INTEST CORP
Form 10-Q
May 14, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth 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
Emerging growth company		

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

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

Number of shares of Common Stock, $.01 par value, outstanding as of the close of business on April 30, 2018:

10,473,558

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inTEST CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2018 (Unaudited)	**December 31, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ *14,438*	$ *13,290*
Trade accounts receivable, net of allowance for doubtful accounts of $152 and $213, respectively	*11,524*	*12,166*
Inventories	*6,668*	*4,966*
Prepaid expenses and other current assets	*657*	*577*
Total current assets	*33,287*	*30,999*
Property and equipment:		
Machinery and equipment	*4,993*	*5,033*
Leasehold improvements	*1,861*	*822*
Gross property and equipment	*6,854*	*5,855*
Less: accumulated depreciation	*(4,451*)	*(4,314*)
Net property and equipment	*2,403*	*1,541*
Goodwill	*13,738*	*13,738*
Intangible assets, net	*15,798*	*16,014*
Restricted certificates of deposit	*175*	*175*
Other assets	*32*	*26*
Total assets	$ *65,433*	$ *62,493*
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ *3,280*	$ *2,032*
Accrued wages and benefits	*1,745*	*2,781*
Accrued rent	*515*	*521*
Accrued professional fees	*774*	*717*
Accrued sales commissions	*422*	*529*
Customer deposits and deferred revenue	*769*	*886*
Domestic and foreign income taxes payable	*1,773*	*1,199*
Earnout payable	*5,833*	*5,355*
Other current liabilities	*527*	*399*
Total current liabilities	*15,638*	*14,419*
Federal transition tax payable, net of current portion	*436*	*436*

Deferred tax liabilities	2,539	2,606
Contingent consideration liability, net of current portion	6,992	5,744
Total liabilities	25,605	23,205
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; 10,506,635 and 10,427,435 shares issued, respectively	105	104
Additional paid-in capital	25,980	25,860
Retained earnings	13,027	12,646
Accumulated other comprehensive earnings	920	882
Treasury stock, at cost; 33,077 shares	(204)	(204)
Total stockholders' equity	39,828	39,288
Total liabilities and stockholders' equity	$ 65,433	$ 62,493

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31, 2018	2017
Net revenues	$*18,871*	$*14,180*
Cost of revenues	*9,476*	*6,452*
Gross margin	*9,395*	*7,728*
Operating expenses:		
Selling expense	*2,476*	*1,668*
Engineering and product development expense	*1,296*	*935*
General and administrative expense	*2,990*	*1,994*
Adjustment to contingent consideration liability	*1,726*	-
Total operating expenses	*8,488*	*4,597*
Operating income	*907*	*3,131*
Other income	*75*	*41*
Earnings before income tax expense	*982*	*3,172*
Income tax expense	*601*	*1,094*
Net earnings	$*381*	$*2,078*
Net earnings per common share - basic	$*0.04*	$*0.20*
Weighted average common shares outstanding - basic	*10,326,309*	*10,264,565*
Net earnings per common share - diluted	$*0.04*	$*0.20*
Weighted average common shares and common share equivalents outstanding - diluted	*10,365,306*	*10,295,337*

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2018	2017
Net earnings	$*381*	$*2,078*
Foreign currency translation adjustments	*38*	*28*
Comprehensive earnings	$*419*	$*2,106*

See accompanying Notes to Consolidated Financial Statements.

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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, 2018	*10,427,435*	$ *104*	$ *25,860*	$ *12,646*	$ *882*	$ *(204*)	$ *39,288*
Net earnings	-	-	-	*381*	-	-	*381*
Other comprehensive income	-	-	-	-	*38*	-	*38*
Amortization of deferred compensation related to stock-based awards	-	-	*121*	-	-	-	*121*
Issuance of unvested shares of restricted stock	*79,200*	*1*	*(1*)	-	-	-	-
Balance, March 31, 2018	*10,506,635*	$ *105*	$ *25,980*	$ *13,027*	$ *920*	$ *(204*)	$ *39,828*

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$381	$2,078
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	405	150
Adjustment to earnout payable	478	-
Adjustment to contingent consideration liability	1,248	-
Provision for excess and obsolete inventory	61	47
Foreign exchange gain	(74)	(12)
Amortization of deferred compensation related to stock-based awards	121	88
Loss on disposal of property and equipment	11	-
Proceeds from sale of demonstration equipment, net of gain	101	31
Deferred income tax benefit	(67)	(6)
Changes in assets and liabilities:		
Trade accounts receivable	723	(4,423)
Inventories	(1,760)	(291)
Prepaid expenses and other current assets	(80)	(31)
Other assets	(6)	(5)
Accounts payable	1,248	465
Accrued wages and benefits	(1,037)	(400)
Accrued rent	(6)	(28)
Accrued professional fees	57	(11)
Accrued sales commissions	(107)	148
Customer deposits and deferred revenue	(121)	85
Domestic and foreign income taxes payable	575	1,050
Other current liabilities	128	65
Net cash provided by (used in) operating activities	2,279	(1,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,168)	(114)
Net cash used in investing activities	(1,168)	(114)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchases of common stock	-	(62)
Net cash used in financing activities	-	(62)
Effects of exchange rates on cash	37	20

Net cash provided by (used in) all activities	*1,148*	*(1,156*)
Cash and cash equivalents at beginning of period	*13,290*	*28,611*
Cash and cash equivalents at end of period	$*14,438*	$*27,455*
Cash payments for:		
Domestic and foreign income taxes	$*110*	$*39*

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 management products and semiconductor automated test equipment (“ATE”) interface solutions. Our products are used by semiconductor manufacturers to perform development, qualifying and final testing of integrated circuits (“ICs”) and wafers, and for other electronic testing across a range of industries including the automotive, defense/aerospace, energy, industrial and telecommunications markets. We also offer induction heating products for joining and forming metals in a variety of industrial markets, including automotive, aerospace, machinery, wire & fasteners, medical, semiconductor, food & beverage, and packaging. We manufacture our products in the U.S. Marketing and support activities are conducted worldwide from our facilities in the U.S., Germany, Singapore, the Netherlands and the U.K. The consolidated entity is comprised of inTEST Corporation and our wholly-owned subsidiaries. We have *two* reportable segments, which are also our reporting units, Thermal Products ("Thermal") and Electromechanical Semiconductor Products ("EMS").

On *May 24, 2017,* we completed the acquisition of Ambrell Corporation ("Ambrell"). The acquisition was completed by acquiring all of the outstanding capital stock of Ambrell. Ambrell is a manufacturer of precision induction heating systems which are used to conduct fast, efficient, repeatable non-contact heating of metals or other electrically conductive materials, in order to transform raw materials into finished parts. The Ambrell acquisition complements our current thermal technologies and broadens our diverse customer base, allowing expansion within many non-semiconductor related markets, such as consumer product packaging, fiber-optics, automotive and other markets. Ambrell's operations are included in our Thermal segment. Ambrell manufactures its products in the U.S. and conducts marketing and support activities from its facilities in the U.S., the Netherlands and the U.K. This acquisition is discussed further in Note *3*.

The ATE 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 ATE 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. 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, we *may not* be able to successfully integrate any business we do acquire 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, contingent consideration liabilities and deferred tax assets and liabilities, including related valuation allowances, are particularly impacted by estimates.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Form *10*-K for the year ended *December 31, 2017 (“2017* Form *10*-K”) filed on *March 28, 2018* with the Securities and Exchange Commission.

Reclassification

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

Business Combinations

Acquired businesses are accounted for using the purchase method of accounting, which requires that the purchase price be allocated to the net assets acquired at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Fair values of intangible assets are estimated by valuation models prepared by our management and *third* party advisors. The assets purchased and liabilities assumed have been reflected in our consolidated balance sheets, and the results are included in the consolidated statements of operations and consolidated statements of cash flows from the date of acquisition. Any change in the fair value of acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, will be recognized within general and administrative expense in the period of the estimated fair value change. Acquisition-related transaction costs, including legal and accounting fees and other external costs directly related to the acquisition, are recognized separately from the acquisition and expensed as incurred in general and administrative expense in the consolidated statements of operations.

Fair Value Measurements

The fair values of our financial instruments reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The carrying amounts of our financial instruments of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

We carry our contingent consideration liability at fair value. In accordance with the *three*-tier fair value hierarchy, we determined the fair value of our contingent consideration liability using an option-based income approach with a Monte Carlo simulation model. The income approach uses Level *3,* or unobservable inputs, as defined under the accounting guidance for fair value measurements. See Notes *3* and *4* for more information regarding our contingent consideration liability.

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 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 the qualitative assessment indicates a potential impairment, 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, and forecasts of revenue and expense growth rates, income tax 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.

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Indefinite-lived intangible assets are assessed for impairment 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. If we choose *not* to perform a qualitative assessment, then the quantitative impairment test 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.

Revenue Recognition

As discussed further under “Effect of Recently Adopted Amendments to Authoritative Accounting Guidance” below, effective *January 1, 2018,* we recognize revenue in accordance with the guidance in ASC Topic *606* (Revenue from Contracts with Customers). We recognize revenue for the sale of products or services when our performance obligations under the terms of a contract with a customer are satisfied and control of the product or service has been transferred to the customer. Generally this occurs when we ship a product or perform a service. In certain cases, recognition of revenue is deferred until the product is received by the customer or at some other point in the future when we have determined that we have satisfied our performance obligations under the contract. Our contracts with customers *may* include a combination of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. In addition to the sale of products and services, we also lease certain of our equipment under short-term lease agreements. We recognize revenue from equipment leases on a straight-line basis over the lease term.

Revenue is recorded in an amount that reflects the consideration we expect to receive in exchange for those products or services. We do *not* have any material variable consideration arrangements or any material payment terms with our customers other than standard net *30* or net *60* day payment terms. We generally do *not* provide a right of return to our customers. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of Products and Services

We sell thermal management products and semiconductor ATE interface solutions. Our thermal management products include ThermoStreams, ThermoChambers, ThermoChucks and process chillers which we sell under our Temptronic, Sigma and Thermonics product lines, and Ambrell’s precision induction heating systems, including EkoHeat and

EasyHeat products. Our semiconductor ATE interface solutions include manipulators, docking hardware and electrical interface products. We provide post-warranty service for the equipment we sell. We sell semiconductor ATE interface solutions and certain thermal management products to the ATE market, which provides automated test equipment to the semiconductor market. We also sell our thermal products to markets outside the semiconductor market which include the automotive, defense/aerospace, industrial, telecommunications and other markets.

We lease certain of our equipment under short-term leasing agreements with original lease terms of *6* months or less. Our lease agreements do *not* contain purchase options.

Types of Contracts with Customers

Our contracts with customers are generally structured as individual purchase orders which specify the exact products or services being sold or equipment being leased along with the selling price, service fee or monthly lease amount for each individual item on the purchase order. Payment terms and any other customer-specific acceptance criteria are also specified on the purchase order. We generally do *not* have 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.

Contract Balances

We record accounts receivable at the time of invoicing. Accounts receivable, net of the allowance for doubtful accounts, is included in current assets on our balance sheet. To the extent that we do *not* recognize revenue at the same time as we invoice, we record a liability for deferred revenue. In certain instances, we also receive customer deposits in advance of invoicing and recording of accounts receivable. Deferred revenue and customer deposits are included in current liabilities on our balance sheets.

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The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, if any, historical experience, and other currently available evidence.

Costs to Obtain a Contract with a Customer

The only costs we incur associated with obtaining contracts with customers are sales commissions that we pay to our internal sales personnel or *third*-party sales representatives. These costs are calculated based on an established percentage of the selling price of each product or service sold. Commissions are considered earned by our internal sales personnel either at the time of receipt of our customer's purchase order, in the case of Ambrell, or at the time we recognize revenue for a particular transaction, in the case of our remaining operations. Commissions are considered earned by *third*-party sales representatives at the time that revenue is recognized for a particular transaction. We record commission expense in our consolidated statements of operations at the time the commission is earned. Commissions earned but *not* yet paid are included in current liabilities on our balance sheets.

Refer to Notes *6* and *12* for further information about our revenue from contracts with customers.

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 *$61* and *$47* for the *three* months ended *March 31, 2018* and *2017,* respectively.

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 *10.*

Subsequent Events

We have made an assessment of our operations and determined that there were *no* material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the *three* months ended *March 31, 2018.*

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 our consolidated statements of operations.

Income Taxes

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

Net Earnings Per Common Share

Net earnings per common share - basic is computed by dividing net earnings by the weighted average number of common shares outstanding during each period. Net earnings per common share - diluted is computed by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents 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.

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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 March,	
	2018	**2017**
Weighted average common shares outstanding - basic	*10,326,309*	*10,264,565*
Potentially dilutive securities:		
Unvested shares of restricted stock and stock options	*38,997*	*30,772*
Weighted average common shares and common share equivalents outstanding - diluted	*10,365,306*	*10,295,337*
Average number of potentially dilutive securities excluded from calculation	*103,756*	*47,260*

Effect of Recently Adopted Amendments to Authoritative Accounting Guidance

In *May 2014,* the FASB issued new guidance on the recognition of revenue from contracts with customers. Subsequent to *May 2014,* the FASB issued additional clarifying guidance on certain aspects of this new guidance. This new guidance is presented in ASC Topic *606* (Revenue from Contracts with Customers) and replaced most existing revenue recognition guidance in U.S. GAAP when it became effective, which for us was on *January 1, 2018.* During the *fourth* quarter of *2017,* we completed our review of all our revenue streams to identify any differences in timing, measurement or presentation of revenue recognition. This review included the types of revenue arrangements currently in place including a review of individual customer contracts related to each of our major revenue streams. Based on the results of our assessment, we concluded that the implementation of this new guidance would *not* have a significant impact on the timing or amount of revenue we recognize in any given period in comparison to the amount recognized under prior guidance. In addition, based on our assessment, we determined that we did *not* need to implement any major changes to existing accounting systems or internal controls. We adopted this guidance as of *January 1, 2018* using the modified retrospective method which allowed us to make a cumulative adjustment to retained earnings for any differences in the amounts of revenue or expenses that would have been recognized in prior periods, had this new guidance been in place at that time, rather than retrospectively adjusting those prior periods. However, the implementation of this new guidance did *not* have any impact on our results of operations or our consolidated balance sheet as of the implementation date, as the timing and amount of revenue we recognized in prior periods did *not* change under the new guidance. See Notes *6* and *12* for additional disclosures about our revenue from contracts with customers.

In *November 2016,* the FASB issued amendments to the guidance on presentation of restricted cash within the statement of cash flows. The amendments require that restricted cash be included within cash and cash equivalents on the statement of cash flows. The amendments were effective for us as of *January 1, 2018,* and have been applied retrospectively. The implementation of these amendments did *not* have a material impact on our consolidated financial statements.

In *January 2017,* the FASB issued amendments to clarify the current guidance on the definition of a business. The objective of the amendments is to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments were effective for us as of *January 1, 2018.* The implementation of these amendments did *not* have a material impact on our consolidated financial statements.

In *May 2017,* the FASB issued amendments to the guidance on accounting for a change to the terms or conditions (modification) of a share-based payment award. The amendments provide that an entity should account for the effects of a modification unless the fair value and vesting conditions of the modified award and the classification of the modified award (equity or liability instrument) are the same as the original award immediately before the modification. The amendments were effective for us as of *January 1, 2018.* The amendments are to be applied prospectively to an award modified on or after the adoption date. The implementation of these amendments did *not* have a material impact on our consolidated financial statements.

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

In *January 2017,* the FASB issued amendments to the guidance on accounting for goodwill impairment. The amendments simplify the accounting for goodwill impairment by removing Step II of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amendments, a goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, *not* to exceed the carrying amount of goodwill. The amendments will be applied prospectively and are effective for us as of *January 1, 2020,* with early application permitted beginning *January 1, 2017.* 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). Subsequent to *February 2016,* the FASB has issued additional clarifying guidance on certain aspects of this new guidance. 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. During the *fourth* quarter of *2017,* we performed a preliminary assessment of the impact that the implementation of this guidance will have on our consolidated financial statements. Our assessment is ongoing. We currently expect that the implementation of this new guidance will have a significant impact on our consolidated balance sheet as a result of recording right-of-use assets and lease liabilities for all of our multi-year leases. Under current guidance, *none* of these leases has any related asset or liability recorded on our balance sheet. We do *not* currently expect that the implementation of this new guidance will have a significant impact on our pattern of expense recognition for any of our multi-year leases. However, we are still in the process of completing our assessment and our conclusions about the impact that this new guidance will have on our consolidated financial statements *may* change as we complete our assessment over the next several quarters.

(*3*) ACQUISITION

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

The purchase price for Ambrell was *$22,000* in cash paid at closing, subject to a customary post-closing working capital adjustment. Additional consideration in the form of earnouts *may* be paid based upon a multiple of adjusted EBITDA for *2017* and *2018,* as further discussed below. The acquisition was completed by acquiring all of the outstanding capital stock of Ambrell. Total acquisition costs incurred to complete this transaction were *$935.* Acquisition costs were expensed as incurred and included in general and administrative expense.

The acquisition of Ambrell has been accounted for as a business combination using purchase accounting, and, accordingly, the results of Ambrell have been included in our consolidated results of operations from the date of acquisition. The allocation of the Ambrell purchase price was based on fair values as of *May 24, 2017.* The determination of fair value reflects our estimates and assumptions based on the information available as of the date the estimate is calculated.

The excess of the purchase price over the identifiable intangible and net tangible assets was allocated to goodwill and is *not* deductible for tax purposes. Goodwill is attributed to synergies that are expected to result from the operations of the combined businesses.

The total purchase price of *$26,733* was comprised of:

Cash paid to acquire the capital stock of Ambrell	\$*22,610*
Estimated fair value of contingent consideration	*4,123*
Total purchase price	\$*26,733*

As noted above, the consideration paid for the acquisition of Ambrell includes contingent consideration in the form of earnouts based on the future adjusted EBITDA of Ambrell. Adjusted EBITDA is earnings (or loss) from operations before interest expense, benefit or provision for income taxes, depreciation and amortization, and excludes other non-recurring income and expense items as defined in the stock purchase agreement for Ambrell. The *first* earnout, to be paid after calendar year *2017* was completed, was an amount equal to *8x* Ambrell's adjusted EBITDA for *2017* minus the *$22,000* paid at closing. At *March 31, 2018,* we had accrued *$5,833* as earnout payable representing the amount of the *first* earnout. This amount was paid in *April 2018.* The *second* earnout, if any, to be paid after calendar year *2018* is completed, will be an amount equal to *8x* Ambrell's adjusted EBITDA for *2018* minus the sum of the *$22,000* paid at closing and *$5,833,* the earnout paid with respect to *2017.* The *2017* and *2018* earnouts, in the aggregate, are capped at *$18,000.* To estimate the fair value of the contingent consideration at the acquisition date and at the end of each quarter, an option based income approach using a Monte Carlo simulation model is utilized due to the non-linear payout structure. As of the acquisition date, this resulted in an estimated fair value of *$4,123* for the *2017* and *2018* earnouts. This amount was recorded as a contingent consideration liability and included in the purchase price as of the acquisition date. At *March 31, 2018,* this same approach resulted in an estimated fair value of *$6,992* for the *2018* earnout which is recorded as a contingent consideration liability on our balance sheet. Changes in the amount of the estimated fair value of the earnouts since the acquisition date are recorded as operating expenses in our statement of operations in the quarter in which they occur.

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The total purchase price of *$26,733* has been allocated as follows:

Goodwill	$*12,032*
Identifiable intangible assets	*16,300*
Tangible assets acquired and liabilities assumed:	
Cash	*648*
Trade accounts receivable	*3,621*
Inventories	*1,917*
Other current assets	*200*
Property and equipment	*614*
Accounts payable	*(1,420*)
Accrued expenses	*(1,280*)
Customer advances	*(554*)
Deferred tax liability	*(5,345*)
Total purchase price	$*26,733*

We estimated the fair value of identifiable intangible assets acquired using a combination of the income, cost and market approaches. Identifiable intangible assets acquired include customer relationships, customer backlog, technolog