INTEST CORP
Form 10-Q
August 14, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015 or

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

For the transition period from __________________ to ___________________

Commission File Number 1-36117

**inTEST Corporation**
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Delaware | 22-2370659 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

804 East Gate Drive, Suite 200
Mt. Laurel, New Jersey 08054

(Address of principal executive offices, including zip code)

**(856) 505-8800**
(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

Number of shares of Common Stock, $.01 par value, outstanding as of the close of business on July 31, 2015:

10,562,678

inTEST CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

| | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| ASSETS: | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $23,466 | $23,126 |

| | | |
|---|---|---|
| Trade accounts receivable, net of allowance for doubtful accounts of $146 and $146, respectively | 7,380 | 5,034 |
| Inventories | 4,019 | 3,769 |
| Deferred tax assets | 643 | 529 |
| Prepaid expenses and other current assets | 271 | 473 |
| Total current assets | 35,779 | 32,931 |
| Property and equipment: | | |
| Machinery and equipment | 4,358 | 4,322 |
| Leasehold improvements | 595 | 593 |
| Gross property and equipment | 4,953 | 4,915 |
| Less: accumulated depreciation | (3,762) | (3,647) |
| Net property and equipment | 1,191 | 1,268 |
| Deferred tax assets | 599 | 884 |
| Goodwill | 1,706 | 1,706 |
| Intangible assets, net | 1,248 | 1,393 |
| Restricted certificates of deposit | 350 | 350 |
| Other assets | 199 | 206 |
| Total assets | $41,072 | $38,738 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 1,713 | $ 1,234 |
| Accrued wages and benefits | 1,530 | 1,528 |
| Accrued rent | 592 | 615 |
| Accrued professional fees | 393 | 390 |
| Accrued sales commissions | 420 | 328 |
| Domestic and foreign income taxes payable | 243 | 22 |
| Other current liabilities | 459 | 253 |
| Total current liabilities | 5,350 | 4,370 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding | - | - |
| Common stock, $0.01 par value; 20,000,000 shares authorized; 10,595,755 and 10,595,755 shares issued, respectively | 106 | 106 |
| Additional paid-in capital | 26,382 | 26,321 |
| Retained earnings | 8,670 | 7,152 |
| Accumulated other comprehensive earnings | 768 | 993 |
| Treasury stock, at cost; 33,077 and 33,077 shares, respectively | (204) | (204) |
| Total stockholders' equity | 35,722 | 34,368 |
| Total liabilities and stockholders' equity | $41,072 | $38,738 |

See accompanying Notes to Consolidated Financial Statements.



inTEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenues | $11,559 | $12,343 | $21,747 | $21,140 |
| Cost of revenues | 5,713 | 6,261 | 10,983 | 10,873 |
| Gross margin | 5,846 | 6,082 | 10,764 | 10,267 |
| Operating expenses: | | | | |
| Selling expense | 1,592 | 1,530 | 3,079 | 2,856 |
| Engineering and product development expense | 1,047 | 887 | 1,989 | 1,810 |
| General and administrative expense | 1,569 | 1,621 | 3,376 | 3,153 |
| Total operating expenses | 4,208 | 4,038 | 8,444 | 7,819 |
| Operating income | 1,638 | 2,044 | 2,320 | 2,448 |
| Other income | 21 | 10 | 10 | 17 |
| Earnings before income tax expense | 1,659 | 2,054 | 2,330 | 2,465 |
| Income tax expense | 579 | 697 | 812 | 822 |
| Net earnings | $ 1,080 | $ 1,357 | $ 1,518 | $ 1,643 |
| Net earnings per common share - basic | $0.10 | $0.13 | $0.15 | $0.16 |
| Weighted average common shares outstanding - basic | 10,471,888 | 10,436,730 | 10,468,651 | 10,415,461 |
| Net earnings per common share - diluted | $0.10 | $0.13 | $0.14 | $0.16 |
| Weighted average common shares and common share equivalents outstanding - diluted | 10,494,457 | 10,456,183 | 10,489,020 | 10,452,567 |

See accompanying Notes to Consolidated Financial Statements.

# inTEST CORPORATION
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)
(Unaudited)

| | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|---|---|
| Net earnings | $ 1,080 | $ 1,357 | $ 1,518 | $ 1,643 |
| Foreign currency translation adjustments | 104 | (15) | (225) | (11) |
| Comprehensive earnings | $ 1,184 | $ 1,342 | $ 1,293 | $ 1,632 |

See accompanying Notes to Consolidated Financial Statements.

# inTEST CORPORATION
## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)
(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Earnings | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2015 | 10,595,755 | $ 106 | $26,321 | $7,152 | $ 993 | $(204) | $34,368 |
| Net earnings | - | - | - | 1,518 | - | - | 1,518 |
| Other comprehensive loss | - | - | - | - | (225) | - | (225) |
| Amortization of deferred compensation related to restricted stock | - | - | 61 | - | - | - | 61 |
| Balance, June 30, 2015 | 10,595,755 | $ 106 | $26,382 | $8,670 | $ 768 | $(204) | $35,722 |

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See accompanying Notes to Consolidated Financial Statements.



# inTEST CORPORATION
## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | $ 1,518 | $ 1,643 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 395 | 438 |
| Provision for excess and obsolete inventory | 110 | 138 |
| Foreign exchange loss | 13 | 1 |
| Amortization of deferred compensation related to restricted stock | 61 | 74 |
| Loss on sale of property and equipment | 13 | 20 |
| Proceeds from sale of demonstration equipment, net of gain | 146 | 65 |
| Deferred income tax expense | 171 | 90 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (2,390) | (1,999) |
| Inventories | (377) | (768) |
| Prepaid expenses and other current assets | 195 | 110 |
| Other assets | (7) | (1) |
| Accounts payable | 480 | 649 |
| Accrued wages and benefits | 22 | (191) |
| Accrued rent | (23) | 16 |
| Accrued professional fees | 4 | (38) |
| Accrued sales commissions | 92 | 127 |
| Domestic and foreign income taxes payable | 221 | 534 |
| Other current liabilities | 209 | 112 |
| Net cash provided by operating activities | 853 | 1,020 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (385) | (424) |
| Proceeds from sale of property and equipment | - | 8 |
| Net cash used in investing activities | (385) | (416) |
| Effects of exchange rates on cash | (128) | (6) |

| | | |
|---|---|---|
| Net cash provided by all activities | 340 | 598 |
| Cash and cash equivalents at beginning of period | 23,126 | 19,018 |
| Cash and cash equivalents at end of period | $23,466 | $19,616 |
| Cash payments for: | | |
| Domestic and foreign income taxes | $ 419 | $ 199 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Issuance of unvested shares of restricted stock | $ - | $ 41 |
| Forfeiture of unvested shares of restricted stock | $ - | $ (20) |

See accompanying Notes to Consolidated Financial Statements.



inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
(In thousands, except share and per share data)

## (1) NATURE OF OPERATIONS

We are an independent designer, manufacturer and marketer of thermal, mechanical and electrical products that are primarily used by semiconductor manufacturers in conjunction with automatic test equipment ("ATE") in the testing of integrated circuits ("ICs" or "semiconductors"). In addition, in recent years we have begun marketing our thermal products in markets outside the ATE market, such as the automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications markets.

The consolidated entity is comprised of inTEST Corporation (parent) and our wholly-owned subsidiaries. We have three reportable segments which are also our reporting units: Thermal Products, Mechanical Products and Electrical Products. We manufacture our products in the U.S. Marketing and support activities are conducted worldwide from our facilities in the U.S., Germany and Singapore.

The semiconductor market in which we operate is characterized by rapid technological change, competitive pricing pressures and cyclical as well as seasonal market patterns. This market is subject to significant economic downturns at various times. Our financial results are affected by a wide variety of factors, including, but not limited to, general economic conditions worldwide and in the markets in which we operate, economic conditions specific to the semiconductor market and the other markets we serve, our ability to safeguard patented technology and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the markets that we serve. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain of our accounts, including inventories, long-lived assets, goodwill, identifiable intangibles and deferred tax assets and liabilities including related valuation allowances, are particularly impacted by estimates.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 26, 2015 (the "2014 Form 10-K").

***Reclassification***

Certain prior period amounts have been reclassified to be comparable with the current period's presentation.







## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are valued at cost on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventories are recorded in operating cash flows. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current market conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The excess and obsolete inventory charges we record establish a new cost basis for the related inventories. We incurred excess and obsolete inventory charges of $110 and $138 for the six months ended June 30, 2015 and 2014, respectively.

***Goodwill, Intangible and Long-Lived Assets***

We account for goodwill and intangible assets in accordance with Accounting Standards Codification ("ASC") 350 (Intangibles- Goodwill and Other). Finite-lived intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment at least annually in the fourth quarter, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. As a part of the goodwill impairment assessment, we have the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If we determine this is the case, we are required to perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized. The two-step test is discussed below. If we determine that it is more-likely-than-not that the fair value of the reporting unit is greater than its carrying amounts, the two-step goodwill impairment test is not required.

If we determine it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a result of our qualitative assessment, we will perform a quantitative two-step goodwill impairment test. In the Step I test, the fair value of a reporting unit is computed and compared with its book value. If the book value of a reporting unit exceeds its fair value, a Step II test is performed in which the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess. The two-step goodwill impairment assessment is based upon a combination of the income approach, which estimates the fair value of our reporting units based upon a discounted cash flow approach, and the market approach which estimates the fair value of our reporting units based upon comparable market multiples. This fair value is then reconciled to our market capitalization at year end with an appropriate control premium. The determination of the fair value of our reporting units requires management to make significant estimates and assumptions including the selection of appropriate peer group companies, control premiums, discount rate, terminal growth rates, forecasts of revenue and expense growth rates, changes in working capital, depreciation, amortization and capital expenditures. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

Indefinite-lived intangible assets are assessed for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. As a part of the impairment assessment, we have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, as a result of our qualitative assessment, we determine that it is more-likely-than-not that the fair value of the indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.





**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Long-lived assets, which consist of finite-lived intangible assets and property and equipment, are assessed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value which is determined using a discounted cash flow analysis. The cash flow estimates used to determine the impairment, if any, contain management's best estimates using appropriate assumptions and projections at that time.

***Stock-Based Compensation***

We account for stock-based compensation in accordance with ASC Topic 718 (Compensation - Stock Compensation) which requires that employee share-based equity awards be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value of stock options granted, which is then amortized to expense over the service periods. See further disclosures related to our stock-based compensation plan in Note 7.

***Subsequent Events***

We have made an assessment of our operations and determined that there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the six months ended June 30, 2015.

***Revenue Recognition***

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collection of the related receivable is reasonably assured. Sales of our products are made through our sales employees, third-party sales representatives and distributors. There are no differences in revenue recognition policies based on the sales channel. We do not provide our customers with rights of return or exchanges. Revenue is generally recognized upon product shipment. Our customers' purchase orders do not typically contain any customer-specific acceptance criteria, other than that the product performs within the agreed upon specifications. We test all products manufactured as part of our quality assurance process to determine that they comply with specifications prior to shipment to a customer. To the extent that any customer purchase order contains customer-specific acceptance criteria, revenue recognition is deferred until customer acceptance.

In addition, in our Thermal Products and Mechanical Products segments, we lease certain of our equipment to customers under non-cancellable operating leases. These leases generally have an initial term of six months. We recognize revenue for these leases on a straight-line basis over the term of the lease.

With respect to sales tax collected from customers and remitted to governmental authorities, we use a net presentation in our consolidated statement of operations. As a result, there are no amounts included in either our net revenues or cost of revenues related to sales tax.

***Product Warranties***

We generally provide product warranties and record estimated warranty expense at the time of sale based upon historical claims experience. Warranty expense is included in selling expense in the consolidated financial statements.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
(In thousands, except share and per share data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

***Net Earnings Per Common Share***

Net earnings per common share - basic is computed by dividing net earnings by the weighted average number of common shares outstanding during each period. Net earnings per common share - diluted is computed by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents include unvested shares of restricted stock and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

The table below sets forth, for the periods indicated, a reconciliation of weighted average common shares outstanding - basic to weighted average common shares and common share equivalents outstanding - diluted and the average number of potentially dilutive securities that were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Weighted average common shares outstanding - basic | 10,471,888 | 10,436,730 | 10,468,651 | 10,415,461 |
| Potentially dilutive securities: | | | | |
| Unvested shares of restricted stock | 22,569 | 19,453 | 20,369 | 37,106 |
| Weighted average common shares and common share equivalents outstanding - diluted | 10,494,457 | 10,456,183 | 10,489,020 | 10,452,567 |
| Average number of potentially dilutive securities excluded from calculation | - | 3,516 | - | 6,758 |

***Effect of Recently Issued Amendments to Authoritative Accounting Guidance***

In July 2015, the FASB issued amendments to update the current guidance on the subsequent measurement of inventory, which is presented in ASC Topic 330 (Inventory). The purpose of the amendments is to simplify the subsequent measurement of inventory and reduce the number of potential outcomes. It applies to all inventory other than inventory measured using last-in, first-out or the retail inventory method. Current guidance requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less a normal profit margin. The updated guidance amends this to require that an entity measure inventory within the scope of the updated guidance at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments are effective for us as of January 1, 2017. We do not expect the implementation of these amendments to have a material impact on our consolidated financial statements.





(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

In May 2014, the FASB issued new guidance on the recognition of revenue from contracts with customers. This guidance is presented in ASC Topic 606 (Revenue from Contracts with Customers). This new guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Companies can use either the retrospective or cumulative effect transition method. In July 2015, the FASB deferred the effective date of this new guidance for one additional year. As a result, this new guidance is effective for us on January 1, 2018. Early application is only permitted as of the prior effective date, which in our case would be as of January 1, 2017. We have not yet selected a transition method and we are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

(3) GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets on our balance sheets are the result of our acquisitions of Sigma Systems Corp. ("Sigma") in October 2008 and Thermonics, Inc. ("Thermonics"), a division of Test Enterprises, Inc. in January 2012.

Goodwill

All of our goodwill is allocated to our Thermal Products segment. There was no change in the amount of the carrying value of goodwill for the six months ended June 30, 2015.

***Intangible Assets***

The following tables provide further detail about our intangible assets as of June 30, 2015 and December 31, 2014:

| | June 30, 2015 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Finite-lived intangible assets: | | | |
| Customer relationships | $1,480 | $1,073 | $ 407 |
| Patented technology | 590 | 366 | 224 |
| Software | 270 | 182 | 88 |
| Trade name | 140 | 121 | 19 |
| Customer backlog | 70 | 70 | - |
| Non-compete/non-solicitation agreement | 48 | 48 | - |
| Total finite-lived intangible assets | 2,598 | 1,860 | 738 |
| Indefinite-lived intangible assets: | | | |
| Sigma trademark | 510 | - | 510 |
| Total intangible assets | $3,108 | $1,860 | $1,248 |

(In thousands, except share and per share data)

(3) GOODWILL AND INTANGIBLE ASSETS

(Continued)

| | December 31, 2014 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Finite-lived intangible assets: | | | |
| Customer relationships | $1,480 | $ 979 | $ 501 |
| Patented technology | 590 | 346 | 244 |
| Software | 270 | 169 | 101 |
| Trade name | 140 | 103 | 37 |
| Customer backlog | 70 | 70 | - |
| Non-compete/non-solicitation agreement | 48 | 48 | - |
| Total finite-lived intangible assets | 2,598 | 1,715 | 883 |
| Indefinite-lived intangible assets: | | | |
| Sigma trademark | 510 | - | 510 |
| Total intangible assets | $3,108 | $1,715 | $1,393 |

We generally amortize our finite-lived intangible assets over their estimated useful lives on a straight-line basis, unless an alternate amortization method can be reliably determined. Any such alternate amortization method would be based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. None of our intangible assets have any residual value.

Total amortization expense for the six months ended June 30, 2015 and 2014 was $145 and $185, respectively. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

| | |
|---|---|
| 2015 (remainder) | $144 |
| 2016 | $229 |
| 2017 | $212 |
| 2018 | $ 65 |
| 2019 | $ 39 |

(In thousands, except share and per share data)

(4) MAJOR CUSTOMERS

During the six months ended June 30, 2015 and 2014, Hakuto Co., Ltd., one of our distributors, accounted for 12% and 11% of our consolidated net revenues, respectively. These revenues were generated by our Thermal Products segment. During the six months ended June 30, 2014, Texas Instruments Incorporated accounted for 13% of our consolidated net revenues. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Mechanical Products and our Electrical Products segments. No other customers accounted for 10% or more of our consolidated net revenues during the six months ended June 30, 2015 and 2014.

(5)

**INVENTORIES**

Inventories held at June 30, 2015 and December 31, 2014 were comprised of the following:

| | June 30, ***2015*** | Dec. 31, ***2014*** |
|---|---|---|
| Raw materials | $2,667 | $2,505 |
| Work in process | 683 | 406 |
| Inventory consigned to others | 118 | 129 |
| Finished goods | 551 | 729 |
| | $4,019 | $3,769 |





(6) DEBT

Letters of Credit

We have issued letters of credit as the security deposits for certain of our domestic leases. These letters of credit are secured by pledged certificates of deposit which are classified as restricted certificates of deposit on our balance sheets. The terms of our leases require us to renew these letters of credit at least 30 days prior to their expiration dates for successive terms of not less than one year until lease expiration. The terms of our leases also allow us to request a reduction in the amount of these letters of credit at certain points during the lease term if there have been no events of default. As of June 30, 2015, there have been no events of default. Our outstanding letters of credit at June 30, 2015 and

December 31, 2014 consisted of the following:

| | | | | Letters of Credit Amount Outstanding | |
|---|---|---|---|---|---|
| | Original L/C Issue Date | L/C Expiration Date | Lease Expiration Date | June 30, 2015 | Dec. 31, 2014 |
| Mt. Laurel, NJ | 3/29/2010 | 4/01/2016 | 4/30/2021 | $250 | $250 |
| Mansfield, MA | 10/27/2010 | 11/08/2015 | 8/23/2021 | 100 | 100 |
| | | | | $350 | $350 |

(7) STOCK-BASED COMPENSATION

As of June 30, 2015, we have unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 12 to the consolidated financial statements in our 2014 Form 10-K. We did not grant any stock options during 2015 or 2014.

We record compensation expense for restricted stock awards (unvested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. As of June 30, 2015, total compensation expense to be recognized in future periods was $266. The weighted average period over which this expense is expected to be recognized is 2.2 years. The following table shows the allocation of the compensation expense we recorded during the three and six months ended June 30, 2015 and 2014, respectively, related to unvested shares:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of revenues | $ 2 | $ 3 | $ 5 | $ 6 |
| Selling expense | 2 | 1 | 3 | 4 |
| Engineering and product development expense | 3 | 5 | 5 | 11 |
| General and administrative expense | 24 | 24 | 48 | 53 |
| | $ 31 | $ 33 | $ 61 | $ 74 |

There was no compensation expense capitalized in the six months ended June 30, 2015 or 2014.

The following table summarizes the activity related to unvested shares for the six months ended June 30, 2015:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested shares outstanding, January 1, 2015 | 101,875 | $2.82 |
| Granted | - | - |
| Vested | (13,125) | 3.15 |
| Forfeited | - | - |
| Unvested shares outstanding, June 30, 2015 | 88,750 | 3.05 |

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
(In thousands, except share and per share data)

**(8) EMPLOYEE BENEFIT PLANS**

We have a defined contribution 401(k) plan for our employees who work in the U.S. All permanent employees of inTEST Corporation, Temptronic Corporation and inTEST Silicon Valley Corporation who are at least 18 years of age are eligible to participate in the plan. We match employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of $5. Employer contributions vest ratably over four years. Matching contributions are discretionary. For the six months ended June 30, 2015 and 2014, we recorded $239 and $229 of expense for matching contributions, respectively.

(9) SEGMENT INFORMATION

We have three reportable segments, which are also our reporting units: Thermal Products, Mechanical Products and Electrical Products.

The Thermal Products segment includes the operations of Temptronic Corporation, Thermonics, Sigma, inTEST Thermal Solutions GmbH (Germany), and inTEST Pte, Limited (Singapore). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic, Thermonics and Sigma product lines. In addition, this segment provides post warranty service and support.

The Mechanical Products segment includes the operations of our Mt. Laurel, New Jersey manufacturing facility. Sales of our Mechanical Products segment consist primarily of manipulator and docking hardware products, which we design, manufacture and market. In addition, this segment provides post warranty service and support.

The Electrical Products segment includes the operations of inTEST Silicon Valley Corporation. Sales of this segment consist primarily of tester interface products which we design, manufacture and market.

We operate our business worldwide, and all three segments sell their products both domestically and internationally. All three segments sell to semiconductor manufacturers, third-party test and assembly houses and ATE manufacturers. Our Thermal Products segment also sells into a variety of markets outside of the ATE market, including the automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications markets. Intercompany pricing between segments is either a multiple of cost for component parts or list price for finished goods.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenues: | | | | |
| Thermal Products | $ 6,659 | $ 6,116 | $12,376 | $11,359 |
| Mechanical Products | 2,487 | 4,137 | 4,922 | 6,184 |
| | 2,413 | 2,090 | 4,449 | 3,597 |
| Electrical Products | | | | |
| | $11,559 | $12,343 | $21,747 | $21,140 |
| Earnings (loss) before income tax expense (benefit): | | | | |
| Thermal Products | $1,537 | $1,207 | $2,566 | $2,018 |
| Mechanical Products | (196) | 637 | (481) | 354 |
| Electrical Products | 477 | 400 | 796 | 405 |
| | (159 | (190 | (551 | (312 |
| Corporate | ) | ) | ) | ) |
| | $1,659 | $2,054 | $2,330 | $2,465 |
| Net earnings (loss): | | | | |
| Thermal Products | $1,001 | $ 797 | $1,673 | $1,361 |
| Mechanical Products | (128) | 421 | (314) | 224 |
| Electrical Products | 311 | 264 | 519 | 268 |
| | (104 | (125 | (360 | (210 |
| Corporate | ) | ) | ) | ) |
| | $1,080 | $1,357 | $1,518 | $1,643 |

**inTEST CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Unaudited)
(In thousands, except share and per share data)

(9) SEGMENT INFORMATION

(Continued)

| | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Identifiable assets: | | |
| Thermal Products | $16,631 | $26,211 |
| Mechanical Products | 20,472 | 7,801 |
| | 3,969 | 4,726 |
| Electrical Products | | |
| | $41,072 | $38,738 |

The following table provides information about our geographic areas of operation. Net revenues from unaffiliated customers are based on the location to which the goods are shipped.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenues: | | | | |
| U.S. | $ 3,830 | $ 3,723 | $ 7,319 | $ 6,872 |
| | 7,729 | 8,620 | 14,428 | 14,268 |
| Foreign | | | | |
| | $11,559 | $12,343 | $21,747 | $21,140 |

| | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Property and equipment: | | |

| | | |
|---|---|---|
| U.S. | $ 817 | $ 621 |
| Foreign | 374 | 647 |
| | $1,191 | $1,268 |



inTEST CORPORATION

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Risk Factors and Forward-Looking Statements

In addition to historical information, this discussion and analysis contains statements relating to possible future events and results that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should" or "anticipates" or similar terminology. See Part I, Item 1 - "Business - Cautionary Statement Regarding Forward-Looking Statements" in our 2014 Form 10-K for examples of statements made in this report which may be "forward-looking statements." These statements involve risks and uncertainties and are based on various assumptions. Although we believe that our expectations are based on reasonable assumptions, investors and prospective investors are cautioned that such statements are only projections, and there cannot be any assurance that these events or results will occur.

Information about the primary risks and uncertainties that could cause our actual future results to differ materially from our historic results or the results described in the forward-looking statements made in this report or presented elsewhere by Management from time to time are included in

Part I, Item 1A - "Risk Factors" in our 2014 Form 10-K. Material changes to such risk factors may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2014 Form 10-K.

**Overview**

This MD&A should be read in conjunction with the accompanying consolidated financial statements.

Our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. Such market demand can be the result of market expansion, development of new technologies or redesigned products to incorporate new features, or the replacement of aging equipment. In addition, we continue to focus on design improvements and new approaches for our own products which contribute to our net revenues as our customers adopt these new products.

In the past, the semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have a severe impact on the semiconductor industry's demand for ATE, including the products we manufacture. This can cause wide fluctuations in both our orders and net revenues and, depending on our ability to react quickly to these shifts in demand, can significantly impact our results of operations. ATE market cycles are difficult to predict and in recent years have become more volatile and, in certain cases, shorter in duration. Because the market cycles are generally characterized by sequential periods of growth or declines in orders and net revenues during each cycle, year over year comparisons of operating results may not always be as meaningful as comparisons of periods at similar points in either up or down cycles. In addition, during both downward and upward cycles in our industry, in any given quarter, the trend in both our orders and net revenues can be erratic. This can occur, for example, when orders are canceled or currently scheduled delivery dates are accelerated or postponed by a significant customer or when customer forecasts and general business conditions fluctuate during a quarter. In addition to being cyclical, the ATE market has also developed a seasonal pattern in the last several years, with the second and third quarters being the periods of strong demand and the first and fourth quarters being periods of weakened demand. We believe this change has been driven by the strong demand for consumer products containing semiconductor content sold during the year-end holiday shopping season.

As part of our strategy to reduce the impact of ATE market volatility on our business operations, in 2009, we began to diversify our served markets to address the thermal test requirements of several other markets outside the ATE market. These include the automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications markets. We believe that these markets usually are less cyclical than the ATE market. However, because we are a relatively new market entrant in these markets, we have not yet developed meaningful market shares in these non-ATE markets. Consequently, we are continuing to evaluate customer buying patterns and market trends in these non-ATE markets.





Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

In addition, our orders and net revenues in any given period in these markets do not necessarily reflect the overall trends in these non-ATE markets due to our limited market shares. The level of our orders and net revenues from these non-ATE markets has varied in the past, and we expect will vary significantly in the future, as we work to build our presence in these markets and establish new markets for our products.

While the majority of our orders and net revenues are derived from the ATE market, our operating results do not always follow the overall trend in the ATE market in any given period. We believe that these anomalies may be driven by a variety of changes within the ATE market, including, for example, changing product requirements, longer time periods between new product offerings by OEMs and changes in customer buying patterns. In particular, demand for our mechanical and electrical products, which are sold exclusively within the ATE market, and our operating margins in these product segments have been affected by shifts in the competitive landscape, including (i) customers placing heightened emphasis on shorter lead times (which places increased demands on our available engineering and production capacity increasing unit costs) and ordering in smaller quantities (which prevents us from acquiring component materials in larger volumes at lower cost and increasing unit costs), (ii) the practice of OEM manufacturers to specify other suppliers as primary vendors, with less frequent opportunities to compete for such designations, (iii) the role of third-party test and assembly houses in the ATE market and their requirement of products with a greater range of use at the lowest cost, (iv) customer supply chain management groups demanding lower prices and spreading purchases across multiple vendors, and (v) certain competitors aggressively reducing their products' sales prices (causing us to either reduce our products' sales price to be successful in obtaining the sale or causing loss of the sale).

In addition, in recent periods we have seen instances where demand for ATE is not consistent for each of our product segments or for any given product within a particular product segment. This inconsistency in demand for ATE can be driven by a number of factors, but in most cases we have found the primary reason is unique customer-specific changes in demand for certain products driven by the needs of their customers or markets served. These shifts in market practices and customer-specific needs have had, and may continue to have, varying levels of impact on our operating results and are difficult to quantify or predict from period to period. Management has taken, and will continue to take, such actions it deems appropriate to adjust our strategies, products and operations to counter such shifts in market practices as they become evident.

*Orders and Backlog*

The following table sets forth, for the periods indicated, a breakdown of the orders received by product segment and market.

| | Three Months Ended June 30, | | Change | | Three Months Ended March 31, | Change | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | $ | % | 2015 | $ | % |
| Orders: | | | | | | | |
| Thermal Products | $ 6,064 | $ 6,094 | $ (30) | -% | $ 6,433 | $ (369) | (6)% |
| Mechanical Products | 1,885 | 4,178 | (2,293) | (55)% | 2,534 | (649) | (26)% |
| Electrical Products | 2,337 | 2,366 | (29) | (1)% | 2,464 | (127) | (5)% |
| | $10,286 | $12,638 | $(2,352) | (19)% | $11,431 | $(1,145) | (10)% |
| ATE market | $ 7,646 | $ 9,040 | $(1,394) | (15)% | $ 9,297 | $(1,651) | (18)% |
| Non-ATE market | 2,640 | 3,598 | (958) | (27)% | 2,134 | 506 | 24 % |
| | $10,286 | $12,638 | $(2,352) | (19)% | $11,431 | $(1,145) | (10)% |

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inTEST CORPORATION

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | $ | % |
| Orders: | | | | |
| Thermal Products | $12,497 | $11,738 | $ 759 | 6 % |
| Mechanical Products | 4,419 | 7,142 | (2,723) | (38)% |
| | 4,801 | 3,919 | 882 | 23 % |
| Electrical Products | | | | |
| | $21,717 | $22,799 | $(1,082 | (5)% |
| | | ) | | |
| ATE market | $16,943 | $17,259 | $ (316) | (2)% |
| | 4,774 | 5,540 | (766 | (14)% |
| Non-ATE market | | ) | | |
| | $21,717 | $22,799 | $(1,082 | (5)% |
| | | ) | | |

Total consolidated orders for the quarter ended June 30, 2015 were $10.3 million compared to $12.6 million for the same period in 2014. The decrease in consolidated orders during the second quarter of 2015 as compared to the same period in 2014 primarily reflects reduced demand in the ATE market for our Mechanical Products segment.

Orders from customers in various markets outside of the ATE market for the quarter ended June 30, 2015 declined 27% as compared to the same period in 2014, reflecting decreased demand from certain existing customers in the telecommunications market. As a percent of our total consolidated orders, non-ATE markets orders were 26% in the second quarter of 2015 compared to 28% for the same period in 2014.

Total consolidated orders for the quarter ended June 30, 2015 were $10.3 million compared to $11.4 million for the quarter ended March 31, 2015. The decrease in consolidated orders during the second quarter of 2015 as compared to the first quarter of 2015 primarily reflects reduced demand in the ATE market for all three of our product segments. This decrease was partially offset for our Thermal Products segment by an increase in demand from certain of our non-ATE market customers. These customers were primarily new customers in the telecommunications market. While we have seen a sequential increase in demand from new customers in the telecommunications market in the second quarter of 2015, demand from existing customers we serve in this market is still significantly below the levels we experienced during the same periods in 2014.

Orders from customers in various markets outside of the ATE market for the quarter ended June 30, 2015 grew by 24% as compared to the quarter ended March 31, 2015, primarily reflecting the aforementioned increased demand from certain new customers in the telecommunications market.

At June 30, 2015, our backlog of unfilled orders for all products was approximately $3.8 million compared with approximately $4.8 million at June 30, 2014 and $5.0 million at March 31, 2015. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2015. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.





Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Net Revenues

The following table sets forth, for the periods indicated, a breakdown of the net revenues by product segment and market.

| | Three Months Ended | Change | Three Months | Change |
|---|---|---|---|---|

| | June 30, | | | | Ended March 31, | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | $ | % | 2015 | $ | % |
| Net revenues: | | | | | | | |
| Thermal Products | $ 6,659 | $ 6,116 | $ 543 | 9 % | $ 5,717 | $ 942 | 16% |
| Mechanical Products | 2,487 | 4,137 | (1,650) | (40)% | 2,435 | 52 | 2% |
| | 2,413 | 2,090 | 323 | 15 % | 2,036 | 377 | 19% |
| Electrical Products | | | | | | | |
| | $11,559 | $12,343 | $ (784 ) | (6)% | $10,188 | $1,371 | 13% |