

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2014 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**

(State or other jurisdiction of incorporation or organization)

**22-2370659**

(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  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  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  (Do not check if a smaller reporting company)

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

Number of shares of Common Stock, \$.01 par value, outstanding as of the close of business on April 30, 2014:

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)

|   | Mar. 31,<br>2014 | Dec. 31,<br>2013 |
|---|------------------|------------------|
|   | -----            | -----            |
| ASSETS:   |                  |                  |
| Current assets:   |                  |                  |
| Cash and cash equivalents   | \$18,853         | \$19,018         |
| Trade accounts receivable, net of allowance for doubtful<br>accounts of \$147 and \$147, respectively | 5,889            | 5,748            |
| Inventories   | 3,803            | 3,243            |
| Deferred tax assets   | 643              | 701              |
| Prepaid expenses and other current assets   | <u>325</u>       | <u>371</u>       |
| Total current assets  | <u>29,513</u>    | <u>29,081</u>    |
| Property and equipment:   |                  |                  |
| Machinery and equipment   | 4,294            | 4,190            |
| Leasehold improvements  | <u>594</u>       | <u>594</u>       |
| Gross property and equipment  | 4,888            | 4,784            |
| Less: accumulated depreciation  | <u>(3,565)</u>   | <u>(3,530)</u>   |
| Net property and equipment  | <u>1,323</u>     | <u>1,254</u>     |
| Deferred tax assets   | 1,068            | 1,030            |
| Goodwill  | 1,706            | 1,706            |
| Intangible assets, net  | 1,655            | 1,748            |
| Restricted certificates of deposit  | 450              | 450              |
| Other assets  | <u>220</u>       | <u>212</u>       |
| Total assets  | <u>\$35,935</u>  | <u>\$35,481</u>  |
|   | =====            | =====            |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |                  |                  |
| Current liabilities:  |                  |                  |
| Accounts payable  | \$ 1,561         | \$ 1,064         |
| Accrued wages and benefits  | 1,229            | 1,635            |
| Accrued rent  | 595              | 577              |

|                           |              |              |
|---------------------------|--------------|--------------|
| Accrued professional fees | 329          | 367          |
| Accrued sales commissions | 303          | 305          |
| Other current liabilities | <u>438</u>   | <u>384</u>   |
| Total current liabilities | <u>4,455</u> | <u>4,332</u> |

Commitments and contingencies

Stockholders' equity:

|  |                 |                 |
|--|-----------------|-----------------|
| Preferred stock, \$0.01 par value; 5,000,000 shares authorized;<br>no shares issued or outstanding       | -               | -               |
| Common stock, \$0.01 par value; 20,000,000 shares authorized;<br>10,585,755 and 10,590,755 shares issued | 106             | 106             |
| Additional paid-in capital   | 26,228          | 26,187          |
| Retained earnings  | 3,999           | 3,713           |
| Accumulated other comprehensive earnings   | 1,351           | 1,347           |
| Treasury stock, at cost; 33,077 and 33,077 shares, respectively  | <u>(204)</u>    | <u>(204)</u>    |
| Total stockholders' equity   | <u>31,480</u>   | <u>31,149</u>   |
| Total liabilities and stockholders' equity   | <u>\$35,935</u> | <u>\$35,481</u> |
|  | =====           | =====           |

See accompanying Notes to Consolidated Financial Statements.

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**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share and per share data)

(Unaudited)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2014                            | 2013       |
|  | -----                           | -----      |
| Net revenues   | \$ 8,797                        | \$ 8,973   |
| Cost of revenues   | 4,612                           | 4,868      |
|  | -----                           | -----      |
| Gross margin   | 4,185                           | 4,105      |
|  | -----                           | -----      |
| Operating expenses:  |                                 |            |
| Selling expense  | 1,326                           | 1,189      |
| Engineering and product development expense  | 923                             | 996        |
| General and administrative expense   | 1,532                           | 1,556      |
|  | -----                           | -----      |
| Total operating expenses   | 3,781                           | 3,741      |
|  | -----                           | -----      |
| Operating income   | 404                             | 364        |
| Other income   | 7                               | 6          |
|  | -----                           | -----      |
| Earnings before income tax expense   | 411                             | 370        |
| Income tax expense   | 125                             | 78         |
|  | -----                           | -----      |
| Net earnings   | \$ 286                          | \$ 292     |
|  | =====                           | =====      |
| Net earnings per common share - basic  | \$0.03                          | \$0.03     |
| Weighted average common shares outstanding - basic                                   | 10,393,956                      | 10,327,428 |
| Net earnings per common share - diluted  | \$0.03                          | \$0.03     |
| Weighted average common shares and common share<br>equivalents outstanding - diluted | 10,448,911                      | 10,366,312 |

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**  
(In thousands)  
(Unaudited)

|  | Three Months Ended<br>March 31, |                        |
|--|---------------------------------|------------------------|
|  | -----<br>2014<br>-----          | -----<br>2013<br>----- |
| Net earnings                             | \$ 286                          | \$ 292                 |
| Foreign currency translation adjustments | 4                               | (62)                   |
| Comprehensive earnings                   | \$ 290                          | \$ 230                 |
|  | =====                           | =====                  |

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In thousands, except share data)  
(Unaudited)

|   | Common Stock             |                          | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Earnings |                            | Treasury<br>Stock | Total<br>Stockholder's<br>Equity |
|---|--------------------------|--------------------------|----------------------------------|----------------------|---|----------------------------|-------------------|----------------------------------|
|   | -----<br>Shares<br>----- | -----<br>Amount<br>----- |                                  |                      | -----<br>Earnings<br>-----                        | -----<br>Earnings<br>----- |                   |                                  |
| Balance, January 1, 2014  | 10,590,755               | \$ 106                   | \$26,187                         | \$3,713              | \$1,347   | \$(204)                    | \$31,149          |                                  |
| Net earnings  | -                        | -                        | -                                | 286                  | -   | -                          | 286               |                                  |
| Other comprehensive Earnings                                      | -                        | -                        | -                                | -                    | 4   | -                          | 4                 |                                  |
| Amortization of deferred compensation related to restricted stock | -                        | -                        | 41                               | -                    | -   | -                          | 41                |                                  |
| Forfeiture of non-vested shares of restricted stock               | (5,000)                  | -                        | -                                | -                    | -   | -                          | -                 |                                  |
| Balance, March 31, 2014   | 10,585,755               | \$ 106                   | \$26,228                         | \$3,999              | \$1,351   | \$(204)                    | \$31,480          |                                  |
|   | =====                    | =====                    | =====                            | =====                | =====   | =====                      | =====             |                                  |

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

|   | Three Months Ended<br>March 31, |                        |
|---|---------------------------------|------------------------|
|   | -----<br>2014<br>-----          | -----<br>2013<br>----- |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |                        |
| Net earnings  | \$ 286                          | \$ 292                 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: |                                 |                        |
| Depreciation and amortization   | 217                             | 221                    |
| Provision for excess and obsolete inventory   | 35                              | 110                    |
| Foreign exchange (gain) loss  | (1)                             | 8                      |
| Amortization of deferred compensation related to restricted stock                             | 41                              | 27                     |
| Proceeds from sale of demonstration equipment, net of gain                                    | 8                               | -                      |

|   |          |          |
|---|----------|----------|
| Deferred income tax expense   | 20       | 5        |
| Changes in assets and liabilities:                                      |          |          |
| Trade accounts receivable   | (142)    | (300)    |
| Inventories   | (595)    | (395)    |
| Prepaid expenses and other current assets                               | 46       | (24)     |
| Other assets  | (8)      | (2)      |
| Accounts payable  | 497      | 358      |
| Accrued wages and benefits  | (407)    | (385)    |
| Accrued rent  | 18       | 15       |
| Accrued professional fees   | (38)     | 21       |
| Accrued sales commissions   | (2)      | 14       |
| Other current liabilities   | 54       | (99)     |
| Net cash provided by (used in) operating activities                     | 29       | (134)    |
| CASH FLOWS FROM INVESTING ACTIVITIES                                    |          |          |
| Purchase of property and equipment                                      | (200)    | (44)     |
| Net cash used in investing activities                                   | (200)    | (44)     |
| CASH FLOWS FROM FINANCING ACTIVITIES                                    |          |          |
| Proceeds from stock options exercised                                   | -        | 30       |
| Net cash provided by financing activities                               | -        | 30       |
| Effects of exchange rates on cash                                       | 6        | (44)     |
| Net cash used in all activities   | (165)    | (192)    |
| Cash and cash equivalents at beginning of period                        | 19,018   | 15,576   |
| Cash and cash equivalents at end of period                              | \$18,853 | \$15,384 |
|   | =====    | =====    |
| Cash payments for:  |          |          |
| Domestic and foreign income taxes                                       | \$ 134   | \$ 113   |
| Interest  | \$ -     | \$ -     |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: |          |          |
| Issuance of non-vested shares of restricted stock                       | \$ -     | \$ 59    |
| Forfeiture of non-vested shares of restricted stock                     | \$ 20    | \$ -     |

See accompanying Notes to Consolidated Financial Statements.

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**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 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, deferred income tax valuation allowances and product warranty reserves, 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, 2013 filed with the Securities and Exchange Commission on March 27, 2014 (the "2013 Form 10-K").

### **Reclassification**

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

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

## **(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 \$35 and \$110 for the three months ended March 31, 2014 and 2013, 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 would 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.

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

## **(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. 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 three months ended March 31, 2014.

#### **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 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.

#### **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

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

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

assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods 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 represent stock options and 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:

|  | <i>Three Months Ended</i> |                   |
|--|---------------------------|-------------------|
|  | <u>March 31,</u>          |                   |
|  | <u>2014</u>               | <u>2013</u>       |
| Weighted average common shares outstanding -- basic                                | 10,393,956                | 10,327,428        |
| Potentially dilutive securities:   |                           |                   |
| Employee stock options and unvested shares of restricted stock                     | <u>54,955</u>             | <u>38,884</u>     |
| Weighted average common shares and common share equivalents outstanding -- diluted | <u>10,448,911</u>         | <u>10,366,312</u> |
| <br>   |                           |                   |
| Average number of potentially dilutive securities excluded from calculation        | 97,277                    | 28,750            |

### (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 three months ended March 31, 2014.

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

### (3) GOODWILL AND INTANGIBLE ASSETS (Continued)

#### Intangible Assets

The following tables provide further detail about our intangible assets as of March 31, 2014 and December 31, 2013:

|  | <u>March 31, 2014</u> |                     |                 |
|--|-----------------------|---------------------|-----------------|
|  | <u>Gross</u>          |                     | <u>Net</u>      |
|  | <u>Carrying</u>       | <u>Accumulated</u>  | <u>Carrying</u> |
|  | <u>Amount</u>         | <u>Amortization</u> | <u>Amount</u>   |
| Finite-lived intangible assets:        |                       |                     |                 |
| Customer relationships                 | \$1,480               | \$ 793              | \$ 687          |
| Patented technology                    | 590                   | 317                 | 273             |
| Software                               | 270                   | 148                 | 122             |
| Trade name                             | 140                   | 77                  | 63              |
| Customer backlog                       | 70                    | 70                  | -               |
| Non-compete/non-solicitation agreement | <u>48</u>             | <u>48</u>           | <u>-</u>        |
| Total finite-lived intangible assets   | <u>2,598</u>          | <u>1,453</u>        | <u>1,145</u>    |
| Indefinite-lived intangible assets:    |                       |                     |                 |
| Sigma trademark                        | <u>510</u>            | <u>-</u>            | <u>510</u>      |
| Total intangible assets                | <u>\$3,108</u>        | <u>\$1,453</u>      | <u>\$1,655</u>  |

December 31, 2013  
Gross Net



|  | <u>Carrying<br/>Amount</u> | <u>Accumulated<br/>Amortization</u> | <u>Carrying<br/>Amount</u> |
|--|----------------------------|-------------------------------------|----------------------------|
| Finite-lived intangible assets:        |                            |                                     |                            |
| Customer relationships                 | \$1,480                    | \$ 725                              | \$ 755                     |
| Patented technology                    | 590                        | 307                                 | 283                        |
| Software                               | 270                        | 142                                 | 128                        |
| Trade name                             | 140                        | 68                                  | 72                         |
| Customer backlog                       | 70                         | 70                                  | -                          |
| Non-compete/non-solicitation agreement | <u>48</u>                  | <u>48</u>                           | <u>-</u>                   |
| Total finite-lived intangible assets   | <u>2,598</u>               | <u>1,360</u>                        | <u>1,238</u>               |
| Indefinite-lived intangible assets:    |                            |                                     |                            |
| Sigma trademark                        | <u>510</u>                 | <u>-</u>                            | <u>510</u>                 |
| Total intangible assets                | <u>\$3,108</u>             | <u>\$1,360</u>                      | <u>\$1,748</u>             |

We generally amortize our finite-lived intangible assets over their estimated useful lives on a straightline 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.

The following table sets forth changes in the amount of the carrying value of intangible assets for the three months ended March 31, 2014:

|                           |                |
|---------------------------|----------------|
| Balance - January 1, 2014 | \$1,748        |
| Amortization              | <u>___(93)</u> |
| Balance - March 31, 2014  | <u>\$1,655</u> |

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

**(3) GOODWILL AND INTANGIBLE ASSETS (Continued)**

Total amortization expense for the three months ended March 31, 2014 and 2013 was \$93 and \$115, respectively. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

|                  |       |
|------------------|-------|
| 2014 (remainder) | \$262 |
| 2015             | \$289 |
| 2016             | \$229 |
| 2017             | \$212 |
| 2018             | \$ 65 |

**(4) MAJOR CUSTOMERS**

During the three months ended March 31, 2014 and 2013, Hakuto Co., Ltd., one of our distributors, accounted for 11% and 10% of our consolidated net revenues, respectively. These revenues were generated by our Thermal Products segment. No other customers accounted for 10% or more of our consolidated net revenues during the three months ended March 31, 2014 and 2013.

**(5) INVENTORIES**

Inventories held at March 31, 2014 and December 31, 2013 were comprised of the following:

|                               | <u>Mar. 31,</u><br><u>2014</u> | <u>Dec. 31,</u><br><u>2013</u> |
|-------------------------------|--------------------------------|--------------------------------|
| Raw materials                 | \$2,845                        | \$2,753                        |
| Work in process               | 452                            | 222                            |
| Inventory consigned to others | 88                             | 94                             |
| Finished goods                | <u>418</u>                     | <u>174</u>                     |
|                               | <u>\$3,803</u>                 | <u>\$3,243</u>                 |

**(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 sheet. 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. Our outstanding letters of credit at March 31, 2014 and December 31, 2013 consisted of the following:

|                | <u>Original L/C</u><br><u>Issue Date</u> | <u>L/C</u><br><u>Expiration</u><br><u>Date</u> | <u>Lease</u><br><u>Expiration</u><br><u>Date</u> | <u>Letters of Credit</u><br><u>Amount Outstanding</u> |                                |
|----------------|--|--|--|---|--------------------------------|
|                |  |  |  | <u>Mar. 31,</u><br><u>2014</u>                        | <u>Dec. 31,</u><br><u>2013</u> |
| Mt. Laurel, NJ | 3/29/2010                                | 3/31/2015                                      | 4/30/2021  | \$250   | \$250                          |
| Mansfield, MA  | 10/27/2010                               | 11/08/2014                                     | 8/23/2021  | <u>200</u>  | <u>200</u>                     |
|                |  |  |  | <u>\$450</u>  | <u>\$450</u>                   |

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**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(In thousands, except share and per share data)

**(7) STOCK-BASED COMPENSATION**

As of March 31, 2014, we had outstanding stock options and unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 14 to the consolidated financial statements in our 2013 Form 10-K.

In addition, on March 4, 2014, our Board of Directors approved the inTEST Corporation 2014 Stock Plan (the "2014 Stock Plan"). The 2014 Stock Plan is included in our 2014 proxy statement for approval by our stockholders. If approved by our stockholders, the 2014 Stock Plan will permit the granting of stock options, restricted stock, stock appreciation rights or restricted stock units for up to 500,000 shares of our common stock to directors, officers, other key employees and consultants.

As of March 31, 2014, total compensation expense to be recognized in future periods was \$378. The weighted average period over which this expense is expected to be recognized is 3.3 years. All of this expense is related to nonvested shares of restricted stock.

**Restricted Stock Awards**

We record compensation expense for restricted stock awards (nonvested 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. The following table shows the allocation of the compensation expense we recorded during the three months ended March 31, 2014 and 2013, respectively, related to nonvested shares:

|   | <u>Three Months Ended</u><br><u>March 31,</u> |              |
|---|---|--------------|
|   | <u>2014</u>                                   | <u>2013</u>  |
| Cost of revenues                            | \$ 3  | \$ 1         |
| Selling expense                             | 3   | 2            |
| Engineering and product development expense | 6   | 6            |
| General and administrative expense          | <u>29</u>                                     | <u>18</u>    |
|   | <u>\$ 41</u>                                  | <u>\$ 27</u> |

There was no compensation expense capitalized in the three months ended March 31, 2014 or 2013.

The following table summarizes the activity related to nonvested shares for the three months ended March 31, 2014:

|   | <u>Number<br/>of Shares</u> | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|---|-----------------------------|---|
| Nonvested shares outstanding, January 1, 2014 | 180,000                     | \$2.69  |
| Granted                                       | -                           | -   |
| Vested  | (55,000)                    | 1.56  |
| Forfeited                                     | <u>_(5,000)</u>             | 3.97  |
| Nonvested shares outstanding, March 31, 2014  | <u>120,000</u>              | 3.28  |

#### Stock Options

The following table summarizes the stock option activity for the three months ended March 31, 2014:

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

#### **(7) STOCK-BASED COMPENSATION (Continued)**

|   | <u>Number<br/>of Shares</u> | <u>Weighted<br/>Average<br/>Exercise Price</u> |
|---|-----------------------------|--|
| Options outstanding, January 1, 2014 (10,000 exercisable) | 10,000                      | \$ 5.66  |
| Granted   | -                           | -  |
| Exercised   | -                           | -  |
| Forfeited/Expired   | <u>      -</u>              | -  |
| Options outstanding, March 31, 2014 (10,000 exercisable)  | <u>10,000</u>               | 5.66   |

#### **(8) EMPLOYEE BENEFIT PLANS**

We have a defined contribution 401(k) plan for our employees who work in the U.S. (the "inTEST 401(k) Plan"). All permanent employees of inTEST Corporation, Temprotronic 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 three months ended March 31, 2014 and 2013, we recorded \$133 and \$132 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 Temprotronic, 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 Temprotronic, Thermonics and Sigma Systems 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 for various ATE equipment.

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 semiconductor 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.

|  | <i>Three Months Ended</i> |                |
|--|---------------------------|----------------|
|  | <u>March 31,</u>          |                |
| <i>Net revenues from unaffiliated customers:</i> | <u>2014</u>               | <u>2013</u>    |
| Thermal Products                                 | \$5,243                   | \$5,898        |
| Mechanical Products                              | 2,047                     | 1,793          |
| Electrical Products                              | <u>1,507</u>              | <u>1,282</u>   |
|  | <u>\$8,797</u>            | <u>\$8,973</u> |

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

(9) SEGMENT INFORMATION (Continued)

|   | <i>Three Months Ended</i> |               |
|---|---------------------------|---------------|
|   | <u>March 31,</u>          |               |
| <i>Earnings (loss) before income tax expense (benefit):</i> | <u>2014</u>               | <u>2013</u>   |
| Thermal Products  | \$ 811                    | \$1,158       |
| Mechanical Products   | (283)                     | (686)         |
| Electrical Products   | 5                         | (8)           |
| Corporate   | <u>_(122)</u>             | <u>_(94)</u>  |
|   | <u>\$ 411</u>             | <u>\$ 370</u> |

*Net earnings (loss):*

|                     |               |               |
|---------------------|---------------|---------------|
| Thermal Products    | \$ 564        | \$ 914        |
| Mechanical Products | (197)         | (542)         |
| Electrical Products | 4             | (6)           |
| Corporate           | <u>_(85)</u>  | <u>_(74)</u>  |
|                     | <u>\$ 286</u> | <u>\$ 292</u> |

|                             | <u>Mar. 31,</u> | <u>Dec. 31,</u> |
|-----------------------------|-----------------|-----------------|
|                             | <u>2014</u>     | <u>2013</u>     |
| <i>Identifiable assets:</i> |                 |                 |
| Thermal Products            | \$24,423        | \$23,934        |
| Mechanical Products         | 6,941           | 7,093           |
| Electrical Products         | <u>4,571</u>    | <u>4,454</u>    |
|                             | <u>\$35,935</u> | <u>\$35,481</u> |

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.

| <i>Three Months Ended</i> |             |
|---------------------------|-------------|
| <u>March 31,</u>          |             |
| <u>2014</u>               | <u>2013</u> |

*Net revenues from unaffiliated customers:*

|         |                 |                 |
|---------|-----------------|-----------------|
| U.S.    | \$ 3,149        | \$ 3,214        |
| Foreign | <u>5,648</u>    | <u>5,759</u>    |
|         | <u>\$ 8,797</u> | <u>\$ 8,973</u> |

|  |                 |                 |
|--|-----------------|-----------------|
|  | <u>Mar. 31,</u> | <u>Dec. 31,</u> |
|  | <u>2014</u>     | <u>2013</u>     |

*Long-lived assets:*

|         |                |                |
|---------|----------------|----------------|
| U.S.    | \$ 747         | \$ 700         |
| Foreign | <u>576</u>     | <u>554</u>     |
|         | <u>\$1,323</u> | <u>\$1,254</u> |

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**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 2013 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 2013 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 2013 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. 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. We believe that purchases of most of our products are typically made from semiconductor manufacturers' capital expenditure budgets. Certain portions of our business, however, are generally less dependent upon the capital expenditure budgets of the end users. For example, purchases of certain of our products, such as docking hardware, for the purpose of upgrading or improving the utilization, performance and efficiency of existing ATE, tend to be counter cyclical to sales of new ATE. Moreover, we believe a portion of our sales of thermal products results from the increasing need for temperature testing of circuit boards and specialized components that do not have the design or quantity to be tested in an electronic device handler.

As part of our diversification strategy to reduce the impact of ATE market volatility on our business operations, we market our Thermostream temperature management systems in markets outside the ATE market, such as 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 recent 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 or market trends in these non-ATE markets. In addition, our orders or 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.

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**inTEST CORPORATION**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

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 from unaffiliated customers both by product segment and market.

|  | <i>Three Months Ended</i> |                | <i>Change</i>  |          | <i>Three Months Ended</i> |               | <i>Change</i> |  |
|--|---------------------------|----------------|----------------|----------|---------------------------|---------------|---------------|--|
|  | <i>March 31,</i>          |                |                |          | <i>December 31,</i>       |               |               |  |
|  | <u>2014</u>               | <u>2013</u>    | <u>\$</u>      | <u>%</u> | <u>2013</u>               | <u>\$</u>     | <u>%</u>      |  |
| <b>Orders from unaffiliated customers:</b> |                           |                |                |          |                           |               |               |  |
| Thermal Products                           | \$ 5,644                  | \$4,724        | \$ 920         | 19%      | \$5,329                   | \$ 315        | 6%            |  |
| Mechanical Products                        | 2,964                     | 2,225          | 739            | 33       | 2,366                     | 598           | 25            |  |
| Electrical Products                        | <u>1,553</u>              | <u>759</u>     | <u>794</u>     | 105      | <u>1,565</u>              | <u>(12)</u>   | (1)           |  |
|  | <u>\$10,161</u>           | <u>\$7,708</u> | <u>\$2,453</u> | 32%      | <u>\$9,260</u>            | <u>\$ 901</u> | 10%           |  |
| ATE market                                 | \$ 8,219                  | \$6,183        | \$2,036        | 33%      | \$7,025                   | \$1,194       | 17%           |  |
| Non-ATE market                             | <u>1,942</u>              | <u>1,525</u>   | <u>417</u>     | 27       | <u>2,235</u>              | <u>(293)</u>  | (13)          |  |
|  | <u>\$10,161</u>           | <u>\$7,708</u> | <u>\$2,453</u> | 32%      | <u>\$9,260</u>            | <u>\$ 901</u> | 10%           |  |

Total consolidated orders for the quarter ended March 31, 2014 were \$10.2 million compared to \$7.7 million for the same period in 2013 and \$9.3 million for the quarter ended December 31, 2013. The increase in consolidated orders primarily reflects improved demand in the ATE market for all of our product segments, as well as new product introductions in our Mechanical and Electrical Products segment and continued penetration into non-ATE markets.

Orders from customers in various markets outside of the ATE market for the quarter ended March 31, 2014, grew by 27% as compared to the same period in 2013, reflecting increased demand from certain customers in the telecommunications and other non-ATE markets. However, as a percent of our total consolidated orders, non-ATE markets orders declined from 20% in the first quarter of 2013 to 19% in the first quarter of 2014, reflecting the significant increase in demand from our customers in the ATE market during the first quarter of 2014 as compared to the same period in 2013. Orders from customers in various markets outside of the ATE market for the quarter ended March 31, 2014 declined 13% as compared to the quarter ended December 31, 2013, reflecting reduced demand from certain customers in both the telecommunications and industrial markets.

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**inTEST CORPORATION**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

At March 31, 2014, our backlog of unfilled orders for all products was approximately \$4.5 million compared with approximately \$2.9 million at March 31, 2013 and \$3.1 million at December 31, 2013. Our backlog includes customer orders which we have accepted, substantially all of which we expect to

deliver in 2014. 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.

### Net Revenues

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

|   | <i>Three Months Ended</i> |                | <i>Change</i>  |          | <i>Three Months Ended</i> |                | <i>Change</i> |  |
|---|---------------------------|----------------|----------------|----------|---------------------------|----------------|---------------|--|
|   | <i>March 31,</i>          |                |                |          | <i>December 31,</i>       |                |               |  |
|   | <i>2014</i>               | <i>2013</i>    | <i>\$</i>      | <i>%</i> | <i>2013</i>               | <i>\$</i>      | <i>%</i>      |  |
| <b><i>Net revenues from unaffiliated customers:</i></b> |                           |                |                |          |                           |                |               |  |
| Thermal Products  | \$5,243                   | \$5,898        | \$(655)        | (11)%    | \$5,449                   | \$(206)        | (4)%          |  |
| Mechanical Products                                     | 2,047                     | 1,793          | 254            | 14       | 2,177                     | (130)          | (6)           |  |
| Electrical Products                                     | <u>1,507</u>              | <u>1,282</u>   | <u>225</u>     | 18       | <u>1,709</u>              | <u>(202)</u>   | (12)          |  |
|   | <u>\$8,797</u>            | <u>\$8,973</u> | <u>\$(176)</u> | (2)%     | <u>\$9,335</u>            | <u>\$(538)</u> | (6)%          |  |
| ATE market  | \$7,607                   | \$6,810        | \$ 797         | 12 %     | \$7,192                   | \$ 415         | 6 %           |  |
| Non-ATE market  | <u>1,190</u>              | <u>2,163</u>   | <u>(973)</u>   | (45)     | <u>2,143</u>              | <u>(953)</u>   | (44)          |  |
|   | <u>\$8,797</u>            | <u>\$8,973</u> | <u>\$(176)</u> | (2)%     | <u>\$9,335</u>            | <u>\$(538)</u> | (6)%          |  |

Our consolidated net revenues for the quarter ended March 31, 2014 decreased \$176,000 as compared to the same period in 2013. For the quarter ended March 31, 2014, the net revenues of our Thermal Products segment decreased \$655,000 while the net revenues of our Mechanical and Electrical Products segments increased \$254,000 and \$225,000, respectively, as compared to the same period in 2013. The increases in our Mechanical and Electrical Products segments reflect the aforementioned increase in demand experienced during the first quarter of 2014 from the ATE market. Although our Thermal Products segment also experienced increased levels of demand from its customers within the ATE market during the first quarter of 2014, these increases were offset by reduced demand from one particular customer within the industrial market as this customer is currently temporarily capacity-constrained. This resulted in the overall decline in both our consolidated net revenues and the net revenues of our Thermal Products segment during the first quarter of 2014 as compared to the same period in 2013.

Our consolidated net revenues for the quarter ended March 31, 2014 decreased \$538,000 as compared to the quarter ended December 31, 2013. The net revenues of our Thermal, Mechanical and Electrical Products segments decreased \$206,000, \$130,000 and \$202,000, respectively, for the first quarter of 2014 as compared to the fourth quarter of 2013. We believe the decrease in our net revenues reflects weakened demand in the fourth quarter of 2013 which resulted in lower order levels during that period and a lower backlog at the beginning of the first quarter of 2014. Although demand improved and our order activity increased during the first quarter of 2014, as previously discussed, many of the orders were not received in time to be shipped within the first quarter of 2014.

### Product/Customer Mix

Our three product segments each have multiple products that we design, manufacture and market to our customers. Due to a number of factors, our products have varying levels of gross margin. The mix of products we sell in any period is ultimately determined by our customers' needs. Therefore, the mix of products sold in any given period can change significantly from the prior period. As a result, our consolidated gross margin can be significantly impacted in any given period by a change in the mix of products sold in that period.

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## **inTEST CORPORATION**

### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We sell most of our products to semiconductor manufacturers and third-party test and assembly houses (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. Our Thermal Products segment also sells into a variety of other markets including the automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications markets. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. For the quarters ended March 31, 2014 and 2013, our OEM sales as a percentage of net revenues were 16% and 9%, respectively.

OEM sales generally have a lower gross margin than end user sales, as OEM sales historically have had a more significant discount. Our current net operating margins on most OEM sales, however, are only slightly less than margins on end user sales because of the payment of third party sales commissions on most end user sales. We have also continued to experience demands from our OEM customers' supply line managers to reduce our sales prices to them. If we cannot further reduce our manufacturing and operating costs, these pricing pressures will negatively affect our gross and operating margins.

### **Results of Operations**

The results of operations for our three product segments are generally affected by the same factors. Separate discussions and analyses for each product

segment would be repetitive. The discussion and analysis that follows, therefore, is presented on a consolidated basis and includes discussion of factors unique to each product segment where significant to an understanding of that segment.

#### Quarter Ended March 31, 2014 Compared to Quarter Ended March 31, 2013

*Net Revenues.* Net revenues were \$8.8 million for the quarter ended March 31, 2014 compared to \$9.0 million for the same period in 2013, a decrease of \$176,000 or 2%. We believe the decrease in our net revenues during the first quarter of 2014 primarily reflects the factors previously discussed in the Overview.

*Gross Margin.* Our consolidated gross margin was 48% for the quarter ended March 31, 2014 compared to 46% for the same period in 2013. The improvement in our gross margin was primarily the result of a reduction in our fixed operating costs combined with lower charges for excess and obsolete inventory during the first quarter of 2014 as compared to the same period in 2013. Our fixed operating costs decreased \$99,000, primarily as a result of lower salary and benefits expense in our Thermal Products segment reflecting lower headcount. Our charges for excess and obsolete inventory decreased \$75,000, reflecting fewer items falling into our standard excess and obsolete criteria.

*Selling Expense.* Selling expense was \$1.3 million for the quarter ended March 31, 2014 compared to \$1.2 million for the same period in 2013, an increase of \$137,000 or 12%. The increase primarily reflects higher salaries and benefits expense as a result of an increase in headcount in our Thermal and Electrical Products segments.

*Engineering and Product Development Expense.* Engineering and product development expense was \$923,000 for the first quarter of 2014 compared to \$996,000 for the same period in 2013, a decrease of \$73,000 or 7%. The decrease in engineering and product development expense primarily reflects decreased spending on matters related to our intellectual property.

*General and Administrative Expense.* General and administrative expense was \$1.5 million for the first quarter of 2014 compared to \$1.6 million for the same period in 2013, a decrease of \$24,000 or 2%. Decreases in salary and benefits expense and lower levels of amortization of our intangible assets were partially offset by increases in costs related to various third party professional services we utilize.

*Income Tax Expense.* For the quarter ended March 31, 2014, we recorded income tax expense of \$125,000 compared to income tax expense of \$78,000 for the same period in 2013. Our effective tax rate for the quarter ended March 31, 2013 was 30% compared to an effective tax rate of 21% for the same period in 2013. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. The increase in our effective tax rate in the first quarter of 2014 as compared to the same period in 2013 primarily reflects the recording of the effect of the reinstatement of certain domestic research and development tax credits in the first quarter of 2013. This change was enacted in January 2013. There was no similar item to record in 2014.

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## inTEST CORPORATION

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

#### Liquidity and Capital Resources

As discussed more fully in the Overview, 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. The cyclical and volatile nature of demand for ATE makes estimates of future revenues, results of operations and net cash flows difficult.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations and we manage our businesses to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets, for new product research and development and for acquisitions.

#### Liquidity

Our cash and cash equivalents and working capital were as follows:

|                           | <u>Mar. 31, 2014</u> | <u>Dec. 31, 2013</u> |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$18,853             | \$19,018             |
| Working capital           | \$25,058             | \$24,749             |

As of March 31, 2014, \$3.1 million of our cash and cash equivalents was held by our foreign subsidiaries. When these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes if we repatriate certain of these funds. We currently plan to repatriate approximately \$1.5 million of our cash and cash equivalents held by our German subsidiary during the second quarter of 2014. Our current intent is to indefinitely reinvest the balance of these funds in our foreign operations.

We currently expect our cash and cash equivalents and projected future cash flow to be sufficient to support our short term working capital requirements. We do not currently have any credit facilities under which we can borrow to help fund our working capital or other requirements.

#### Cash Flows

*Operating Activities.* Net cash provided by operations for the three months ended March 31, 2014 was \$29,000. During the three months ended March 31, 2014, we recorded net earnings of \$286,000, which included non-cash charges of \$217,000 for depreciation and amortization. During the three months ended March 31, 2014, accounts payable and inventories increased \$497,000 and \$595,000, respectively, compared to the levels at the end of 2013. These increases primarily reflect increased business activity during the first quarter of 2014 as compared to the fourth quarter of 2013. During the three months ended March 31, 2014, accrued wages and benefits decreased \$407,000 compared to the level at December 31, 2013 reflecting the payment of profit-



based bonuses accrued during 2013.

*Investing Activities.* During the three months ended March 31, 2014 purchases of property and equipment were \$200,000 which primarily represent additions to leased systems in our Thermal and Mechanical Products segments. We have no significant commitments for capital expenditures for the balance of 2014, however, depending upon changes in market demand or manufacturing and sales strategies, we may make such purchases or investments as we deem necessary and appropriate.

*Financing Activities.* During the three months ended March 31, 2014 there were no cash flows from financing activities.

#### **New or Recently Adopted Accounting Standards**

See the Notes to the consolidated financial statements for information concerning the implementation and impact of new or recently adopted accounting standards.

#### **Critical Accounting Policies**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including

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### **inTEST CORPORATION**

#### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

those related to inventories, long-lived assets, goodwill, identifiable intangibles, deferred income tax valuation allowances and product warranty reserves. We base our estimates on historical experience and on appropriate and customary assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Some of these accounting estimates and assumptions are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ markedly from what had been assumed when the financial statements were prepared. As of March 31, 2014, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2013 Form 10-K.

#### **Off -Balance Sheet Arrangements**

There were no off-balance sheet arrangements during the three months ended March 31, 2014 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our interests.

#### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

This disclosure is not required for a smaller reporting company.

#### **Item 4. CONTROLS AND PROCEDURES**

**CEO and CFO Certifications.** Included with this Quarterly Report as Exhibits 31.1 and 31.2 are two certifications, one by each of our Chief Executive Officer and our Chief Financial Officer (the "Section 302 Certifications"). This Item 4 contains information concerning the evaluations of our disclosure controls and procedures that are referred to in the Section 302 Certifications. This information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics addressed therein.

**Evaluation of Our Disclosure Controls and Procedures.** The SEC requires that as of the end of the quarter covered by this Report, our CEO and CFO must evaluate the effectiveness of the design and operation of our disclosure controls and procedures and report on the effectiveness of the design and operation of our disclosure controls and procedures.

"Disclosure controls and procedures" mean the controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the "Exchange Act"), such as this Report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the SEC. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Limitations on the Effectiveness of Controls.** Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within an entity have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a system of controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our management has designed the disclosure controls and procedures to provide reasonable assurance that the objectives of the control system were met.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** (Continued)

**CEO/CFO Conclusions about the Effectiveness of the Disclosure Controls and Procedures.** As required by Rule 13a-15(b), inTEST management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this Report, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were effective at the reasonable assurance level.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time we may be a party to legal proceedings occurring in the ordinary course of business. We are not currently involved in any material legal proceedings.

**Item 1A. Risk Factors**

Information regarding the primary risks and uncertainties that could materially and adversely affect our future performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements, appears in Part I, Item 1A -- "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None

**Item 6. Exhibits**

A list of the Exhibits which are required by Item 601 of Regulation S-K and filed with this Report is set forth in the Index to Exhibits immediately following the signature page, which Index to Exhibits is incorporated herein by reference.

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**inTEST Corporation**

Date: May 14, 2014

/s/ Robert E. Matthiessen  
Robert E. Matthiessen  
*President and Chief Executive Officer*

Date: May 14, 2014

/s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
*Secretary, Treasurer and Chief Financial Officer*

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**Index to Exhibits**

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CERTIFICATION**

I, Robert E. Matthiessen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of inTEST Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2014

/s/ Robert E. Matthiessen  
Robert E. Matthiessen  
President and Chief Executive Officer

**CERTIFICATION**

I, Hugh T. Regan, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of inTEST Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2014

/s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
Secretary, Treasurer and Chief Financial Officer

**inTEST CORPORATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ending March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert E. Matthiessen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2014

/s/ Robert E. Matthiessen  
Robert E. Matthiessen  
President and Chief Executive Officer

**inTEST CORPORATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ending March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh T. Regan, Jr., Secretary, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2014

/s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
Secretary, Treasurer and Chief Financial Officer