2001.

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Operating Expenses

Product development and research expense decreased 5% from $3.5 million in 2001 to $3.3 million, in 2002. This decrease is a result of a 20% reduction in the usage of outside development firms and a 5% lower headcount as part of the cost reduction plan initiated in mid-2001.

Selling, general and administrative expense decreased 10% from $8.3 million in 2001 to $7.5 million in 2002. This decrease is a result of the cost reduction programs initiated in mid-2001 and maintained throughout 2002. The key factors of the cost reduction plan were a 5% reduction in personnel across all departments, a hiring and salary freeze and a reduction in outside marketing costs.

Other income in 2001 reversed to a net expense in 2002 due to the lower interest rates achievable on cash investments. In 2001, we recorded an additional deferred tax asset of $701,000 related to our federal net operating loss carryforwards. Due to a lack of quarterly profitability, we suspended further additions to the deferred tax asset in the fourth quarter of 2001 and in the fourth quarter of 2002 we recorded a valuation allowance against the remaining balance ($1.3 million) by recording a tax expense.

Liquidity and Capital Resources

Our capital resources have historically come from sales of equity securities and commercial borrowing. At times since 1999, operations has been a net generator of cash. Our principal historical cash requirements have been to fund new product and technology development, to support sales, marketing, inventory and accounts receivable cost and to fund losses in loss periods. While we expect continuing operations to generate cash, we anticipate that additional capital resources will be required to support future growth and expect to rely on additional sales of securities and commercial financing to provide the required resources. To some extent, we expect that our rate of growth will be within our control and, accordingly, we expect to adjust our growth commitments to reflect the availability and attractiveness of financing arrangements and non-growth-related cash requirements.

Cash flow comes principally from collection of accounts receivable and, to a lesser extent, from interest or other return on financial investments. We maintain what we believe to be appropriate reserves for doubtful accounts and are not aware of any prospective development that would impact collections differently from our historical experience. On two occasions, we have made substantial inventory reserve adjustments that reflect management s judgment as to the recoverable value of inventory. We do not currently anticipate the need for a further inventory adjustment but any significant diminution in inventory value would ultimately affect cash flow.

We have $3 million of credit availability under our U.S. bank line of credit, none of which was used as of December 31, 2003. The availability of this credit is subject to various conditions and to our continuing compliance with certain covenants. As of December 31, 2003, we were in compliance with the applicable covenants and are not aware of any prospective development that would cause us to fail to be in such compliance.

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We currently have modest commitments for capital expenditures and no material purchase obligations. Our long-term debt and operating lease obligations as of December 31, 2003 are set forth in the following table:

	Total	Less Than 1 Year	1-3 Years
Long-term debt obligations	$ 1,716	$ 706	$ 1,010
Operating lease obligations	92	73	19
Total	$ 1,808	$ 779	$ 1,029

In February 2004, we renegotiated and extended the terms of our Camarillo, California facilities. The new lease adds $287,000 to our 2004 lease commitments and $1,036,000 to our lease commitments in 2005, 2006 and 2007.

These amounts may increase as we pursue our growth strategy but the amount of any such growth will depend on the particular requirements of any growth commitment, the availability and attractiveness of equity capital arrangements and our general liquidity position.

Working capital decreased from $19.3 million at December 31, 2001 to $16.2 million at the end of 2002 and increased to $20.0 million at December 31, 2003. The decrease in 2002 is a result primarily of the operating loss for the year, while the increase in 2003 reflects improved results during the period and proceeds from the exercise of employee and management stock options. Except for the credit facilities described above, we have no commitments with respect to future capital resources.

Operations generated a positive cash flow of $451,000 in 2002. Operations used $3.5 million in 2003, all of it in the first three quarters. The improvement in 2002 was due primarily to improved accounts receivable collections coupled with the favorable timing of payments of accounts payable and accrued liabilities. The primary uses of cash in the first three quarters of 2003 were investments in working capital (accounts receivable and inventory) designed to facilitate our further penetration of the business communications branded channel, partially offset by the managed extension of payments of accounts payable and accrued liabilities. The decrease in use of cash in the fourth quarter of 2003 was due primarily to improved operating results. We expect to generate a positive cash flow from operations in 2004.

We spent $504,000 in 2002 and $643,000 in 2003 to purchase additional manufacturing and computer equipment.

We received proceeds from unsecured long-term bank loan (primarily from Japanese banks) of $188,000 in 2002, which was used to fund working capital requirements for our Japanese subsidiary. We made payments on long-term debt of $1.5 million and $618,000 in 2002 and 2003, respectively. Net proceeds from the exercise of stock options and stockholder loan repayments were $86,000 and $2.7 million in 2002 and 2003, respectively.

Application of Critical Accounting Policies and Estimates

Management s discussion and analysis of the Company s financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an

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on-going basis, management evaluates estimates, including those related to the valuation of inventory and the allowance for uncollectible accounts receivable. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements , as amended by SAB No. 101A and No. 101B. SAB No. 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) require management s judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. To satisfy the criteria, we: (1) input orders based upon receipt of a customer purchase order; (2) record revenue upon shipment of goods and when risk of loss and title has transferred; (3) confirm pricing through the customer purchase order and; (4) validate creditworthiness through past payment history, credit agency reports and other financial data. Other than through warranty rights, our customers do not have explicit or implicit rights of return. Should changes in conditions cause management to determine the revenue recognition criteria are not met for certain future transactions, such as a determination that collectibility was not reasonably assured, revenue recognized for any reporting period could be adversely affected.

Accounts Receivable and Allowance for Doubtful Accounts. Our accounts receivable are unsecured, and we are at risk to the extent such amounts become uncollectible. We continually monitor individual account receivable balances, and provide for an allowance of doubtful accounts at the time collection may become questionable based on payment performance or age of the receivable and other factors related to the customer s ability to pay.

Inventory Reserve. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of forecast sales levels by product and historical demand. We write off inventories that are considered obsolete. Remaining inventory balances are adjusted to approximate the lower of our cost or market value and result in a new cost basis in such inventory until sold. If future demand or market conditions are less favorable than our projections, additional inventory write-down may be required, and would be reflected in cost of sales in the period the revision is made.

Provision for Income Tax. As part of the process of preparing our financial statements, as required by Statement of Financial Accounting Standards (SFAS) No. 109, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation reserve. To the extent we establish a reserve or increase this reserve in a period, we must include an expense within the tax provision in the statements of operations.

Significant management judgment is required in determining our provision for income taxes, deferred tax asset and liabilities and any valuation reserve recorded against our net deferred tax assets. Management continually evaluates its deferred tax asset as to whether it is likely that the deferred tax asset will be realized.

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We first achieved profitable operations in 1995. Because of net operating loss (NOL) carryforwards available both for our U.S.-based and Japan-based operations, we did not accrue income tax expense until 1999. In that year, due to the expiration or full utilization of NOL carryforwards in California and Japan, we began to record a provision for income tax expense in those jurisdictions. By the end of 2000, we also began to accrue an income tax benefit related to our federal NOL carryforwards to be used in future periods. However, in mid-2001, we began to record quarterly tax losses and suspended any further recognition of NOL carryforward tax benefits. In fourth quarter 2002 and for the 2003 year, based on historical and prospective evidence, we concluded that we did not have sufficient evidence to be able to recognize our NOL carryforward benefits as assets and thus we recognized a valuation allowance against our deferred tax asset balance.

As of December 31, 2003, the Company had net operating loss carryforwards for federal, state and foreign income tax purposes of $31,676,000, $11,282,000 and $1,084,000, respectively, which are available to offset future taxable income in those jurisdictions through 2022.

Foreign Exchange Exposure. We have established relationships with most of the major OEMs in the business communications market. Many of these OEMs are based in Japan and approximately 30% and 23% of our revenues for 2002 and 2003, respectively, came from Japanese customers. Revenues from these customers are denominated in Japanese yen and as a result we are subject to foreign currency exchange rate fluctuations in the yen/dollar exchange rate. We use foreign currency forward contracts to hedge this exposure. We use revenue forecasts from our Japanese subsidiary to determine the amount of our forward contracts to purchase and we attempt to enter into these contracts when we believe the yen value is relatively strong against the U.S. dollar. To the extent that our revenue forecast may be inaccurate or the timing of forecasting the yen s strength is wrong, our actual hedge gains or losses may not necessarily correlate with the effect of foreign currency rate fluctuations on our revenues. We mark these contracts to market value and the gain or loss from these contracts is recorded in business communications revenue. These hedge transactions are classified as economic hedges and do not qualify for hedge accounting under SFAS No. 133. In addition, because our Japanese subsidiary s functional currency is the yen, the translation of the net assets of that subsidiary into the consolidated results will fluctuate with the yen/dollar exchange rate.

The following table illustrates the impact of foreign currency fluctuations on our yen-denominated revenues and the effectiveness of our foreign currency hedging activity (in thousands).

	2001	2002	2003
Increase (decrease) in revenues resulting from foreign currency fluctuations	$ (770)	$ 534	$ 294
Hedging gains (losses)	750	284	(211)
Net revenue impact	$ (20)	$ 818	$ 83

We calculate the increase (decrease) in revenues resulting from foreign currency fluctuations by calculating the U.S. dollar equivalent of our yen-denominated revenues using the yen/dollar exchange rate at the beginning of the period. The resulting product is compared to our yen-denominated revenues converted to U.S. dollars according to GAAP and the difference is shown in the table above.

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Recent Accounting Pronouncements.

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 nullifies EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). It requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the FASB s conceptual framework. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier adoption encouraged. Interlink adopted this statement in 2003 and the adoption of SFAS No. 146 did not have a material impact on our financial position or results of operations.

In November 2002, the FASB issued Interpretation Number 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods beginning after December 15, 2002. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of the recognition and initial measurement requirements of FIN 45 has not had a material impact on our financial position, cash flows or results of operations.

In November 2002, the Emerging Issues Task Force (EITF) issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables . This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 is effective for revenue arrangements entered into in fiscal quarters beginning after June 15, 2003, or we may elect to report the change in accounting as a cumulative-effect adjustment. We adopted this issue on July 1, 2003 and the adoption had no material impact on our operating results or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure-an amendment of FASB No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements are effective for financial statements for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial statements for interim periods beginning after December 15, 2002. Interlink adopted the disclosure requirements of SFAS No. 148 in the fourth quarter of 2002 and the adoption had no material impact on our financial condition or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletins (ARB) No. 51, Consolidated Financial Statements (FIN 46). FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We adopted FIN 46 in 2003 and the adoption had no material impact on our financial condition or results of operations.

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In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We adopted this statement on July 1, 2003 and the adoption had no material impact on our financial condition or results of operations.

Item 7(A). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk - Our Japanese subsidiary, Interlink Electronics K.K., generally makes sales and collects its accounts receivable in Japanese yen. To hedge these revenues against future movements in exchange rates, we purchase foreign exchange forward contracts. Gains or losses on the forward contracts are then offset by gains or losses on the underlying revenue exposure and consequently a sudden or significant change of foreign exchange rates would not have a material impact on net income or cash flows to the extent future revenues are protected by forward currency contracts. These contracts, however, typically have a six-month duration. Thus, yen/dollar fluctuations lasting more than six months will have an impact on our revenues. During 2001, 2002 and 2003, we entered into foreign currency exchange contracts in the normal course of business to manage our exposure against foreign currency fluctuations on revenues denominated in foreign currencies. The principal objective of such contracts is to minimize the risks and costs associated with financial and global operating activities. We do not utilize financial instruments for trading or other speculative purposes. The fair value of foreign currency exchange contracts is estimated by obtaining quotes from bankers. At December 31, 2003, we had foreign currency exchange contracts outstanding with a notional value of $1.4 million. During fiscal 2003, we recognized $211,000 of losses on foreign currency exchange contracts which is reflected in revenue in the accompanying consolidated statements of operations. Our hedging policies are designed to offset the effect of a yen devaluation on our revenues; thus, a hypothetical 10% devaluation of the yen would reduce our yen denominated revenues by 10%; but our theoretical hedging gains would offset that effect for a period of time.

Interest Rate Exposure Based on our overall interest rate exposure at December 31, 2003, a hypothetical 10% change in interest rates applied to our outstanding debt as of December 31, 2003, would have no material impact on earnings or cash flows, over a one-year period.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included at pages F-1 to F-21 and as listed in Item 15 of Part IV.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On September 12, 2003, the Board of Directors, on the recommendation of its Audit Committee, approved the dismissal of our independent certified public accountants, KPMG LLP. KPMG LLP s report on our financial statements for our fiscal year ended December 31, 2002 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. During our two most recent fiscal years and during the subsequent interim period through the date of dismissal, September 12, 2003, there have not been any disagreements between us and KPMG LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, or any reportable events as defined under Item 304(a)(1)(v) of Regulation S-K promulgated by the SEC.

On September 12, 2003, the Board of Directors, on the recommendation of its Audit Committee, engaged the firm of BDO Seidman, LLP to be our independent certified public accountants. We did not consult BDO Seidman, LLP at any time prior to September 12, 2003 with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or concerning any disagreement or reportable event with KPMG LLP.

On June 24, 2002, the Board of Directors, with the approval of its Audit Committee, approved the dismissal of our former independent certified public accountants, Arthur Andersen LLP. We have been unable to obtain the consent of Arthur Andersen LLP, our former independent public accountants, as to the incorporation by reference of their report for our fiscal year ended December 31, 2001 into our previously filed registration statements under the Securities Act, and we have not filed that consent with this Annual Report on Form 10-K in reliance under Rule 437a of the Securities Act. Because we have not been able to obtain Arthur Andersen LLP s consent, you may not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statements of material fact contained in our financial statements audited by Arthur Andersen LLP or any omissions to state a material fact required to be stated therein.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them to material information that is required to be included in the reports that we file or submit under the Securities Exchange Act of 1934.

Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to our directors will be included in our definitive proxy statement for our 2004 Annual Meeting of Stockholders (the 2004 Proxy Statement) and is incorporated herein by reference. Information with respect to our executive officers is included under Item 4(A) of Part I of this Report. Information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, will be included in the 2004 Proxy Statement and is incorporated herein by reference.

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ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation will be included in the 2004 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management and equity compensation plan information will be included in the 2004 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In late 2000, E. Michael Thoben, III, our President and Chief Executive Officer, Paul D. Meyer, our Chief Financial Officer, and Michael W. Ambrose, our Senior Vice President, Technology and Product Development, exercised certain incentive stock options to purchase Common Stock of Interlink and then sold the Common Stock obtained on that exercise. By early 2001, the price of Interlink s Common Stock had declined significantly and, among others, Messrs. Thoben, Meyer and Ambrose determined that they would purchase Common Stock of Interlink in the open market. To complete the purchase, and after considering the benefit to Interlink and its stockholders, Interlink s board of directors, with Mr. Gu, Mr. Thoben and Mr. Lutz each recusing himself from the decision, agreed to accept a promissory note from each of Messrs. Meyer, Ambrose, Gu and Lutz in the amount of $42,892 and from Mr. Thoben in the amount of $42,936. Each promissory note is dated May 1, 2001, bears interest at the rate of 5% per annum and is secured by all right, title and interest in the shares purchased with the money borrowed under the note and all distributions received, receivable or otherwise distributed in respect to or in exchange for the shares purchased. As subsequently amended upon the approval of the Board of Directors in June 2002, the notes are due and payable on November 1, 2006. As of December 31, 2003, the outstanding balance of principal and accrued and unpaid interest on the May 1, 2001 notes was $42,897.21, $42,898.20 and $40,883.53 in the case of Messrs. Meyer, Ambrose and Gu, respectively. Each of Mr. Thoben and Mr. Lutz has paid the full amount of all principal and interest owing under his note.

As a result of a miscalculation of the time period between the sale of the underlying Common Stock following the exercise of the stock options and the purchase of the Common Stock in the open market, the purchases occurred five months after the date of the sales and, pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, resulted in liability of Messrs. Thoben, Meyer and Ambrose to Interlink in the amount of the deemed profit measured by the difference between the sale and purchase prices. The amount of the liabilities as of June 11, 2001 were $132,652, $132,109 and $104,050 for Messrs. Thoben, Meyer and Ambrose, respectively. Because of the amount of these liabilities, Messrs. Thoben, Meyer and Ambrose were unable to make immediate payment without substantial disruption to their personal financial affairs. Accordingly, after considering the matter carefully, and having obtained the advice of counsel, Interlink s Board of Directors, with Mr. Thoben recusing himself from the decision, unanimously agreed to accept promissory notes from the individuals evidencing the debt. Among the factors considered by the Board in reaching this decision was the ongoing contribution to Interlink being made by each of the individuals and the interest of Interlink in avoiding unnecessary pressures and distractions on these individuals at a critical time in Interlink s history. Each promissory note bears interest at the rate of 7% per annum and is secured by Interlink options that had a value as of June 11, 2001 equal to 150% of the principal amount due under the note.

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As subsequently amended upon the approval of the Board of Directors in June 2002, the notes are due and payable in three equal annual installments beginning on June 11, 2006. As of December 31, 2003, the outstanding balance of principal and accrued and unpaid interest on the June 11, 2001 notes was $77,863.75 and $93,449.83 in the case of Messrs. Meyer and Ambrose, respectively. Mr. Thoben has paid the full amount of all principal and interest owing under his note.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to audit fees, audit-related fees, tax fees and other fees will be included in the 2004 Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

2. Exhibits

The exhibits listed below are filed as part of this report.

Exhibit Number	
3.1	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
10.1	1993 Stock Incentive Plan (incorporated by reference to Exhibit 10.1a of the Registrant s Amendment No. 8 to Registrant s Registration Statement on Form S-1 (Registration No. 333-60380) (the Form S-1 Registration Statement)).
10.2	1996 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
10.3	Description of Registrant s Management Incentive Compensation Program (incorporated by reference to Exhibit 10.4 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1996).
10.4*	Lease Agreement dated August 15, 1998 to lease premises in Camarillo, California (incorporated by reference to Exhibit 10.8 to the Registrant s Annual Report on Form 10- K for the year ended December 31, 1998), as amended by the First Amendment to Lease dated July 23, 2003 between Mobile Park Investments, Inc. and the Registrant, as amended by the Second Amendment to Lease dated January 23, 2004 between Mobile Park Investments, Inc. and the Registrant.
10.5	Exclusive License and Distributor Agreement between the Registrant and Interlink Electronics Europe S.a.r.l., Amended and Restated as of September 7, 1994 (incorporated by reference to Exhibit 10.7 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1999).

10.6	Agreement between the Government of Luxembourg, Interlink Electronics Europe S.a.r.l., IEE Finance S.a.r.l., the Registrant and InvestAR S.a.r.l. dated December 18, 1989 (incorporated by reference to Exhibit 10.19 of the Form S-1 Registration Statement).
10.7	Agreement with InvestAR S.a.r.l. and ARBED S.A. (undated) (incorporated by reference to Exhibit 10.20 of the Form S-1 Registration Statement).
10.8	Ink Technology Transfer Agreement between the Registrant and InvestAR S.a.r.l. dated December 11, 1992 (incorporated by reference to Exhibit 10.23 of the Form S-1 Registration Statement).

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10.9	Financing Agreement between the Registrant and InvestAR S.a.r.l. in relation with the Ink Technology Transfer Agreement dated December 11, 1992 (incorporated by reference to Exhibit 10.24 of the Form S-1 Registration Statement).
10.10	Form of Confidentiality and Nondisclosure Agreement in relation with the Ink Technology Transfer Agreement (undated) (incorporated by reference to Exhibit 10.25 of the Form S-1 Registration Statement).
10.11	Form of Escrow Agreement for Technology in relation with the Ink Technology Transfer Agreement dated December 11, 1992 (incorporated by reference to Exhibit 10.26 of the Form S-1 Registration Statement).
10.12*	Credit Agreement between Wells Fargo Bank, National Association, and the Registrant dated June 1, 2002 (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), as amended by the letter amendment dated August 1, 2003.
10.13*	Pledge Agreement between George Gu and the Registrant dated May 1, 2001.
10.14*	Pledge Agreement between Merritt M. Lutz and the Registrant dated May 1, 2001.
10.15*	Pledge Agreement between E. Michael Thoben and the Registrant dated May 1, 2001.
10.16*	Pledge Agreement between Paul D. Meyer and the Registrant dated May 1, 2001.
10.17*	Pledge Agreement between Michael W. Ambrose and the Registrant dated May 1, 2001.
10.18*	Secured Promissory Note of George Gu, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.19*	Secured Promissory Note of Merritt M. Lutz, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.20*	Secured Promissory Note of Michael Thoben, as Borrower, in the amount of $42,936 dated as of May 1, 2001, in favor of the Registrant.
10.21*	Secured Promissory Note of Paul D. Meyer, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.22*	Secured Promissory Note of Michael W. Ambrose, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.23*	First Amendment to Secured Promissory Note dated June 11, 2002 between the Registrant, George Gu, Merritt M. Lutz, Michael Thoben, Paul D. Meyer and Michael W. Ambrose.
10.24*	Pledge Agreement between E. Michael Thoben III and the Registrant dated June 11, 2001.
10.25*	Pledge Agreement between Paul D. Meyer and the Registrant dated June 11, 2001.
10.26*	Pledge Agreement between Mike Ambrose and the Registrant dated June 11, 2001.
10.27*	Secured Promissory Note of E. Michael Thoben III, as Borrower, in the amount of $132,652 dated as of June 11, 2001, in favor of the Registrant.
10.28*	Secured Promissory Note of Paul D. Meyer, as Borrower, in the amount of $132,109 dated as of June 11, 2001, in favor of the Registrant.
10.29*	Secured Promissory Note of Mike Ambrose, as Borrower, in the amount of $104,050 dated as of June 11, 2001, in favor of the Registrant.
10.30*	First Amendment to Secured Promissory Notes dated June 11, 2002 between the Registrant, E. Michael Thoben, Paul D. Meyer and Mike Ambrose
21.1*	Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP.
23.2	Consent of BDO Seidman, LLP.
24.1*	Power of Attorney (see signature).
31.1	Certification of Chief Executive Officer of Registrant Pursuant to SEC Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of Chief Financial Officer of Registrant Pursuant to SEC Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32.1	Certification of Chief Executive Officer of Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed with the Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2004.

(b) Reports on Form 8-K

On October 27, 2003, we filed a Current Report on Form 8-K under Item 12. Results of Operations and Financial Condition reporting that on October 27, 2003 we issued a press release announcing our financial results for the quarter ended September 30, 2003. Our press release was attached to the report as Exhibit 99.1.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Camarillo, State of California on May 5, 2004.

INTERLINK ELECTRONICS, INC.

By: /s/ PAUL D. MEYER

Paul D. Meyer

Chief Financial Officer and Secretary

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INTERLINK ELECTRONICS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Certified Public Accountants

The Board of Directors and Stockholders of Interlink Electronics, Inc.:

We have audited the accompanying consolidated balance sheet of Interlink Electronics, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The 2001 financial statements of Interlink Electronics, Inc. and subsidiaries listed in the accompanying index were audited by other auditors who have subsequently ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated February 13, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interlink Electronics, Inc. and its subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

Los Angeles, California

February 20, 2004

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Report of Independent Public Accountants

The Board of Directors and Stockholders of Interlink Electronics, Inc.:

We have audited the accompanying consolidated balance sheet of Interlink Electronics, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2002 and the related consolidated statements of operations, stockholders equity and comprehensive loss, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interlink Electronics, Inc. and its subsidiaries as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG

Los Angeles, California

February 4, 2003

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Report of Independent Public Accountants

To Interlink Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Interlink Electronics, Inc. (a Delaware corporation) and its subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interlink Electronics, Inc. and its subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Los Angeles, California

February 13, 2002

Note: This is a copy of a previously issued report. This report has not been reissued by Arthur Andersen LLP.

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INTERLINK ELECTRONICS, INC.

CONSOLIDATED BALANCE SHEETS (In thousands, except par value)

	December 31,	
	2002	**2003**
Assets		
Current assets:		
Cash and cash equivalents	$ 7,906	$ 6,061
Accounts receivable, less allowance for doubtful accounts of $497 and $670 in 2002 and 2003, respectively	5,308	9,123
Inventories	7,006	8,638
Prepaid expenses and other current assets	259	253
Total current assets	20,479	24,075
Property and equipment, net	1,211	1,270
Patents and trademarks, less accumulated amortization of $1,100 and $1,109 in 2002 and 2003, respectively	9	177
Other assets	67	60
Total Assets	$ 21,766	$ 25,582
Liabilities And Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	$ 933	$ 706
Accounts payable	2,201	2,630
Accrued payroll and related expenses	922	590
Other accrued expenses	176	130
Total current liabilities	4,232	4,056
Long-term debt, net of current portion	1,401	1,010
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $5.00 par value (100 shares authorized, none issued and outstanding)		
Common stock $0.00001 par value (50,000 shares authorized, 9,778 and 11,155 issued and outstanding at December 31, 2002 and 2003, respectively)	29,074	31,668
Due from stockholders	(797)	(520)
Accumulated other comprehensive income (loss)	(837)	(391)
Accumulated deficit	(11,307)	(10,241)
Total stockholders equity	16,133	20,516
Total Liabilities and Stockholders Equity	$ 21,766	$ 25,582

See accompanying notes to the consolidated financial statements.

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INTERLINK ELECTRONICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except per share data)

	Years Ended December 31,		
	2001	2002	2003
Revenues	$ 25,265	$ 25,043	$ 31,042
Cost of revenues	16,454	17,127	18,362
Gross profit	8,811	7,916	12,680
Operating expenses:			
Product development and research	3,518	3,337	3,418
Selling, general and administrative	8,278	7,456	8,172
Total operating expenses	11,796	10,793	11,590
Operating income (loss)	(2,985)	(2,877)	1,090
Other income (expense):			
Minority interest in earnings of subsidiary	(12)	68	
Interest income (expense), net	174	(132)	(44)
Other income (expense)	45	(22)	48
Total other income (expense)	207	(86)	4
Income (loss) before provision for income tax expense (benefit)	(2,778)	(2,963)	1,094
Provision for income tax expense (benefit)	(764)	1,301	28
Net income (loss)	$ (2,014)	$ (4,264)	$ 1,066
Earnings (loss) per share basic	$ (0.21)	$ (0.44)	$ 0.10
Earnings (loss) per share diluted	$ (0.21)	$ (0.44)	$ 0.09
Weighted average shares basic	9,645	9,766	10,339
Weighted average shares diluted	9,645	9,766	11,362

See accompanying notes to the consolidated financial statements.

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INTERLINK ELECTRONICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS) (In thousands)

	Common Stock			Accumulated Comprehensive Income (Loss)		Total
	Shares	Amount	Due From Stockholders		Accumulated Deficit	Stockholder s Equity
Balance, December 31, 2000	9,249	$ 27,630	$	$ (168)	$ (5,029)	$ 22,433
Comprehensive income (loss):						
Net loss					(2,014)	(2,014)
Foreign currency translation adjustment				(675)		(675)
Comprehensive income (loss)						(2,689)
Amounts due under rule 16(b)			369	(369)		
Loans to stockholders			(469)			(469)
Exercise of employee stock options	510	1,030				1,030
Balance, December 31, 2001	9,759	29,029	(838)	(843)	(7,043)	20,305
Comprehensive income (loss):						
Net loss					(4,264)	(4,264)
Foreign currency translation adjustment				6		6
Comprehensive income (loss)						(4,258)
Loan payments from stockholders			41			41
Exercise of employee stock options	19	45				45
Balance, December 31, 2002	9,778	29,074	(797)	(837)	(11,307)	16,133
Comprehensive income (loss):						
Net income					1,066	1,066
Foreign currency translation adjustment				446		446
Comprehensive income						1,512
Loan payments from stockholders			277			277
Exercise of employee stock options	1,377	2,594				2,594
Balance, December 31, 2003	11,155	$ 31,668	$ (520)	$ (391)	$ (10,241)	$ 20,516

See accompanying notes to the consolidated financial statements.

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INTERLINK ELECTRONICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	Years Ended December 31,		
	2001	**2002**	**2003**
Cash flows from operating activities:			
Net income (loss)	$ (2,014)	$ (4,264)	$ 1,066
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for (recovery of) allowance for doubtful accounts receivable	320	(76)	176
Provision for excess inventories	2,000	2,319	
Depreciation and amortization	773	805	593
Minority interest	12	(68)	
Deferred tax asset	(701)	1,301	
Changes in operating assets and liabilities:			
Accounts receivable	2,800	261	(3,991)
Inventories	(1,067)	(823)	(1,632)
Prepaid expenses and other current assets	235	167	6
Other assets	5	20	7
Accounts payable	(1,626)	522	429
Accrued payroll and other accrued expenses	(492)	287	(188)
Net cash provided by (used in) operating activities	245	451	(3,534)
Cash flows from investing activities:			
Sale (purchase) of marketable securities	(2,457)	2,457	
Purchases of property and equipment	(413)	(504)	(643)
Costs of patents and trademarks		(14)	(177)
Net cash provided by (used in) investing activities	(2,870)	1,939	(820)
Cash flows from financing activities:			
Borrowings on long term debt	1,194	188	
Principal payments on long term debt	(1,981)	(1,537)	(618)
Principal payments on capital lease obligations	(112)	(95)	
Payments from (loans to) stockholders	(469)	41	87
Proceeds from exercise of employee stock options	1,030	45	2,594
Net cash provided by (used in) financing activities	(338)	(1,358)	2,063
Effect of exchange rate changes on cash and cash equivalents	(675)	6	446
Increase (decrease) in cash and cash equivalents	(3,638)	1,038	(1,845)
Cash and cash equivalents:			
Beginning of year	10,506	6,868	7,906
End of year	$ 6,868	$ 7,906	$ 6,061
Supplemental disclosure of cash flow information:			
Interest paid	$ 120	$ 243	$ 91

Income taxes paid	33	1	1
Non-cash transactions:			
Capital contribution through issuance of notes	$ 369		
Repayment of amounts due from stockholders via offset of accrued amounts due to stockholders			$ 190

See accompanying notes to the consolidated financial statements.

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INTERLINK ELECTRONICS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003

1. Description of Business and Summary of Significant Accounting Policies

Interlink Electronics, Inc. and its subsidiaries are engaged in the development of intuitive interface technologies and solutions for business and home applications. Our products include interactive remote input devices, pen input pads, and integrated cursor control devices. Our remote input devices enable a user to control and communicate with various products such as computers, digital projection systems, digital televisions and other electronic products, by providing an intuitive device on which the user can remotely input a variety of commands. We also design and sell products that record and bind signatures to legal documents. Our products incorporate proprietary sensor and wireless communication technologies and ergonomic designs. We record revenue in four market segments that we refer to as our business communications (remote controls and other business communication products), e-transactions (electronic signature capture products), home entertainment (sensors for the Microsoft Xbox and remote controls for home entertainment devices) and specialty components (custom industrial components and products) markets.

Significant Accounting Policies

Revenue Recognition We recognize revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements , as amended by SAB No. 101A and No. 101B. SAB No. 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) require management s judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. To satisfy the criteria, we: (1) input orders based upon receipt of a customer purchase order; (2) record revenue upon shipment of goods and when risk of loss and title transfer; (3) confirm pricing through the customer purchase order; and (4) validate creditworthiness through past payment history, credit agency reports and other financial data. Other than through warranty rights, our customers do not have explicit or implicit rights of return. Should changes in conditions cause management to determine the revenue recognition criteria are not met for certain future transactions, such as a determination that collectibility was not reasonably assured, revenue would be recognized at a later time.

Accounts Receivable and Allowance for Doubtful Accounts Our accounts receivable are unsecured, and we are at risk to the extent such amounts become uncollectible. We continually monitor individual account receivable balances, and provide for an allowance of doubtful accounts at the time collection may become questionable based on payment performance or age of the receivable and other factors related to the customer s ability to pay. We generally offer 30 day payments term. However, some of our distributors in the business communications-branded market and some of our Japanese OEM customers require as long as 180 day payment terms. We recorded an increase to the allowance for doubtful accounts of $320,000 and $176,000 for 2001 and 2003, respectively; and a decrease to the allowance of $76,000 in 2002. Write-offs against the allowance for doubtful accounts totaled $128,000, $341,000 and $3,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

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Inventory Reserve At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analyses of forecast sales levels by product and historical demand. We write off inventories that are considered obsolete. Remaining inventory balances are adjusted to approximate the lower of our cost or market value and result in a new cost basis in such inventory until sold. If future demand or market conditions are less favorable than our projections, additional inventory write-down may be required, and would be reflected in cost of sales in the period the revision is made.

Provision for Income Tax As part of the process of preparing our financial statements, as required by Statement of Financial Accounting Standards (SFAS) No. 109, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation reserve. To the extent we establish a reserve or increase this reserve in a period, we must include an expense within the tax provision in the statements of operation.

Significant management judgment is required in determining our provision for income taxes, deferred tax asset and liabilities and any valuation reserve recorded against our net deferred tax assets. Management continually evaluates its deferred tax asset as to whether it is likely that the deferred tax asset will be realized.

We first achieved profitable operations in 1995. Because of net operating loss (NOL) carryforwards available both for our U.S.-based and Japan-based operations, we did not accrue income tax expense until 1999. In that year, due to the expiration or full utilization of NOL carryforwards in California and Japan, we began to record a provision for income tax expense in those jurisdictions. By the end of 2000, we began to accrue an income tax benefit related to our federal NOL carryforwards to be used in future periods. However, in mid-2001, we began to record quarterly tax losses and suspended any further recognition of NOL carryforward tax benefits. In the fourth quarter of 2002 and for the 2003 year, based on historical and prospective evidence, we concluded that we did not have sufficient evidence to recognize our NOL carryforward benefits as assets. Thus we recognized a valuation allowance against our deferred tax asset balance.

As of December 31, 2003, the Company had net operating loss carryforwards for federal, state and foreign income tax purposes of $31,676,000, $11,282,000 and $1,084,000, respectively, which are available to offset future taxable income in those jurisdictions through 2022.

Foreign Exchange Exposure Many of our OEM customers are based in Japan and approximately 30% and 23% of our 2002 and 2003 revenues, respectively, came from Japanese customers. Revenues from these customers are denominated in Japanese yen and as a result we are subject to foreign currency exchange rate fluctuations in the yen/dollar exchange rate. We use foreign currency forward contracts to hedge this exposure. We use revenue forecasts from our Japanese subsidiary to determine the amount of our forward contracts to purchase and we expect to enter into these contracts when we believe the yen value is relatively strong against the U.S. dollar. To the extent that our receivable forecast may be inaccurate or the timing of forecasting the yen s strength is wrong, our actual holding gains or losses may not necessarily correlate with the effect of foreign currency rate fluctuations

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on our revenues. We mark these contracts to market value and the gain or loss from these contracts is recorded in business communications revenue. In addition, because our Japanese subsidiary s functional currency is the yen, the translation of the net assets of that subsidiary into the consolidated results will fluctuate with the yen/dollar exchange rate. The changes in the fair values of our foreign currency contracts are as follows (in thousands):

	2001	2002	2003
Hedging gains (losses)	$ 750	$ 284	$ (211)

Consolidation Policy The consolidated financial statements include the accounts of the Company, its 80 percent owned Japanese subsidiary, and its 100 percent owned Hong Kong subsidiary. All material intercompany accounts and transactions have been eliminated. The Company has not recorded the minority interest of its 80 percent owned subsidiary because the subsidiary s net equity is negative.

Shipping and Handling The Company accounts for shipping and handling costs in accordance with EITF 00-10, Accounting for Shipping and Handling Fees and Costs which requires fees billed to customers to be included in revenue. During 2001, 2002 and 2003 related shipping and handling expenses of $24,000, $166,000 and $167,000, respectively, are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Foreign Currency Translation/Transactions The accounts of the Company s Japanese subsidiary has been translated according to the provisions of SFAS No. 52, Foreign Currency Translation. The books and records of the Hong Kong subsidiary are maintained in the U.S. dollar. Management has determined that the functional currency of its Japanese subsidiary is the Japanese yen and is the U.S. dollar for the Hong Kong subsidiary. Translation gains or losses for the Japanese subsidiary are reflected as other comprehensive income in the consolidated statement of stockholders equity and comprehensive income (loss). All of the accumulated other comprehensive income represents cumulative translation adjustments. The Japanese subsidiary s assets and liabilities are translated into U.S. dollars using the period-end exchange rate. Revenues and expenses are translated at average rates during the year. Any gains or losses resulting from foreign currency transactions are reflected in the consolidated statements of operations for the period in which they occur.

Cash Equivalents and Marketable Securities The Company invests excess cash in highly liquid commercial paper. Investments of original maturities less than 90 days are classified as cash equivalents; those in excess of 90 days are classified as marketable securities. Maturities typically do not exceed six months. At December 31, 2003, the Company had $6.0 million at financial institutions in excess of federally insured limits.

Financial Instruments The carrying amounts of the Company s short-term trade receivables and payables, line of credit, long-term debt and capital lease obligations approximate their fair value as interest rates approximate market rates for similar instruments. During 2001, 2002 and 2003, the Company entered into foreign currency exchange contracts in the normal course of business to manage its exposure against foreign currency fluctuations on revenues denominated in foreign currencies. The principal objective of such contracts is to minimize the risks and costs associated with financial and global operating activities. The Company does not utilize financial instruments for trading or other speculative purposes. The fair value of foreign currency contracts is estimated by obtaining quotes from bankers. At December 31, 2003, the Company had foreign currency contracts outstanding with a notional

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value of $1.4 million. During fiscal 2001, 2002 and 2003, the Company recognized a $750,000 gain, a $284,000 gain and a $211,000 loss, respectively, on foreign exchange contracts that are included in business communication revenue in the accompanying consolidated statements of operations.

Inventories Inventories are stated at the lower of cost or market and include material, labor, and factory overhead. Cost is determined using the average cost method.

Property and Equipment Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets which range from three to ten years. Amortization of leasehold improvements is based upon the estimated useful lives of the assets or the term of the lease, whichever is shorter. Maintenance and repairs are charged to operations as incurred, while significant improvements are capitalized. Upon retirement or disposition of property, the asset and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is charged to operations. The carrying value of property and equipment is assessed periodically and/or when factors indicating an impairment are present. The Company recognizes impairment losses when the expected future cash flows are less than the asset s carrying value, in which case the asset is written down to its estimated fair value.

Patents and Trademarks The costs of acquiring patents and trademarks are amortized on a straight-line basis over their estimated useful lives, ranging from seven to seventeen years. Amortization expense for the years ended December 31, 2001, 2002 and 2003 was $121,000, $120,000 and $9,000, respectively.

Research and Development Research and development costs are expensed as incurred.

Stock-Based Compensation Interlink has adopted the provisions of SFAS No. 123, Accounting for Stock-Based Compensation. In accordance with SFAS No. 123, Interlink has elected the disclosure-only provisions related to employee stock options and follows the Accounting Principles Board Opinion (APB) No. 25 in accounting for stock options issued to employees. Under APB No. 25, compensation expense, if any, is recognized as the difference between the exercise price and the fair value of the common stock on the measurement date, which is typically the date of grant, and is recognized over the service period, which is typically the vesting period.

Interlink accounts for options and warrant grants to non-employees using the guidance prescribed by SFAS No. 123, FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25, and Emerging Issue Task Force No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or In Conjunction with Selling, Goods or Services, whereby the fair value of such option and warrant grants are measured using the fair value at the earlier of the date at which the non-employee s performance is completed or a performance commitment is reached.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure . SFAS No. 148 amended SFAS No. 123 and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No.148 also amended the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. Interlink adopted the disclosure requirements of SFAS No. 148 in the fourth quarter of 2002.

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For all options granted during 2001, 2002 and 2003, the fair value of the Company s stock equaled the option price at the measurement date. Accordingly, no compensation cost has been recognized for these plans. Had compensation cost for the Company s plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method of SFAS No. 123, Accounting for Stock-Based Compensation , the Company would have recorded stock-based compensation expense as follows (in thousands, except per share information):

	2001	2002	2003
Net income (loss) as reported	$ (2,014)	$ (4,264)	$ 1,066
Stock-based compensation expense included in reported net income, net of related tax effects			
Stock-based compensation expense determined under fair value based method, net of related tax effects	(6,345)	(5,605)	(5,666)
Net loss-pro forma	$ (8,359)	$ (9,869)	$ (4,600)
Basic earnings (loss) per share as reported	$ (0.21)	$ (0.44)	$ 0.10
pro forma	(0.87)	(1.01)	(0.44)
Diluted earnings (loss) per share as reported	$ (0.21)	$ (0.44)	$ 0.09
pro forma	(0.87)	(1.01)	(0.40)

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reclassifications Certain prior year balances have been reclassified to conform to the current year presentation.

2. Recent Accounting Pronouncements

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 nullifies EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). It requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the FASB s conceptual framework. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier adoption encouraged. The Company adopted this statement in 2003 and the adoption of SFAS No. 146 did not have a material impact on its financial position or results from operations.

In November 2002, the FASB issued Interpretation Number 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a

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guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods beginning after December 15, 2002. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of the recognition and initial measurement requirements of FIN 45 did not have a material impact on the Company s financial position, cash flows or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure-an amendment of FASB No. 123 . SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation , to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements are effective for financial statements for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial statements for interim periods beginning after December 15, 2002. Interlink adopted the disclosure requirements of SFAS No. 148 in the fourth quarter of 2002 and it has not had a material impact on our operating results or financial position.

In November 2002, the Emerging Issues Task Force (EITF) issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables . This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 is effective for revenue arrangements entered into in fiscal quarters beginning after June 15, 2003, or the Company could have elected to report the change in accounting as a cumulative-effect adjustment. The Company adopted this standard on July 1, 2003 and the adoption of this issue did not have a material impact on its operating results or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletins (ARB) No. 51, Consolidated Financial Statements (FIN 46). FIN 46 clarifies the application of ARB No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. We do not believe the adoption of FIN 46 will have a material impact on our financial position and results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted this standard on July 1, 2003 and the adoption of this issue did not have a material impact on its operating results or financial position.

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3. Inventories

Inventories consisted of the following at (in thousands):

	December 31,	
	2002	2003
Raw material	$ 3,661	$ 3,991
Work in process	809	867
Finished goods	2,536	3,780
Total inventories	$ 7,006	$ 8,638

The Company s regular and ongoing reserve analysis and methodology includes a comparison of sales forecasts and inventory levels. Based on the Company s reserve analysis for the fourth quarter of 2002 for its Japanese subsidiary, a $2.3 million charge for excess and obsolete inventories was recorded in that period.

4. Property and Equipment

Property and equipment consisted of the following at (in thousands):

	December 31,	
	2002	2003
Furniture, machinery and equipment	$ 5,751	$ 6,391
Leasehold improvements	468	470
	6,219	6,861
Less accumulated depreciation and amortization	(5,008)	(5,591)
Property and equipment, net	$ 1,211	$ 1,270

Depreciation and amortization expense charged to operations amounted to $652,000, $686,000 and $584,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

5. Due From Stockholders

During May 2001, the Company loaned certain directors, officers and members of senior management a combined total of $469,000 for open market purchases of Company Common Stock. The loans have an interest rate of 5% and are secured by the stock purchased. As subsequently amended upon the approval of the Board of Directors in June 2002, the notes are due and payable on November 1, 2006. In June 2001, certain officers were required to remit to the Company $369,000, as required under section 16(b) of the Securities Exchange Act of 1934 and in settlement of that obligation the Company accepted promissory notes that accrue interest at 7% per year and are due and payable in three equal annual installments. In June 2002, the Board of Directors approved the extension of the officer loans to require the first payment to be due in 2006. These loans are included in stockholders equity in the accompanying balance sheet. In September 2003, certain officers repaid a total of $277,000, primarily via an offset of accrued amounts due to the officers.

6. Lines of Credit

In August 2003, the Company renewed its $3 million (previously $5 million) domestic revolving line of credit with Wells Fargo Bank, which remained unused at December 31, 2003. The agreement has a maturity date of June 2004 and requires the Company to meet certain financial covenants, all of which were satisfied at December 31, 2003. Borrowings under the terms of this line of credit would bear interest at an annual rate of prime plus one percent (5% at December 31, 2003).

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The Company s previous equipment line of credit matured according to its terms in July 2003 and was not renewed.

7. Long-Term Debt

The Company s Japanese subsidiary, Interlink Electronics, K.K., maintains unsecured loans with three banks. The loans have interest rates ranging from 1.875% to 2.5% and are payable in Japanese yen in monthly installments through the year 2007. The combined balance outstanding as of December 31, 2002 and 2003 was $2.0 million and $1.5 million, respectively.

In June 2002, the Company converted its previous equipment purchase line of credit with an outstanding balance of $347,000 to a long term note. The revised loan is payable in equal installments for 48 months at an interest rate of LIBOR plus 2.25%. The balance of this note at December 31, 2002 and 2003 was $310,000 and $236,000, respectively.

At December 31, 2003, scheduled maturities of long-term debt for the next five years and thereafter are as follows (in thousands):

	Debt
2004	$ 706
2005	557
2006	284
2007	169
	1,716
Less current portion	(706)
Long term portion	$ 1,010

During 2001, 2002 and 2003, the Company incurred $110,000, $243,000 and $77,000, respectively, in interest expense.

8. Stockholders Equity

Preferred Stock The Company is authorized to issue up to 100,000 shares of Preferred Stock. As of December 31, 2002 and 2003, none were issued or outstanding. In the future, the Preferred Stock may be issued in one or more series with such rights and preferences as may be fixed and determined by the Board of Directors.

Common Stock The Company is authorized to issue 50,000,000 shares of Common Stock.

In the second quarter of 2001, certain officers were required to remit to the Company $369,000 under section 16(b) of Securities Exchange Act of 1934. These amounts were recorded to stockholders equity on the accompanying balance sheet.

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9. Stock Options

Under the terms of the Company s Option Plans, officers and key employees may be granted non-qualified or incentive stock options and outside directors and independent contractors of the Company may be granted non-qualified stock options. The aggregate number of shares which may be issued under the plans is 8,026,225. Options are granted at fair market value on the date of grant and generally vest ratably over 36 months and expire in five years. At December 31, 2003 there were 3,416,000 options outstanding and 87,000 options available for grant. The balance of the options were available for under the plans have either been exercised, forfeited or expired.

Information concerning stock options under the plans is summarized as follows (in thousands, except price per share information):

	2001		2002		2003	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding beginning of year	2,994	$ 8.81	4,312	$ 7.10	3,617	$ 3.72
Granted	2,210	4.98	99	3.33	1,201	4.49
Exercised	(510)	2.02	(19)	2.37	(1,377)	2.01
Forfeited and expired	(382)	14.99	(775)	22.60	(25)	6.13
Outstanding end of year	4,312	$ 7.10	3,617	$ 3.72	3,416	$ 4.66
Exercisable end of year	2,293	$ 7.09	2,482	$ 3.42	2,442	$ 4.49

The following table summarizes information about stock options outstanding as of December 31, 2003 (in thousands, except contractual life and exercise price per share information):

Exercise Price Per Share	# of Options Outstanding	Months Remaining On Contractual Life	Options Exercisable	Options Un-exercisable
$ 2.40	623	34	433	190
2.70	47	51	12	35
2.94	554	50	554	0
3.04	71	45	27	44

3.08	163	2	163	0
3.30	12	50	3	9
3.54	4	38	2	2
3.67	45	4	45	0
4.30	19	48	6	13
4.42	358	36	235	123
5.50	57	9	57	0
5.51	80	28	71	9
5.65	18	54	2	16
6.45	465	59	13	452
6.87	863	26	816	47
7.54	31	57	3	34
Total	3,410		2,442	974

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The weighted average fair value at the date of grant for stock options granted during 2001, 2002 and 2003 was $2.17, $1.87 and $2.27 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	2001	2002	2003
Expected life (years)	4	4	4
Interest rate	3.9%	1.5%	3.0%
Volatility	50%	75%	63%
Dividend yield	0%	0%	0%

10. Earnings Per Share

For all periods presented, per share information was computed pursuant to provisions of SFAS No. 128 Earnings Per Share. The computation of earnings per share basic is based upon the weighted average number of common shares outstanding during the periods presented. Earnings per share diluted also includes the effect of common shares contingently issuable from options and warrants (in periods which they have a dilutive effect).

Common stock equivalents are calculated using the treasury stock method. Under the treasury stock method, the proceeds from the assumed conversion of options and warrants are used to repurchase outstanding shares, using a yearly average market price.

The following table contains information necessary to calculate earnings per share (in thousands):

	Years Ended December 31,		
	2001	2002	2003
Weighted average shares outstanding	9,645	9,766	10,339
Effect of dilutive securities; options and warrants	(1)	(1)	1,023
Weighted average shares diluted	9,645	9,766	11,362

(1) Due to the net loss, the diluted share calculation result was anti-dilutive. Thus, the basic weighted average shares were used. Shares of common stock equivalents of approximately 1.5 million shares and 1.1 million shares for 2001 and 2002, respectively, were excluded from the diluted share calculation because they were anti-dilutive.

11. Commitments and Contingencies

Operating Leases The Company leases its facilities and certain equipment under operating leases expiring through 2007. Rent payments totaled approximately $462,000, $489,000 and $344,000 for 2001, 2002 and 2003, respectively. Minimum lease commitments at December 31, 2003 are summarized as follows (in thousands):

2004	$ 73
2005	8
2006	8
2007	3
	$ 92

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In February 2004, we renegotiated and extended the terms of our Camarillo, California facilities. The new lease adds $287,000, $335,000, $345,000, $356,000 and $366,000 to our 2004, 2005, 2006, 2007 and 2008 lease commitments, respectively.

Legal Matters From time to time, the Company is involved in various legal actions which arise in the ordinary course of business. The Company does not believe that losses incurred, if any, will have a significant impact on the Company s financial position or results of operations.

12. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2001, 2002 and 2003 are as follows (in thousands):

	2001	2002	2003
Current taxes:			
Federal	$	$	$
State			
Foreign			28
Sub Total			28
Deferred taxes:			
Federal	(580)	1,146	
State	(134)	155	
Foreign	(50)		
Sub Total	764	1,301	
Provision (benefit) for income taxes	$ (764)	$ 1,301	$ 28

Differences between the provision (benefit) for income taxes and income taxes at statutory federal income tax rate for the years ended December 31, 2001, 2002 and 2003 are as follows (in thousands):

	2001	2002	2003
Income taxes at the statutory federal rate	$ (945)	$ (1,008)	$ 362
State income taxes, net of federal income tax effect	(167)	(10)	31
Foreign taxes at rates different than U.S. taxes	(50)	(206)	109
Valuation Allowance	160	2,512	(474)
Other	238	13	
Total provision (benefit) for income taxes	$ (764)	$ 1,301	$ 28

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The tax effects of temporary differences and carryforwards that give rise to a significant portion of the deferred tax assets are summarized as follows (in thousands):

	2002	2003
Deferred tax assets:		
Net operating loss carryforwards	$ 11,788	$ 12,869
Credits	253	269
Accruals	176	173
Reserves	1,458	1,352
Other	(417)	(463)
Total deferred tax assets	13,258	14,203
Valuation allowance	(13,258)	(14,203)
Net deferred tax assets	$	$

As of December 31, 2003, approximately $10,681,000 of the total deferred tax assets result from excess tax benefits resulting from the exercise of employee stock options and will be recorded to stockholders equity when recognized.

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portions or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible and the periods before the carryforwards expire. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes there is insufficient evidence to conclude that it is more likely than not that the results of future operations will generate sufficient taxable income to realize a portion of the net deferred tax assets. Accordingly, the company has recorded a valuation allowance against its entire net deferred tax asset during the year ended December 31, 2003.

Consolidated U. S. income (loss) before taxes was $(2,131,000), $(177,000) and $506,000 for the years ended December 31, 2001, 2002 and 2003, respectively. The corresponding income (loss) before taxes for non U. S. based operations was $(647,000), $(2,786,000) and $588,000 for the years ended December 31, 2001, 2002 and 2003, respectively

The Company has not provided withholding and U.S. federal income taxes on undistributed earnings of its foreign subsidiaries because the company intends to reinvest those earnings indefinitely or will be offset by the approximate credits for foreign taxes paid. It is not practical to determine the US federal tax liability, if any, that would be payable if such earnings were not invested indefinitely.

As of December 31, 2003, the Company had net operating loss carryforwards for federal, state and foreign income tax purposes of $31,676,000, $11,282,000 and $1,084,000, respectively, which are available to offset future taxable income in those jurisdictions through 2022.

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13. Segment Information

Business Segments The Company has four business segments: (i) Business Communications; (ii) Home Entertainment; (iii) E-Transactions; and (iv) Specialty Components. The accounting policies of the segments are the same as those described in the significant accounting policies; however, the Company evaluates performance based on revenue and gross profit. The Company does not allocate depreciation, any other income, expenses or assets to these segments, nor does it track revenue by product. Reportable segment information for the years ended December 31, 2001, 2002 and 2003 is as follows (in thousands):

	Business Communications	Home Entertainment	E-Transactions	Specialty Components and Other	Total
2001					
Revenue	$ 16,253	$ 1,964	$ 963	$ 6,085	$ 25,265
Gross profit	4,961	982	482	2,386	8,811
2002					
Revenue	$ 16,002	$ 2,478	$ 1,731	$ 4,832	$ 25,043
Gross profit	3,597	1,080	866	2,373	7,916
2003					
Revenue	$ 19,842	$ 2,405	$ 4,165	$ 4,630	$ 31,042
Gross profit	6,483	1,111	2,111	2,975	12,680

Geographic Information The Company attributes revenues to different geographic areas on the basis of the location of the customer. The Company s revenues and long-lived assets by geographic area for the years ended December 31, 2001, 2002 and 2003 are as follows (in thousands):

	Years Ended December 31,					
	2001		2002		2003	
		Long-Lived		Long-Lived		Long-Lived
	Revenues	Assets	Revenues	Assets	Revenues	Assets
United States	$ 9,095	$ 2,368	$ 10,268	$ 713	$ 15,210	$ 960
Japan	10,106	527	7,513	572	7,140	547
Asia (other than Japan)	2,527		5,259		6,208	
Europe and other	3,537		2,003		2,484	
	$ 25,265	$ 2,895	$ 25,043	$ 1,287	$ 31,042	$ 1,507

Major Customers In 2001, 2002 and 2003, no single customer exceeded 10% of total revenues. One customer accounted for 10% of the accounts receivable at December 31, 2002 and 20% at December 31, 2003.

14. 401K Savings Plan

In 1995 the Company implemented a savings plan for all eligible employees, which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 25% of their pretax salary, but not more than statutory limits. The Company matches 50% of the first $1,000 a participant contributes. The Company expensed $35,000, $38,000 and $37,000 in 2001, 2002 and 2003, respectively, related to this plan.

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EXHIBIT INDEX

Exhibit Number	
3.1	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
10.1	1993 Stock Incentive Plan (incorporated by reference to Exhibit 10.1a of the Registrant s Amendment No. 8 to Registrant s Registration Statement on Form S-1 (Registration No. 333-60380) (the Form S-1 Registration Statement)).
10.2	1996 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000).
10.3	Description of Registrant s Management Incentive Compensation Program (incorporated by reference to Exhibit 10.4 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1996).
10.4*	Lease Agreement dated August 15, 1998 to lease premises in Camarillo, California (incorporated by reference to Exhibit 10.8 to the Registrant s Annual Report on Form 10- K for the year ended December 31, 1998), as amended by the First Amendment to Lease dated July 23, 2003 between Mobile Park Investments, Inc. and the Registrant, as amended by the Second Amendment to Lease dated January 23, 2004 between Mobile Park Investments, Inc. and the Registrant.
10.5	Exclusive License and Distributor Agreement between the Registrant and Interlink Electronics Europe S.a r.l., Amended and Restated as of September 7, 1994 (incorporated by reference to Exhibit 10.7 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1999).
10.6	Agreement between the Government of Luxembourg, Interlink Electronics Europe S.a r.l., IEE Finance S.a r.l., the Registrant and InvestAR S.a.r.l. dated December 18, 1989 (incorporated by reference to Exhibit 10.19 of the Form S-1 Registration Statement).
10.7	Agreement with InvestAR S.a.r.l. and ARBED S.A. (undated) (incorporated by reference to Exhibit 10.20 of the Form S-1 Registration Statement).
10.8	Ink Technology Transfer Agreement between the Registrant and InvestAR S.a. r.l. dated December 11, 1992 (incorporated by reference to Exhibit 10.23 of the Form S-1 Registration Statement).
10.9	Financing Agreement between the Registrant and InvestAR S.a. r.l. in relation with the Ink Technology Transfer Agreement dated December 11, 1992 (incorporated by reference to Exhibit 10.24 of the Form S-1 Registration Statement).
10.10	Form of Confidentiality and Nondisclosure Agreement in relation with the Ink Technology Transfer Agreement (undated) (incorporated by reference to Exhibit 10.25 of the Form S-1 Registration Statement).
10.11	Form of Escrow Agreement for Technology in relation with the Ink Technology Transfer Agreement dated December 11, 1992 (incorporated by reference to Exhibit 10.26 of the Form S-1 Registration Statement).
10.12*	Credit Agreement between Wells Fargo Bank, National Association, and the Registrant dated June 1, 2002 (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), as amended by the letter amendment dated August 1, 2003.
10.13*	Pledge Agreement between George Gu and the Registrant dated May 1, 2001.
10.14*	Pledge Agreement between Merritt M. Lutz and the Registrant dated May 1, 2001.
10.15*	Pledge Agreement between E. Michael Thoben and the Registrant dated May 1, 2001.

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10.16*	Pledge Agreement between Paul D. Meyer and the Registrant dated May 1, 2001.
10.17*	Pledge Agreement between Michael W. Ambrose and the Registrant dated May 1, 2001.
10.18*	Secured Promissory Note of George Gu, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.19*	Secured Promissory Note of Merritt M. Lutz, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.20*	Secured Promissory Note of Michael Thoben, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.21*	Secured Promissory Note of Paul D. Meyer, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.22*	Secured Promissory Note of Michael W. Ambrose, as Borrower, in the amount of $42,892 dated as of May 1, 2001, in favor of the Registrant.
10.23*	First Amendment to Secured Promissory Note dated June 11, 2002 between the Registrant, George Gu, Paul D. Meyer and Michael W. Ambrose.
10.24*	Pledge Agreement between E. Michael Thoben III and the Registrant dated June 11, 2001.
10.25*	Pledge Agreement between Paul D. Meyer and the Registrant dated June 11, 2001.
10.26*	Pledge Agreement between Mike Ambrose and the Registrant dated June 11, 2001.
10.27*	Secured Promissory Note of E. Michael Thoben III, as Borrower, in the amount of $132,652 dated as of June 11, 2001, in favor of the Registrant.
10.28*	Secured Promissory Note of Paul D. Meyer, as Borrower, in the amount of $132,109 dated as of June 11, 2001, in favor of the Registrant.
10.29*	Secured Promissory Note of Mike Ambrose, as Borrower, in the amount of $104,050 dated as of June 11, 2001, in favor of the Registrant.
10.30*	First Amendment to Secured Promissory Note dated June 11, 2002 between the Registrant, E. Michael Thoben, Paul D. Meyer and Mike Ambrose.
21.1*	Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP.
23.2	Consent of BDO Seidman, LLP.
24.1*	Power of Attorney (see signature page).
31.1	Certification of Chief Executive Officer of Registrant Pursuant to SEC Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Registrant Pursuant to SEC Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer of Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed with the Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2004.