

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

FORM 8-K/A

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

May 24, 2017

Date of Report (Date of earliest event reported)

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

1-36117

(Commission File Number)

22-2370659

(I.R.S. Employer Identification No.)

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)

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written Communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

On May 24, 2017, inTEST Corporation (the “Company”) filed a Current Report on Form 8-K (the “Original Form 8-K”) reporting its acquisition of Ambrell Corporation (“Ambrell”). This Current Report on Form 8-K/A amends and supplements the Original Form 8-K to include financial statements and pro forma financial information required by Item 9.01(a) and (b) of Form 8-K.

Item 9.01. Financials Statements and Exhibits

(a) **Financial Statements of Businesses Acquired.**

The audited consolidated financial statements of Ambrell for the years ended December 31, 2016 and 2015 and the related report of its independent auditor are attached hereto as Exhibit 99.1 and incorporated herein by reference.

The unaudited consolidated financial statements of Ambrell as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 and the related report of its independent auditor are attached hereto as Exhibit 99.2 and incorporated herein by reference.

(b) **Pro Forma Financial Information.**

The unaudited pro forma condensed combined balance sheet of inTEST as of March 31, 2017 and unaudited pro forma condensed combined statements of operations for the year ended December 31, 2016 and for the three months ended March 31, 2017 and the notes to such unaudited pro forma condensed combined financial statements are attached hereto as Exhibit 99.3 and incorporated herein by reference.

(d) **Exhibits.**

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

SIGNATURE

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 hereunto duly authorized.

inTEST CORPORATION

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

Date: August 10, 2017

Exhibit Index

- 23.1 Consent of Bonadio & Co., LLP, independent auditors of Ambrell.
- 99.1 The audited financial statements of Ambrell for the years ended December 31, 2016 and 2015.
- 99.2 The unaudited financial statements of Ambrell as of March 31, 2017 and for the three months ended March 31, 2017 and 2016.
- 99.3 Unaudited pro forma condensed combined balance sheet of inTEST as of March 31, 2017, and unaudited pro forma condensed combined statement of operations of inTEST for the year ended December 31, 2016 and for the three months ended March 31, 2017 and the notes to such unaudited pro forma condensed combined financial statements.

Consent of Independent Auditor

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-145176 and No. 333-197858) of inTEST Corporation of our reports dated August 1, 2017, with respect to Ambrell Corporation and Subsidiaries consolidated financial statements as of and for the years ended December 31, 2016 and 2015 and the Ambrell Corporation and Subsidiaries consolidated financial statements as of March 31, 2017 and for the three-month periods ended March 31, 2017 and 2016, which appear in this Current Report on Form 8-K/A of inTEST Corporation.

/s/ Bonadio & Co., LLP

Rochester, New York
August 10, 2017

AMBRELL CORPORATION AND SUBSIDIARIES

**Consolidated Financial Statements as of
December 31, 2016 and 2015
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

August 1, 2017

To the Board of Directors and
Stockholders of Ambrell Corporation:

We have audited the accompanying consolidated financial statements of Ambrell Corporation (a New York corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ambrell Corporation and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bonadio & Co., LLP

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AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,572,589	\$ 2,846,229
Accounts receivable, net	3,652,601	2,154,412
Inventory, net	1,780,863	2,027,955
Prepaid expenses and other current assets	184,442	157,269
Forward contract receivable	-	885
Deferred tax asset	374,097	275,519
Total current assets	7,564,592	7,462,269
PROPERTY AND EQUIPMENT, net	718,099	765,587
GOODWILL, net	2,749,661	3,128,925
INTANGIBLE ASSETS, net	7,196,350	8,188,950
	<u>\$ 18,228,702</u>	<u>\$ 19,545,731</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 464,286	\$ 464,286
Accounts payable	1,095,013	744,512
Accrued expenses and other current liabilities	1,347,779	1,074,556
Merger transaction payable	62,517	62,517
Customer advances	534,727	1,000,973
Forward contract payable	573	-
Total current liabilities	3,504,895	3,346,844
DEFERRED TAX LIABILITY	2,410,494	2,577,410
LONG-TERM DEBT, net of current portion	1,586,309	2,050,595
Total liabilities	7,501,698	7,974,849
STOCKHOLDERS' EQUITY:		
Common stock	14,291,010	14,291,010
Accumulated other comprehensive income (loss)	17,462	(161,906)
Accumulated deficit	(3,581,468)	(2,558,222)
Total stockholders' equity	10,727,004	11,570,882
	<u>\$ 18,228,702</u>	<u>\$ 19,545,731</u>

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
SALES	\$ 20,183,243	\$ 18,552,852
COST OF GOODS SOLD	11,386,862	9,617,691
Gross profit	8,796,381	8,935,161
OPERATING EXPENSES:		
Marketing and selling	4,257,705	5,548,317
Research and development	704,924	1,062,736
General and administrative	3,312,857	2,727,497
Amortization expense	1,371,864	1,399,049
Total operating expenses	9,647,350	10,737,599
Loss from operations	(850,969)	(1,802,438)
OTHER INCOME (EXPENSE):		
Interest expense	(99,865)	(83,919)
Interest income	29,117	7,726
Foreign currency loss	(285,865)	(45,352)
Loss on disposal of property and equipment	(1,988)	(4,262)
Total other expense, net	(358,601)	(125,807)
LOSS BEFORE BENEFIT FROM INCOME TAXES	(1,209,570)	(1,928,245)
BENEFIT FROM INCOME TAXES	186,324	308,118
NET LOSS	\$ (1,023,246)	\$ (1,620,127)

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
NET LOSS	\$ (1,023,246)	\$ (1,620,127)
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gain (loss) on forward contract	(791)	(22,207)
Foreign currency translation gain (loss)	180,159	(204,539)
Total other comprehensive income (loss)	<u>179,368</u>	<u>(226,746)</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (843,878)</u>	<u>\$ (1,846,873)</u>

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock		Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2014	100	\$ 14,291,010	\$ 64,840	\$ (938,095)	\$ 13,417,755
Forward contract loss (net of tax benefit of approximately \$9,700)	-	-	(22,207)	-	(22,207)
Foreign currency translation loss	-	-	(204,539)	-	(204,539)
Net loss	-	-	-	(1,620,127)	(1,620,127)
Balance, December 31, 2015	100	\$ 14,291,010	\$ (161,906)	\$ (2,558,222)	\$ 11,570,882
Forward contract loss (net of tax benefit of approximately \$600)	-	-	(791)	-	(791)
Foreign currency translation loss	-	-	180,159	-	180,159
Net loss	-	-	-	(1,023,246)	(1,023,246)
Balance, December 31, 2016	<u>100</u>	<u>\$ 14,291,010</u>	<u>\$ 17,462</u>	<u>\$ (3,581,468)</u>	<u>\$ 10,727,004</u>

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,023,246)	\$ (1,620,127)
Adjustments to reconcile net loss to net cash flow from operating activities:		
Depreciation and amortization of property and equipment	295,814	281,261
Amortization of intangibles	992,600	992,600
Amortization of goodwill	379,264	406,449
Obsolescence reserve	2,876	79,030
Loss on disposal of fixed assets	1,988	4,262
Gain on sale of demonstration equipment	(154,372)	(101,337)
Deferred tax benefit	(137,192)	(426,651)
Bad debt expense (recovery)	(155,116)	248,867
Changes in:		
Accounts receivable	(1,435,752)	512,469
Inventory	313,740	234,943
Prepaid expenses and other current assets	(158,061)	652,587
Accounts payable	373,095	111,508
Accrued expenses and other current liabilities	303,953	(6,832)
Merger transaction payable	-	(906,000)
Customer advances	(442,353)	599,357
Net cash flow from operating activities	(842,762)	1,062,386
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(315,911)	(261,153)
Proceeds from sale of demonstration equipment	205,372	121,390
Net cash flow from investing activities	(110,539)	(139,763)
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(464,286)	(464,286)
Net cash flow from financing activities	(464,286)	(464,286)
EFFECT OF EXCHANGE RATE CHANGE ON CASH	143,947	(495,707)
CHANGE IN CASH	(1,273,640)	(37,370)
CASH - beginning of period	2,846,229	2,883,599
CASH - end of period	<u>\$ 1,572,589</u>	<u>\$ 2,846,229</u>

The accompanying notes are an integral part of these statements.

1. THE COMPANY

Ambrell Corporation and Subsidiaries (collectively, “the Company”) is engaged in worldwide marketing, manufacturing and research and development activities related to induction heating equipment.

Ambrell Corporation

Ambrell Corporation (Ambrell Corp) is a wholly-owned subsidiary of Ambrell Holdings, LLC located in Scottsville, NY. Ambrell Corp is engaged in worldwide marketing, manufacturing and research and development activities related to induction heating equipment.

Ambrell BV

Ambrell B.V. (BV) is a wholly-owned subsidiary of Ambrell Corp and is located in the Netherlands.

Ambrell Limited

Ambrell Limited (LTD) is a wholly-owned subsidiary of Ambrell Corp and is located in England.

Ambrell SARL

Ambrell SARL (SARL) is a wholly-owned subsidiary of Ambrell Corp and is located in France.

On May 24, 2017, the Company was acquired by inTEST Corporation pursuant to a Stock Purchase Agreement. The purchase price for the Company was \$22 million in cash paid at closing, subject to a customary post-closing working capital adjustment. Additional consideration in the form of earnouts, which in aggregate are capped at \$18 million, may be paid based upon a multiple of adjusted EBITDA for 2017 and 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of Ambrell Corp and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

The functional currencies of the Company's foreign operations are the local currencies. The financial statements of the Company's foreign subsidiaries have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Income statement amounts have been translated using the average exchange rate for each period. Accumulated net translation adjustments have been reported separately in other comprehensive income (loss) in the consolidated financial statements. Foreign currency transaction gains and losses are included in operations as realized.

Cash

Cash consists of bank demand deposit accounts that, at times, may exceed federally insured limits and the Company's deposits in foreign countries are not federally insured. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

Accounts Receivable

The Company provides credit in the normal course of business to the majority of its customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains allowances for doubtful customer accounts for estimated losses resulting from the inability of its customers to make required payments. Allowances are estimated based upon historical experience, known or suspected financial condition of customers and current economic conditions. The allowance for doubtful accounts totaled approximately \$222,102 and \$384,234 at December 31, 2016 and 2015, respectively.

Inventory

Inventory is comprised of raw materials, work-in-process, finished goods, and short-term rental and demo equipment recorded at the lower of cost, determined on a first-in first-out basis, or market.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization is provided using the straight-line method over the shorter of the lease term or estimated useful life for leasehold improvements and over the estimated useful lives of the remaining assets, which range from three to seven years.

At the time property and equipment is replaced, retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts and any gain or loss is included in income. Expenditures for repairs and maintenance are charged to operations as incurred.

Long-Lived Assets

The Company assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. No impairment of long-lived assets was recognized during the years ended December 31, 2016 and 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of the acquisition price over fair value of net assets acquired through business combinations. The Company amortizes goodwill on a straight-line basis over a 10 year period. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment at the entity level. Impairment, if any, will be recognized for the difference between the fair value of the Company and its carrying amount and will be limited to the carrying amount of goodwill.

Intangible Assets

Intangible assets consist of customer relationships, trade names, technology, and In-Process Research and Development (IPR&D). The intangible assets are amortized using the straight-line method over their estimated useful lives. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on undiscounted cash flows and, if impaired, written down to fair value.

Product Warranties

The Company sells the majority of its products to customers along with repair or replacement warranties. The Company determines its estimated liability for warranty claims based on its historical experience. It is reasonably possible that the Company's estimate of the accrued product warranty claims will change in the near term. Estimated costs for product warranties are recognized at the date the revenue is recognized.

Customer Advances

Customer advances primarily represent advance payments received on products. Revenue from service contracts is recognized using the straight-line method over the term of the related contract.

Derivative Instruments

The Company, as a result of its operating and financing activities, is exposed to changes in foreign currency exchange rates, which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with changes in foreign currency exchange rates, the Company may enter into derivative contracts.

The Company manages its foreign currency related risk primarily through the use of foreign currency forward contracts. The contracts held by the Company are denominated in Euros and British Pounds. The Company has entered into foreign currency forward contracts that are designated as cash flow hedges of exchange rate risk related to forecasted foreign currency-denominated intercompany sales.

The Company recorded the fair value of the forward contracts on the consolidated balance sheets. The Company recorded an unrealized loss of \$791, net of the effect of income taxes of \$600, as a cumulative effect adjustment of accumulated other comprehensive income at December 31, 2016. At December 31, 2016, the Company had a cash flow hedge for 1,932 British Pounds with a maturity date in January 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments (Continued)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the year ended December 31, 2016.

	Amount Reclassified	Affected Line Item in Consolidated Statements of Operations
Realized gain on foreign currency forward contracts	\$ 4,320	Foreign currency loss

The Company recorded an unrealized loss of \$22,207, net of the effect of income taxes of \$9,700, as a cumulative effect adjustment of accumulated other comprehensive income at December 31, 2015. At December 31, 2015, the Company had cash flow hedges for the Euro with maturity dates ranging from February 2016 to May 2016 for 349,903 Euros. At December 31, 2015, the Company had cash flow hedges for 79,373 British Pounds with maturity dates ranging from January 2016 to July 2016.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the year ended December 31, 2015.

	Amount Reclassified	Affected Line Item in Consolidated Statements of Operations
Realized gain on foreign currency forward contracts	\$ 38,284	Foreign currency loss

Revenue Recognition

The Company recognizes revenue upon transfer of title of product, which is generally upon shipment to the customer, and performance of services.

Sales Taxes

The Company collects and remits sales taxes during the normal course of business. These taxes are reported net in the accompanying consolidated statements of operations and therefore do not impact reported revenues or expenses.

Shipping and Handling

Shipping and handling costs are included as a component of cost of goods sold.

Advertising

Advertising and marketing costs are expensed as incurred and amounted to approximately \$208,000 and \$204,000 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes related primarily to differences between the basis of property and certain accrued expenses for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair market value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets that the Company has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At both December 31, 2016 and 2015, the fair values for the Company's foreign currency forward contracts are determined using significant other observable inputs (Level 2) and are based on the expected future cash flows of the contracts.

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year information to conform to the current year presentation.

3. INVENTORY

Inventory consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Raw materials	\$ 980,114	\$ 999,718
Work-in-process	252,541	200,736
Finished goods	715,842	765,208
Short-term rental and demo equipment	94,541	321,592
	<u>2,043,038</u>	<u>2,287,254</u>
Less: Reserve for obsolescence	<u>(262,175)</u>	<u>(259,299)</u>
	<u>\$ 1,780,863</u>	<u>\$ 2,027,955</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 324,621	\$ 326,531
Test equipment	38,065	38,065
Machinery and equipment	923,538	751,049
Computer equipment	103,180	105,585
Furniture and fixings	73,445	88,110
Demo equipment	97,309	68,798
Lab equipment	73,088	116,100
	<u>1,633,246</u>	<u>1,494,238</u>
Less: Accumulated depreciation and amortization	<u>(915,147)</u>	<u>(728,651)</u>
	<u>\$ 718,099</u>	<u>\$ 765,587</u>

Depreciation and amortization expense totaled \$295,814 and \$281,261 for the years ended December 31, 2016 and 2015, respectively.

5. FAIR VALUE MEASUREMENTS

The fair value of liabilities measured at fair value at December 31, 2016 was as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Description				
Forward contract payable	<u>\$ -</u>	<u>\$ 573</u>	<u>\$ -</u>	<u>\$ 573</u>

5. **FAIR VALUE MEASUREMENTS (Continued)**

The fair value of assets measured at fair value at December 31, 2015 was as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Description				
Forward contract receivable	\$ -	\$ 885	\$ -	\$ 885

6. **GOODWILL**

Goodwill subject to amortization consisted of the following at December 31, 2016:

	<u>Weighted Average Remaining Useful Life</u>	<u>Gross Asset</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Goodwill	7.3	\$ 3,792,648	\$ (1,042,987)	\$ 2,749,661

Goodwill subject to amortization consisted of the following at December 31, 2015:

	<u>Weighted Average Remaining Useful Life</u>	<u>Gross Asset</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Goodwill	8.3	\$ 3,792,648	\$ (663,723)	\$ 3,128,925

Amortization expense related to goodwill was \$379,264 and \$406,449 for the years ended December 31, 2016 and 2015, respectively.

Estimated aggregate amortization of goodwill is as follows for the years ending December 31:

2017	\$ 379,264
2018	379,264
2019	379,264
2020	379,264
2021	379,264
Thereafter	853,341
	<u>\$ 2,749,661</u>

7. INTANGIBLE ASSETS

Intangible assets subject to amortization consisted of the following at December 31, 2016:

	Weighted Average Remaining Useful Life	Gross Assets	Accumulated Amortization	Net
Customer relationships	7.3	\$ 6,484,000	\$ (1,783,100)	\$ 4,700,900
Technology	7.3	2,341,000	(643,775)	1,697,225
IPR&D	7.3	408,000	(112,200)	295,800
Trade names	7.3	693,000	(190,575)	502,425
		<u>\$ 9,926,000</u>	<u>\$ (2,729,650)</u>	<u>\$ 7,196,350</u>

Intangible assets subject to amortization consisted of the following at December 31, 2015:

	Weighted Average Remaining Useful Life	Gross Assets	Accumulated Amortization	Net
Customer relationships	8.3	\$ 6,484,000	\$ (1,134,700)	\$ 5,349,300
Technology	8.3	2,341,000	(409,675)	1,931,325
IPR&D	8.3	408,000	(71,400)	336,600
Trade names	8.3	693,000	(121,275)	571,725
		<u>\$ 9,926,000</u>	<u>\$ (1,737,050)</u>	<u>\$ 8,188,950</u>

Amortization expense related to intangible assets was \$992,600 for each of the years ended December 31, 2016 and 2015.

Estimated aggregate amortization of acquired intangible assets is as follows for the years ending December 31:

2017	\$ 992,600
2018	992,600
2019	992,600
2020	992,600
2021	992,600
Thereafter	2,233,350
	<u>\$ 7,196,350</u>

The Company considered the period of expected cash flows used to measure the fair value of the acquired customer relationships in determining the useful life of the acquired customer relationships for amortization purposes. The Company's future cash flows are not materially impacted by its ability to extend or renew its acquired customer relationships.

8. FINANCING ARRANGEMENTS

Line-of-Credit

The Company had a \$1,000,000 revolving line-of-credit with a bank through July 2016 with amounts borrowed collateralized by all assets of the Company. Interest only payments were due monthly at variable interest rates based on the bank's prime rate (3.50% at December 31, 2015). There was no amount outstanding under the terms of this arrangement at December 31, 2015. The Company did not renew the line-of-credit upon maturity in July 2016.

Long-Term Debt

Long-term debt consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Term note payable to a financial institution in monthly installments of \$38,690, plus interest, through April 2021, at which time all outstanding principal and interest becomes due. The note bears interest at the one month LIBOR plus 250 basis points (3.12% at December 31, 2016). The note is collateralized by substantially all of the assets of Ambrell Corp.	\$ 2,050,595	\$ 2,514,881
Less: Current portion	<u>(464,286)</u>	<u>(464,286)</u>
	<u>\$ 1,586,309</u>	<u>\$ 2,050,595</u>

Future minimum principal payments required under the terms of the long-term debt arrangements are as follows for the years ending December 31:

2017	\$ 464,286
2018	464,286
2019	464,286
2020	464,286
2021	<u>193,451</u>
	<u>\$ 2,050,595</u>

Financial Covenants

The Company's financing arrangement contains financial covenants, including, but not limited to, earnings before interest, taxes, depreciation and amortization (EBITDA) to fixed charges ratio and total funded debt to EBITDA. The Company was in compliance with these covenants at December 31, 2016. The Company was not in compliance with these covenants at December 31, 2015. Subsequent to December 31, 2015, the Company received a waiver effecting compliance.

Cash Paid for Interest

During the years ended December 31, 2016 and 2015, the Company made interest payments totaling approximately \$72,000 and \$76,000, respectively.

9. EQUITY

At December 31, 2016 and 2015, there were 20,000,000 shares of common stock, \$0.01 par value, authorized and 100 shares issued and outstanding.

10. INCOME TAXES

The benefit from income taxes consisted of the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Current tax (expense):		
Federal	\$ (18,255)	\$ (805)
State	8,717	(2,557)
Foreign	(68,965)	(116,996)
	<u>(78,503)</u>	<u>(120,358)</u>
Deferred tax benefit	264,827	428,476
	<u>\$ 186,324</u>	<u>\$ 308,118</u>

The income tax benefit differs from the amount of income tax benefit determined by applying the applicable U.S. statutory income tax rate of 34% to the pre-tax net loss as follows for the year ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Computed "expected" tax benefit	\$ 411,300	\$ 655,600
State tax benefit, net of federal benefit	5,800	1,700
Foreign tax rate differential	(96,500)	(166,900)
Permanent differences	(95,550)	(233,668)
Other	(38,726)	51,386
	<u>\$ 186,324</u>	<u>\$ 308,118</u>

The Company's deferred tax assets (liabilities) related to the following items at December 31:

	<u>2016</u>	<u>2015</u>
Current deferred taxes:		
Accounts receivable	\$ 63,734	\$ 113,253
Inventory	69,684	52,463
Accrued expenses	240,480	110,271
Other	199	(468)
Total current deferred tax asset	<u>\$ 374,097</u>	<u>\$ 275,519</u>
Net long-term deferred taxes:		
Intangible assets	\$ (2,390,514)	\$ (2,785,653)
Fixed assets	(140,650)	(105,610)
Business credits	120,670	189,239
Net operating loss carryforward	-	69,310
Other	-	55,304
Total non-current deferred liability	<u>\$ (2,410,494)</u>	<u>\$ (2,577,410)</u>

11. EMPLOYEE BENEFIT PLAN

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code. Employees are immediately eligible to participate in the Plan upon employment and are eligible for employer matching contributions after completing one year of service, as defined in the Plan. The Plan allows eligible employees to make voluntary contributions up to 100% of compensation, up to the federal government contribution limits. The Company will make a matching contribution of 25% of each employee's contributions up to a maximum of 2% of such employee's compensation. For the years ended December 31, 2016 and 2015, the Company made matching contributions of \$52,798 and \$68,328, respectively.

12. LEASES

The Company leases its facilities as well as equipment under the terms of operating lease agreements requiring total current monthly payments ranging between approximately \$6,500-\$34,000 and expiring at varying times through 2029. Lease expense under the terms of these lease agreements during the years ended December 31, 2016 and 2015 totaled approximately \$395,000 and \$378,000, respectively. Future minimum payments required under the terms of these lease agreements are as follows for the years ending December 31:

2017	\$	406,477
2018		119,309
2019		82,974
2020		80,585
2021		77,804
Thereafter		505,856
	\$	<u>1,273,005</u>

13. WARRANTY OBLIGATIONS

The Company has warranty obligations in connection with the sale of its equipment. The original warranty period for equipment products is generally one year. The costs to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. The Company estimates its warranty cost at the point of sale for a given product based on historical failure rates and costs to repair. The change in the Company's accrued warranty obligations balance, which is included in accrued expenses, was as follows:

Accrued warranty obligations – January 1, 2015	\$	75,000
Actual warranty experience during 2015		(55,569)
Warranty provisions during 2015		55,569
Accrued warranty obligations - December 31, 2015		75,000
Actual warranty experience during 2016		(34,921)
Warranty provisions during 2016		34,921
Accrued warranty obligations - December 31, 2016	\$	<u>75,000</u>

14. EMPLOYMENT CONTRACTS

The Company has employment contracts with key personnel. These agreements expire during 2017 and provide for minimum salary requirements, insurance benefits, and other fringe benefits. The minimum payments required under the terms of these employment contracts is \$175,000 for the year ending December 31, 2017.

15. RELATED PARTY TRANSACTIONS

Management Fees

The Company entered into a Management Agreement in 2014 with an entity affiliated through common ownership with the majority stockholders (the Affiliated Entity). Under the terms of the Management Agreement, the Affiliated Entity provides management services for the Company for annual consideration of the greater of 1) \$200,000 or 2) 6.0% of the Company's earnings before interest, taxes, depreciation, and amortization for the year prior. Amounts are payable in quarterly installments of \$50,000. During 2016 and 2015, the Company paid the Affiliated Entity \$150,000 and \$200,000, respectively, which is included in general and administrative expenses on the consolidated statement of operations. At December 31, 2016, there were accrued management fees of \$50,000.

16. MERGER TRANSACTION PAYABLE

Merger transaction payable consists of amounts due to former shareholders as a result of the acquisition of the Company on March 31, 2014, and totaled \$62,517 at both December 31, 2016 and 2015.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 1, 2017, which is the date the financial statements were available to be issued.

AMBRELL CORPORATION AND SUBSIDIARIES

**Consolidated Financial Statements as of
March 31, 2017 and 2016
Together with
Independent Auditor's Review Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REVIEW REPORT

August 1, 2017

To the Board of Directors and
Stockholders of Ambrell Corporation:

We have reviewed the accompanying consolidated financial statements of Ambrell Corporation (a Delaware corporation) and Subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017 and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2017 and 2016.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct the review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Balance Sheet as of December 31, 2016

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 1, 2017. In our opinion, the accompanying consolidated balance sheet of Ambrell Corporation and Subsidiaries as of December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,804,459	\$ 1,572,589
Accounts receivable, net	3,101,697	3,652,601
Inventory, net	1,924,005	1,780,863
Prepaid expenses and other current assets	233,108	184,442
Deferred tax asset	374,097	374,097
Total current assets	7,437,366	7,564,592
PROPERTY AND EQUIPMENT, net	649,363	718,099
GOODWILL, net	2,654,845	2,749,661
INTANGIBLE ASSETS, net	6,948,200	7,196,350
	<u>\$ 17,689,774</u>	<u>\$ 18,228,702</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 464,286	\$ 464,286
Accounts payable	1,102,855	1,095,013
Accrued expenses and other current liabilities	1,177,147	1,347,779
Merger transaction payable	62,517	62,517
Customer advances	537,881	534,727
Forward contract payable	478	573
Total current liabilities	3,345,164	3,504,895
DEFERRED TAX LIABILITY	2,354,490	2,410,494
LONG-TERM DEBT, net of current portion	1,470,238	1,586,309
Total liabilities	7,169,892	7,501,698
STOCKHOLDERS' EQUITY:		
Common stock	14,291,010	14,291,010
Accumulated other comprehensive income (loss)	17,747	17,462
Accumulated deficit	(3,788,875)	(3,581,468)
Total stockholders' equity	10,519,882	10,727,004
	<u>\$ 17,689,774</u>	<u>\$ 18,228,702</u>

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three-Months Ended March 31, 2017	Three-Months Ended March 31, 2016
SALES	\$ 4,611,555	\$ 4,383,019
COST OF GOODS SOLD	<u>2,680,104</u>	<u>2,401,016</u>
Gross profit	<u>1,931,451</u>	<u>1,982,003</u>
OPERATING EXPENSES:		
Marketing and selling	965,801	977,891
Research and development	194,286	164,815
General and administrative	664,403	759,362
Amortization expense	<u>342,966</u>	<u>342,966</u>
Total operating expenses	<u>2,167,456</u>	<u>2,245,034</u>
Loss from operations	<u>(236,005)</u>	<u>(263,031)</u>
OTHER INCOME (EXPENSE):		
Interest expense	(24,673)	(21,208)
Interest income	8,075	3,370
Foreign currency loss	10,186	6,961
Loss on disposal of property and equipment	<u>(4,105)</u>	<u>-</u>
Total other expense, net	<u>(10,517)</u>	<u>(10,877)</u>
LOSS BEFORE BENEFIT FROM INCOME TAXES	(246,522)	(273,908)
BENEFIT FROM INCOME TAXES	<u>39,115</u>	<u>43,024</u>
NET LOSS	<u>\$ (207,407)</u>	<u>\$ (230,884)</u>

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three-Months Ended March 31, 2017	Three-Months Ended March 31, 2016
NET LOSS	\$ (207,407)	\$ (230,884)
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gain (loss) on forward contract	16,316	(10,395)
Foreign currency translation gain (loss)	(16,031)	16,644
Total other comprehensive income (loss)	285	6,249
TOTAL COMPREHENSIVE LOSS	\$ (207,122)	\$ (224,635)

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount			
Balance, January 1, 2017	100	\$ 14,291,010	\$ 17,462	\$ (3,581,468)	\$ 10,727,004
Forward contract gain (net of tax benefit of approximately \$700)	-	-	16,316	-	16,316
Foreign currency translation loss	-	-	(16,031)	-	(16,031)
Net loss	-	-	-	(207,407)	(207,407)
Balance, March 31, 2017 (Unaudited)	<u>100</u>	<u>\$ 14,291,010</u>	<u>\$ 17,747</u>	<u>\$ (3,788,875)</u>	<u>\$ 10,519,882</u>

The accompanying notes are an integral part of these statements.

AMBRELL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three-Months Ended March 31, 2017	Three-Months Ended March 31, 2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$ (207,407)	\$ (230,884)
Adjustments to reconcile net loss to net cash flow from operating activities:		
Depreciation and amortization of property and equipment	79,570	74,275
Amortization of intangibles	248,150	248,150
Amortization of goodwill	94,816	94,816
Obsolescence reserve	(10,323)	(33,532)
Loss on disposal of fixed assets	4,105	-
Gain on sale of demonstration equipment	-	(78,322)
Deferred tax benefit	(56,004)	(69,462)
Bad debt expense (recovery)	(1,745)	3,223
Changes in:		
Accounts receivable	566,672	(765,342)
Inventory	(122,750)	(108,281)
Prepaid expenses and other current assets	(49,599)	(77,321)
Accounts payable	(17,607)	(144,359)
Accrued expenses and other current liabilities	(163,979)	(252,189)
Customer advances	80	123,754
Net cash flow from operating activities	<u>363,979</u>	<u>(1,215,474)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(13,076)	(43,471)
Proceeds from sale of demonstration equipment	-	87,962
Net cash flow from investing activities	<u>(13,076)</u>	<u>44,491</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(116,071)	(116,071)
Net cash flow from financing activities	<u>(116,071)</u>	<u>(116,071)</u>
EFFECT OF EXCHANGE RATE CHANGE ON CASH	<u>(2,962)</u>	<u>156,242</u>
CHANGE IN CASH	231,870	(1,130,812)
CASH - beginning of period	<u>1,572,589</u>	<u>2,846,229</u>
CASH - end of period	<u>\$ 1,804,459</u>	<u>\$ 1,715,417</u>

The accompanying notes are an integral part of these statements.

1. THE COMPANY

Ambrell Corporation and Subsidiaries (collectively, “the Company”) is engaged in worldwide marketing, manufacturing and research and development activities related to induction heating equipment.

Ambrell Corporation

Ambrell Corporation (Ambrell Corp) is a wholly-owned subsidiary of Ambrell Holdings, LLC located in Scottsville, NY. Ambrell Corp is engaged in worldwide marketing, manufacturing and research and development activities related to induction heating equipment.

Ambrell BV

Ambrell B.V. (BV) is a wholly-owned subsidiary of Ambrell Corp and is located in the Netherlands.

Ambrell Limited

Ambrell Limited (LTD) is a wholly-owned subsidiary of Ambrell Corp and is located in England.

Ambrell SARL

Ambrell SARL (SARL) is a wholly-owned subsidiary of Ambrell Corp and is located in France.

On May 24, 2017, the Company was acquired by inTEST Corporation pursuant to a Stock Purchase Agreement. The purchase price for the Company was \$22 million in cash paid at closing, subject to customary post-closing working capital adjustment. Additional consideration in the form of earnouts, which in aggregate are capped at \$18 million, may be paid based upon a multiple of adjusted EBITDA for 2017 and 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

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 the audited consolidated financial statements of the Company for the year ended December 31, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of Ambrell Corp and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

The functional currencies of the Company's foreign operations are the local currencies. The financial statements of the Company's foreign subsidiaries have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Income statement amounts have been translated using the average exchange rate for each period. Accumulated net translation adjustments have been reported separately in other comprehensive income (loss) in the consolidated financial statements. Foreign currency transaction gains and losses are included in operations as realized.

Cash

Cash consists of bank demand deposit accounts that, at times, may exceed federally insured limits and the Company's deposits in foreign countries are not federally insured. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

Accounts Receivable

The Company provides credit in the normal course of business to the majority of its customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains allowances for doubtful customer accounts for estimated losses resulting from the inability of its customers to make required payments. Allowances are estimated based upon historical experience, known or suspected financial condition of customers and current economic conditions. The allowance for doubtful accounts totaled approximately \$220,882 and \$222,102 at March 31, 2017 and December 31, 2016, respectively.

Inventory

Inventory is comprised of raw materials, work-in-process, finished goods, and short-term rental and demo equipment recorded at the lower of cost, determined on a first-in first-out basis, or market.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization is provided using the straight-line method over the shorter of the lease term or estimated useful life for leasehold improvements and over the estimated useful lives of the remaining assets, which range from three to seven years.

At the time property and equipment is replaced, retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts and any gain or loss is included in income. Expenditures for repairs and maintenance are charged to operations as incurred.

Long-Lived Assets

The Company assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. No impairment of long-lived assets was recognized during the three-month periods ended March 31, 2017 and 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of the acquisition price over fair value of net assets acquired through business combinations. The Company amortizes goodwill on a straight-line basis over a 10 year period. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment at the entity level. Impairment, if any, will be recognized for the difference between the fair value of the Company and its carrying amount and will be limited to the carrying amount of goodwill.

Intangible Assets

Intangible assets consist of customer relationships, trade names, technology, and In-Process Research and Development (IPR&D). The intangible assets are amortized using the straight-line method over their estimated useful lives. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on undiscounted cash flows and, if impaired, written down to fair value.

Product Warranties

The Company sells the majority of its products to customers along with repair or replacement warranties. The Company determines its estimated liability for warranty claims based on its historical experience. It is reasonably possible that the Company's estimate of the accrued product warranty claims will change in the near term. Estimated costs for product warranties are recognized at the date the revenue is recognized.

Customer Advances

Customer advances primarily represent advance payments received on products. Revenue from service contracts is recognized using the straight-line method over the term of the related contract.

Revenue Recognition

The Company recognizes revenue upon transfer of title of product, which is generally upon shipment to the customer, and performance of services.

Sales Taxes

The Company collects and remits sales taxes during the normal course of business. These taxes are reported net in the accompanying consolidated statements of operations and therefore do not impact reported revenues or expenses.

Shipping and Handling

Shipping and handling costs are included as a component of cost of goods sold.

Advertising

Advertising and marketing costs are expensed as incurred and amounted to approximately \$46,100 and \$58,376 for the three-month period ended March 31, 2017 and 2016, respectively.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes related primarily to differences between the basis of property and certain accrued expenses for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The provision for income taxes in interim periods is computed by applying the estimated annual effective tax rate against earnings before income tax expense for the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

3. INVENTORY

Inventory consisted of the following at:

	March 31, 2017	December 31, 2016
Raw materials	\$ 978,583	\$ 980,114
Work-in-process	356,958	252,541
Finished goods	777,438	715,842
Short-term rental and demo equipment	68,553	94,541
	<u>2,181,532</u>	<u>2,043,038</u>
Less: Reserve for obsolescence	(257,527)	(262,175)
	<u>\$ 1,924,005</u>	<u>\$ 1,780,863</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at:

	March 31, 2017	December 31, 2016
Leasehold improvements	\$ 325,458	\$ 324,621
Test equipment	38,065	38,065
Machinery and equipment	931,457	923,538
Computer equipment	104,443	103,180
Furniture and fixings	74,344	73,445
Demo equipment	97,309	97,309
Lab equipment	73,088	73,088
	<u>1,644,164</u>	<u>1,633,246</u>
Less: Accumulated depreciation and amortization	(994,801)	(915,147)
	<u>\$ 649,363</u>	<u>\$ 718,099</u>

Depreciation and amortization expense totaled \$79,570 and \$74,275 for the three-month periods ended March 31, 2017 and 2016, respectively.

5. GOODWILL

Goodwill subject to amortization consisted of the following at March 31, 2017:

	Weighted Average Remaining Useful Life	Gross Asset	Accumulated Amortization	Net
Goodwill	7.0	\$ 3,792,648	\$ (1,137,803)	\$ 2,654,845

Goodwill subject to amortization consisted of the following at December 31, 2016:

	Weighted Average Remaining Useful Life	Gross Asset	Accumulated Amortization	Net
Goodwill	7.3	\$ 3,792,648	\$ (1,042,987)	\$ 2,749,661

Amortization expense related to goodwill was \$94,816 for each of the three-month periods ended March 31, 2017 and 2016.

Estimated aggregate amortization of goodwill is as follows for the years ending December 31:

2017 (remainder)	\$ 284,448
2018	379,264
2019	379,264
2020	379,264
2021	379,264
Thereafter	853,341
	<u>\$ 2,654,845</u>

6. INTANGIBLE ASSETS

Intangible assets subject to amortization consisted of the following at March 31, 2017:

	Weighted Average Remaining Useful Life	Gross Assets	Accumulated Amortization	Net
Customer relationships	7.0	\$ 6,484,000	\$ (1,945,200)	\$ 4,538,800
Technology	7.0	2,341,000	(702,300)	1,638,700
IPR&D	7.0	408,000	(122,400)	285,600
Trade names	7.0	693,000	(207,900)	485,100
		<u>\$ 9,926,000</u>	<u>\$ (2,977,800)</u>	<u>\$ 6,948,200</u>

6. INTANGIBLE ASSETS (Continued)

Intangible assets subject to amortization consisted of the following at December 31, 2016:

	Weighted Average Remaining Useful Life	Gross Assets	Accumulated Amortization	Net
Customer relationships	7.3	\$ 6,484,000	\$ (1,783,100)	\$ 4,700,900
Technology	7.3	2,341,000	(643,775)	1,697,225
IPR&D	7.3	408,000	(112,200)	295,800
Trade names	7.3	693,000	(190,575)	502,425
		<u>\$ 9,926,000</u>	<u>\$ (2,729,650)</u>	<u>\$ 7,196,350</u>

Amortization expense related to intangible assets was \$248,150 for each of the three-month periods ended March 31, 2017 and 2016.

Estimated aggregate amortization of acquired intangible assets is as follows for the years ending December 31:

2017 (remainder)	\$ 744,450
2018	992,600
2019	992,600
2020	992,600
2021	992,600
Thereafter	2,233,350
	<u>\$ 6,948,200</u>

The Company considered the period of expected cash flows used to measure the fair value of the acquired customer relationships in determining the useful life of the acquired customer relationships for amortization purposes. The Company's future cash flows are not materially impacted by its ability to extend or renew its acquired customer relationships.

7. FINANCING ARRANGEMENTS

Long-Term Debt

Long-term debt consisted of the following at:

	March 31, 2017	December 31, 2016
Term note payable to a financial institution in monthly installments of \$38,690, plus interest, through April 2021, at which time all outstanding principal and interest becomes due. The note bears interest at the one month LIBOR plus 250 basis points (3.48% at March 31, 2017). The note is collateralized by substantially all of the assets of Ambrell Corp.	\$ 1,934,524	\$ 2,050,595
Less: Current portion	(464,286)	(464,286)
	<u>\$ 1,470,238</u>	<u>\$ 1,586,309</u>

Future minimum principal payments required under the terms of the long-term debt arrangements are as follows for the years ending December 31:

2017 (remainder)	\$ 348,215
2018	464,286
2019	464,286
2020	464,286
2021	193,451
	<u>\$ 1,934,524</u>

Financial Covenants

The Company's financing arrangement contains financial covenants, including, but not limited to, earnings before interest, taxes, depreciation and amortization (EBITDA) to fixed charges ratio and total funded debt to EBITDA. The Company was in compliance with these covenants at March 31, 2017 and December 31, 2016.

Cash Paid for Interest

During the three-month periods ended March 31, 2017 and 2016, the Company made interest payments totaling approximately \$13,000 and \$16,200, respectively.

8. EQUITY

At March 31, 2017 and December 31, 2016, there were 20,000,000 shares of common stock, \$0.01 par value, authorized and 100 shares issued and outstanding.

9. EMPLOYEE BENEFIT PLAN

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code. Employees are immediately eligible to participate in the Plan upon employment and are eligible for employer matching contributions after completing one year of service, as defined in the Plan. The Plan allows eligible employees to make voluntary contributions up to 100% of compensation, up to the federal government contribution limits. The Company will make a matching contribution of 25% of each employee's contributions up to a maximum of 2% of such employee's compensation. For the three-month periods ended March 31, 2017 and 2016, the Company made matching contributions of \$15,507 and \$9,249, respectively.

10. LEASES

The Company leases its facilities as well as equipment under the terms of operating lease agreements requiring total current monthly payments ranging between approximately \$6,500-\$34,000 and expiring at varying times through 2029. Lease expense under the terms of these lease agreements during the three-month periods ended March 31, 2017 and 2016 totaled approximately \$103,000 and \$104,000, respectively. Future minimum payments required under the terms of these lease agreements are as follows for the years ending December 31:

2017 (remainder)	\$	307,767
2018		121,212
2019		84,383
2020		81,965
2021		79,150
Thereafter		515,177
	\$	<u>1,189,654</u>

11. EMPLOYMENT CONTRACTS

The Company has employment contracts with key personnel. These agreements expire during 2017 and provide for minimum salary requirements, insurance benefits, and other fringe benefits. The minimum payments required under the terms of these employment contracts is \$175,000 for the year ending December 31, 2017.

12. RELATED PARTY TRANSACTIONS

Management fees

The Company entered into a Management Agreement in 2014 with an entity affiliated through common ownership with the majority stockholders (the Affiliated Entity). Under the terms of the Management Agreement, the Affiliated Entity provides management services for the Company for annual consideration of the greater of 1) \$200,000 or 2) 6.0% of the Company's earnings before interest, taxes, depreciation, and amortization for the year prior. Amounts are payable in quarterly installments of \$50,000. During the period ended March 31, 2017, the Company did not make any payments to the Affiliated Entity. During the period ended March 31, 2016, the Company paid the Affiliated Entity \$50,000. Management fees are included in general and administrative expenses on the consolidated statement of operations. At March 31, 2017 and December 31, 2016, there were accrued management fees of \$100,000 and \$50,000, respectively.

13. MERGER TRANSACTION PAYABLE

Merger transaction payable consists of amounts due to former shareholders as a result of the acquisition of the Company on March 31, 2014, and totaled \$62,517 at both March 31, 2017 and December 31, 2016.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 1, 2017, which is the date the financial statements were available to be issued.

inTEST Corporation**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

On May 24, 2017, inTEST Corporation (“inTEST”) completed its acquisition of Ambrell Corporation (“Ambrell”). The acquisition was completed by acquiring all of the outstanding capital stock of Ambrell. The following unaudited pro forma condensed combined financial statements were prepared using the purchase method of accounting, with inTEST being the acquiring entity, and reflects estimates and assumptions deemed appropriate by inTEST management to give effect to the acquisition as if it had been completed effective as of January 1, 2016 with respect to the annual and interim unaudited pro forma condensed combined statements of operations, respectively, and as of March 31, 2017 with respect to the unaudited pro forma condensed combined balance sheet.

Because these unaudited pro forma condensed combined financial statements have been prepared based on preliminary estimates of fair values attributable to the acquisition, the actual amounts recorded for the acquisition may differ materially from the information presented in these unaudited pro forma condensed combined financial statements. The total purchase price has been allocated on a preliminary basis to assets acquired and liabilities assumed based on management’s preliminary estimates of fair value, with the excess purchase price over net tangible and identifiable intangible assets acquired being allocated to goodwill. Definitive allocations are expected to be finalized in the third quarter of 2017. Accordingly, the purchase price allocation pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value.

The unaudited pro forma condensed combined statements of operations do not reflect nonrecurring charges resulting from the acquisition transaction. The nonrecurring charges resulting from the acquisition transaction include investment advisory costs, legal costs and other costs incurred as a direct result of the transaction.

The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial position of that would have been reported had the acquisition and cash payment been completed as of the dates presented, and should not be taken as representative of inTEST’s future results of operations or financial position. This information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma statements of operations do not reflect any operating efficiencies and cost savings that inTEST may achieve with respect to the combined companies.

The unaudited pro forma condensed combined financial statements should be read in conjunction with inTEST’s historical consolidated financial statements included in its annual report on Form 10-K and quarterly report on Form 10-Q. The unaudited pro forma condensed combined financial statements should also be read in conjunction with Ambrell’s financial statements and are included in Exhibits 99.1 and 99.2.

inTEST Corporation
Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 31, 2017
(In thousands)

	inTEST Corp Historical	Ambrell Corp Historical	Pro Forma Adjustments	Notes	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 27,455	\$ 1,804	\$ (22,813)	A	\$ 6,446
Trade accounts receivable, net of allowance	9,817	3,102	-		12,919
Inventories	3,921	1,924	-		5,845
Prepaid expenses and other current assets	374	233	-		607
Total current assets	<u>41,567</u>	<u>7,063</u>	<u>(22,813)</u>		<u>25,817</u>
Net property and equipment	934	649	-		1,583
Goodwill	1,706	2,655	13,494	I	17,855
Intangible assets, net	822	6,948	2,552	B	10,322
Deferred taxes and other assets	1,324	375	-		1,699
Total assets	<u>\$ 46,353</u>	<u>\$ 17,690</u>	<u>\$ (6,767)</u>		<u>\$ 57,276</u>
LIABILITIES					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ 464	\$ (464)	A	\$ -
Accounts payable	1,833	1,103	-		2,936
Current portion of contingent consideration liability	-	-	1,051	C	1,051
Accrued expenses and other current liabilities	4,600	1,779	849	D	7,228
Total current liabilities	<u>6,433</u>	<u>3,346</u>	<u>1,436</u>		<u>11,215</u>
Deferred tax liabilities	-	2,354	3,385	H	5,739
Contingent consideration liability, net of current portion	-	-	1,251	C	1,251
Long-term debt, net of current portion	-	1,470	(1,470)	A	-
Total liabilities	<u>6,433</u>	<u>7,170</u>	<u>4,602</u>		<u>18,205</u>
STOCKHOLDERS' EQUITY					
Common stock	104	-	-		104
Additional paid-in capital	25,604	14,291	(14,291)	E	25,604
Retained earnings (accumulated deficit)	13,749	(3,789)	2,940	E,D	12,900
Accumulated other comprehensive earnings	667	18	(18)	E	667
Treasury stock, at cost	(240)	-	-		(204)
Total stockholders' equity	<u>39,920</u>	<u>10,520</u>	<u>(11,369)</u>		<u>39,071</u>
Total liabilities and stockholders' equity	<u>\$ 46,353</u>	<u>\$ 17,690</u>	<u>\$ (6,767)</u>		<u>\$ 57,276</u>

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

inTEST Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2016
(In thousands, except share and per share data)

	inTEST Corp Historical	Ambrell Corp Historical	Pro Forma Adjustments	Notes	Pro Forma Combined
Net revenues	\$ 40,227	\$ 20,183	\$ -		\$ 60,410
Cost of revenues	19,849	11,387	-		31,236
Gross margin	<u>20,378</u>	<u>8,796</u>	<u>-</u>		<u>29,174</u>
Operating expenses:					
Selling expense	5,567	4,257	-		9,824
Engineering and product development expense	3,660	705	-		4,365
General and administrative expense	7,005	4,685	986	B	12,676
Total operating expenses	<u>16,232</u>	<u>9,647</u>	<u>986</u>		<u>26,865</u>
Operating income (loss)	4,146	(851)	(986)		2,309
Other income (expense)	61	(359)	71	F	(227)
Earnings (loss) before income tax expense (benefit)	4,207	(1,210)	(915)		2,082
Income tax expense (benefit)	1,549	(187)	11	G	1,373
Net earnings (loss)	<u>\$ 2,658</u>	<u>\$ (1,023)</u>	<u>\$ (926)</u>		<u>\$ 709</u>
Net earnings per common share - basis	\$ 0.26				\$ 0.07
Weighted average common shares outstanding - basis	10,313,747				10,313,747
Net earnings per common share - diluted	\$ 0.26				\$ 0.07
Weighted average common shares outstanding and common share equivalents outstanding -diluted	10,332,920				10,332,920

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

inTEST Corporation
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Three Months Ended March 31, 2017
(In thousands, except share and per share data)

	<u>inTEST Corp Historical</u>	<u>Ambrell Corp Historical</u>	<u>Pro Forma Adjustments</u>	<u>Notes</u>	<u>Pro Forma Combined</u>
Net revenues	\$ 14,180	\$ 4,612	\$ -		\$ 18,792
Cost of revenues	6,452	2,680	-		9,132
Gross margin	<u>7,728</u>	<u>1,932</u>	<u>-</u>		<u>9,660</u>
Operating expenses:					
Selling expense	1,668	966	-		2,634
Engineering and product development expense	935	194	-		1,129
General and administrative expense	1,994	1,007	(3)	B	2,998
Total operating expenses	<u>4,597</u>	<u>2,167</u>	<u>(3)</u>		<u>6,761</u>
Operating income (loss)	3,131	(235)	3		2,899
Other income (expense)	41	(11)	17	F	47
Earnings (loss) before income tax expense (benefit)	3,172	(246)	20		2,946
Income tax expense (benefit)	1,094	(39)	3	G	1,058
Net earnings (loss)	<u>\$ 2,078</u>	<u>\$ (207)</u>	<u>\$ 17</u>		<u>\$ 1,888</u>
Net earnings per common share - basis	\$ 0.20				\$ 0.18
Weighted average common shares outstanding - basis	10,264,565				10,264,565
Net earnings per common share - diluted	\$ 0.20				\$ 0.18
Weighted average common shares outstanding and common share equivalents outstanding -diluted	10,295,337				10,295,337

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma condensed combined financial statements are based on the historical financial statements of inTEST and Ambrell after giving effect to inTEST's acquisition of Ambrell and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. inTEST acquired all of the outstanding capital stock of Ambrell on May 24, 2017.

The unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2017 has been derived from:

- the unaudited historical consolidated statement of operations of inTEST for the three months ended March 31, 2017
- the unaudited historical consolidated statement of operations of Ambrell for the three months ended March 31, 2017

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2016 has been derived from:

- the audited historical consolidated statement of operations of inTEST for the year ended December 31, 2016
- the audited historical consolidated statement of operations of Ambrell for the year ended December 31, 2016

The unaudited pro forma condensed combined balance sheet as of March 31, 2017 has been derived from:

- the unaudited historical consolidated balance sheet of inTEST as of March 31, 2017
- the unaudited historical consolidated balance sheet of Ambrell as of March 31, 2017

Because these unaudited pro forma condensed combined financial statements have been prepared based on preliminary estimates of fair values attributable to the acquisition, the actual amounts recorded for the acquisition may differ materially from the information presented in these unaudited pro forma condensed combined financial statements. The total purchase price has been allocated on a preliminary basis to assets acquired and liabilities assumed based on management's preliminary estimates of fair value, with the excess purchase price over net tangible and identifiable intangible assets acquired being allocated to goodwill. Definitive allocations are expected to be finalized in the third quarter of 2017. Accordingly, the purchase price allocation pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value.

The unaudited pro forma condensed combined statements of operations do not reflect nonrecurring charges resulting from the acquisition transaction. The nonrecurring charges resulting from the acquisition transaction include investment advisory costs, legal costs and other costs incurred as a direct result of the transaction.

The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial position of inTEST that would have been reported had the acquisition and cash payment been completed as of the dates presented, and should not be taken as representative of the future results of operations or financial position of inTEST. This information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma statements of operations do not reflect any operating efficiencies and cost savings that inTEST may achieve with respect to the combined companies.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of inTEST and Ambrell included in the respective inTEST annual report on Form 10-K and the inTEST quarterly report on Form 10-Q and the attached Ambrell financial statements in Exhibits 99.1 and 99.2.

2. AMBRELL ACQUISITION

On May 24, 2017, we completed our acquisition of Ambrell. Ambrell is a manufacturer of precision induction heating systems. Ambrell's systems are used to conduct fast, efficient, repeatable non-contact heating of metals or other electrically conductive materials, in order to transform raw materials into finished parts. The Ambrell acquisition will complement our current thermal technologies and broaden our diverse customer base, allowing expansion within many non-ATE related markets, such as consumer product packaging, fiber-optics, automotive and other markets.

The purchase price for Ambrell was \$22 million in cash paid at closing, subject to a customary post-closing working capital adjustment. Additional consideration in the form of earnouts may be paid based upon a multiple of adjusted EBITDA for 2017 and 2018, as further discussed below. The acquisition was completed by acquiring all of the outstanding capital stock of Ambrell. Total acquisition costs incurred to complete this transaction were \$849,000. Acquisition costs were expensed as incurred and included in general and administrative expense.

The acquisition of Ambrell has been accounted for as a business combination using purchase accounting, and, accordingly, the results of Ambrell have been included in our consolidated results of operations from the date of acquisition. The allocation of the purchase price for Ambrell is not yet complete. As a result, the values reflected below are preliminary and we expect them to change. The preliminary allocation of the Ambrell purchase price was based on estimated fair values as of May 24, 2017. Adjustments to these estimates will be included in the final allocation of the purchase price for Ambrell. These adjustments could be material. We expect to finalize the purchase price allocation in the third quarter of 2017. The excess of the purchase price over the identifiable intangible and net tangible assets was allocated to goodwill and is not deductible for tax purposes. Goodwill is attributed to synergies that are expected to result from the operations of the combined businesses.

The total preliminary purchase price of \$24.3 million was comprised of (in thousands):

Cash paid to acquire the capital stock of Ambrell	\$	22,742
Estimated fair value of contingent consideration liability		2,302
Estimated working capital adjustments		(710)
Total preliminary purchase price	\$	24,334

As noted above, the consideration paid for the acquisition of Ambrell includes contingent consideration based on the future adjusted EBITDA of Ambrell. Adjusted EBITDA is earnings (or loss) from operations before interest expense, benefit or provision for income taxes, depreciation and amortization, and excludes other non-recurring income and expense items as defined in Exhibit B of the stock purchase agreement for Ambrell. The first earnout, to be paid after calendar year 2017 is completed, will be an amount equal to 8x Ambrell's adjusted EBITDA for 2017 minus the \$22 million paid at closing. The second earnout, to be paid after calendar year 2018 is completed, is an amount equal to 8x Ambrell's adjusted EBITDA for 2018 minus the sum of the \$22 million paid at closing and any earnout paid with respect to 2017. The 2017 and 2018 earnouts, in the aggregate, are capped at \$18 million. We based our initial valuation of the contingent consideration liability on the range of projected estimated EBITDA of \$1.5 million to \$3.2 million for 2017 and \$1.8 million to \$3.5 for 2018. This resulted in a range of payouts between \$3.0 million and \$5.7 million. We discounted the range of payouts by an estimated cost of capital of 18.5% and probability weighted the results to arrive at a fair value of \$2.3 million, which was recorded as a contingent consideration liability as of the acquisition date.

The total preliminary purchase price of \$24.3 million has been allocated as follows (in thousands):

Goodwill	\$	16,820
Identifiable intangible assets		9,500
Tangible assets acquired and liabilities assumed:		
Cash		70
Trade accounts receivable		3,621
Inventories		1,917
Other current assets		200
Property and equipment		614
Accounts payable		(1,420)
Accrued expenses		(1,280)
Customer advances		(554)
Deferred tax liability		(5,154)
Total preliminary purchase price	\$	24,334

We estimated the fair value of identifiable intangible assets acquired using a combination of the income, cost and market approaches. As part of the preliminary valuation analysis, we identified intangible assets, including technology, trade names, customer relationships and backlog. The fair value of the identifiable intangible assets is determined primarily using the income approach, which requires a forecast of all expected future cash flows. Since all information required to perform a detailed valuation of Ambrell's intangible assets could not be obtained as of the date of this filing, for purposes of these unaudited pro forma condensed combined financial statements, we used certain assumptions based on historical and industry data. The following table summarizes the estimated fair value of Ambrell's identifiable intangible assets and their estimated useful lives and uses the straight-line method of amortization (in thousands):

	Fair Value	Weighted Average Estimated Useful Life (in years)
Customer relationships	\$ 6,500	6
Patented technology	1,500	10
Customer backlog	1,000	1
Ambrell trade name	500	4
Total intangible assets	\$ 9,500	6

These preliminary estimates of fair value and estimated useful lives will likely differ from final amounts we will calculate after completing a detailed valuation analysis, and the difference could have a material effect on the accompanying unaudited pro forma condensed combined financial statements. A 10% change in the valuation of intangible assets would cause a corresponding increase or decrease in the balance of goodwill and annual amortization expense of approximately \$158,000, assuming an overall weighted-average useful life of 6 years.

3. PRO FORMA ADJUSTMENTS

The following pro forma adjustments are included in the unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2017 and the year ended December 31, 2016 and the unaudited pro forma condensed combined balance sheet as of March 31, 2017:

- A The decrease in cash reflects the cash consideration given to Ambrell shareholders and the extinguishing Ambrell's outstanding debt obligations that were not assumed:

Cash consideration at closing	\$ (20,879)
Current portion of debt extinguished	(464)
Long term portion of debt extinguished	(1,470)
Pro forma adjustment	<u>\$ (22,813)</u>

- B Reflects the adjustment of historical intangible assets acquired by inTEST to their estimated fair values and the related impact to amortization expense:

	Estimated Fair Value	Year Ended December 31, 2016 Amortization Expense	Three Months Ended March 31, 2017 Amortization Expense
Customer relationships	\$ 6,500	\$ 1,083	\$ 271
Patented technology	1,500	150	38
Customer backlog	1,000	1,000	-
Ambrell trade name	500	125	31
	<u>\$ 9,500</u>	<u>\$ 2,358</u>	<u>\$ 340</u>
Historical carrying values and amortization expense	(6,948)	(1,372)	(343)
Pro forma adjustments	<u>\$ 2,552</u>	<u>\$ 986</u>	<u>\$ (3)</u>

- C Reflects the preliminary estimated fair value of contingent consideration liability.
- D Reflects the accrual for transaction costs incurred subsequent to March 31, 2017 and in connection with the acquisition of Ambrell.
- E Reflects the elimination of Ambrell's historical equity.
- F To remove historical interest expense recorded by Ambrell in connection with debt that was extinguished in connection with the acquisition.

G Reflects the tax impact upon the elimination of historical interest expense:

	Year Ended December 31, 2016	Three Months Ended March 31, 2017
Historical interest expense	(71)	(17)
Tax rate	15%	16%
Pro forma adjustments	<u>\$ 11</u>	<u>\$ 3</u>

H Reflects the deferred tax liability recorded in connection with the acquired intangible assets:

Acquired intangible assets	\$ 9,500
Tax rate	36%
Pro forma adjustments	<u>\$ 3,385</u>

I Establishes goodwill resulting from the excess of the purchase price over the estimated fair values of the net assets acquired:

Elimination of historical equity	\$ (10,520)
Cash consideration at closing	20,879
Contingent consideration liability	2,302
Elimination of historical intangible assets	6,948
Acquisition of intangible assets	(9,500)
Deferred tax liability established in connection with acquired intangible assets	3,385
Pro forma adjustments	<u>\$ 13,494</u>