INTEST CORP
Form 10-Q
November 13, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014 or

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

For the transition period from ________________ to _________________

Commission File Number 1-36117

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

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

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

(Address of principal executive offices, including zip code)

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

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

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

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

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

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

Number of shares of Common Stock, $.01 par value, outstanding as of the close of business on October 31, 2014:

10,562,678

inTEST CORPORATION

INDEX

PART 1. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	Sept. 30, 2014	Dec. 31, 2013
ASSETS:	(Unaudited)	
Current assets:		
Cash and cash equivalents	$20,147	$19,018
Trade accounts receivable, net of allowance for doubtful accounts of $146 and $147, respectively	7,549	5,748
Inventories	3,786	3,243
Deferred tax assets	707	701

Prepaid expenses and other current assets	413	371
Total current assets	32,602	29,081
Property and equipment:		
Machinery and equipment	4,278	4,190
Leasehold improvements	593	594
Gross property and equipment	4,871	4,784
Less: accumulated depreciation	(3,653)	(3,530)
Net property and equipment	1,218	1,254
Deferred tax assets	742	1,030
Goodwill	1,706	1,706
Intangible assets, net	1,470	1,748
Restricted certificates of deposit	450	450
Other assets	195	212
Total assets	$38,383	$35,481
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,553	$ 1,064
Accrued wages and benefits	1,573	1,635
Accrued rent	604	577
Accrued professional fees	364	367
Accrued sales commissions	421	305
Domestic and foreign income taxes payable	32	83
Other current liabilities	337	301
Total current liabilities	4,884	4,332
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 10,590,755 shares issued, respectively	106	106
Additional paid-in capital	26,291	26,187
Retained earnings	6,193	3,713
Accumulated other comprehensive earnings	1,113	1,347
Treasury stock, at cost; 33,077 and 33,077 shares, respectively	(204)	(204)
Total stockholders' equity	33,499	31,149
Total liabilities and stockholders' equity	$38,383	$35,481

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013

Net revenues	$10,794	$ 9,900	$31,934	$30,091
Cost of revenues	5,626	5,144	16,499	15,765
Gross margin	5,168	4,756	15,435	14,326
Operating expenses:				
Selling expense	1,462	1,255	4,318	3,972
Engineering and product development expense	894	945	2,704	2,866
General and administrative expense	1,528	1,469	4,681	4,548
Total operating expenses	3,884	3,669	11,703	11,386
Operating income	1,284	1,087	3,732	2,940
Other income (expense)	(16)	27	1	31
Earnings before income tax expense	1,268	1,114	3,733	2,971
Income tax expense	431	24	1,253	586
Net earnings	$ 837	$ 1,090	$ 2,480	$ 2,385
Net earnings per common share - basic	$0.08	$0.11	$0.24	$0.23
Weighted average common shares outstanding - basic	10,440,803	10,377,189	10,424,001	10,358,960
Net earnings per common share - diluted	$0.08	$0.10	$0.24	$0.23
Weighted average common shares and common share equivalents outstanding - diluted	10,477,814	10,404,095	10,461,075	10,383,970

See accompanying Notes to Consolidated Financial Statements.

- 2 -

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)
(Unaudited)

	Three Months Ended Sept. 30,	Nine Months Ended Sept. 30,

	2014	2013	2014	2013
Net earnings	$ 837	$ 1,090	$ 2,480	$ 2,385
Foreign currency translation adjustments	(223)	88	(234)	56
Comprehensive earnings	$ 614	$ 1,178	$ 2,246	$ 2,441

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
Balance, January 1, 2014	10,590,755	$ 106	$26,187	$ 3,713	$1,347	$(204)	$31,149
Net earnings	-	-	-	2,480	-	-	2,480
Other comprehensive loss	-	-	-	-	(234)	-	(234)
Amortization of deferred compensation related to restricted stock	-	-	104	-	-	-	104
Forfeiture of non-vested shares of restricted stock	(5,000)	-	-	-	-	-	-
Issuance of non-vested shares of restricted stock	10,000	-	-	-	-	-	-
Balance, September 30, 2014	10,595,755	$ 106	$26,291	$ 6,193	$1,113	$(204)	$33,499

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended Sept. 30, 2014	Nine Months Ended Sept. 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 2,480	$ 2,385
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	663	640
Provision for excess and obsolete inventory	232	264
Foreign exchange loss	24	6
Amortization of deferred compensation related to restricted stock	104	86
(Gain) loss on sale of property and equipment	20	(3)
Proceeds from sale of demonstration equipment, net of gain	112	24
Deferred income tax expense (benefit)	282	(52)
Changes in assets and liabilities:		
Trade accounts receivable	(1,879)	(1,892)
Inventories	(791)	(612)
Prepaid expenses and other current assets	(45)	(23)
Other assets	2	(1)
Accounts payable	491	465
Accrued wages and benefits	(42)	(88)
Accrued rent	27	41
Accrued professional fees	(3)	42
Accrued sales commissions	116	54
Domestic and foreign income taxes payable	(51)	249
Other current liabilities	45	(229)
Net cash provided by operating activities	1,787	1,356
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(536)	(257)
Proceeds from sale of property and equipment	8	10
Net cash used in investing activities	(528)	(247)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options exercised	-	30
Net cash provided by financing activities	-	30
Effects of exchange rates on cash	(130)	36
Net cash provided by all activities	1,129	1,175
Cash and cash equivalents at beginning of period	19,018	15,576
Cash and cash equivalents at end of period	$20,147	$16,751
Cash payments for:		
Domestic and foreign income taxes	$ 1,023	$ 389
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of non-vested shares of restricted stock	$ 41	$ 124
Forfeiture of non-vested shares of restricted stock	$ (20)	$ -

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
(In thousands, except for 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 ("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, deferred tax assets and liabilities including related valuation allowances and product warranty reserves, are particularly impacted by estimates.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 27, 2014 (the "2013 Form 10-K").

Reclassification

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $232 and $264 for the nine months ended September 30, 2014 and 2013, respectively.

Goodwill, Intangible and Long-Lived Assets

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

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

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

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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

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 nine months ended September 30, 2014.

Revenue Recognition

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

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

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

Product Warranties

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

Income Taxes

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

(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 stock options and non-vested shares of restricted stock and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted average common shares outstanding - basic	10,440,803	10,377,189	10,424,001	10,358,960
Potentially dilutive securities:				
Employee stock options and non-vested shares of restricted stock	37,011	26,906	37,074	25,010
Weighted average common shares and common share equivalents outstanding - diluted	10,477,814	10,404,095	10,461,075	10,383,970
Average number of potentially dilutive securities excluded from calculation	-	12,500	64,028	19,904

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") 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 nine months ended September 30, 2014.

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

(3) GOODWILL AND INTANGIBLE ASSETS

(Continued)

Intangible Assets

The following tables provide further detail about our intangible assets as of September 30, 2014 and December 31, 2013:

	September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$1,480	$ 927	$ 553
Patented technology	590	336	254
Software	270	162	108
	140	95	45

Trade name	70	70	-
Customer backlog	48	48	-
Non-compete/non-solicitation agreement	2,598	1,638	960
Total finite-lived intangible assets			
Indefinite-lived intangible assets:	510	-	510
Sigma trademark	$3,108	$1,638	$1,470
Total intangible assets			

	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:	$1,480	$ 725	$ 755
Customer relationships	590	307	283
Patented technology	270	142	128
Software	140	68	72
Trade name	70	70	-
Customer backlog	48	48	-
Non-compete/non-solicitation agreement	2,598	1,360	1,238
Total finite-lived intangible assets			
Indefinite-lived intangible assets:	510	-	510
Sigma trademark	$3,108	$1,360	$1,748

Total intangible assets

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.

The following table sets forth changes in the amount of the carrying value of intangible assets for the nine months ended September 30, 2014:

Balance - January 1, 2014	$1,748
Amortization	(278)
Balance - September 30, 2014	$1,470

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(3) GOODWILL AND INTANGIBLE ASSETS (Continued)

Total amortization expense for the nine months ended September 30, 2014 and 2013 was $278 and $349, respectively. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

2014 (remainder)	$ 77
2015	$289
2016	$229
2017	$212
2018	$ 65

(4)

MAJOR CUSTOMERS

During the nine months ended September 30, 2014 and 2013, Texas Instruments Incorporated accounted for 11% and 12%, respectively, of our consolidated net revenues. While all of our operating segments sold products to this customer, these revenues were primarily generated by our Mechanical Products and our Electrical Products segments. During the nine months ended September 30, 2014, Hakuto Co., Ltd., one of our distributors, accounted for 11% of our consolidated net revenues. These revenues were generated by our Thermal Products segment. No other customers accounted for 10% or more of our consolidated net revenues during the nine months ended September 30, 2014 and 2013.

(5)

INVENTORIES

Inventories held at September 30, 2014 and December 31, 2013 were comprised of the following:

	Sept. 30, ***2014***	Dec. 31, ***2013***
Raw materials	$2,738	$2,753
Work in process	402	222
Inventory consigned to others	96	94
Finished goods	550	174
	$3,786	$3,243

(6)

DEBT

Letters of Credit

We have issued letters of credit as the security deposits for certain of our domestic leases. These letters of credit are secured by pledged certificates of deposit which are classified as Restricted Certificates of Deposit on our balance sheet. The terms of our leases require us to renew these letters of credit at least 30 days prior to their expiration dates for successive terms of not less than one year until lease expiration. Our outstanding letters of credit at September 30, 2014 and December 31, 2013 consisted of the following:

	L/C	Lease	Letters of Credit Amount Outstanding

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

Facility	Original L/C Issue Date	Expiration Date	Expiration Date	Sept. 30, 2014	Dec. 31, 2013
Mt. Laurel, NJ	3/29/2010	3/31/2015	4/30/2021	$250	$250
				200	200
Mansfield, MA	10/27/2010	11/08/2015	8/23/2021		
				$450	$450

(7)

STOCK-BASED COMPENSATION

As of September 30, 2014, we had non-vested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 14 to the consolidated financial statements in our 2013 Form 10-K.

In addition, at our annual meeting on June 25, 2014, our stockholders approved the inTEST Corporation 2014 Stock Plan (the "2014 Stock Plan"). The 2014 Stock Plan permits the granting of stock options, restricted stock, stock appreciation rights or restricted stock units for up to 500,000 shares of our common stock to directors, officers, other key employees and consultants.

As of September 30, 2014, total compensation expense to be recognized in future periods was $356. The weighted average period over which this expense is expected to be recognized is 3.0 years.

Restricted Stock Awards

We record compensation expense for restricted stock awards (non-vested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. The following table shows the allocation of the compensation expense we recorded during the three and nine months ended September 30, 2014 and 2013, respectively, related to non-vested shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013

Cost of revenues	$ 2	$ 2	$ 8	$ 5
Selling expense	1	3	5	7
Engineering and product development expense	3	7	14	21
General and administrative expense	24	16	77	53
	$30	$28	$104	$86

There was no compensation expense capitalized in the nine months ended September 30, 2014 or 2013.

The following table summarizes the activity related to non-vested shares for the nine months ended September 30, 2014:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding, January 1, 2014	180,000	$2.69
Granted	10,000	4.14
Vested	(63,125)	1.78
Forfeited	(5,000)	3.97
Non-vested shares outstanding, September 30, 2014	121,875	3.01

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2014:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, January 1, 2014 (10,000 exercisable)	10,000	$5.66

Granted	-	-
Exercised	-	-
Forfeited/Expired	(10,000)	5.66
Options outstanding, September 30, 2014	-	-

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

(8) EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan for our employees who work in the U.S. (the "inTEST 401(k) Plan"). 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 nine months ended September 30, 2014 and 2013, we recorded $280 and $275 of expense for matching contributions, respectively.

(9) SEGMENT INFORMATION

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

The Thermal Products segment includes the operations of Temptronic, 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 Systems product lines. In addition, this segment provides post warranty service and support.

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

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

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
Net revenues from unaffiliated customers:				
Thermal Products	$ 5,908	$ 5,844	$17,267	$17,514
Mechanical Products	3,077	2,193	9,261	7,784
Electrical Products	1,809	1,863	5,406	4,793
	$10,794	$ 9,900	$31,934	$30,091
Earnings (loss) before income tax expense (benefit):				
Thermal Products	$1,304	$1,232	$3,322	$3,468
Mechanical Products	(109)	(346)	245	(742)
Electrical Products	203	294	608	493
Corporate	(130)	(66)	(442)	(248)
	$1,268	$1,114	$3,733	$2,971
Net earnings (loss):				
Thermal Products	$ 861	$1,206	$2,222	$2,847
Mechanical Products	(72)	(339)	152	(686)
Electrical Products	134	288	402	422

Corporate	(86)	(65)	(296)	(198)
	$ 837	$1,090	$2,480	$2,385

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(9) SEGMENT INFORMATION (Continued)

	Sept. 30, 2014	Dec. 31, 2013
Identifiable assets:		
Thermal Products	$25,157	$23,934
Mechanical Products	8,466	7,093
Electrical Products	4,760	4,454
	$38,383	$35,481

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 Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
Net revenues from unaffiliated customers:				
U.S.	$ 3,343	$ 3,098	$10,215	$ 9,816

	7,451	6,802	21,719	20,275
Foreign				
	$10,794	$ 9,900	$31,934	$30,091

	Sept. 30,	Dec. 31,
Property and equipment:	*2014*	*2013*
	$ 655	$ 700
U.S.		
	563	554
Foreign		
	$1,218	$1,254

- -

inTEST CORPORATION

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

Risk Factors and Forward-Looking Statements

In addition to historical information, this discussion and analysis contains statements relating to possible future events and results that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should" or "anticipates" or similar terminology. See Part I, Item 1 - "Business - Cautionary Statement Regarding Forward-Looking Statements" in our 2013 Form 10-K for examples of statements made in this report which may be "forward-looking statements." These statements involve risks and uncertainties and are based on various assumptions. Although we believe that our expectations are based on reasonable assumptions, investors and prospective investors are cautioned that such statements are only projections, and there cannot be any assurance that these events or results will occur.

Information about the primary risks and uncertainties that could cause our actual future results to differ materially from our historic results or the results described in the forward-looking statements made in this report or presented elsewhere by Management from time to time are included in Part I, Item 1A - "Risk Factors" in our 2013 Form 10-K. Material changes to such risk factors may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2013 Form 10-K.

Overview

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

Our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. Such market demand can be the result of market expansion, development of new technologies or redesigned products to incorporate new features. 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.

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

As part of our diversification strategy to reduce the impact of ATE market volatility on our business operations, we market our Thermostream temperature management systems in markets outside the ATE market, such as the automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications markets. We believe that these markets usually are less cyclical than the ATE market. However, because we are a recent market entrant in these markets, we have not yet developed meaningful market shares in these non-ATE markets. Consequently, we are continuing to evaluate customer buying patterns 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).

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

Orders and Backlog

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

	Three Months Ended September 30,		Change		Three Months Ended June 30,	Change	
	2014	2013	$	%	2014	$	%

Orders from unaffiliated customers:							
Thermal Products	$ 6,504	$ 6,534	$ (30)	0 %	$ 6,094	$ 410	7 %
Mechanical Products	2,307	1,837	470	26 %	4,178	(1,871)	(45)%
Electrical Products	1,836	2,048	(212)	(10)%	2,366	(530)	(22)%
	$10,647	$10,419	$228	2 %	$12,638	$(1,991)	(16)%
ATE market	$ 6,640	$ 6,320	$320	5 %	$ 9,040	$(2,400)	(27)%
Non-ATE market	4,007	4,099	(92)	(2)%	3,598	409	11 %
	$10,647	$10,419	$228	2 %	$12,638	$(1,991)	(16)%

inTEST CORPORATION

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

(Continued)

	Nine Months Ended September 30,		Change	
	2014	2013	$	%
Orders from unaffiliated customers:				
Thermal Products	$18,244	$16,624	$1,620	10%
Mechanical Products	9,449	7,749	1,700	22%

Electrical Products	5,755	4,726	1,029	22%
	$33,448	$29,099	$4,349	15%
ATE market	$23,901	$20,850	$3,051	15%
Non-ATE market	9,547	8,249	1,298	16%
	$33,448	$29,099	$4,349	15%

Total consolidated orders for the quarter ended September 30, 2014 were $10.6 million compared to $10.4 million for the same period in 2013 and $12.6 million for the quarter ended June 30, 2014. The increase in consolidated orders in the third quarter of 2014 as compared to the same period in 2013 primarily reflects improved demand from certain customers of our Mechanical Products segment. This increase was partially offset by a decrease in demand for our Electrical Products segment. During the third quarter of 2013, our Electrical Products segment experienced higher than normal demand from one large OEM customer. No similar increase in demand was experienced during the third quarter of 2014.

The decrease in our consolidated orders in the third quarter of 2014 as compared to the second quarter of 2014 was a result of reduced demand for our Mechanical and Electrical Products segments which we believe reflects the beginning of a seasonal decline in the levels of demand within the ATE market. This decrease was partially offset by an increase in orders received by our Thermal Products segment from its customers in non-ATE markets, primarily from customers in the defense/aerospace and industrial markets.

Orders from customers in various markets outside of the ATE market for the quarter ended September 30, 2014 decreased 2% as compared to the same period in 2013 and grew 11% as compared to the second quarter of 2014. As a percent of our total consolidated orders, non-ATE market orders were 38% of consolidated orders in the third quarter of 2014 as compared to 39% in the third quarter of 2013 and 28% in the second quarter of 2014.

At September 30, 2014, our backlog of unfilled orders for all products was approximately $4.7 million compared with approximately $3.2 million at September 30, 2013 and $4.8 million at June 30, 2014. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2014. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

Net Revenues

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

inTEST CORPORATION

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

(Continued)

	Three Months Ended September 30,		Change		Three Months Ended June 30,	Change	
	2014	2013	$	%	2014	$	%
Net revenues from unaffiliated customers:							
Thermal Products	$ 5,908	$5,844	$ 64	1 %	$ 6,116	$ (208)	(3)%
Mechanical Products	3,077	2,193	884	40 %	4,137	(1,060)	(26)%
Electrical Products	1,809						