

INTEST CORP
Form 10-Q
August 12, 2016

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 June 30, 2016 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 reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Number of shares of Common Stock, \$.01 par value, outstanding as of the close of business on July 31, 2016:

10,389,521

inTEST CORPORATION

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June 30, 2016 and 2015

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

June 30, Dec. 31,

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| | 2016 | 2015 |
|--|-----------------|-----------------|
| | ----- | ----- |
| ASSETS: | | |
| | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$25,003 | \$25,710 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$146 and \$146, respectively | 6,741 | 4,395 |
| Inventories | 3,314 | 3,520 |
| Prepaid expenses and other current assets | 296 | 639 |
| Total current assets | <u>35,354</u> | <u>34,264</u> |
| Property and equipment: | | |
| Machinery and equipment | 4,337 | 4,377 |
| Leasehold improvements | 603 | 603 |
| Gross property and equipment | 4,940 | 4,980 |
| Less: accumulated depreciation | <u>(3,963)</u> | <u>(3,868)</u> |
| Net property and equipment | 977 | 1,112 |
| Deferred tax assets | 1,143 | 1,245 |
| Goodwill | 1,706 | 1,706 |
| Intangible assets, net | 988 | 1,104 |
| Restricted certificates of deposit | 225 | 350 |
| Other assets | 214 | 203 |
| Total assets | <u>\$40,607</u> | <u>\$39,984</u> |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,474 | \$ 909 |
| Accrued wages and benefits | 1,426 | 1,466 |
| Accrued rent | 578 | 657 |
| Accrued professional fees | 494 | 363 |
| Accrued sales commissions | 390 | 297 |
| Other current liabilities | 304 | 367 |
| Total current liabilities | <u>4,666</u> | <u>4,059</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; 10,422,598 and 10,549,423 shares issued, respectively | 104 | 105 |
| Additional paid-in capital | 25,695 | 26,286 |
| Retained earnings | 9,580 | 9,013 |
| Accumulated other comprehensive earnings | 766 | 725 |
| Treasury stock, at cost; 33,077 and 33,077 shares, respectively | <u>(204)</u> | <u>(204)</u> |
| Total stockholders' equity | 35,941 | 35,925 |
| Total liabilities and stockholders' equity | <u>\$40,607</u> | <u>\$39,984</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)

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net revenues | \$10,485 | \$11,559 | \$19,132 | \$21,747 |
| Cost of revenues | 5,156 | 5,713 | 9,736 | 10,983 |
| Gross margin | 5,329 | 5,846 | 9,396 | 10,764 |
| Operating expenses: | | | | |
| Selling expense | 1,471 | 1,592 | 2,806 | 3,079 |
| Engineering and product development expense | 982 | 1,047 | 1,973 | 1,989 |
| General and administrative expense | 2,145 | 1,569 | 3,790 | 3,376 |
| Total operating expenses | 4,598 | 4,208 | 8,569 | 8,444 |
| Operating income | 731 | 1,638 | 827 | 2,320 |
| Other income | 18 | 21 | 46 | 10 |
| Earnings before income tax expense | 749 | 1,659 | 873 | 2,330 |
| Income tax expense | 263 | 579 | 306 | 812 |
| Net earnings | \$ 486 | \$ 1,080 | \$ 567 | \$ 1,518 |
| Net earnings per common share - basic | \$0.05 | \$0.10 | \$0.05 | \$0.15 |
| Weighted average common shares outstanding - basic | 10,295,836 | 10,471,888 | 10,342,919 | 10,468,651 |
| Net earnings per common share - diluted | \$0.05 | \$0.10 | \$0.05 | \$0.14 |
| Weighted average common shares and common share equivalents outstanding - diluted | 10,310,692 | 10,494,457 | 10,357,468 | 10,489,020 |

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net earnings | \$ 486 | \$ 1,080 | \$ 567 | \$ 1,518 |
| Foreign currency translation adjustments | (67) | 104 | 41 | (225) |
| Comprehensive earnings | \$ 419 | \$ 1,184 | \$ 608 | \$ 1,293 |

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, 2016 | 10,549,423 | \$ 105 | \$26,286 | \$9,013 | \$ 725 | \$ (204) | \$35,925 |
| Net earnings | - | - | - | 567 | - | - | 567 |
| Other comprehensive income | - | - | - | - | 41 | - | 41 |
| Amortization of deferred compensation related to stock-based awards | - | - | 178 | - | - | - | 178 |
| Issuance of unvested shares of restricted stock | 63,900 | 1 | (1) | - | - | - | - |
| Repurchase and retirement of common stock | (190,725) | (2) | (768) | - | - | - | (770) |
| Balance, June 30, 2016 | 10,422,598 | \$ 104 | \$25,695 | \$9,580 | \$ 766 | \$ (204) | \$35,941 |

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2016 | 2015 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | \$ 567 | \$ 1,518 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 304 | 395 |
| Provision for excess and obsolete inventory | 118 | 110 |
| Foreign exchange (gain) loss | (10) | 13 |
| Amortization of deferred compensation related to stock-based awards | 178 | 61 |
| Loss on sale of property and equipment | 3 | 13 |
| Proceeds from sale of demonstration equipment, net of gain | 115 | 146 |
| Deferred income tax expense | 102 | 171 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (2,332) | (2,390) |
| Inventories | 90 | (377) |
| Prepaid expenses and other current assets | 343 | 195 |
| Restricted certificates of deposit | 125 | - |
| Other assets | (7) | (7) |
| Accounts payable | 565 | 480 |
| Accrued wages and benefits | (46) | 22 |
| Accrued rent | (79) | (23) |
| Accrued professional fees | 131 | 4 |
| Accrued sales commissions | 93 | 92 |
| Other current liabilities | (65) | 430 |
| | ----- | ----- |
| Net cash provided by operating activities | 195 | 853 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (164) | (385) |
| | ----- | ----- |
| Net cash used in investing activities | (164) | (416) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repurchase of common stock | (770) | - |
| | ----- | ----- |
| Net cash used in financing activities | (770) | - |
| | ----- | ----- |
| Effects of exchange rates on cash | 32 | (128) |
| | ----- | ----- |

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| | | |
|--|----------|----------|
| Net cash provided by (used in) all activities | (707) | 340 |
| Cash and cash equivalents at beginning of period | 25,710 | 23,126 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$25,003 | \$23,466 |
| | ===== | ===== |
| | | |
| Cash payments for: | | |
| Domestic and foreign income taxes | \$ 11 | \$ 419 |

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"). We also market 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. In January 2016, we implemented a workforce reduction, as discussed further in Note 3, which is a key element in restructuring our Mechanical Products segment with the goal of returning this segment to profitability. These efforts could cause us to incur

substantial costs and may not be successful. We also continue to implement an acquisition strategy that may cause us to incur substantial expense in reviewing and evaluating potential transactions. We may or may not be successful in locating suitable businesses to acquire. In addition, if we are able to complete an acquisition, we may not be able to successfully integrate the acquired business with our existing business and we may not be able to operate the acquired business profitably. 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 ("U.S. GAAP") 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 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, 2015 filed with the Securities and Exchange Commission on March 29, 2016 (the "2015 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 \$118 and \$110 for the six months ended June 30, 2016 and 2015, 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 8.

Subsequent Events

We have made an assessment of our operations and determined that there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the six months ended June 30, 2016.

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

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

Product Warranties

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

Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax 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.

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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)

Net Earnings Per Common Share

Net earnings per common share - basic is computed by dividing net earnings by the weighted average number of common shares outstanding during each period. Net earnings per common share - diluted is computed by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent unvested shares of restricted stock and stock options 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>Six Months Ended</u> | |
|---|---------------------------|-------------------|-------------------------|-------------------|
| | <u>June 30,</u> | | <u>June 30,</u> | |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Weighted average common shares outstanding - basic | 10,295,836 | 10,471,888 | 10,342,919 | 10,468,651 |
| Potentially dilutive securities: | | | | |
| Unvested shares of restricted stock and stock options | <u>14,856</u> | <u>22,569</u> | <u>14,549</u> | <u>20,369</u> |
| Weighted average common shares and common share equivalents outstanding - diluted | <u>10,310,692</u> | <u>10,494,457</u> | <u>10,357,468</u> | <u>10,489,020</u> |
| Average number of potentially dilutive securities excluded from calculation | 19,800 | - | 17,516 | - |

Effect of Recently Adopted Amendments to Authoritative Accounting Guidance

In November 2015, the Financial Accounting Standards Board ("FASB") issued amendments to update the current guidance on the balance sheet classification of deferred taxes which is presented in ASC Topic 740 (Income Taxes). The purpose of the amendments is to simplify the presentation of deferred tax assets. This guidance requires deferred tax assets and liabilities, along with related valuation allowances, to be classified as noncurrent on the balance sheet. As a result, each tax jurisdiction will now only have one net noncurrent

deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The amendments are effective for us as of January 1, 2017. Early application is permitted. We elected early application of this guidance effective January 1, 2016. The implementation of these amendments did not have a material impact on our consolidated financial statements. Prior period amounts have been reclassified to be consistent with the current period presentation.

In September 2015, the FASB issued amendments to update the current guidance on accounting for measurement period adjustments in a business combination which is presented in ASC Topic 805 (Business Combinations). This guidance requires an entity to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined; record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date; and present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments were effective for us as of January 1, 2016. The implementation of these amendments did not have any impact on our consolidated financial statements.

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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)

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

In March 2016, the FASB issued amendments to the current guidance on accounting for stock-based compensation issued to employees which is contained in ASC Topic 718 (Compensation-Stock Compensation). The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments are effective for us as of January 1, 2017. Early adoption is permitted. We do not expect the implementation of these amendments to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued amendments to the current guidance on accounting for lease transactions which is presented in ASC Topic 842 (Leases). The intent of the updated guidance is to increase transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and to disclose key information about leasing

arrangements. Under the new guidance, a lessee will be required to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The amendments are effective for us as of January 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of the implementation of these amendments on our consolidated financial statements.

In January 2016, the FASB issued amendments to the current guidance on the recognition and measurement of financial assets and financial liabilities which is presented in ASC Topic 825 (Financial Instruments). The intent of the updated guidance is to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The updated guidance includes amendments to address aspects of recognition, measurement, presentation and disclosure. Changes included in the amendments are the requirement to measure equity investments at fair value, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, with changes in fair value recognized in net income; the requirement for a qualitative assessment to identify impairment of equity investments without readily determinable fair values; and the requirement for separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendments are effective for us as of January 1, 2018. Early application is permitted. We do not expect the implementation of these amendments to have a material impact on our consolidated financial statements.

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

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

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(3) RESTRUCTURING CHARGES

In recent years, our Mechanical Products segment has experienced significant operating losses. We have undertaken actions at various times over the last few years to address these losses. On January 4, 2016, we implemented a workforce reduction which resulted in our recording a restructuring charge of \$99 in the first quarter of 2016. This entire amount was paid out in the first quarter of 2016.

(4) GOODWILL AND INTANGIBLE ASSETS

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

Goodwill

All of our goodwill is allocated to our Thermal Products segment. There was no change in the amount of the carrying value of goodwill for the six months ended June 30, 2016.

Intangible Assets

The following tables provide further detail about our intangible assets as of June 30, 2016 and December 31, 2015:

| | <u>June 30, 2016</u> | | |
|--------------------------------------|------------------------------------|--|----------------------------------|
| | Gross Carrying <u>Amount</u> | Accumulated Amortization <u>Amount</u> | Net Carrying <u>Amount</u> |
| Finite-lived intangible assets: | | | |
| Customer relationships | \$1,480 | \$1,248 | \$ 232 |
| Patented technology | 590 | 405 | 185 |
| Software | 270 | 209 | 61 |
| Trade name | <u>140</u> | <u>140</u> | <u>-</u> |
| Total finite-lived intangible assets | <u>2,480</u> | <u>2,002</u> | <u>478</u> |
| Indefinite-lived intangible assets: | | | |
| Sigma trademark | <u>510</u> | <u>-</u> | <u>510</u> |
| Total intangible assets | <u>\$2,990</u> | <u>\$2,002</u> | <u>\$ 988</u> |

| | <u>December 31, 2015</u> | | |
|--|------------------------------------|------------------------------------|----------------------------------|
| | Gross Carrying <u>Amount</u> | Accumulated <u>Amortization</u> | Net Carrying <u>Amount</u> |
| Finite-lived intangible assets: | | | |
| Customer relationships | \$1,480 | \$1,116 | \$ 314 |
| Patented technology | 590 | 386 | 204 |
| Software | 270 | 196 | 74 |
| Trade name | <u>140</u> | <u>138</u> | <u>2</u> |
| Total finite-lived intangible assets | <u>2,480</u> | <u>1,886</u> | <u>594</u> |
| Indefinite-lived intangible assets: | | | |
| Sigma trademark | <u>510</u> | <u>-</u> | <u>510</u> |
| Total intangible assets | <u>\$2,990</u> | <u>\$1,886</u> | <u>\$1,104</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.

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(4) GOODWILL AND INTANGIBLE ASSETS (Continued)

Total amortization expense for the six months ended June 30, 2016 and 2015 was \$116 and \$145, respectively. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

| | |
|------------------|-------|
| 2016 (remainder) | \$113 |
| 2017 | \$212 |

| | |
|------|-------|
| 2018 | \$ 65 |
| 2019 | \$ 39 |
| 2020 | \$ 30 |

(5) MAJOR CUSTOMERS

During the six months ended June 30, 2016 and 2015, Hakuto Co., Ltd., one of our distributors, accounted for 15% and 12% of our consolidated net revenues, respectively. These revenues were generated by our Thermal Products segment. During the six months ended June 30, 2016, Texas Instruments Incorporated accounted for 11% of our consolidated net revenues. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Mechanical Products and our Electrical Products segments. No other customers accounted for 10% or more of our consolidated net revenues during the six months ended June 30, 2016 and 2015.

(6) INVENTORIES

Inventories held at June 30, 2016 and December 31, 2015 were comprised of the following:

| | June 30, | Dec. 31, |
|-------------------------------|----------------|----------------|
| | 2016 | 2015 |
| Raw materials | \$2,360 | \$2,535 |
| Work in process | 422 | 295 |
| Inventory consigned to others | 98 | 119 |
| Finished goods | <u>434</u> | <u>571</u> |
| Total inventories | <u>\$3,314</u> | <u>\$3,520</u> |

(7) 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. Our outstanding letters of credit at June 30, 2016 and December 31, 2015 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> | |
| | | | | June 30, <u>2016</u> | Dec. 31, <u>2015</u> |
| Mt. Laurel, NJ | 3/29/2010 | 3/31/2017 | 4/30/2021 | \$125 | \$250 |
| Mansfield, MA | 10/27/2010 | 11/08/2016 | 8/23/2021 | <u>100</u> | <u>100</u> |
| | | | | <u>\$225</u> | <u>\$350</u> |

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

(8) STOCK-BASED COMPENSATION

As of June 30, 2016, we have unvested restricted stock awards and stock options granted under employee stock-based compensation plans that are described more fully in Note 12 to the consolidated financial statements in our 2015 Form 10-K.

As of June 30, 2016, total unrecognized compensation expense related to unvested restricted stock awards and stock options was \$317. 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 and six months ended June 30, 2016 and 2015, respectively, related to stock-based compensation:

| | Three Months Ended <u>June 30,</u> | | Six Months Ended <u>June 30,</u> | |
|---|--|--------------|-------------------------------------|--------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Cost of revenues | \$ 2 | \$ 2 | \$ 5 | \$ 5 |
| Selling expense | 2 | 2 | 3 | 3 |
| Engineering and product development expense | 3 | 3 | 5 | 5 |
| General and administrative expense | <u>132</u> | <u>24</u> | <u>165</u> | <u>48</u> |
| | <u>\$139</u> | <u>\$ 31</u> | <u>\$178</u> | <u>\$ 61</u> |

There was no compensation expense capitalized in the six months ended June 30, 2016 or 2015.

Restricted Stock Awards

We record compensation expense for restricted stock awards 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. However, during January 2016, we granted 22,500 shares of restricted stock to three of our independent directors which vested 100% upon the re-election of these directors at our annual meeting which took place on June 29, 2016. The total compensation expense related to these shares was \$98, and it was all recorded upon the re-election of these directors.

The following table summarizes the activity related to unvested shares of restricted stock for the six months ended June 30, 2016:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|--|---------------------|--|
| Unvested shares outstanding, January 1, 2016 | 63,750 | \$3.64 |
| Granted | 63,900 | 4.37 |
| Vested | (35,625) | 3.92 |
| Forfeited | <u> -</u> | - |
| Unvested shares outstanding, June 30, 2016 | <u>92,025</u> | 4.04 |

The total fair value of the shares that vested during the six months ended June 30, 2016 and 2015 was \$138 and \$59, respectively, as of the vesting dates of these shares.

Stock Options

We record compensation expense for stock options based on the fair market value of the options as of the grant date. No option may be granted with an exercise period in excess of ten years from the date of grant. Generally, stock options will be granted with an exercise price equal to the fair market value of our stock on the date of grant and will vest over four years.

(In thousands, except share and per share data)

(8) STOCK-BASED COMPENSATION

(Continued)

The fair value for stock options granted during the first six months of 2016 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|---|-------|
| Risk-free interest rate | 1.30% |
| Dividend yield | 0.00% |
| Expected common stock market price volatility factor | .40 |
| Weighted average expected life of stock options (years) | 4 |

The per share weighted average fair value of stock options issued during the first six months of 2016 was \$1.43.

The following table summarizes the activity related to stock options for the six months ended June 30, 2016:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---------------------|--|
| Options outstanding, January 1, 2016 (none exercisable) | - | \$ - |
| Granted | 19,800 | 4.37 |
| Vested | - | - |
| Forfeited | <u>-</u> | - |
| Options outstanding, June 30, 2016 (none exercisable) | <u>19,800</u> | 4.37 |

(9) STOCK REPURCHASE PLAN

On October 27, 2015, our Board of Directors authorized the repurchase of up to \$5,000 of our common stock from time to time on the open market, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, or in privately negotiated transactions (the "2015 Repurchase Plan"). Repurchases may also be made under a Rule 10b5-1 plan entered into with RW Baird & Co, which permits shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The timing and amount of any shares repurchased under the 2015 Repurchase Plan is determined by our management, based on our evaluation of market conditions and other factors. The 2015 Repurchase Plan does not obligate us to repurchase any particular amount of common stock and may be suspended or discontinued at any time without prior notice.

The 2015 Repurchase Plan is funded using our operating cash flow or available cash.

During the six months ended June 30, 2016, we repurchased 190,725 shares under this repurchase plan at a cost of \$770, which includes fees paid to our broker of \$5. As of June 30, 2016, we had repurchased a total of 232,057 shares under this repurchase plan at a cost of \$925, which included fees paid to our broker of \$6. All of the repurchased shares were retired. The 2015 Repurchase Plan was suspended in May 2016.

(10) EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan for our employees who work in the U.S. All permanent employees of inTEST Corporation, Temptronic Corporation and inTEST Silicon Valley Corporation who are at least 18 years of age are eligible to participate in the plan. We match employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of \$5. Employer contributions vest ratably over four years. Matching contributions are discretionary. For the six months ended June 30, 2016 and 2015, we recorded \$249 and \$239 of expense for matching contributions, respectively.

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inTEST CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(11) SEGMENT INFORMATION

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

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

The Mechanical Products segment includes the operations of our Mt. Laurel, New Jersey manufacturing facility. Sales of our Mechanical Products segment consist primarily of manipulator and docking hardware products, which we design, manufacture and market.

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>June 30,</u> | | Six Months Ended <u>June 30,</u> | |
|--|--|-----------------|-------------------------------------|-----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Net revenues: | | | | |
| Thermal Products | \$ 5,594 | \$ 6,659 | \$10,788 | \$12,376 |
| Mechanical Products | 2,673 | 2,487 | 4,609 | 4,922 |
| | <u>2,218</u> | <u>2,413</u> | <u>3,735</u> | <u>4,449</u> |
| Electrical Products | | | | |
| | <u>\$10,485</u> | <u>\$11,559</u> | <u>\$19,132</u> | <u>\$21,747</u> |
| Earnings (loss) before income tax expense (benefit): | | | | |
| Thermal Products | \$ 734 | \$1,537 | \$1,307 | \$2,566 |
| Mechanical Products | 311 | (196) | (59) | (481) |
| Electrical Products | 397 | 477 | 418 | 796 |
| | <u>(693)</u> | <u>(159)</u> | <u>(793)</u> | <u>(551)</u> |
| Corporate |) |) |) |) |
| | <u>\$ 749</u> | <u>\$1,659</u> | <u>\$ 873</u> | <u>\$2,330</u> |
| Net earnings (loss): | | | | |
| Thermal Products | \$ 476 | \$1,001 | \$ 849 | \$1,673 |
| Mechanical Products | 202 | (128) | (39) | (314) |
| Electrical Products | 258 | 311 | 272 | 519 |
| | <u>(450)</u> | <u>(104)</u> | <u>(515)</u> | <u>(360)</u> |
| Corporate |) |) |) |) |
| | <u>\$ 486</u> | <u>\$1,080</u> | <u>\$ 567</u> | <u>\$1,518</u> |

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(11) SEGMENT INFORMATION

(Continued)

| | June 30, | Dec. 31, |
|----------------------|-----------------|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Identifiable assets: | | |
| Thermal Products | \$17,720 | \$16,983 |
| Mechanical Products | 18,815 | 19,733 |
| | <u>4,072</u> | <u>3,268</u> |
| Electrical Products | <u>\$40,607</u> | <u>\$39,984</u> |

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

| | Three Months Ended <u>June 30,</u> | | Six Months Ended <u>June 30,</u> | |
|---------------|--|-----------------|-------------------------------------|-----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Net revenues: | | | | |
| U.S. | \$ 2,903 | \$ 3,830 | \$ 5,630 | \$ 7,319 |
| | <u>7,582</u> | <u>7,729</u> | <u>13,502</u> | <u>14,428</u> |
| Foreign | <u>\$10,485</u> | <u>\$11,559</u> | <u>\$19,132</u> | <u>\$21,747</u> |

June 30, Dec. 31,

2016 2015

| | | |
|-------------------------|---------------|----------------|
| Property and equipment: | | |
| U.S. | \$ 793 | \$ 797 |
| | <u>184</u> | <u>315</u> |
| Foreign | | |
| | <u>\$ 977</u> | <u>\$1,112</u> |

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inTEST CORPORATION

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

Risk Factors and Forward-Looking Statements

In addition to historical information, this discussion and analysis contains statements relating to possible future events and results that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should" or "anticipates" or similar terminology. See Part I, Item 1 - "Business - Cautionary Statement Regarding Forward-Looking Statements" in our 2015 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 2015 Form 10-K. Material changes to such risk factors may be reported in subsequent Quarterly Reports

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on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2015 Form 10-K.

Overview

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

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

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

Third-party market share statistics are not available for the products we manufacture and sell into the ATE market; therefore, comparisons of period over period changes in our market share are not easily determined. As a result, it is difficult to ascertain if ATE market volatility in any period is the result of macro-economic or customer-specific factors impacting ATE market demand, or if we have gained or lost market share to a competitor during the period.

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inTEST CORPORATION

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

(Continued)

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. While market share statistics exist for some of the markets we serve outside the ATE market, due to the nature of our highly specialized product offerings in these non-ATE markets, we do not expect broad market penetration in many of these markets and, therefore, do not anticipate developing meaningful market shares 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. Consequently, we are continuing to evaluate buying patterns and opportunities for growth in these

non-ATE markets that may affect our performance. 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 factors 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 in-house manufacturing activities of OEM manufacturers building certain products we have historically sold to them, including manipulators and docking hardware, which has had the impact of significantly reducing the size of the available market for those certain products (iv) 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, (v) customer supply chain management groups demanding lower prices and spreading purchases across multiple vendors, and (vi) certain competitors aggressively reducing their products' sales prices (causing us to either reduce our products' sales price to be successful in obtaining the sale or causing loss of the sale).

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

Orders and Backlog

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

| | Three Months Ended | | Change | | Three Months Ended | | Change | |
|---------------------|--------------------|--------------|--------------|----------|--------------------|--------------|--------------|----------|
| | <u>June 30,</u> | <u>2015</u> | <u>\$</u> | <u>%</u> | <u>March 31,</u> | <u>2016</u> | <u>\$</u> | <u>%</u> |
| Orders: | | | | | | | | |
| Thermal Products | \$ 8,186 | \$ 6,064 | \$ 2,122 | 35 % | \$ 5,116 | \$ 3,070 | \$ 3,070 | 60 % |
| Mechanical Products | 2,426 | 1,885 | 541 | 29 % | 2,625 | (199) | (199) | (8)% |
| | <u>1,987</u> | <u>2,337</u> | <u>(350)</u> | (15)% | <u>2,097</u> | <u>(110)</u> | <u>(110)</u> | (5)% |
| Electrical Products | | |) | | |) | | |

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| | | | | | | | |
|----------------|-----------------|-----------------|----------------|------|----------------|----------------|-------|
| | <u>\$12,599</u> | <u>\$10,286</u> | <u>\$2,313</u> | 22 % | <u>\$9,838</u> | <u>\$2,761</u> | 28 % |
| ATE market | \$ 8,217 | \$ 7,646 | \$ 571 | 7 % | \$7,847 | \$ 370 | 5 % |
| | <u>4,382</u> | <u>2,640</u> | <u>1,742</u> | 66 % | <u>1,991</u> | <u>2,391</u> | 120 % |
| Non-ATE market | <u>\$12,599</u> | <u>\$10,286</u> | <u>\$2,313</u> | 22 % | <u>\$9,838</u> | <u>\$2,761</u> | 28 % |

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inTEST CORPORATION

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

(Continued)

| | Six Months Ended | | Change | |
|---------------------|---------------------|-----------------|---------------|----------|
| | <u>June 30,</u> | | | |
| | <u>2016</u> | <u>2015</u> | <u>\$</u> | <u>%</u> |
| Orders: | | | | |
| Thermal Products | \$13,302 | \$12,497 | \$ 805 | 6 % |
| Mechanical Products | 5,051 | 4,419 | 632 | 14 % |
| | <u>4,084</u> | <u>4,801</u> | <u>(717)</u> | (15)% |
| Electrical Products | |) | | |
| | <u>\$22,437</u> | <u>\$21,717</u> | <u>\$ 720</u> | 3 % |
| ATE market | \$16,064 | \$16,943 | \$ (879) | (5)% |
| | <u>6,373</u> | <u>4,774</u> | <u>1,599</u> | 33 % |
| Non-ATE market | <u>\$22,437</u> | <u>\$21,717</u> | <u>\$ 720</u> | 3 % |

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Total consolidated orders for the quarter ended June 30, 2016 were \$12.6 million compared to \$10.3 million for the same period in 2015 and \$9.8 million for the quarter ended March 31, 2016. The increase in orders during the second quarter of 2016 is primarily a result of an increase in demand from certain non-ATE market customers of our Thermal Products segment, particularly in the telecommunications and defense/aerospace markets.

At June 30, 2016, our backlog of unfilled orders for all products was approximately \$5.7 million compared with approximately \$3.8 million at June 30, 2015 and \$3.5 million at March 31, 2016. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2016. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

Net Revenues

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

| | Three Months Ended | | Change | | Three Months Ended | Change | |
|---------------------|--------------------|-----------------|------------------|-------|--------------------|----------------|------|
| | June 30, | | | | March 31, | | |
| | 2016 | 2015 | \$ | % | 2016 | \$ | % |
| Net revenues: | | | | | | | |
| Thermal Products | \$ 5,594 | \$ 6,659 | \$(1,065) | (16)% | \$5,194 | \$ 400 | 8 % |
| Mechanical Products | 2,673 | 2,487 | 186 | 7 % | 1,936 | 737 | 38 % |
| | <u>2,218</u> | <u>2,413</u> | <u>(195)</u> | (8)% | <u>1,517</u> | <u>701</u> | 46 % |
| Electrical Products | |) | | | | | |
| | <u>\$10.485</u> | <u>\$11.559</u> | <u>\$(1.074)</u> | (9)% | <u>\$8.647</u> | <u>\$1.838</u> | 21 % |
| | |) | | | | | |
| ATE market | \$ 7,960 | \$ 8,548 | \$(588) | (7)% | \$6,069 | \$1,891 | 31 % |
| | <u>2,525</u> | <u>3,011</u> | <u>(486)</u> | (16)% | <u>2,578</u> | <u>(53)</u> | (2)% |
| Non-ATE market | |) | | | |) | |
| | <u>\$10.485</u> | <u>\$11.559</u> | <u>\$(1.074)</u> | (9)% | <u>\$8.647</u> | <u>\$1.838</u> | 21 % |
| | |) | | | | | |

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

(Continued)

| | Six Months Ended | | Change | |
|---------------------|---------------------|-----------------|------------------|----------|
| | <u>June 30,</u> | | <u>\$</u> | <u>%</u> |
| | <u>2016</u> | <u>2015</u> | | |
| Net revenues: | | | | |
| Thermal Products | \$10,788 | \$12,376 | \$(1,588) | (13)% |
| Mechanical Products | 4,609 | 4,922 | (313) | (6)% |
| | <u>3,735</u> | <u>4,449</u> | <u>(714)</u> | (16)% |
| Electrical Products | |) | | |
| | <u>\$19,132</u> | <u>\$21,747</u> | <u>\$(2,615)</u> | (12)% |
| | |) | | |
| ATE market | \$14,029 | \$16,895 | \$(2,866) | (17)% |
| | <u>5,103</u> | <u>4,852</u> | <u>251</u> | 5% |
| Non-ATE market | | | | |
| | <u>\$19,132</u> | <u>\$21,747</u> | <u>\$(2,615)</u> | (12)% |
| | |) | | |

Total consolidated net revenues for the quarter ended June 30, 2016 were \$10.5 million compared to \$11.6 million for the same period in 2015 and \$8.6 million for the quarter ended March 31, 2016. The increases for all of our product segments in the second quarter of 2016 as compared to the first quarter of the year reflect increased demand from the ATE market, although demand remains below the level experienced during the same period in 2015 for our Thermal and Electrical Products segments. Net revenues from non-ATE market customers were relatively flat for the second quarter of 2016 as compared to the first quarter of the year. Increases from customers in the telecommunications and defense/aerospace markets were offset by reductions from customers in the industrial and other non-ATE markets we serve. Net revenues from non-ATE market customers declined 16% for the second quarter of 2016 as compared to the same period in 2015. The declines were primarily from customers in the defense/aerospace and industrial markets and were partially offset by increased demand from certain customers in the telecommunications market.

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 six months ended June 30, 2016 and 2015, our OEM sales as a percentage of net revenues were 7% and 8%, 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.

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.

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

(Continued)

Quarter Ended June 30, 2016 Compared to Quarter Ended June 30, 2015

Net Revenues. Net revenues were \$10.5 million for the quarter ended June 30, 2016 compared to \$11.6 million for the same period in 2015, a decrease of \$1.1 million or 9%. We believe the decrease in our net revenues during the second quarter of 2016 primarily reflects the factors previously discussed in the Overview.

Gross Margin. Our consolidated gross margin was 51% in each of the quarters ended June 30, 2016 and 2015. Our fixed operating costs declined \$228,000 in absolute dollar terms and represented 12% of our net revenues for the second quarter of 2016 as compared to 13% for the same period in 2015. The \$228,000 decline in these costs

primarily reflects lower salary and benefits expense in our Mechanical and Thermal Products segments reflecting reduced headcount. For our Mechanical Products segment, the decline in headcount is a result of the workforce reduction that we implemented on January 4, 2016, as discussed further in Note 3 to our consolidated financial statements. To a lesser extent, there were also reduced levels of facility related costs and lower depreciation expense in our Thermal Products segment in the second quarter of 2016 as compared to the same period in 2015. The decrease in our fixed operating costs was offset by an increase in our component material costs, primarily reflecting changes in product mix.

Selling Expense. Selling expense was \$1.5 million for the quarter ended June 30, 2016 compared to \$1.6 million for the same period in 2015, a decrease of \$121,000 or 8%. The decrease primarily reflects lower levels of third party commission expense, reflecting the decline in net revenues, along with a reduction in salary and benefits expense in our Mechanical and Electrical Products segment, reflecting reduced headcount.

Engineering and Product Development Expense. Engineering and product development expense was \$982,000 for the quarter ended June 30, 2016 compared to \$1.0 million for the same period in 2015, a decrease of \$65,000 or 6%. The decrease in engineering and product development expense primarily reflects decreased salary and benefits expense in our Mechanical Products segment and reduced spending on materials used in new product development in all three of our product segments.

General and Administrative Expense. General and administrative expense was \$2.1 million for the quarter ended June 30, 2016 compared to \$1.6 million for the same period in 2015, an increase of \$576,000 or 37%. Our expenses for the second quarter of 2016 include \$456,000 for due diligence and transaction related costs associated with a potential acquisition which we are no longer pursuing. Adjusted to exclude these costs, our general and administrative expense would have increased \$120,000, or 8%, for the second quarter of 2016 as compared to the same period in 2015. The \$120,000 increase primarily reflects higher levels of stock-based compensation expense as a result of the vesting of restricted stock awards for our independent directors which occurred upon their re-election at our annual meeting in June 2016.

Income Tax Expense. For the quarter ended June 30, 2016, we recorded income tax expense of \$263,000 compared to \$579,000 for the same period in 2015. Our effective tax rate was 35% in each of the quarters ended June 30 2016 and 2015. 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.

Six months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Net Revenues. Net revenues were \$19.1 million for the six months ended June 30, 2016 compared to \$21.7 million for the same period in 2015, a decrease of \$2.6 million or 12%. We believe the decrease in our net revenues primarily reflects reduced levels of demand from the ATE market for all of our product segments as a result of cyclical weakness in the ATE market during the first half of 2016 as compared to the same period in 2015.

Gross Margin. Our consolidated gross margin was 49% for the six months ended June 30, 2016 compared to 50% for the same period in 2015. The decline in our gross margin primarily reflects higher component material costs as a result of changes in product mix. Although our fixed operating costs declined \$395,000 in absolute dollar terms, they were relatively unchanged at 14% of our net revenues for both the first half of 2016 and 2015, respectively, reflecting that these costs were not as fully absorbed due to the lower net revenues levels in the first half of 2016. The \$395,000 decline in these costs primarily reflects lower salary and benefits expense in our Mechanical and Thermal Products segments reflecting reduced headcount. For our Mechanical Products segment, the decline in headcount is a result of the aforementioned workforce reduction. To a lesser extent, there were also reduced levels of facility related costs and lower depreciation expense in our Thermal Products segment in the first six months of 2016 as compared to the same period in 2015.

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

(Continued)

Selling Expense.

Selling expense was \$2.8 million for the six months ended June 30, 2016 compared to \$3.1 million for the same period in 2015, a decrease of \$273,000 or 9%. The decrease primarily reflects lower levels of third party commission expense, reflecting the decline in net revenues, along with a reduction in salary and benefits expense in our Mechanical and Electrical Products segment, reflecting reduced headcount.

Engineering and Product Development Expense. Engineering and product development expense was relatively unchanged at \$2.0 million in each of the six months ended June 30, 2016 and 2015. A reduction in salary and benefits expense in our Mechanical Products segment was offset by increased spending on materials used in new product development in our Thermal Products segment.

General and Administrative Expense. General and administrative expense was \$3.8 million for the six months ended June 30, 2016 compared to \$3.4 million for the same period in 2015, an increase of \$414,000 or 12%. Our expenses for the first six months of 2016 included \$456,000 for due diligence and transaction related costs associated with a potential acquisition which we are no longer pursuing and \$99,000 of restructuring charges as a result of the aforementioned workforce reduction implemented on January 4, 2016. Our expenses for the first six months of 2015 included \$320,000 for due diligence and transaction related costs associated with a potential acquisition which did not close. Adjusted to exclude these costs, our general and administrative expense would have increased \$179,000, or 6%, for the first six months of 2016 as compared to the same period in 2015. The \$179,000 increase primarily reflects higher levels of stock-based compensation expense as a result of the vesting of restricted stock awards for our independent directors which occurred upon their re-election at our annual meeting in June 2016, and, to a lesser extent, higher salary and benefits expense as a result of changes in compensation structure for our executive management team.

Income Tax Expense. For the six months ended June 30, 2016, we recorded income tax expense of \$306,000 compared to \$812,000 for the same period in 2015. Our effective tax rate was 35% in each of the six month periods ended June 30, 2016 and 2015. 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.

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, for acquisitions and for stock repurchases.

Liquidity

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

| | <u>June</u> <u>30, 2016</u> | <u>Dec. 31,</u> <u>2015</u> |
|---------------------------|--------------------------------|--------------------------------|
| Cash and cash equivalents | \$25,003 | \$25,710 |
| Working capital | \$30,688 | \$30,205 |

As of June 30, 2016, \$2.5 million of our cash and cash equivalents was held by our foreign subsidiaries. On July 26, 2016 we repatriated \$921,000 from our German subsidiary. When these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes if we repatriate certain of these funds.

We currently expect our cash and cash equivalents and projected future cash flow to be sufficient to support our short term working capital requirements and any future repurchases of shares under the 2015 Repurchase Plan (which was suspended in May 2016 and is discussed more fully in Note 9 to our consolidated financial statements.) 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, or an amount equal to or in excess 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.

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

(Continued)

In addition, in recent years, our Mechanical Products segment has experienced significant operating losses. We have undertaken actions at various times over the last few years to address these losses. As previously discussed, on January 4, 2016, we implemented a workforce reduction which resulted in our recording a restructuring charge of \$99,000 in the first quarter of 2016. The annualized savings from these actions are estimated to be approximately \$690,000. Our review of the operations of this product segment is ongoing with the goal of identifying additional opportunities for cost reduction and revenue growth. We cannot be certain that our efforts to restructure this operation to achieve profitability will be successful. These efforts could require us to utilize additional financial resources to pay severance or fund other costs associated with the restructuring of this operation, which would reduce the amount of our cash and cash equivalents available to fund our short-term working capital requirements.

Cash Flows

Operating Activities. Net cash provided by operations for the six months ended June 30, 2016 was \$195,000. During the six months ended June 30, 2016, we recorded net earnings of \$567,000, which included non-cash charges of \$304,000 for depreciation and amortization and \$178,000 for deferred compensation related to stock-based awards. During the six months ended June 30, 2016, accounts receivable and accounts payable increased \$2.3 million and \$565,000, respectively, compared to the levels at the end of 2015. These increases

primarily reflect increased business activity during the first six months of 2016 as compared to the fourth quarter of 2015. During the six months ended June 30, 2016, prepaid expenses and other current assets decreased \$343,000, primarily reflecting a lower level of refundable taxes and prepaid insurance premiums at June 30, 2016 as compared to the level at December 31, 2015. In addition, during the second quarter of 2016, we requested and were granted a \$125,000 reduction in the amount of the letter of credit that serves as a security deposit under the terms of the lease for our facility in New Jersey. Accordingly, we reduced the amount of the related restricted certificate of deposit which supported this letter of credit by \$125,000 during the second quarter of 2016.

Investing Activities. During the six months ended June 30, 2016 purchases of property and equipment were \$164,000. We have no significant commitments for capital expenditures for the balance of 2016, 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 six months ended June 30, 2016, we utilized \$770,000 to repurchase 190,725 shares of our common stock under the 2015 Repurchase Plan. As previously discussed, this plan was suspended in May 2016.

New or Recently Adopted Accounting Standards

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

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, goodwill, identifiable intangibles and deferred income taxes. 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 June 30, 2016, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2015 Form 10-K.

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

(Continued)

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements during the six months ended June 30, 2016 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.

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.

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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, 2015.

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

The following table provides information with respect to purchases made by us, or on our behalf, of our common stock during the three months ended June 30, 2016:

| <u>Period</u> | <u>Total Number of Shares Repurchased</u> | <u>Average Price Paid Per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</u> |
|---------------|---|---|---|---|
| April 1-30 | 40,280 | \$3.95 | 40,280 | \$4,220,000 |
| May 1-31 | 35,757 | \$3.87 | 35,757 | \$4,081,000 |
| June 1-30 | <u> -</u> | \$ - | <u> -</u> | \$4,081,000 |
| Total | <u>76,037</u> | \$3.91 | <u>76,037</u> | |

On October 27, 2015 our Board of Directors authorized the repurchase of up to \$5.0 million of our common stock from time to time on the open market, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, or in privately negotiated transactions (the "2015 Repurchase Plan"). Repurchases to date were made under a Rule 10b5-1 plan entered into with RW Baird & Co, which permitted shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The timing and amount of any shares repurchased under the 2015 Repurchase Plan was determined by our management, based on our evaluation of market conditions and other factors. The 2015 Repurchase Plan does not obligate us to repurchase any particular amount of common stock and may be suspended or discontinued at any time without

prior notice. The 2015 Repurchase Plan is funded using our operating cash flow or available cash.

For the three months ended June 30, 2016, we repurchased 76,037 shares under the repurchase plan at a fair market value of \$297,000. All of the repurchased shares were retired. Fees paid to our broker related to the repurchase of these shares totaled \$2,000. The 2015 Repurchase Plan was suspended in mid-May 2016 because of our work on a potential acquisition.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

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

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Signatures

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

inTEST Corporation

Date: August 12, 2016

/s/ Robert E. Matthiessen

Robert E. Matthiessen

President and Chief Executive Officer

Date: August 12, 2016

/s/ Hugh T. Regan, Jr.

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

Index to Exhibits

- 14 Code of Ethics (1)
- 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.

(1) Amended and restated on August 2, 2016.