

INTEST CORP
Form 10-Q
May 14, 2015

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, 2015 or

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

For the transition period from _____ to _____

Commission File Number 1-36117

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

22-2370659

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices, including zip code)

(856) 505-8800

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES 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

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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, 2015:

10,562,678

inTEST CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	Mar. 31, 2015	Dec. 31, 2014
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$22,485	\$23,126
Trade accounts receivable, net of allowance for doubtful accounts of \$146 and \$146, respectively	6,457	5,034
	(Unaudited)	

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Inventories	4,165	3,769
Deferred tax assets	684	529
Prepaid expenses and other current assets	<u>414</u>	<u>473</u>
Total current assets	<u>34,205</u>	<u>32,931</u>
Property and equipment:		
Machinery and equipment	4,379	4,322
Leasehold improvements	<u>591</u>	<u>593</u>
Gross property and equipment	4,970	4,915
Less: accumulated depreciation	<u>(3,736)</u>	<u>(3,647)</u>
Net property and equipment	<u>1,234</u>	<u>1,268</u>
Deferred tax assets	737	884
Goodwill	1,706	1,706
Intangible assets, net	1,320	1,393
Restricted certificates of deposit	350	350
Other assets	<u>193</u>	<u>206</u>
Total assets	<u>\$39,745</u>	<u>\$38,738</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,908	\$ 1,234
Accrued wages and benefits	1,330	1,528
Accrued rent	596	615
Accrued professional fees	530	390
Accrued sales commissions	368	328
Domestic and foreign income taxes payable	139	22
Other current liabilities	<u>367</u>	<u>253</u>
Total current liabilities	<u>5,238</u>	<u>4,370</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 10,595,755 and 10,595,755 shares issued	106	106
Additional paid-in capital	26,351	26,321
Retained earnings	7,590	7,152
Accumulated other comprehensive earnings	664	993
Treasury stock, at cost; 33,077 and 33,077 shares, respectively	<u>(204)</u>	<u>(204)</u>
Total stockholders' equity	<u>34,507</u>	<u>34,368</u>
Total liabilities and stockholders' equity	<u>\$39,745</u>	<u>\$38,738</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
March 31,

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	----- 2015 -----	2014 -----
Net revenues	\$10,188	\$ 8,797
Cost of revenues	5,270	4,612
Gross margin	----- 4,918 -----	----- 4,185 -----
Operating expenses:		
Selling expense	1,487	1,326
Engineering and product development expense	942	923
General and administrative expense	1,807	1,532
Total operating expenses	----- 4,236 -----	----- 3,781 -----
Operating income	682	404
Other income (expense)	(11)	7
Earnings before income tax expense	671	411
Income tax expense	233	125
Net earnings	----- \$ 438 =====	----- \$ 286 =====
Net earnings per common share - basic	\$0.04	\$0.03
Weighted average common shares outstanding - basic	10,465,414	10,393,956
Net earnings per common share - diluted	\$0.04	\$0.03
Weighted average common shares and common share equivalents outstanding - diluted	10,483,527	10,448,911

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
Net earnings	\$ 438	\$ 286
Foreign currency translation adjustments	(329)	4
Comprehensive earnings	\$ 109	\$ 290

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 2015	10,595,755	\$ 106	\$26,321	\$7,152	\$ 993	\$(204)	\$34,368
Net earnings	-	-	-	438	-	-	438
Other comprehensive loss	-	-	-	-	(329)	-	(329)
Amortization of deferred compensation related to restricted stock	-	-	30	-	-	-	30
Balance, March 31, 2015	10,595,755	\$ 106	\$26,351	\$7,590	\$ 664	\$(204)	\$34,507

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 438	\$ 286
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	200	217
Provision for excess and obsolete inventory	51	35
Foreign exchange (gain) loss	19	(1)
Amortization of deferred compensation related to restricted stock	30	41
Proceeds from sale of demonstration equipment, net of gain	16	8
Deferred income tax expense (benefit)	(8)	20
Changes in assets and liabilities:		
Trade accounts receivable	(1,484)	(142)
Inventories	(475)	(595)
Prepaid expenses and other current assets	50	46
Other assets	(7)	(8)
Accounts payable	676	497
Accrued wages and benefits	(170)	(407)
Accrued rent	(19)	18
Accrued professional fees	142	(38)
Accrued sales commissions	40	(2)
Domestic and foreign income taxes payable	117	(29)
Other current liabilities	121	83
	(263)	29
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(179)	(200)
Net cash used in investing activities	(179)	(200)
Effects of exchange rates on cash	(199)	6
Net cash used in all activities	(641)	(165)
Cash and cash equivalents at beginning of period	23,126	19,018

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Cash and cash equivalents at end of period	----- \$22,485 =====	----- \$18,853 =====
Cash payments for:		
Domestic and foreign income taxes	\$ 124	\$ 134
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
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 as well as seasonal market patterns. This market is subject to significant economic downturns at various times. Our financial results are affected by a wide variety of factors, including, but not limited to, general economic conditions worldwide and in the markets in which we operate, economic conditions specific to the semiconductor market and the other markets we serve, our ability to safeguard patented technology and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the markets that we serve. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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

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

Reclassification

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

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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 \$51 and \$35 for the three months ended March 31, 2015 and 2014, respectively.

Goodwill, Intangible and Long-Lived Assets

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

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

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

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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, 2015.

Revenue Recognition

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

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

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

Product Warranties

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

Net Earnings Per Common Share

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

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

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
Weighted average common shares outstanding -- basic	10,465,414	10,393,956
Potentially dilutive securities:		
Unvested shares of restricted stock	<u>18,113</u>	<u>54,955</u>
Weighted average common shares and common share equivalents outstanding -- diluted	<u>10,483,527</u>	<u>10,448,911</u>
 Average number of potentially dilutive securities excluded from calculation	 -	 10,000

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

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

(3) GOODWILL AND INTANGIBLE ASSETS

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

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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)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, 2015.

Intangible Assets

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

	<u>March 31, 2015</u>		
	<u>Gross</u> Carrying <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> Carrying <u>Amount</u>
Finite-lived intangible assets:			
Customer relationships	\$1,480	\$1,026	\$ 454
Patented technology	590	356	234
Software	270	176	94
Trade name	140	112	28
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>1,788</u>	 <u>810</u>

Indefinite-lived intangible assets:

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Sigma trademark	<u>510</u>	-	<u>510</u>
Total intangible assets	<u>\$3,108</u>	<u>\$1,788</u>	<u>\$1,320</u>

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

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

(In thousands, except share and per share data)

(3) GOODWILL AND INTANGIBLE ASSETS (Continued)

Total amortization expense for the three months ended March 31, 2015 and 2014 was \$73 and \$93, respectively. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

2015 (remainder)	\$216
2016	\$229
2017	\$212
2018	\$ 65
2019	\$ 39

(4) MAJOR CUSTOMERS

During the three months ended March 31, 2015 and 2014, Hakuto Co., Ltd., one of our distributors, accounted for 10% and 11% 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, 2015 and 2014.

(5) INVENTORIES

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

	Mar. 31,	Dec. 31,
	2015	2014
Raw materials	\$3,023	\$2,505
Work in process	500	406
Inventory consigned to others	119	129
Finished goods	<u>523</u>	<u>729</u>
	<u>\$4,165</u>	<u>\$3,769</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 sheets. The terms of our leases require us to renew these letters of credit at least 30 days prior to their expiration dates for successive terms of not less than one year until lease expiration. The terms of our leases also allow us to request a reduction in the amount of these letters of credit at certain points during the lease term if there have been no events of default. As of March 31, 2015, there have been no events of default. Our outstanding letters of credit at March 31, 2015 and December 31, 2014 consisted of the following:

	Original L/C <u>Issue Date</u>	L/C Expiration <u>Date</u>	Lease Expiration <u>Date</u>	Letters of Credit	
				<u>Amount Outstanding</u>	
				Mar. 31, <i>2015</i>	Dec. 31, <i>2014</i>
Mt. Laurel, NJ	3/29/2010	4/01/2016	4/30/2021	\$250	\$250
Mansfield, MA	10/27/2010	11/08/2015	8/23/2021	<u>100</u>	<u>100</u>
				<u>\$350</u>	<u>\$350</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, 2015, we have unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 12 to the consolidated financial statements in our 2014 Form 10-K. We did not grant any stock options during 2015 or 2014.

We record compensation expense for restricted stock awards (unvested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. As of March 31, 2015, total compensation expense to be recognized in future periods was \$296. The weighted average period over which this expense is expected to be recognized is 2.5 years. The following table shows the allocation of the compensation expense we recorded during the three months ended March 31, 2015 and 2014, respectively, related to unvested shares:

	Three Months Ended March 31,	
	<u>2015</u>	<u>2014</u>
Cost of revenues	\$ 3	\$ 3
Selling expense	1	3
Engineering and product development expense	2	6
General and administrative expense	<u>24</u>	<u>29</u>
	<u>\$ 30</u>	<u>\$ 41</u>

There was no compensation expense capitalized in the three months ended March 31, 2015 or 2014.

The following table summarizes the activity related to unvested shares for the three months ended March 31, 2015:

	Number of Shares	Weighted Average Grant Date <u>Fair</u> <u>Value</u>
Unvested shares outstanding, January 1, 2015	101,875	\$2.82
Granted	-	-
Vested	(5,000)	2.94
Forfeited	<u>-</u>	-
Unvested shares outstanding, March 31, 2015	<u>96,875</u>	2.96

(8)

EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan for our employees who work in the U.S. All permanent employees of inTEST Corporation, Temptronic Corporation and inTEST Silicon Valley Corporation who are at least 18 years of age are eligible to participate in the plan. We match employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of \$5. Employer contributions vest ratably over four years. Matching contributions are discretionary. For the three months ended March 31, 2015 and 2014, we recorded \$141 and \$133 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.

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(9) SEGMENT INFORMATION (Continued)

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

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

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

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

	Three Months Ended	
	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
Net revenues from unaffiliated customers:		
Thermal Products	\$ 5,717	\$5,243
Mechanical Products	2,435	2,047
	<u>2,036</u>	<u>1,507</u>
Electrical Products		

\$10,188 \$8,797

Earnings (loss) before income tax expense (benefit):

Thermal Products	\$1,029	\$ 811
Mechanical Products	(285)	(283)
Electrical Products	319	5
	<u>(392)</u>	<u>(122)</u>
Corporate))
	<u>\$ 671</u>	<u>\$ 411</u>

Net earnings (loss):

Thermal Products	\$ 672	\$ 564
Mechanical Products	(186)	(197)
Electrical Products	208	4
	<u>(256)</u>	<u>(85)</u>
Corporate))
	<u>\$ 438</u>	<u>\$ 286</u>

Mar. 31, Dec. 31,

2015 2014

Identifiable assets:

Thermal Products	\$14,899	\$26,211
Mechanical Products	21,413	7,801
	<u>3,433</u>	<u>4,726</u>
Electrical Products	<u>\$39,745</u>	<u>\$38,738</u>

(Unaudited)

(In thousands, except share and per share data)

(9) SEGMENT INFORMATION (Continued)

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

	Three Months Ended March 31,	
	<u>2015</u>	<u>2014</u>
Net revenues from unaffiliated customers:		
U.S.	\$ 3,489	\$ 3,149
	<u>6,699</u>	<u>5,648</u>
Foreign	<u>\$10,188</u>	<u>\$ 8,797</u>
	Mar. 31,	Dec. 31,
	<u>2015</u>	<u>2014</u>
Property and equipment:		
U.S.	\$ 712	\$ 621
	<u>522</u>	<u>647</u>
Foreign	<u>\$1,234</u>	<u>\$1,268</u>

inTEST CORPORATION

OF OPERATIONS

Risk Factors and Forward-Looking Statements

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

Information about the primary risks and uncertainties that could cause our actual future results to differ materially from our historic results or the results described in the forward-looking statements made in this report or presented elsewhere by Management from time to time are included in Part I, Item 1A - "Risk Factors" in our 2014 Form 10-K. Material changes to such risk factors may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2014 Form 10-K.

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inTEST CORPORATION

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

Overview

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

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

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

fourth quarters being periods of weakened demand. We believe this change has been driven by the strong demand for consumer products containing semiconductor content sold during the year-end holiday shopping season.

As part of our strategy to reduce the impact of ATE market volatility on our business operations, in 2009, we began to diversify our served markets to address the thermal test requirements of several other markets outside the ATE market. These include the automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications markets. We believe that these markets usually are less cyclical than the ATE market. However, because we are a 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 and market trends in these non-ATE markets. In addition, our orders and net revenues in any given period in these markets do not necessarily reflect the overall trends in these non-ATE markets due to our limited market shares. The level of our orders and net revenues from these non-ATE markets has varied in the past, and we expect will vary significantly in the future, as we work to build our presence in these markets and establish new markets for our products.

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

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inTEST CORPORATION

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

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

Orders and Backlog

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

Three Months Ended		Change		Three Months Ended		Change	
<u>March 31,</u>				<u>December</u>			
<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>	<u>2014</u>	<u>\$</u>	<u>%</u>	

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Orders:

Thermal Products	\$ 6,433	\$ 5,644	\$ 789	14%	\$5,622	\$ 811	14%
Mechanical Products	2,534	2,964	(430)	(15)	1,914	620	32
	<u>2,464</u>	<u>1,553</u>	<u>911</u>	59	<u>1,457</u>	<u>1,007</u>	69
Electrical Products							
	<u>\$11,431</u>	<u>\$10,161</u>	<u>\$1,270</u>	12%	<u>\$8,993</u>	<u>\$2,438</u>	27%
ATE market	\$ 9,297	\$ 8,219	\$1,078	13%	\$6,313	\$2,984	47%
	<u>2,134</u>	<u>1,942</u>	<u>192</u>	10	<u>2,680</u>	<u>(546)</u>	(20)
Non-ATE markets)	
	<u>\$11,431</u>	<u>\$10,161</u>	<u>\$1,270</u>	12%	<u>\$8,993</u>	<u>\$2,438</u>	27%

Total consolidated orders for the quarter ended March 31, 2015 were \$11.4 million compared to \$10.2 million for the same period in 2014 and \$9.0 million for the quarter ended December 31, 2014. The increase in consolidated orders primarily reflects improved demand in the ATE market, particularly for our Thermal and Electrical Products segments.

Orders from customers in various markets outside of the ATE market for the quarter ended March 31, 2015 grew by 10% as compared to the same period in 2014, reflecting increased demand from certain customers in the automotive, defense/aerospace and industrial markets. These increases were partially offset by a reduction in orders from certain customers in the telecommunications market. As a percent of our total consolidated orders, non-ATE markets orders were relatively unchanged at 19% in the first quarter of both 2015 and 2014. Orders from customers in various markets outside of the ATE market for the quarter ended March 31, 2015 declined 20% as compared to the quarter ended December 31, 2014, primarily reflecting reduced demand from certain customers in the telecommunications market.

At March 31, 2015, our backlog of unfilled orders for all products was approximately \$5.0 million compared with approximately \$4.5 million at March 31, 2014 and \$3.8 million at December 31, 2014. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2015. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

inTEST CORPORATION

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

Net Revenues

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

	Three Months Ended <u>March 31,</u>		<u>Change</u>		Three Months Ended <u>December</u>		<u>Change</u>	
	<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>	<u>31,</u>	<u>\$</u>	<u>%</u>	
					<u>2014</u>			
Net revenues:								
Thermal Products	\$ 5,717	\$5,243	\$ 474	9%	\$6,179	\$(462)	(7)%	
Mechanical Products	2,435	2,047	388	19	1,984	451	23	
	<u>2,036</u>	<u>1,507</u>	<u>529</u>	35	<u>1,699</u>	<u>337</u>	20	
Electrical Products								
	<u>\$10,188</u>	<u>\$8,797</u>	<u>\$1,391</u>	16%	<u>\$9,862</u>	<u>\$ 326</u>	3 %	
ATE market								
	\$ 8,347	\$7,607	\$ 740	10%	\$6,481	\$1,866	29 %	
	<u>1,841</u>	<u>1,190</u>	<u>651</u>	55	<u>3,381</u>	<u>(1,540)</u>	(46)	
Non-ATE markets)
	<u>\$10,188</u>	<u>\$8,797</u>	<u>\$1,391</u>	16%	<u>\$9,862</u>	<u>\$ 326</u>	3 %	

Our consolidated net revenues for the quarter ended March 31, 2015 increased \$1.4 million as compared to the same period in 2014, and \$326,000 as compared to the fourth quarter of 2014, primarily reflecting the aforementioned increase in demand experienced during the first quarter of 2015 from the ATE market.

Net revenues from customers in various markets outside of the ATE market for the quarter ended March 31, 2015 grew by 55% as compared to the same period in 2014, primarily reflecting increased demand from certain customers in the automotive market. As a percent of our total consolidated net revenues, non-ATE markets net revenues increased from 14% in the first quarter of 2014 to 18% in the first quarter of 2015. Net revenues from customers in various markets outside of the ATE market for the quarter ended March 31, 2015 declined 46% as compared to the quarter ended December 31, 2014, reflecting reduced demand across almost all of our non-ATE served markets.

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.

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 both semiconductor manufacturers and third-party test and assembly houses. 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, 2015 and 2014, our OEM sales as a percentage of net revenues were 8% and 16%, 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 chain 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.

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inTEST CORPORATION

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

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, 2015 Compared to Quarter Ended March 31, 2014

Net Revenues. Net revenues were \$10.2 million for the quarter ended March 31, 2015 compared to \$8.8 million for the same period in 2014, an increase of \$1.4 million or 16%. We believe the increase in our net revenues during the first quarter of 2015 primarily reflects the factors previously discussed in the Overview.

Gross Margin. Our consolidated gross margin was 48% in each of the quarters ended March 31, 2015 and 2014. Our fixed operating costs were relatively unchanged in absolute dollar value at \$1.5 million in each of the quarters ended March 31, 2015 and 2014. However, these costs were more fully absorbed by the higher net revenue levels in the first quarter of 2015, and, as a result, represented 15% of our net revenues for the quarter ended March 31, 2015 as compared to 17% for the same period in 2014. This improvement in our gross margin was offset by an increase in our component material costs as a percentage of net revenues reflecting changes in product and customer mix in our Mechanical and Electrical Products segments.

Selling Expense. Selling expense was \$1.5 million for the quarter ended March 31, 2015 compared to \$1.3 million for the same period in 2014, an increase of \$161,000 or 12%. The increase primarily reflects higher levels of third party commission expense reflecting the increase in our net revenues and the shift to a higher percent of total net revenues being generated by sales to end user customers rather than OEM's during the first quarter of 2015 as compared to the same period in 2014.

Engineering and Product Development Expense. Engineering and product development expense was \$942,000 for the first quarter of 2015 compared to \$923,000 for the same period in 2014, an increase of \$19,000 or 2%. The increase in engineering and product development expense primarily reflects increased salary and benefits expense and higher spending on matters related to our intellectual property. These increases were partially offset by a decrease in spending on materials used in new product development in our Thermal Products segment. The increase in salary and benefits expense reflects both an increase in headcount as well as annual salary increases for existing staff.

General and Administrative Expense. General and administrative expense was \$1.8 million for the first quarter of 2015 compared to \$1.5 million for the same period in 2014, an increase of \$275,000 or 18%. Our expenses for the first quarter of 2015 include \$320,000 for due diligence and transaction related costs associated with a potential acquisition. Our due diligence efforts are not yet complete and certain criteria which will impact our final decision with regard to consummating this transaction will not likely be known until the target company's second quarter results are complete. There were no similar costs during the first quarter of 2014. These costs were partially offset by lower levels of spending on various third party professional services we utilize and decreased levels of amortization expense related to our intangible assets.

Income Tax Expense. For the quarter ended March 31, 2015, we recorded income tax expense of \$233,000 compared to income tax expense of \$125,000 for the same period in 2014. Our effective tax rate for the quarter ended March 31, 2015 was 35% compared to an effective tax rate of 30% for the same period in 2014. 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 2015 as compared to the same period in 2014 primarily reflects that a greater proportion of our total pretax income was generated by our domestic operations in the first quarter of 2015 and is therefore subject to the higher U.S. income tax rates.

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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.</u> <u>31, 2015</u>	<u>Dec. 31,</u> <u>2014</u>
Cash and cash equivalents	\$22,485	\$23,126
Working capital	\$28,967	\$28,561

As of March 31, 2015, \$2.3 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. On February 25, 2015 we repatriated \$883,000 from our subsidiary in Singapore. We currently plan to repatriate up to \$1.0 million from our German subsidiary during the second half of 2015. Our estimated annualized effective tax rate for 2015 includes the effect of the additional taxes we expect to incur on these repatriated funds.

We currently expect our cash and cash equivalents and projected future cash flow to be sufficient to support our short term working capital requirements. However, we may need additional financial resources to consummate a significant acquisition if the consideration in such a transaction would require us to utilize a substantial portion of our available cash. 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 used in operations for the three months ended March 31, 2015 was \$263,000. During the three months ended March 31, 2015, we recorded net earnings of \$438,000, which included non-cash charges of \$200,000 for depreciation and amortization. During the three months ended March 31, 2015, accounts receivable, accounts payable and inventories increased \$1.5 million, \$676,000 and \$475,000, respectively, compared to the levels at the end of 2014. These increases primarily reflect increased business activity during the first quarter of 2015 as compared to the fourth quarter of 2014, particularly in the latter half of the quarter.

Investing Activities. During the three months ended March 31, 2015 purchases of property and equipment were \$179,000 which primarily represent additions to leased systems in our Thermal Products segment and computer hardware and software purchases related to a system upgrade for our domestic operations. We have no significant commitments for capital expenditures for the balance of 2015, 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, 2015 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.

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inTEST CORPORATION

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

(Continued)

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 those related to inventories, long-lived assets, goodwill, identifiable intangibles and deferred income tax valuation allowances. 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, 2015, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2014 Form 10-K.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements during the three months ended March 31, 2015 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

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Exchange Act. Because there are inherent limitations in all control systems, 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. 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. 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. 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. 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.

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.

Changes in Internal Control Over Financial Reporting

During the period covered by this Report, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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inTEST CORPORATION

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, 2014.

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.

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, 2015

/s/ Robert E. Matthiessen

Robert E. Matthiessen

President and Chief Executive Officer

Date: May 14, 2015

/s/ Hugh T. Regan, Jr.

Hugh T. Regan, Jr.

Secretary, Treasurer and Chief Financial Officer

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.