INTERLINK ELECTRONICS®

Interlink Electronics, Inc. and Subsidiaries

Annual Report for the Year Ended December 31, 2018

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Letter To Shareholders

To Our Shareholders

As 2018 drew to a close, we were pleased to do so on continued solid ground despite a challenging market bubble that converged upon us. Between the unexpected loss of a major customer in 2017, the scheduled expiration of existing long-term contracts, and unprecedented tariffs placed on several of our products that are manufactured in China, the perfect storm depressed revenues and profits throughout the year. These headwinds started in 2017 and will continue into 2019, however, 2018 was also a period in which we saw great strides in building for the future with continued investment in research and development for new technology offerings and product expansion.

To better position Interlink to accelerate long-term profitable growth, we undertook a thorough and thoughtful review of our cost structure, including costs associated with being a Nasdaq listed and SEC reporting company. We also re-addressed the reasons we decided in 2016 to re-register our common shares under the Exchange Act and list on Nasdaq, which included the possibility of accessing the capital markets to accelerate growth. Our Board of Directors concluded that the benefits to the Company and its stockholders of continued Nasdaq listing and SEC reporting did not justify the costs of maintaining that listing and continuing to publicly report. We currently have a strong balance sheet with no debt, and do not need to raise equity capital to pursue our business initiatives. The resulting reduction in operating expenses will allow us to invest greater amounts towards research and development and sales, which is a superior use of our limited resources. The cessation of public reporting also will enable us to better direct our management resources on the commercialization of our products. For these reasons, our Board voted unanimously to voluntarily delist from Nasdaq and deregister under the Exchange Act. We still plan to report information to our shareholders, including annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on our website as soon as reasonably practicable after such reports are prepared. We also expect our common stock to continue to be quoted on the OTCPink marketplace of the OTC Markets Group under the symbol "LINK".

Operationally, we were able to deliver gross margins in excess of 55% even with a 20% decline in total revenues. The intense focus on fixed costs during this period of weaker sales allowed us to deliver a profit even with a 9.5% increase in research and development spending. Our balance sheet remains healthy, and the generation of cash from operating activities, which was more than $1.6 million for 2018, continues to support our active share repurchase program, which directly returns value to our shareholders, and enables investment in new product development.

In 2018, we completed the first phase of our state-of-the-art engineering facility in Singapore. We are currently working on the development of our next-generation VersaPad Pro, High Performance FSR, and MatrixSensing Array, which we plan to launch during 2019. We will continue to grow the Singapore center over the next several years, including expanding our R&D team, and investing in additional tools and equipment.

We are extremely excited about the creation of a new wholly owned subsidiary, Medtech Sensors Pte Ltd.

MedTech Sensors is a Singapore based corporate innovation accelerator and technology venture arm of Interlink Electronics, Inc. We aim to identify, develop and commercialize advanced, differentiating or disruptive technology platforms globally in key disciplines encompassing materials science, intelligent sensing, signal processing, data analytics, network connectivity and visualization. We will pursue synergistic collaboration programs on technology and product development as well as scientific /PhD talent development with key strategic partners including funding agencies, venture capital, corporate labs and research organizations.

Our executive management team will establish and manage strategic initiatives and programs to deliver significant value creation across key emerging healthcare and medical segments including diagnostic equipment, health monitoring wearables, implantable devices and surgical robots. In addition, we will look to raise capital dedicated for this new venture.

We are excited to cultivate these new opportunities into material contributions for the future growth of our Company. We look forward to a successful 2019 as we continue to develop, manufacture and market innovative, high-value products. Thank you for your continued support.

Sincerely,

Steven N. Bronson,
President and Chief Executive Officer

Our Company

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

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

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

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

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

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

We were incorporated in California on February 27, 1985. On July 10, 1996, we re-incorporated into a Delaware corporation and, on July 20, 2012, we again changed our domicile from Delaware to Nevada by completing a merger with a newly formed Nevada corporation named Interlink Electronics, Inc.

Our principal executive office is located at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com. Interlink makes available its annual financial statements, quarterly financial statements, and other significant reports and amendments to such reports, free of charge, on its website as soon as reasonably practicable after such reports are prepared.

Our Industry

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

The products and solutions that we design, develop and manufacture for HMI applications are primarily printed electronic products. Printed electronics is a set of printing methods used to create electrical devices on various substrates. For over 30 years we have honed and developed the processes necessary to manufacture high quality printed electronic products for HMI applications. Printed electronic technologies are emerging as potential low-cost replacements to silicon based electronics in many specific application areas. According to industry analyst group IDTechEx, the projected market for printed sensor components will surpass $2 billion by 2021, and the market share for printed force sensors alone will be approximately 20% by 2020. According to the IDTechEx report *Printed, Organic & Flexible Electronics Forecasts, Players & Opportunities 2017-2027*, the total market for printed, flexible and organic electronics will grow from $29.28 billion in 2017 to $73.43 billion in 2027. The majority of that is OLEDs (organic but not printed) and conductive ink used for a wide range of applications, however, stretchable electronics, logic and memory, thin film sensors have huge growth potential.

Our Strategy

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

- ***Expand our presence in the markets we occupy***. We will continue to exploit new opportunities in the markets we occupy by leveraging our demonstrable success in the solutions we are providing today.

- ***Expand into new and emerging markets***. We are bringing our highly-successful product lines and technologies to markets previously unaware of the opportunities provided by force-sensing solutions.

- ***Expand our presence with our current customers***. We work with some of the world's largest companies and most recognizable brands and are providing second and third-generation turn-key solutions to meet their technology needs. We will continue to develop these existing relationships by working closely with our customers to understand how we can support their product and technology strategies.

- ***Pursue a multi-technology roadmap***. We utilize multiple technologies in our HMI solutions, and we will continue to invest in R&D and expand our offerings to include resistive, piezo, capacitive and other emerging touch technologies.

- ***Pursue inorganic growth opportunities.*** In connection with our growth strategy, we will continue to evaluate potential acquisitions that provide us with new technology or strategic bolt-on scenarios.

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

Our Technology Platforms and Products

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

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

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

Custom Solutions

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

Standard Solutions

Our portfolio of standard solutions includes:

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

- Force sensing linear potentiometers ("FSLP") are sensors which can be used for menu navigation and control. Our use of force allows for high-rate scrolling and a more intuitive user experience. The FSLP is an easy to integrate, high resolution, ultra-low power based solution that brings intuitive user controls to reduced form factor hand-held consumer electronic devices. These sensors are available in multiple lengths. We also offer a ring sensor for full 360-degree position sensing. These sensors are designed to be integrated into a device's host processor without the need for a dedicated microprocessor.

- Our integrated mouse modules and pointing solutions can add touchpad or 360-degree pointing control to virtually any electronic device. Ranging from simple mouse button integration to National Electrical Manufacturer Association ("NEMA") rated industrial pointing devices, these solutions are ideal for applications away from the desktop. The modules use FSR® technology and measurement firmware in a four-zone sensor or 4-wire resistive touchpad configuration along with a micro-controller to provide pressure sensitive cursor direction and speed control in a durable and easy to integrate form factor.

Intellectual Property

We believe that intellectual property protection is crucial to our business. We rely on a combination of patents, copyrights, trade secrets, trademarks, nondisclosure agreements with employees and third parties, licensing and other contractual agreements with third parties to protect our intellectual property. We maintain and support an active program to protect our intellectual property primarily through the filing of patent applications and the defense of issued patents against infringement. We are not currently engaged in any patent infringement suits. Part of our strategy involves ring-fencing our intellectual property. Ring-fencing involves patenting not only the core technology, but also every improvement or piece of technology around the core technology. This strategy is designed to make it more difficult for competitors to design around the invention, while ensuring some areas of competitive advantage remain in the event a competitor successfully attacks the core patent.

Our failure to obtain or maintain adequate protection for our intellectual property rights for any reason could hurt our competitive position. There is no guarantee that patents will be issued from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. See "Risk Factors" under Item 1A of this Form 10-K for further discussion of the risks associated with patents and intellectual property.

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

As of December 31, 2018, we held sixteen patents, and had eighteen patents-pending. We group our patents into three general categories: sensors, which includes four patents expiring between 2022 and 2027; sensing systems, which includes three patents expiring between 2026 and 2033, and human interface devices, which includes seven patents expiring between 2023 and 2026. Our intellectual property strategy involves filing additional patent applications in our strategic focus markets on a regular basis.

Competition

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

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

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

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

Sales and Marketing

We sell our HMI solutions and force sensing devices through our direct sales employees as well as outside sales representatives and distributors. We work directly with large multi-national companies, small start-up companies, technology design houses and original equipment manufacturers ("OEMs"). Our sales personnel have extensive engineering backgrounds and receive substantial support from our internal engineering resources. Sales frequently result from interactions between senior management, design engineers, procurement departments, and our sales personnel. We interact with our customers throughout the product development and order process. We maintain sales offices in the United States, Hong Kong and Japan. We primarily utilize Digi-Key Electronics, based in Thief River Falls, MN, as a global, full-service distributor of our standard products.

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

Design Opportunity to Design Win

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

- A customer might select one of our standard solutions or a custom design might be required to fulfill the customer's product needs. Custom solutions might require engineering design fees and tooling costs.

- Product samples are provided to the customer and our team works with the customer to ensure product performance and address customer needs and specifications.

- A firm commitment from a customer's engineering and/or purchasing organization or pre-production orders indicate a design win. In most cases, we are a sole-source supplier to our customer and cannot be easily and/or quickly replaced once the product goes into production.

Mass Production

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

Our Customers

Our customers include many of the world's leading electronics companies. They encompass large multi-national organizations as well as start-ups, design houses, original design manufacturers, OEMs and universities. We supply some of the world's largest consumer electronics manufacturers, luxury and mid-market car companies, familiar names in the medical and industrial equipment markets, research engineers and designers entering the Internet-Of-Things ("IoT") market, and companies of all different sizes in other markets.

Our customer base is widely dispersed geographically. Sales to customers located outside the United States have historically accounted for a significant percentage of our revenues, a trend we expect to continue. On a bill-to basis, international sales constituted 57.5% and 51.8% of our net revenues for the years ended December 31, 2018 and 2017, respectively.

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

For the year ended December 31, 2018, we had three customers that represented 17.2%, 15.7% and 10.7% of net revenues, respectively. For the year ended December 31, 2017, we had three customers that represented 17.1%, 14.7% and 13.8% of net revenues, respectively.

Manufacturing Operations

We have our own modern manufacturing facility in Shenzhen, China that is ISO 9001 and ISO 14001 certified, and all products are RoHS and REACH compliant. As part of our continuous improvement methodology the facility is currently undertaking TS16949 certification. We also maintain an engineering, assembly and prototyping facility in Simi Valley, California.

We purchase our materials from outside suppliers. We carefully select suppliers based on their ability to provide quality parts and components that meet technical specifications. We actively monitor these suppliers, but we are subject to substantial risks associated with the performance of our suppliers. We source certain of our components from a single supplier, which increases the risk of shortages and shipment delays and decreases our ability to negotiate with that supplier.

Engineering, Research and Development

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

Our Chief Technology Officer and global R&D center are located in Singapore, where we focus on product innovation. In April, 2017 we announced our intention to grow this facility substantially over the next three years, including expanding our R&D engineering team, expanding the size of the facility, and investing in additional tools and equipment. This includes a commitment to add 10 scientists and engineers to our existing team in Singapore and invest $3.5 million to establish a state-of-the art facility.

The global R&D team will pursue scientific research, technology platform development and advanced product development in areas of material science, printed electronics devices and manufacturing processes and multi-disciplinary system engineering. The global R&D center will support strategic partnerships with key players in electronics manufacturing services, digital manufacturing including 3D printing and product development.

We also operate engineering centers in the United States and China, primarily focused on customer support, quality control and product integration.

In 2019, subsequent to year-end, we are forming a wholly-owned subsidiary, MedTech Sensors Pte. Ltd. (MedTech). MedTech will be a Singapore based corporate innovation accelerator and technology venture arm of Interlink. We aim to identify, develop and commercialize advanced, differentiating or disruptive technology platforms globally in key disciplines encompassing materials science, intelligent sensing, signal processing, data analytics, network connectivity and visualization. We will pursue synergistic collaboration programs on technology and product development as well as scientific /PhD talent development with key strategic partners including funding agencies, venture capital, corporate labs and research organizations.

Our Employees

As of December 31, 2018, we had 85 employees worldwide. Our employees, listed in population size order from largest to smallest, are in the following departments: operations, R&D, administration, and sales. Our ability to attract and retain qualified personnel is essential to our continued success. None of our employees are represented by a collective bargaining agreement, and we have never experienced a work stoppage. We believe our employee relations are good.

Our Properties

We maintain our principal office, totaling approximately 3,000 square feet, in Westlake Village, California, under a lease that expires in 2020. We maintain additional leased spaces in several locations, including production facilities in Simi Valley, California and Shenzhen, China, an R&D center in Singapore, and regional offices in Hong Kong and Tokyo. In total, we lease approximately 26,600 square feet, and do not own any real estate. We believe that our facilities are adequate to meet our needs for the immediate future, and that, should it be needed, we will be able to secure additional space to accommodate any expansion of our operations.

Market Information for Common Stock

Until April 25, 2016, our common stock was quoted on the OTCPink marketplace of the OTC Markets Group under the symbol "LINK". Effective Monday, April 25, 2016, our stock began trading on the NASDAQ Capital Market, also under the symbol "LINK".

On January 24, 2019, subsequent to year-end, the Company announced intentions to voluntarily delist its common stock from the NASDAQ Capital Market and deregister its common stock under the Securities Exchange Act of 1934 and suspend its public reporting obligations. The Company filed Form 25 with the Securities and Exchange Commission on February 4, 2019, and the Nasdaq delisting became effective on February 15, 2019, at which time trading on NASDAQ Capital Market ceased. The common stock may thereafter be eligible for quotation on OTCPink marketplace of the OTC Markets Group under the symbol "LINK". The Company can provide no assurance that trading in its common stock will continue on the OTC Markets Group or if market makers will continue to make a market in the Company's shares.

Holders of Record

As of March 18, 2019, we had 34 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

Dividend Policy

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In December 2017, our Board of Directors authorized a new program for the repurchase of up to $1 million of our outstanding common shares. This program authorization expired in December 2018. Pursuant to this program, on January 17, 2018, we repurchased 34,010 common shares at a purchase price of $4.75 per share from an unrelated shareholder in a private transaction. The repurchased shares were immediately retired and restored to the status of authorized and unissued shares.

Separate from and in addition to the $1 million repurchase program, on June 22, 2018, we repurchased 867,681 shares of our common stock at a purchase price of $3.00 per share from an existing stockholder in a private transaction approved by our Board of Directors. The repurchased shares were immediately retired and restored to the status of authorized and unissued shares.

Results of Operations

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

	Year ended December 31,			
	2018		2017	
	$	%	$	%
	(in thousands, except percentages)			
Revenue, net	$ 8,904	100.0 %	$ 11,153	100.0 %
Cost of revenue	4,000	44.9 %	4,297	38.5 %
Gross profit	4,904	55.1 %	6,856	61.5 %
Operating expenses:				
Engineering, research and development	908	10.2 %	829	7.4 %
Selling, general and administrative	3,246	36.5 %	3,888	34.9 %
Total operating expenses	4,154	46.7 %	4,717	42.3 %
Income from operations	750	8.4 %	2,139	19.2 %
Other income (expense):				
Other income (expense), net	60	0.7 %	(5)	(0.1)%
Income before income tax expense	810	9.1 %	2,134	19.1 %
Income tax expense	188	2.1 %	874	7.8 %
Net income	$ 622	7.0 %	$ 1,260	11.3 %
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(108)	(1.2)%	112	1.0 %
Comprehensive income	$ 514	5.8 %	$ 1,372	12.3 %

Comparison of the Years Ended December 31, 2018 and 2017

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

	Year ended December 31,					
	2018		2017			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Automotive	$ 266	3.0 %	$ 1,986	17.8 %	$ (1,720)	(86.6)%
Industrial	2,364	26.5 %	2,045	18.3 %	319	15.6 %
Medical	1,394	15.7 %	1,640	14.7 %	(246)	(15.0)%
Consumer	1,532	17.2 %	1,906	17.1 %	(374)	(19.6)%
Standard	3,348	37.6 %	3,576	32.1 %	(228)	(6.4)%
Revenue, net	$ 8,904	100.0 %	$ 11,153	100.0 %	$ (2,249)	(20.2)%

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

The decrease in net revenues was driven by a major customer in the automotive market making a design change to their product that eliminated the need for our solution. Once our largest customer, revenues for this customer have eroded from mid-2017 through 2018. In addition, a product for another large automotive customer had expectedly reached its end of life cycle. These two product lines represented the vast majority of our penetration into the automotive market. We also saw decreases in the medical and consumer markets, partially offset by increased sales in the industrial market. We also had an decrease in sales of our standard products. Other than the automotive market, decreased revenues in our custom product markets was driven by lower sales to our current customers for use in their ongoing product lines. In all of our product markets, some of our larger customers purchase in bulk quantities and absorption of these products can straddle several financial reporting periods. The timing of orders from our customers is not always predictable and can be concentrated in varying periods during the year to coincide with their project and building plans. Many of our products are currently subject to import tariffs imposed on goods manufactured in China, increasing the cost to our customers by up to 25%. We believe many of our existing customers have reduced orders until the uncertainty passes, hoping to avoid tariffs. In the worst case, some of them may be seeking alternative domestic suppliers.

Some of our more recent custom product success for new product lines in the medical market is making its way into the pipeline as part of a long design cycle and revenues are just starting to be realized in late 2018. In July 2018, the Company received purchase orders of $880,000 from an existing prestigious medical customer. This order is for deliveries from October 2018 to June 2019. However, as these revenues materialize, revenues from current product lines that reach the end of their normal life cycle have offset some of this growth in 2018. Overall, we expect revenues to continue to decline in 2019 until we are able to fully replace the automotive revenue, and until the trade disputes with China are resolved.

	Year ended December 31,					
	2018		2017			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Cost of revenue	$ 4,000	44.9 %	$ 4,297	38.5 %	$ (297)	(6.9)%

Our cost of revenue is impacted by various factors including product mix, volume, material costs, manufacturing efficiencies, facilities costs, compensation costs and any provisions for excess and obsolete inventories. Cost of revenues decreased compared with the prior year consistent with the decrease in revenues, particularly in the automotive market. Cost of revenues increased as a percentage of revenues for the same reason, including less revenue to cover fixed costs and production overhead costs.

	Year ended December 31,					
	2018		2017			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Engineering, research and development	$ 908	10.2 %	$ 829	7.4 %	$ 79	9.5 %

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

Our engineering and R&D costs increased as compared with the same period in the prior year primarily due to investments in our Singapore R&D center and an increase in our engineering and R&D staffing worldwide in order to enhance our technology and product offerings. We will continue to invest and grow the global R&D center in Singapore over the next several years, including expanding our R&D team, expanding the size of the facility, and investing in additional tools and equipment.

	Year ended December 31,					
	2018		2017			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands, except percentages)					
Selling, general and administrative	$ 3,246	36.5 %	$ 3,888	34.9 %	$ (642)	(16.5)%

Selling, general and administrative expenses ("SG&A") consist primarily of compensation expenses, legal and other professional fees, facilities expenses and communication expenses. SG&A expenses decreased as compared with the same period in the prior year driven by an intense focus on lowering fixed costs during a period of lower revenue. This includes a reduced reliance of third-party consultants and professional service providers. We are also taking advantage of the contraction in revenues to revamp our global sales organization to reflect broadened technology offerings and geographies in order to gain internal efficiencies.

	Year ended December 31,					
	2018		2017			
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Change	% Change
	(in thousands, except percentages)					
Income tax expense	$ 188	23.2 %	$ 874	41.0 %	$ (686)	N/A %

Tax expense reflects statutory tax rates in the jurisdictions that we operate adjusted for normal book/tax differences. Tax expense for 2018 was lower primarily as a result of the enactment of the 2017 Tax Cut and Jobs Act (TCJA), which was signed into law on December 22, 2017. The TCJA significantly reforms the Internal Revenue Code of 1986 (as amended) and includes, among other things, changes to U.S. Federal tax rates, significant additional limitations on the deductibility of interest, immediate expensing of certain capital expenditures, migration from a "worldwide" system of taxation to a territorial system and the modification or repeal of many business deductions and credits. Tax expense for the year ended December 31, 2017 includes a charge of $169 thousand related to a remeasurement of the deferred tax assets and liabilities as a result of the enactment of the TCJA.

Our effective tax rate is directly affected by the relative proportions of revenue and income before taxes in the jurisdictions in which we operate. Based on the expected mix of domestic and foreign earnings, we anticipate our effective tax rate to remain lower than the newly stated U.S. statutory rate primarily due to a significant portion of our earnings originating in lower rate foreign jurisdictions. Discrete tax events may cause our effective rate to fluctuate on a quarterly basis. Certain events, including, for example, acquisitions and other business changes, which are difficult to predict, may also cause our effective tax rate to fluctuate. We are subject to changing tax laws, regulations, and interpretations in multiple jurisdictions. Continued corporate tax reform continues to be a priority in the U.S. and other jurisdictions. Additional changes to the tax system in the U.S. could have significant effects, positive and negative, on our effective tax rate, and on our deferred tax assets and liabilities.

Liquidity and Capital Resources

Cash requirements for working capital and capital expenditures have been funded from cash balances on hand and cash generated from operations. As of December 31, 2018, we had cash and cash equivalents of $6.1 million, working capital of $7.6 million and no indebtedness. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of December 31, 2018. Of the $6.1 million of cash balances on hand, $2.6 million was held by foreign subsidiaries. If these funds are needed for our operations in the U.S., we have several methods to repatriate without significant tax effects, including repayment of intercompany loans or distributions of previously taxed income. Other distributions may require us to incur U.S. or foreign taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate cash to fund our U.S. operations.

We believe that our existing cash and cash equivalents balance will be sufficient to maintain our operations considering our current financial condition, obligations, and other expected cash flows for at least the next twelve months following the date these consolidated financial statements were available for issuance. We are proactively pursuing acquisition opportunities. It is possible our cash requirements for one or more acquisition opportunities could exceed our cash balance at the time of closing. If we require additional cash, we may attempt to raise additional capital through equity, equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we could be subject to fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional needed funds, we may also take measures to reduce expenses to offset any shortfall.

INTERLINK ELECTRONICS, INC.
INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

INTERLINK ELECTRONICS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2018	December 31, 2017
	(in thousands, except par value)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,102	$ 7,772
Restricted cash	5	5
Accounts receivable, net	780	1,374
Inventories	1,071	1,195
Prepaid expenses and other current assets	303	338
Total current assets	8,261	10,684
Property, plant and equipment, net	701	525
Intangibles, net	121	69
Deferred income taxes	470	493
Other assets	59	59
Total assets	$ 9,612	$ 11,830
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 304	$ 255
Accrued liabilities	297	345
Accrued income taxes	26	103
Total current liabilities	627	703
Total liabilities	627	703
Commitments and contingencies (see note 9)	—	—
Stockholders' equity		
Preferred stock, $0.01 par value: 1,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.001 par value: 30,000 shares authorized, 6,483 and 7,336 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	7	7
Additional paid-in-capital	57,871	60,527
Accumulated other comprehensive income	(67)	41
Accumulated deficit	(48,826)	(49,448)
Total stockholders' equity	8,985	11,127
Total liabilities and stockholders' equity	$ 9,612	$ 11,830

The accompanying notes are an integral part of these consolidated financial statements.

INTERLINK ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)

	Year ended December 31, 2018	Year ended December 31, 2017
	(in thousands, except per share data)	
Revenue, net	$ 8,904	$ 11,153
Cost of revenue	4,000	4,297
Gross profit	4,904	6,856
Operating expenses:		
Engineering, research and development	908	829
Selling, general and administrative	3,246	3,888
Total operating expenses	4,154	4,717
Income from operations	750	2,139
Other income (expense):		
Other income (expense), net	60	(5)
Income before income tax expense	810	2,134
Income tax expense	188	874
Net income	622	1,260
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(108)	112
Comprehensive income	$ 514	$ 1,372
Earnings per share, basic and diluted	$ 0.09	$ 0.17
Weighted average common shares outstanding - basic	6,899	7,333
Weighted average common shares outstanding - diluted	6,991	7,421

The accompanying notes are an integral part of these consolidated financial statements.

INTERLINK ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2017	7,328	$ 7	$ 60,370	$ (71)	$ (50,708)	$ 9,598
Net income	—	—	—	—	1,260	1,260
Foreign currency translation adjustment	—	—	—	112	—	112
Compensation expense related to equity awards, net of cancellations	8	—	157	—	—	157
Balance at December 31, 2017	7,336	7	60,527	41	(49,448)	11,127
Net income	—	—	—	—	622	622
Foreign currency translation adjustment	—	—	—	(108)	—	(108)
Stock Repurchase	(901)	—	(2,764)			(2,764)
Compensation expense related to equity awards, net of cancellations	48	—	108	—	—	108
Balance at December 31, 2018	6,483	$ 7	$ 57,871	$ (67)	$ (48,826)	$ 8,985

The accompanying notes are an integral part of these consolidated financial statements.

INTERLINK ELECTRONICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Year ended December 31, 2018	2017
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 622	$ 1,260
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	155	190
Stock based compensation	102	122
Changes in operating assets and liabilities:		
Accounts receivable	594	352
Inventories	124	73
Prepaid expenses and other current assets	35	39
Other assets	-	(2)
Accounts payable	49	(69)
Accrued liabilities	(48)	11
Accrued income taxes	(77)	(1)
Deferred income taxes	23	182
Deferred revenue	—	(111)
Net cash provided by operating activities	1,579	2,046
Cash flows from investing activities:		
Property, plant and equipment	(304)	(394)
Share repurchase	(2,764)	—
Intangibles	(79)	(35)
Net cash used in investing activities	(3,147)	(429)
Cash flows from financing activities:		
Proceeds from exercise of stock options	6	34
Net cash provided by financing activities	6	34
Effect of exchange rate changes on cash and cash equivalents	(108)	112
Net increase (decrease) in cash and cash equivalents	(1,670)	1,763
Cash, cash equivalents and restricted cash, beginning of period	7,777	6,014
Cash, cash equivalents and restricted cash, end of period	$ 6,107	$ 7,777
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 310	$ 687

The accompanying notes are an integral part of these consolidated financial statements.

INTERLINK ELECTRONICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1-THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Interlink Electronics, Inc. (“we,” “us,” “our,” “Interlink” or the “Company”) designs, develops, manufactures and sells a range of force-sensing technologies that incorporate our proprietary materials technology, firmware and software into a portfolio of standard sensor based products and custom sensor system solutions. These include sensor components, subassemblies, modules and products that support effective, efficient cursor control and novel three-dimensional user inputs. Our Human Machine Interface (“HMI”) technology platforms are deployed in a wide range of markets including consumer electronics, automotive, industrial, and medical.

Interlink serves our world-wide customer base from our corporate headquarters in Westlake Village, California (greater Los Angeles area), our global research and development (“R&D”) and engineering center in Singapore, our printed-electronics manufacturing facility in Shenzhen, China and our global distribution and logistics center in Hong Kong. We also maintain engineering, assembly and prototyping capabilities in Simi Valley, California along with technical and sales offices in Japan and at multiple locations in the United States. Our principal executive office is located at 31248 Oak Crest Drive, Suite 110, Westlake Village, California 91361 and our telephone number is (805) 484-8855. Our website address is www.interlinkelectronics.com.

Fiscal Year

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our reporting currency is the United States dollar.

Our consolidated financial statements include the accounts of Interlink Electronics and our subsidiaries in China, Hong Kong and Singapore. All intercompany accounts and transactions were eliminated in consolidation.

Foreign Currency Translation

The functional currency of our Chinese subsidiary is the Chinese Yuan Renminbi. The functional currency for our Hong Kong and Singapore subsidiaries is the United States dollar. However, our Hong Kong and Singapore subsidiaries also transact business in their local currency. Therefore, assets and liabilities are translated into United States dollars at the exchange rate in effect on the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the respective periods. Foreign currency transaction and translation gains and losses are included in results of operations.

Segment Reporting

We operate in one reportable segment: the manufacture and sale of force sensing technology solutions.

Use of Estimates

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

Revenue Recognition

We recognize product revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the price to the customer is fixed or determinable; and (iv) collection of the sales price is reasonably assured. Delivery occurs when goods are shipped and title and risk of loss transfer to the customer, in accordance with the terms specified in the arrangement with the customer. Revenue recognition is deferred until the earnings process is complete.

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

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

We recognize revenue for non-recurring engineering or non-recurring tooling fees when there is persuasive evidence of an arrangement, performance obligations are identified, fees are fixed or determinable, delivery has occurred, and collectability is reasonably assured.

Warranty

We establish reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with our customers. We generally warrant our products against defects for one year from date of shipment, with certain exceptions in which the warranty period can extend to more than one year based on contractual agreements. A warranty reserve is recorded against revenues when products are shipped. At each reporting period, we adjust our reserve for warranty claims based on our actual warranty claims experience as a percentage of net revenue for the preceding 12 months and also consider the effect of known operations issues that may have an impact that differs from historical trends. Historically, our warranty returns have not been material.

Shipping and Handling Fees and Costs

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

Engineering, Research and Development Costs

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

Marketing Costs

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

Stock-based Compensation

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

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

Other Income, Net

Other income, net, consists of interest income, foreign exchange gains and losses and other non-operating gains and losses.

Income Taxes

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

We operate within multiple tax jurisdictions and are subject to audit in these jurisdictions. Our foreign subsidiaries are subject to foreign income taxes on earnings in their respective jurisdictions. Earnings of our foreign subsidiaries are not included in our U.S. federal income tax return until earnings are repatriated. We are generally eligible to receive tax credits on repatriated earnings on our U.S. federal income tax return for foreign taxes paid by our subsidiaries.

See Note 6 - Income Taxes for further information and discussion of our income tax provision and balances including discussion of the impacts of the Tax Cuts and Jobs Act (TCJA) enacted in December 2017.

Comprehensive Income

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

Earnings per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of diluted common shares, which is inclusive of common stock equivalents from unexercised stock options and restricted stock units. Unexercised stock options and restricted stock units are considered to be common stock equivalents if, using the treasury stock method, they are determined to be dilutive.

Under the two-class method of determining earnings for each class of stock, we consider the dividend rights and participating rights in undistributed earnings for each class of stock.

Risk and Uncertainties

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

Cash, Cash Equivalents and Restricted Cash

We invest excess cash in highly liquid interest-bearing instruments, including commercial paper or money market accounts. Investments with original maturity dates less than 90 days are classified as cash equivalents. Cash that is reserved for a specific purpose and therefore not available for immediate or general business use is classified as restricted cash. All of our cash, cash equivalents and restricted cash are held at major financial institutions in the United States, China and Singapore. Our balances in each country were insured at the maximum limit determined by each country. In the U.S., we had approximately $4.9 million and $4.8 million in excess of the Federal Deposit Insurance Corporation limit of $250 thousand per depositor, per insured bank at December 31, 2018 and 2017, respectively. Approximately $1.7 million and $639 thousand held in banks in China at December 31, 2018 and 2017, respectively were not insured. Approximately $676 thousand and $43 thousand held in banks in Singapore at December 31, 2018 and 2017, respectively were not insured.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of cost or net realizable value (NRV) and consist of materials, labor and overhead. Inventory costs are determined using standard costs which approximate actual costs under the first-in, first-out method.

Costs include the costs of purchased finished products, sorted wafers, and outsourced assembly, testing and internal overhead. NRV is the amount by which the estimated selling price of the product exceeds the sum of any additional costs expected to be incurred on the sale of such product in the ordinary course of business.

We evaluate inventories for excess quantities and obsolescence. Our evaluation considers market and economic conditions; technology changes; new product introductions; and changes in strategic business direction. Estimates by their very nature include elements that are uncertain. In order to state the inventory at the lower of cost or NRV, we maintain reserves against individual stocking units. Inventory reserves, once established, are not reversed until the related inventories have been sold or scrapped. If future demand or market conditions are less favorable than our projections, a write-down of inventory may be required, and would be reflected in cost of product revenues sold in the period the revision is made.

Property, Plant and Equipment, Net

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization expense are calculated using the straight-line method over the assets' remaining estimated useful lives, ranging from two to five years for machinery and equipment, including product tooling; and the shorter of the lease terms or estimated useful lives for leasehold improvements. When property, plant and equipment is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains and losses from retirements and asset disposals are recorded in selling, general and administrative ("SG&A") expenses. Repairs and maintenance on our property, plant and equipment are expensed in the period incurred.

We perform periodic reviews to evaluate the recoverability of property, plant and equipment and to determine whether facts and circumstances exist that would indicate that the carrying amounts of property, plant and equipment exceed their fair values. If facts and circumstances indicate that the carrying amount of property, plant and equipment might not be fully recoverable, projected undiscounted net cash flows associated with the related asset or group of assets over their estimated remaining useful lives are compared against their respective carrying amounts. In the event that the projected undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values. All long-lived assets to be disposed of are reported at the lower of carrying amount or fair market value, less expected selling costs.

Intangible Assets, Net

Our intangible assets consist primarily of patents and trademarks and are carried at cost less accumulated amortization. We evaluate our finite-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an intangible asset or asset group may not be recoverable. The carrying value of an intangible asset or asset group is not recoverable if the amounts of undiscounted future cash flows the assets are expected to generate (including any net proceeds expected from the disposal of the asset) are less than its carrying value. When we identify that an impairment has occurred, we reduce the carrying value of the asset to its comparable market value (if available and appropriate) or to its estimated fair value based on a discounted cash flow approach. Currently, we do not have goodwill or indefinite-lived intangible assets.

Fair Value Measurements

We determine fair value measurements based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we follow the following fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) our own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs):

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;

Level 2: Other inputs observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborate inputs; and

Level 3: Unobservable inputs for which there is little or no market data and which requires the owner of the assets or liabilities to develop its own assumptions about how market participants would price these assets or liabilities.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

Recently Adopted Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, "*Inventory (Topic 330): Simplifying the Measurement of Inventory*", which provides new guidance regarding the measurement of inventory. The new guidance requires most inventory to be measured at the lower of cost or net realizable value. The standard defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The standard applies to companies other than those that measure inventory using last-in, first-out ("LIFO") or the retail inventory method. The standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. Effective January 1, 2017, the Company adopted ASU No. 2015-02 and it had no impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation- Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*", which modifies and simplifies several aspects of accounting for share-based payment transactions. Changes to the current guidance primarily pertain to the income tax consequences of share-based payment transactions. Under the standard, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, regardless of whether the benefit reduces taxes payable in the current period. The full amount of excess tax benefits should be classified along with other income tax cash flows as an operating activity. When awards are settled, cash paid to the taxing authorities by an employer when directly withholding shares for tax withholding purposes will be classified as a financing activity. Additionally, with respect to forfeitures of awards, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The amendments in this standard are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Effective January 1, 2017, the Company adopted ASU No. 2015-02 and it had no impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payment,*" which clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company early adopted ASU No. 2016-15 effective January 1, 2017 and applied it retroactively. There was no impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash*". The amendments in this update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. These amounts should be included within cash and cash equivalents when reconciling the beginning and ending balances for the periods shown on the statement of cash flows. The ASU requires retrospective application, and is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company early adopted ASU No. 2016-15 in the fourth quarter of 2017 and applied it retroactively, with minimal impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements (Not Yet Adopted)

In May 2014, the Financial Accounting Standards Board, ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The amendments to this update supersede nearly all existing revenue recognition guidance under GAAP, including the revenue recognition requirements in ASC Topic 605, "*Revenue Recognition*.". The standard was originally set to become effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers; Deferral of the Effective Date," which defers the effective date of ASU 2014-09 for all entities by one year, thereby delaying the effective date of the standard to January 1, 2018, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. The core principle of this Topic is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company will adopt ASU 2014-09 effective January 1, 2018 and it is not expected to result in material differences in the amount or timing of recognized revenue.

In January 2016, the FASB issued ASU No. 2016-01, "*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*", that amends existing guidance around classification and measurement of certain financial assets and liabilities. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. For equity investments without readily determinable fair values, the cost method is also eliminated. However, most entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. The standard also requires that financial assets and liabilities be disclosed separately in the notes to the financial statements based on measurement principle and form of financial asset. The amendments in this guidance are effective for financial statements issued for interim and annual periods beginning after December 15, 2017. This standard is not expected to have a significant impact on our consolidated financial statements or disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*", which replaces the existing guidance in ASC Topic 840, "Leases". The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and requires retrospective application. The Company is currently evaluating the impact of ASU 2016-02 to its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*", that significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables. The standard requires an entity to estimate its lifetime "expected credit loss" for such assets at inception, and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The standard is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. This standard is not expected to have a significant impact on our consolidated financial statements or disclosures.

In October 2016, the FASB issued ASU No. 2016-16, "*Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*," which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. This standard is not expected to have a significant impact on our consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU 2017-01, "*Business Combinations (Topic 805): Clarifying the Definition of a Business*", clarifying the definition of a business, reducing the number of transactions that need to be further evaluated and providing a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in the ASU specify that when the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the integrated set of assets and activities is not a business. The guidance also requires that an integrated set of assets and activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business, and removes the evaluation of whether a market participant could replace the missing elements. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect the impact on our consolidated financial statements to be material.

In May 2017, the FASB issued ASU No. 2017-09, *Modification Accounting for Share-Based Payment Arrangements*, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. We do not expect this new guidance to have a material impact on its condensed consolidated financial statements.

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

NOTE 2-DETAILS OF CERTAIN FINANCIAL STATEMENT COMPONENTS

The following tables provide details of selected balance sheet items:

Inventories	December 31, 2018	December 31, 2017
	(in thousands)	
Raw materials	$ 667	$ 743
Work-in-process	280	290
Finished goods	124	162
Total inventories	$ 1,071	$ 1,195

Property, plant and equipment, net	December 31, 2018	December 31, 2017
	(in thousands)	
Furniture, machinery and equipment	$ 1,481	$ 1,231
Leasehold improvements	531	551
	2,012	1,782
Less: accumulated depreciation	(1,311)	(1,257)
Total property, plant and equipment, net	$ 701	$ 525

Depreciation expense totaled $171 thousand and $128 in 2018 and 2017, respectively. There were no significant disposals of property, plant and equipment in 2018 and 2017.

Intangibles, net	December 31, 2018	December 31, 2017
	(in thousands)	
Patents and trademarks	$ 481	$ 402
Less: accumulated amortization	(360)	(333)
Total intangibles, net	$ 121	$ 69

Amortization expense totaled $28 thousand and $17 thousand in 2018 and 2017, respectively. Future amortization on existing intangibles over the next five years is as follows:

Years ending December 31,	(in thousands)
2019	$ 33
2020	$ 32
2021	$ 30
2022	$ 19
2023	$ 7

Accrued liabilities	December 31, 2018	December 31, 2017
	(in thousands, except par value)	
Accrued warranty	$ 4	$ 3
Accrued wages and benefits	140	185
Accrued taxes, other than income taxes	2	4
Accrued vacation	91	88
Accrued other	60	65
Total accrued liabilities	$ 297	$ 345

NOTE 3-FAIR VALUE MEASUREMENTS

The following table summarizes the Company's cash and marketable securities using the hierarchy described in Note 1 under the heading "Fair Value Measurements":

	December 31, 2018			
	Adjusted Cost	Unrealized Gains (Losses)	Fair Value	Cash & Cash Equivalents
	(in thousands)			
Level 1:				
Cash	$ —	$ —	$ —	$ 6,102
Restricted cash	—	—	—	5
Total	$ —	$ —	$ —	$ 6,107

	December 31, 2017			
	Adjusted Cost	Unrealized Gains (Losses)	Fair Value	Cash & Cash Equivalents
	(in thousands)			
Level 1:				
Cash	$ —	$ —	$ —	$ 7,772
Restricted cash	—	—	—	5
Total	$ —	$ —	$ —	$ 7,777

NOTE 4-STOCK BASED COMPENSATION

Under the terms of our 2016 Omnibus Incentive Plan (the "2016 Plan"), officers and key employees could be granted restricted stock units, as well as non-qualified or incentive stock options, at the discretion of the compensation committee of the board of directors. The 2016 Plan replaces the 1996 Stock Incentive Plan (the "1996 Plan"), which was terminated in December 2015; however, all grants issued under the 1996 Plan prior to its termination will continue to vest, expire or terminate in accordance with the 1996 Plan document and the terms of each award.

As of December 31, 2018 and 2017, none of our stock-based awards are classified as liabilities. We did not capitalize any stock-based compensation cost. At December 31, 2018, there was $135 thousand of unrecognized stock-based compensation expense related to non-vested restricted stock units, and the weighted average period over which the unearned stock-based compensation for the restricted stock units is expected to be recognized is approximately 0.7 years. All of our outstanding stock options are fully vested with no remaining unrecognized stock-based compensation expense. On a quarterly basis, we assess our estimate of forfeitures based on historical forfeiture activity and expected future employee attrition. We recognize the effect of adjustments made to forfeiture rates, if any, in the period we change the forfeiture estimate. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards and our stock price increases.

Share amounts and weighted-average grant date fair values reflect the 25% stock dividend paid on April 1, 2016.

Restricted Stock Units

Our outstanding restricted stock unit grants vest over five years in installments of 50% on the fourth anniversary of the grant date and the remaining 50% on the fifth anniversary of the grant date. Unvested restricted shares are forfeited if the recipient's employment terminates for any reason other than death, disability or special circumstances as determined by the compensation committee of the board of directors.

Activity for our restricted stock units is as follows:

	Restricted Stock Units (in thousands)	Weighted-Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Restricted stock units, January 1, 2017	165	$ 3.54	2.33	$ 1,158
Awarded	5	$ 8.81		
Issued	-	$ -		
Forfeited	(5)	$ 11.09		
Restricted stock units, December 31, 2017	165	$ 3.47	1.35	$ 861
Awarded	5	$ 6.24		
Issued	(40)	$ 1.00		
Forfeited	(10)	$ 8.77		
Restricted stock units, December 31, 2018	120	$ 3.97	0.70	$ 252

The aggregate intrinsic values in the preceding table for the restricted stock units outstanding represent the total pretax intrinsic value, based on our closing stock price of $2.10 and $5.22 as of December 31, 2018 and 2017, respectively. In 2018 40,000 restricted stock units vested and 2017 no restricted stock units vested.

Stock Options

The exercise price of our stock options is the closing price on the date the options are granted. Options generally expire 10 years from the date of grant. The following table summarizes the activity for the remaining options outstanding under the Plan:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2017	11	$ 3.75	0.65	$ 37
Granted	3	7.40		
Exercised	(6)	$ 4.96		
Cancelled or expired	(1)	4.80		
Options outstanding, December 31, 2017	7	$ 4.12	4.46	$ 15
Granted	—			
Exercised	(4)	$ 1.56		
Cancelled or expired	—			
Options outstanding, December 31, 2018	3	$ 7.40	8.84	$ —
Options exercisable, December 31, 2018	3	$ 7.40	8.84	$ —

This intrinsic value represents the excess of the fair market value of our common stock on the date of exercise over the exercise price of such options. The aggregate intrinsic values in the preceding table for the options outstanding represent the total pretax intrinsic value, based on our closing stock price of $2.10 and $5.22 as of December 31, 2018 and 2017, respectively, which would have been received by the option holders had those option holders exercised their in-the-money options as of those dates.

The fair value of stock-based option awards is estimated at the date of grant using the Black-Scholes option pricing model; however, the value calculated using an option pricing model may not be indicative of the fair value observed in a willing buyer/willing seller market transaction, or actually realized by the employee upon exercise. Expected volatility used to estimate the fair value of options granted is based on the historical volatility of our common stock. The risk-free interest rate is based on the United States Treasury constant maturity rate for the expected life of the stock option. The expected life of a stock award is the period of time that the award is expected to be outstanding.

The following table provides additional information in regards to options outstanding as of December 31, 2018:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
$ 7.40	3	8.84	$ 7.40	3	$ 7.40
	3	8.84		3	7.40

NOTE 5-EARNINGS PER SHARE

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands, except per share data)	
Net income	$ 622	$ 1,260
Comprehensive income	$ 514	$ 1,372
Weighted average outstanding shares of common stock	6,899	7,333
Dilutive potential common shares from stock options and restricted stock units	92	88
Common stock and common stock equivalents	6,991	7,421
Earnings per share, basic and diluted	$ 0.09	$ 0.17
Comprehensive income per share: basic and diluted	$ 0.07	$ 0.18
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation	31	83

NOTE 6-INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (TCJA). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the top U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries (the "Transition Tax"); (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (7) creating a new limitation on deductible interest expense; and (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2018.

Under GAAP, we use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Due to the reduction in our federal corporate tax rate from 34% to 21%, we revalued our net deferred tax assets and deferred tax liabilities and recorded a discrete tax expense of $169 thousand in 2017.

The Transition Tax is a tax on previously untaxed accumulated and current earnings and profits of certain of our foreign subsidiaries. We were able to make a reasonable estimate of the Transition Tax and determined that it was insignificant.

The Tax Act includes a new provision, referred to as Global Intangible Low-Taxed Income (“GILTI”), which provides for a 10.5% tax on certain income of controlled foreign corporations. We have elected to account for GILTI as a period cost if and when occurred, rather than recognizing deferred taxes for basis differences expected to reverse. As a result of this policy election, there is no impact to our 2017 deferred tax calculation.

The remeasurement of the deferred tax assets and liabilities is included in our 2017 tax expense. However, the remeasured amounts incorporate assumptions made based upon the Company’s current interpretation of the TCJA. Our estimates of the impact of the Tax Act may change due to a number of additional considerations including, but not limited to, the issuance of additional regulations or guidance and our ongoing analysis of the new law. Any subsequent adjustment to these amounts will be recorded to tax expense in 2018 when the analysis is complete.

The components of earnings before income tax provision (benefit) for the years ended December 31, 2018 and 2017 were as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands)	
Income (loss) before income tax provision (benefit):		
Domestic	$ 239	$ 1,071
Foreign	571	1,063
	$ 810	$ 2,134

Income tax provision (benefit) consists of the following for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands)	
Income tax provision (benefit):		
Current		
Federal	$ 52	$ 360
State	9	69
Foreign	117	263
Total current	178	692
Deferred:		
Federal	10	157
State	21	30
Foreign	(21)	(5)
Total deferred	10	182
Total income tax provision (benefit)	$ 188	$ 874

A reconciliation of the income tax provision (benefit) by applying the statutory United States federal income tax rate to net income before income tax provision (benefit) is as follows:

	December 31, 2018		2017	
	$	%	$	%
	(in thousands, except percentages)			
Federal income tax provision (benefit) at statutory rate	$ 170	21.0 %	$ 726	34.0 %
State tax expense net of federal tax benefit	20	2.5 %	63	3.0 %
Foreign taxes	12	1.5 %	(116)	(5.4)%
Other	(15)	(1.9)%	27	1.3 %
Change in statutory rate	—	- %	169	7.9 %
Change in valuation allowance	1	0.1 %	5	0.2 %
Income tax provision (benefit)	$ 188	23.2 %	$ 874	41.0 %

Deferred tax assets and liabilities are recognized for future tax consequences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the fiscal year in which the difference are expected to reverse. Significant deferred tax assets and liabilities, consist of the following:

	December 31, 2018	December 31, 2017
	(in thousands)	
Deferred tax assets, net		
Net operating loss carryforward	$ 243	$ 287
Credits	6	5
Accruals	16	13
Reserves	3	22
Fixed assets and intangible property	95	69
Stock compensation	107	82
Other	6	20
Total deferred tax assets	476	498
Valuation allowance	(6)	(5)
Net deferred tax assets	$ 470	$ 493

Deferred taxes are recorded for the following Net Operating Losses ("NOLs") that can be used in future tax years:

	December 31, 2018	December 31, 2017
	(in millions)	
Net operating losses		
Federal	$ 0.8	$ 0.9
State	0.9	0.9
Foreign	0.2	0.2
	$ 1.9	$ 2.0

The federal and state NOLs expire at various dates between 2019 through 2030. Foreign NOLs are related to the jurisdictions of Singapore and Hong Kong and may be carried forward indefinitely.

The Company experienced an ownership change under IRC Section 382 in February 2010. In general, a Section 382 ownership change occurs if there is a cumulative change in our ownership by "5% shareholders" (as defined in the Internal Revenue Code of 1986, as amended) that exceeds 50 percentage points over a rolling three-year period. An ownership change generally affects the rate at which NOLs and potential other deferred tax assets are permitted to offset future taxable income. Certain state jurisdictions within which we operate contain similar provisions and limitations. All of the remaining federal and state NOLs amount as of December 31, 2018 are subject to annual limitations due to the February 2010 ownership change, at approximately $71,000 per year. Because these limitations preclude the use of a large portion of these NOLs, the Company permanently wrote-off the related deferred tax assets during the year ended December 31, 2015. Because the Company maintained a full valuation allowance against these deferred tax assets, this write-off had no impact on tax expense. At December 31, 2018, the gross NOLs without regard to this permanent write-off is $48.5 million for federal and $17.5 million for state. A roll-forward of the NOLs for which deferred tax assets are now recorded is as follows:

	December 31, 2018	December 31, 2017
	(in millions)	
Net operating losses		
Balance at January 1,	$ 2.0	$ 2.1
NOL generated (utilized)	(0.1)	(0.1)
NOL expired unused	—	—
Other, including changes in foreign exchange rates	—	—
Balance at December 31,	$ 1.9	$ 2.0

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. We analyzed our need to record a valuation allowance against our otherwise recognizable net deferred tax assets in the federal, state and foreign jurisdictions and determined that no valuation allowance was necessary ay December 31, 2018 or 2017.

As of December 31, 2018, withholding and U.S. taxes had not been provided on approximately $700 thousand of unremitted earnings of non-U.S. subsidiaries because the Company has currently reinvested these earnings permanently in such operations. Such earnings would be taxable upon the sale or liquidation of these subsidiaries or upon remittance of dividends. Although such earnings are intended to be reinvested indefinitely, any tax liability for undistributed earnings, including withholding taxes, would be partially negated by the availability of corresponding foreign tax credits.

The Tax Act provided for a one-time deemed mandatory repatriation for post-1986 undistributed foreign subsidiary earnings and profits (“E&P”) through the year ended December 31, 2017. The Company’s initial estimate showed a deficit in foreign E&P and significant foreign taxes paid, which could be creditable against any tax resulting from the deemed mandatory repatriation. During 2018 the Company concluded that it’s foreign E&P were in a deficit position and the Company had no tax due in connection with the deemed mandatory repatriation.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. U.S. federal income tax returns after 2014 remain open to examination. We and our subsidiaries are also subject to income tax in multiple state and foreign jurisdictions. Generally, state and foreign income tax returns after 2013 remain open to examination. No income tax returns are currently under examination. As of December 31, 2018 and 2017, the Company does not have any unrecognized tax benefits, and continues to monitor its current and prior tax positions for any changes. The Company recognizes penalties and interest related to unrecognized tax benefits as income tax expense. For the years ended December 31, 2018 and 2017, there were no penalties or interest recorded in income tax expense.

NOTE 7-SIGNIFICANT CUSTOMERS, CONCENTRATION OF CREDIT RISK AND GEOGRAPHIC INFORMATION

We manage and operate our business through one operating segment.

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

	Year ended December 31,	
	2018	**2017**
Customer A	17 %	17 %
Customer B	16 %	15 %
Customer C	11 %	* %
Customer D	* %	14 %
Customer E	* %	* %

Net revenues by geographic area are as follows:

	Year ended December 31,	
	2018	**2017**
	(in thousands)	
United States	$ 3,785	$ 5,374
Asia and Middle East	4,319	4,507
Europe and other	800	1,272
Revenue, net	$ 8,904	$ 11,153

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

We provide credit only to creditworthy third parties who are subject to our credit verification procedures. Accounts receivable balances are monitored on an ongoing basis, and accounts deemed to have credit risk are fully reserved. At December 31, 2018, two customers accounted for 35% and 25% of total accounts receivable. At December 31, 2017, three customers account for approximately 35%, 10% and 10% of total accounts receivable. Our allowance for doubtful accounts was $0 and $32 thousand as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, our long-lived assets were geographically located as follows:

	December 31, 2018	December 31, 2017
	(in thousands)	
United States	$ 142	$ 103
Asia	680	491
Total long-lived assets	$ 822	$ 594

NOTE 8-RETIREMENT SAVINGS PLAN

We have a qualified retirement plan under the provisions of Section 401(k) of the Internal Revenue Code covering all U.S. employees. Participants in this plan may contribute between 1% and 60% of their eligible pay on a pretax basis, up to the annual Internal Revenue Service dollar limits. The Company will make matching contributions in an amount equal to 50% of the participant's deferral contributions, not to exceed $500. All contributions, including the Company match, are vested immediately. Our matching contributions to the plan were $4 thousand and $5 thousand in 2018 and 2017, respectively.

NOTE 9-RELATED PARTY TRANSACTIONS

BKF Capital Group (OTC:BKFG)

We entered into an agreement, dated March 1, 2017 with BKF Capital Group, Inc. ("BKF"). Pursuant to the agreement, BKF occupies and uses one furnished office, telephone and other services, located at our corporate offices, for a fee of $1,000 per month. The agreement was amended effective February 1, 2017 reducing the fee to $250 per month. In addition, we will occasionally pay administrative expenses on behalf of BKF, and BKF will reimburse the Company. For the years ended December 31, 2018 and 2017, BKF paid $3 thousand and $4 thousand, respectively to the Company. Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the Chairman of the Board, Chief Executive Officer and majority shareholder of BKF. At December 31, 2018 and 2017, BKF owed us $0 thousand and $0 thousand, respectively.

Qualstar Corporation (NASDAQ:QBAK)

The Company agreed to reimburse, or be reimbursed by, Qualstar Corporation ("Qualstar") for our occupation and use of a portion of their Simi Valley manufacturing location and other expenses paid by one company on behalf of the other.

Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer, is also the President and Chief Executive Officer of Qualstar. Transactions with Qualstar are as follows:

	Year ended December 31,			
	2018		2017	
	Due from Qualstar	Due to Qualstar	Due from Qualstar	Due to Qualstar
	(in thousands)			
Balance at January 1,	$ 17	$ —	$ 2	$ 1
Billed to Qualstar by Interlink	217	—	28	—
Paid by Qualstar to Interlink	(231)	—	(13)	—
Billed to Interlink by Qualstar	—	17	—	13
Paid by Interlink to Qualstar	—	(15)	—	(14)
Balance at December 31,	$ 3	$ 2	$ 17	$ —

NOTE 10-COMMITMENTS

Operating Leases

We lease facilities under non-cancellable operating leases. The leases expire at various dates through fiscal 2021 and frequently include renewal provisions for varying periods of time, provisions which require us to pay taxes, insurance and maintenance costs, and provisions for minimum rent increases. Minimum leases payments, including scheduled rent increases are recognized as rent expenses on a straight-line basis over the term of the lease.

Future minimum lease payments under non-cancellable operating leases that have remaining non-cancellable lease terms in excess of one year are as follows:

	2019	2020	2021	2022	Thereafter	Total
	(in thousands)					
Operating Leases	$ 288	$ 161	$ 68	$ 0	$ 0	$ 517

NOTE 11-CONTINGENCIES

We are not party to any legal proceedings at December 31, 2018. We are occasionally involved in legal proceedings in the ordinary course of business, including actions against us which assert or may assert claims or seek to impose fines and penalties in substantial amounts. Related legal defense costs are expensed as incurred.

Warranties

We establish reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with our customers. We generally warrant our products against defects for one year from date of shipment, with certain exceptions in which the warranty period can extend to more than one year based on contractual agreements. Our warranty reserves are established at the time of sale and updated throughout the warranty period based upon numerous factors including historical warranty return rates and expenses over various warranty periods. Historically, our warranty returns have not been material.

Intellectual Property Indemnities

We indemnify certain customers and our contract manufacturers against liability arising from third-party claims of intellectual property rights infringement related to our products. These indemnities appear in development and supply agreements with our customers as well as manufacturing service agreements with our contract manufacturers, are not limited in amount or duration and generally survive the expiration of the contract. Given that the amount of any potential liabilities related to such indemnities cannot be determined until an infringement claim has been made, we are unable to determine the maximum amount of losses that we could incur related to such indemnifications.

Director and Officer Indemnities and Contractual Guarantees

We have entered into indemnification agreements with our directors and executive officers, which require us to indemnify such individuals to the fullest extent permitted by Nevada law. Our indemnification obligations under such agreements are not limited in amount or duration. Certain costs incurred in connection with such indemnifications may be recovered under certain circumstances under various insurance policies. Given that the amount of any potential liabilities related to such indemnities cannot be determined until a lawsuit has been filed, we are unable to determine the maximum amount of losses that we could incur relating to such indemnities.

We have also entered into an employment agreement with Steven N. Bronson, our Chairman of the Board, President and Chief Executive Officer. This agreement contains certain severance and change in control obligations. Under the agreement, if Mr. Bronson’s employment is terminated due to his death or disability (as such terms are defined in the agreement), Mr. Bronson or his beneficiaries will be entitled to receive: (i) his base compensation to the end of the monthly pay period immediately following the date of termination; (ii) accrued bonus payments; and (iii) all unvested equity and/or options issued by the Company shall immediately fully vest. If Mr. Bronson’s employment is terminated by him for good reason (as such term is defined in the agreement), or by us without cause, then Mr. Bronson will be entitled to receive: (i) his base compensation to the date of termination; (ii) a severance payment equal to twelve months of his base compensation; (iii) any earned bonus compensation; (iv) employee benefits for twelve months following the date of termination; (v) any vested company match 401k or other retirement contribution; and (vi) all unvested equity and/or options issued by the Company shall immediately fully vest.

In the event of a change in control of the Company (as such term is defined in the agreement), Mr. Bronson is entitled to receive: (i) a change in control payment in an amount equal to twelve months of his base compensation, payable as of the date the change in control occurs; and (ii) all unvested equity and/or options issued by the Company shall immediately fully vest.

Guarantees and Indemnities

In the normal course of business, we are occasionally required to undertake indemnification for which we may be required to make future payments under specific circumstances. We review our exposure under such obligations no less than annually, or more frequently as required. The amount of any potential liabilities related to such obligations cannot be accurately determined until a formal claim is filed. Historically, any such amounts that become payable have not had a material negative effect our business, financial condition or results of operations. We maintain general and product liability insurance which may provide a source of recovery to us in the event of an indemnification claim.

NOTE 12-SUBSEQUENT EVENTS

On January 24, 2019, subsequent to year-end, the Company announced intentions to voluntarily delist its common stock from the NASDAQ Capital Market and deregister its common stock under the Securities Exchange Act of 1934 and suspend its public reporting obligations. The Company filed Form 25 with the Securities and Exchange Commission on February 4, 2019, and the Nasdaq delisting became effective on February 15, 2019, at which time trading on NASDAQ Capital Market ceased. The common stock may thereafter be eligible for quotation on OTCPink marketplace of the OTC Markets Group under the symbol “LINK”.