

INTEST CORP  
Form 10-Q  
August 12, 2011

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, 2011 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 0-22529

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.

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Large accelerated filer   
Non-accelerated filer

Accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of Common Stock, \$.01 par value, outstanding as of the close of business on July 31, 2011:

10,386,927

inTEST CORPORATION

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## PART 1. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2011	Dec. 31, 2010
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 8,879	\$ 6,895
Trade accounts receivable, net of allowance for doubtful accounts of \$151 and \$150, respectively	8,278	6,244
Inventories	4,267	3,489
Prepaid expenses and other current assets	<u>166</u>	<u>430</u>
Total current assets	<u>21,590</u>	<u>17,058</u>

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Property and equipment:		
Machinery and equipment	3,555	3,534
Leasehold improvements	<u>514</u>	<u>765</u>
Gross property and equipment	4,069	4,299
Less: accumulated depreciation	<u>(2,932)</u>	<u>(3,581)</u>
Net property and equipment	<u>1,137</u>	<u>718</u>
Goodwill	1,656	1,656
Intangible assets, net	1,010	1,077
Restricted certificates of deposit	700	700
Other assets	181	199
	-----	-----
Total assets	\$26,274	\$21,408
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,105	\$ 1,672
Accrued wages and benefits	1,497	1,779
Accrued professional fees	370	373
Accrued warranty	286	274
Accrued sales commissions	682	522
Other accrued expenses	882	497
Domestic and foreign income taxes payable	59	30
Deferred rent	<u>98</u>	<u>118</u>
Total current liabilities	<u>5,979</u>	<u>5,265</u>
Deferred rent, net of current portion	<u>-</u>	<u>39</u>
Total liabilities	<u>5,979</u>	<u>5,304</u>
Commitments and contingencies (Notes 9 and 11)		
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; 10,463,255 and 10,464,505 shares issued, respectively	105	105
Additional paid-in capital	26,039	25,973
Accumulated deficit	(6,637)	(10,549)
Accumulated other comprehensive earnings	1,398	1,311
Treasury stock, at cost; 98,649 and 119,029 shares, respectively	<u>(610)</u>	<u>(736)</u>
Total stockholders' equity	<u>20,295</u>	<u>16,104</u>
	-----	-----
Total liabilities and stockholders' equity	\$26,274	\$21,408
	=====	=====

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	-----	-----	-----	-----
Net revenues	\$13,800	\$15,260	\$25,504	\$24,789

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Cost of revenues	7,002	7,892	13,613	12,884
	-----	-----	-----	-----
Gross margin	6,798	7,368	11,891	11,905
	-----	-----	-----	-----
Operating expenses:				
Selling expense	1,587	1,754	2,972	2,983
Engineering and product development expense	822	787	1,635	1,488
General and administrative expense	1,666	1,653	3,300	3,134
	-----	-----	-----	-----
Total operating expenses	4,075	4,194	7,907	7,605
	-----	-----	-----	-----
Operating income	2,723	3,174	3,984	4,300
	-----	-----	-----	-----
Other income (expense):				
Interest income	3	1	6	4
Interest expense	(1)	(18)	(2)	(36)
Other	8	9	62	13
	-----	-----	-----	-----
Total other income (expense)	10	(8)	66	(19)
	-----	-----	-----	-----
Earnings before income tax expense (benefit)	2,733	3,166	4,050	4,281
Income tax expense (benefit)	78	(2)	138	1
	-----	-----	-----	-----
Net earnings	\$ 2,655	\$ 3,168	\$ 3,912	\$ 4,280
	=====	=====	=====	=====
Net earnings per common share - basic	\$0.26	\$0.32	\$0.39	\$0.43
Weighted average common shares outstanding - basic	10,146,613	10,006,956	10,107,398	10,000,061
Net earnings per common share - diluted	\$0.26	\$0.31	\$0.38	\$0.42
Weighted average common and common share equivalents outstanding - diluted	10,296,902	10,186,364	10,281,857	10,093,146

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)  
(Unaudited)

Three Months Ended June 30,		Six Months Ended June 30,	
-----		-----	
2011	2010	2011	2010

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	-----	-----	-----	-----
Net earnings	\$ 2,655	\$ 3,168	\$ 3,912	\$ 4,280
Foreign currency translation adjustments	25	(66)	87	(120)
	-----	-----	-----	-----
Comprehensive earnings	\$ 2,680	\$ 3,102	\$ 3,999	\$ 4,160
	=====	=====	=====	=====

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		Add'l	Accumulated	Accumulated	Treasury	Total
	Shares	Amount	Paid-In Capital	Deficit	Other Comprehensive Earnings	Stock	Stockholders' Equity
	-----	-----	-----	-----	-----	-----	-----
Balance, January 1, 2011	10,464,505	\$ 105	\$25,973	\$ (10,549)	\$1,311	\$ (736)	\$16,104
Net earnings	-	-	-	3,912	-	-	3,912
Other comprehensive earnings	-	-	-	-	87	-	87
Amortization of deferred compensation related to restricted stock	-	-	87	-	-	-	87
Stock options exercised	10,000	-	30	-	-	-	30
Forfeiture of non-vested shares of restricted stock	(11,250)	-	-	-	-	-	-
Issuance of 20,380 shares to satisfy profit sharing liability	-	-	(51)	-	-	126	75
	-----	-----	-----	-----	-----	-----	-----
Balance, June 30, 2011	10,463,255	\$ 105	\$26,039	\$ (6,637)	\$1,398	\$ (610)	\$20,295
	=====	=====	=====	=====	=====	=====	=====

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,	
	2011	2010
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 3,912	\$ 4,280
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	209	190
Foreign exchange (gain) loss	(11)	9
Amortization of deferred compensation related to restricted stock	87	96
Profit sharing expense funded through the issuance of treasury stock	75	-
(Gain) loss on sale of property and equipment	(40)	(5)
Proceeds from sale of demonstration equipment, net of gain	107	8
Changes in assets and liabilities:		
Trade accounts receivable	(2,012)	(5,331)
Inventories	(761)	(136)
Prepaid expenses and other current assets	264	170
Restricted certificates of deposit	-	(250)
Other assets	28	32
Accounts payable	432	321
Accrued wages and benefits	(295)	647
Accrued professional fees	(4)	51
Accrued warranty	12	35
Accrued sales commissions	160	476
Accrued restructuring and other charges	-	(130)
Other accrued expenses	383	222
Domestic and foreign income taxes payable	29	(3)
Deferred rent	(59)	(59)
	-----	-----
Net cash provided by operating activities	2,516	623
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(640)	(75)
Proceeds from sale of property and equipment	40	-
	-----	-----
Net cash used in investing activities	(600)	(75)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options exercised	30	-
	-----	-----
Net cash provided by financing activities	30	-
	-----	-----
Effects of exchange rates on cash	38	(61)
	-----	-----
Net cash provided by all activities	1,984	487
Cash and cash equivalents at beginning of period	6,895	2,647
	-----	-----
Cash and cash equivalents at end of period	\$ 8,879	\$ 3,134
	=====	=====
Cash payments for:		
Domestic and foreign income taxes	\$ 78	\$ 6
Interest	\$ -	\$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of non-vested shares of restricted stock	\$ -	\$ 411
Forfeitures of non-vested shares of restricted stock	\$ (20)	\$ (11)

See accompanying Notes to Consolidated Financial Statements.

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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 mechanical, thermal 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").

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: Mechanical Products, Thermal 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 industry in which we operate is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. This industry 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 industry, our ability to safeguard patents 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 industry. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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



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in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 31, 2011 (the "2010 Form 10-K").

### Reclassification

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

### Inventories

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventory 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 industry conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The charges for excess and obsolete inventory we record establish a new cost basis for the related inventory. We incurred excess and obsolete inventory charges of \$197 and \$353 for the six months ended June 30, 2011 and 2010, respectively.

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## inTEST CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

#### Goodwill, Intangible and Long-Lived Assets

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. The 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.

During the goodwill impairment assessment, we perform a Step I test to identify potential impairment, in which the fair value of a reporting unit is 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. 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. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an 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.

#### Stock-Based Compensation

We account for stock-based compensation in accordance with Accounting Standards Codification ("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 there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the three and six months ended June 30, 2011 other than the cancellation on July 12, 2011 of one of our outstanding letters of credit, as discussed further in Note 7.

**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 collectibility 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.

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**Restructuring and Other Charges**

We recognize a liability for restructuring costs at fair value only when the liability is incurred. The three main components of our restructuring plans have been related to workforce reductions, the consolidation of excess facilities and asset impairments. Workforce-related charges are accrued when it is determined that a liability has been incurred, which is generally after individuals have been notified of their termination dates and expected severance benefits. Plans to consolidate excess facilities result in charges for lease termination fees and future commitments to pay lease charges, net of estimated future sub-lease income. We recognize these charges when we have vacated the premises. In addition, as a result of plans to consolidate excess facilities,

we may incur other associated costs such as charges to relocate inventory, equipment or personnel. We recognize charges for other associated costs when these costs are incurred, which is generally when the goods or services have been provided to us. Assets that may be impaired consist of property, plant and equipment and intangible assets. Asset impairment charges are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of the asset.

### **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.

For the six months ended June 30, 2011 and 2010, we recorded income tax expense of \$138 and \$1, respectively. 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. Due to our history of operating losses in both our domestic and certain of our foreign operations, we have recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire.

### **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 unvested shares of restricted stock and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

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

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Weighted average common shares outstanding - basic	10,146,613	10,006,956	10,107,398	10,000,061
Potentially dilutive securities:				
Employee stock options and unvested shares of restricted stock	<u>150,289</u>	<u>179,408</u>	<u>174,459</u>	<u>93,085</u>
Weighted average common shares outstanding - diluted	<u>10,296,902</u>	<u>10,186,364</u>	<u>10,281,857</u>	<u>10,093,146</u>
Average number of potentially dilutive securities excluded from calculation	64,670	149,083	62,310	305,823
Weighted average exercise price of excluded securities	\$4.38	\$4.07	\$4.47	\$3.67

**Effect of Recently Adopted Amendments to Authoritative Accounting Guidance**

In January 2010, the Financial Accounting Standards Board (the "FASB") issued an amendment to an accounting standard regarding disclosure guidance with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. This amendment is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new guidance around the Level 3 activity reconciliations, which is effective for fiscal years beginning after December 15, 2010. The adoption of this amendment did not have any impact on our consolidated financial statements.

In July 2010, the FASB issued an amendment to an accounting standard that requires additional disclosure about the credit quality of financing receivables, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class, if applicable. The disaggregation of information is based on how allowances for credit losses are developed and how credit exposure is managed. This amendment is effective for interim periods and fiscal years ending after December 15, 2010. The adoption of this amendment did not have any impact on our consolidated financial statements.

In December 2010, the FASB issued an amendment to goodwill impairment testing. The amendment modifies Step I of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step II of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that

impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance did not have any impact on our consolidated financial statements.

In December 2010, the FASB issued an amendment to the disclosure of supplementary pro forma information for business combinations. The amendment specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendment is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We will implement this guidance in the event we consummate a business acquisition in the future.

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

In June 2011, the FASB issued an amendment to Topic 220, Comprehensive Income. Under the amendment, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This amendment eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. Reclassification adjustments between net income and other comprehensive income must be shown on the face of the statement(s), with no resulting change in net earnings. The amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendment is effective for fiscal years beginning after December 15, 2011. We do not expect the adoption of this amendment to have a material impact on our consolidated financial statements.

## (3) GOODWILL AND INTANGIBLE ASSETS

As of June 30, 2011 and December 31, 2010, our goodwill totaled \$1,656 and our indefinite-lived intangible asset totaled \$510. The goodwill and indefinite-lived intangible asset are both a result of our acquisition of Sigma Systems Corp. ("Sigma") in October 2008 and are allocated to our Thermal Products reporting unit.

As of June 30, 2011 and December 31, 2010, we had finite-lived intangible assets which totaled \$500 and \$567, net of accumulated amortization of \$370 and \$303, respectively. At June 30, 2011 and December 31, 2010 we had three finite-lived intangible assets which consisted of customer relationships, software and patents held by Sigma at the time of our acquisition of this operation in October 2008. These intangible assets are being amortized on a straight-line basis over estimated useful lives of 72 months, 120 months and 60 months, respectively. As of June 30, 2011, these assets had remaining estimated useful lives of 39 months, 87 months, and 27 months, respectively. These intangible assets are allocated to our Thermal Products segment.

The following table sets forth changes in the amount of the carrying value of finite-lived intangible assets for the six months ended June 30, 2011:

	\$567
Balance - January 1, 2011	
	<u>(67</u>
Amortization	
	)
	<u>\$500</u>
Balance - June 30, 2011	

Estimated annual amortization expense for 2011 is \$135. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

	\$135
2012	
	\$123
2013	
	\$ 73
2014	
	\$ 27
2015	
	\$ 27
2016	

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(Unaudited)

(4)

**RESTRUCTURING AND OTHER CHARGES**

In response to the significant decline in our orders and net revenues during 2008 and 2009, we took actions to reduce our cost structure, including facility closures, workforce reductions and temporary salary and benefits reductions. We consider some of the actions we took to be temporary in nature, such as certain salary and benefits reductions for current employees. At the time we took these temporary actions, it was generally our intent to restore all or a portion of the reduced salary and benefits in future periods when our results of operations and our cash flows improved sufficiently so as to allow us to do so. Any such restoration would impact the ultimate level of savings which will result from our restructuring actions. Effective January 1, 2010, we restored all of the temporary salary reductions we implemented in 2008 and 2009 for our domestic employees, with the exception of the salary of our Executive Chairman, which was restored to approximately 65% of its full reinstated level, reflecting a voluntary continued 35% reduction in his salary. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees and the Tempronic profit sharing contributions which had been suspended for most of these employees at the beginning of 2009. There are no other temporary actions remaining to be restored.

During six months ended June 30, 2011 and 2010, we did not record any restructuring charges. Changes in our liability for restructuring and other charges for the six months ended June 30, 2010 are summarized as follows:

	<u>Sigma Relocation</u>
	\$130
Balance - January 1, 2010	
Accruals for one-time termination benefits and facility closure costs	-
Severance and other cash payments related to one-time termination benefits and facility closure costs	<u>(130)</u>
	<u>\$ -</u>
Balance - June 30, 2010	

**(5) MAJOR CUSTOMERS**

Texas Instruments Incorporated accounted for 11% of our consolidated net revenues for the six months ended June 30, 2011. Texas Instruments Incorporated and Teradyne, Inc. each accounted for 15% of our consolidated net revenues for the six months ended June 30, 2010. While all three of our operating segments sold products to these customers, these revenues were primarily generated by our Mechanical Products and Electrical Products segments. During the six months ended June 30, 2011 and 2010, no other customer accounted for 10% or more of our consolidated net revenues.

**(6) INVENTORIES**

Inventories held at June 30, 2011 and December 31, 2010 were comprised of the following:

	June 30,	Dec. 31,
	<i>2011</i>	<i>2010</i>
Raw materials	\$3,145	\$2,268
Work in process	482	385
Inventory consigned to others	272	223
Finished goods	<u>368</u>	<u>613</u>
	<u>\$4,267</u>	<u>\$3,489</u>

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(7) DEBT**Line of Credit

At each of June 30, 2011 and December 31, 2010, we had a secured credit facility that provides for maximum borrowings of \$250. We have not used this credit facility to borrow any funds. Our usage consists of the issuance of letters of credit in the face amount of \$250. This facility is secured by pledged certificates of deposit totaling \$250. These certificates of deposit are included in Restricted Certificates of Deposit on our balance sheet. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. This credit facility expires on September 30, 2011.

Letters of Credit

At each of June 30, 2011 and December 31, 2010, we had four outstanding letters of credit totaling \$700. All of these letters of credit were



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issued as security deposits under various operating leases we have entered into for our domestic facilities. Two of these letters of credit were issued under our credit facility, which is secured by pledged certificates of deposit as discussed above. The remaining two letters of credit are secured by separate pledged certificates of deposit. The individual letters of credit are discussed in more detail below.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of \$200. This letter of credit was originally issued in December 2000 as a security deposit under a lease that our Tempronic subsidiary entered into for its facility in Sharon, Massachusetts. This letter of credit expired January 1, 2011 and was renewed for an additional year. The terms of the lease required that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year throughout the entire lease term, which ended February 28, 2011. As a result of the termination of this lease in February 2011, this letter of credit was cancelled effective July 12, 2011.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of \$50. This letter of credit was originally issued in September 2004 as a portion of the security deposit under a lease that we entered into for a facility for our Electrical Products operation based in northern California. This letter of credit expires September 13, 2011; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year until June 30, 2012, which is sixty days after the expiration of the lease term.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of \$250. This letter of credit is secured by a separate pledged certificate of deposit in the amount of \$250. This letter of credit was originally issued in April 2010 as a security deposit under a lease that we have entered into for a facility in Mt. Laurel, New Jersey. Our Mechanical Products operation, which was located in Cherry Hill, New Jersey on December 31, 2010, relocated to this smaller facility in Mt. Laurel, New Jersey during the first quarter of 2011. This letter of credit expires April 1, 2012; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year throughout the entire lease term, which ends April 30, 2021. Provided that there is no event of default as defined under the terms and conditions of the lease, the required amount of the letter of credit shall decrease to \$125 as of the sixty-fourth month of the term of the lease and to \$90 as of the one-hundredth month of the term of the lease.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of \$200. This letter of credit is secured by a separate pledged certificate of deposit in the amount of \$200. This letter of credit was originally issued in November 2010 as a security deposit under a lease that we have entered into for a facility in Mansfield, Massachusetts. Our Thermal Products operation, which was located in Sharon, Massachusetts on December 31, 2010, relocated to this facility in Mansfield, Massachusetts during the first quarter of 2011. This letter of credit expires November 8, 2011; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year throughout the entire lease term, which ends August 23, 2021. Provided that there is no event of default as defined under the terms and conditions of the lease, the required amount of the letter of credit shall decrease to \$100 as of the thirty-seventh month of the term of the lease and to \$50 as of the sixty-first month of the term of the lease.

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### inTEST CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### **(8) LEASEHOLD IMPROVEMENTS AND DEFERRED RENT**

We record tenant improvements made to our leased facilities based on the amount of the total cost to construct the improvements regardless of whether a portion of that cost was paid through an allowance provided by the facility's landlord. The amount of the allowance, if any, is recorded as deferred rent. We amortize deferred rent on a straight-line basis over the lease term and record the amortization as a reduction of rent expense. Amortization of deferred rent for the six months ended June 30, 2011 and 2010 was \$59 and \$59, respectively.

**(9) GUARANTEES**

Product Warranties

Warranty expense for the six months ended June 30, 2011 and 2010 was \$103 and \$102, respectively. The following table sets forth the changes in the liability for product warranties for the six months ended June 30, 2011:

	\$274
Balance - January 1, 2011	
	(91)
Payments made under product warranty	
	<u>103</u>
Accruals for product warranty	
	<u>\$286</u>
Balance - June 30, 2011	

**(10) STOCK-BASED COMPENSATION**

As of June 30, 2011, we have outstanding stock options and unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 15 to the consolidated financial statements in our 2010 Form 10-K.

As of June 30, 2011, total compensation expense to be recognized in future periods was \$291. The weighted average period over which this expense is expected to be recognized is 2.7 years. All of this expense is related to nonvested shares of restricted stock.

Restricted Stock Awards

We record compensation expense for restricted stock awards (nonvested 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 months and six months ended June 30, 2011 and 2010, respectively, related to nonvested shares:

	Three Months Ended <u>    </u> June		Six Months Ended <u>    </u> June	
	<u>30,</u>	<u>    </u>	<u>30,</u>	<u>    </u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cost of revenues	\$ 3	\$ 3	\$ 6	\$ 5
Selling expense	5	5	10	8
	13	9	26	16

Engineering and product development expense	<u>18</u>	<u>39</u>	<u>45</u>	<u>67</u>
General and administrative expense	<u>\$39</u>	<u>\$56</u>	<u>\$87</u>	<u>\$96</u>

There was no compensation expense capitalized in the six months ended June 30, 2011 or 2010.

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(10) STOCK-BASED COMPENSATION

The following table summarizes the activity related to nonvested shares for the six months ended June 30, 2011:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested shares outstanding, January 1, 2011	303,250	\$1.89
Granted	-	-
Vested	(83,250)	2.17
Forfeited	<u>(11,250)</u>	1.73
	)	
Nonvested shares outstanding, June 30, 2011	<u>208,750</u>	1.78

Stock Options

The following table summarizes the stock option activity for the six months ended June 30, 2011:

Weighted

	<u>Number of Shares</u>	<u>Average Exercise Price</u>
Options outstanding, January 1, 2011 (337,000 exercisable)	337,000	\$3.26
Granted	-	-
Exercised	(10,000)	3.04
Forfeited/Expired	<u>      -</u>	-
Options outstanding, June 30, 2011 (327,000 exercisable)	<u>327,000</u>	3.26

(11)

**EMPLOYEE BENEFIT PLANS**

We have a defined contribution 401(k) plan (the "inTEST 401(k) Plan") for our employees who work in the U.S. As a part of this plan, we may match a portion of employee contributions. This plan, including our discretionary employer matching contributions, is more fully discussed in Note 16 to the consolidated financial statements in our 2010 Form 10-K. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees which had been eliminated for most of these employees at the beginning of 2009.

In addition to the employer matching contributions for which employees of our Temptronic subsidiary are eligible, upon the termination of the Temptronic Equity Participation Plan ("EPP"), we acknowledged that it was our intention to contribute \$3,000 in the aggregate to the inTEST 401(k) Plan as a form of profit sharing (not to exceed \$300 per year) for the benefit of Temptronic employees. The amount of these profit sharing contributions approximates the amount that we had been committed to contribute to the EPP as of its termination date. All such profit sharing contributions are at the discretion of management, and will be allocated to employees annually in essentially the same manner in which the shares held by the EPP had been allocated. The vesting provisions for these contributions will be the same as those of the inTEST 401(k) Plan. Effective January 1, 2009, we temporarily suspended profit sharing contributions due to operating losses being incurred by Temptronic. Effective April 1, 2010, profit sharing contributions were reinstated. Accruals for profit sharing contributions totaling \$150 and \$75 were made during the six months ended June 30, 2011 and 2010, respectively. Through June 30, 2011, we had made a total of \$1,703 in profit sharing contributions. We have historically funded these obligations through the use of treasury shares during the quarter subsequent to the quarter in which we record the profit sharing liability, although management has the discretion to use cash to fund these obligations. Our current intention is to use cash to fund these obligations when our stock price is below \$3.00 per share.

**(12) SEGMENT INFORMATION**

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

inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(12) SEGMENT INFORMATION** (Continued)

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

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

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

	Three Months Ended <u>June</u> <u>30,</u>		Six Months Ended <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net revenues from unaffiliated customers:				
	\$ 5,097	\$ 7,778	\$10,127	\$12,534
Mechanical Products	6,667	4,726	12,021	8,238
Thermal Products	2,040	2,776	3,386	4,038
Electrical Products	<u>(4</u>	<u>(20</u>	<u>(30</u>	<u>(21</u>
Intersegment sales	)	)	)	)
	<u>\$13,800</u>	<u>\$15,260</u>	<u>\$25,504</u>	<u>\$24,789</u>

Intersegment sales:

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Mechanical Products	\$ 4	\$ 4	\$ 4	\$ 4
	-	-	-	-
Thermal Products	<u>-</u>	<u>16</u>	<u>26</u>	<u>17</u>
Electrical Products	<u>\$ 4</u>	<u>\$ 20</u>	<u>\$ 30</u>	<u>\$ 21</u>
Earnings (loss) before income taxes:	\$ 591	\$1,864	\$1,112	\$2,914
Mechanical Products	1,830	475	2,593	499
Thermal Products	525	960	680	1,125
Electrical Products	<u>(213)</u>	<u>(133)</u>	<u>(335)</u>	<u>(257)</u>
Corporate	) ) )	) ) )	) ) )	) ) )
	<u>\$2,733</u>	<u>\$3,166</u>	<u>\$4,050</u>	<u>\$4,281</u>
Net earnings (loss):	\$ 554	\$1,859	\$1,027	\$2,906
Mechanical Products	1,789	482	2,534	506
Thermal Products	510	960	660	1,125
Electrical Products	<u>(198)</u>	<u>(133)</u>	<u>(309)</u>	<u>(257)</u>
Corporate	) ) )	) ) )	) ) )	) ) )
	<u>\$2,655</u>	<u>\$3,168</u>	<u>\$3,912</u>	<u>\$4,280</u>
Identifiable assets:			June 30, 2011	Dec. 31, 2010
Mechanical Products			\$ 8,741	\$ 7,617

Thermal Products	14,459	11,315
	<u>3,074</u>	<u>2,476</u>
Electrical Products		
	<u>\$26,274</u>	<u>\$21,408</u>

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(12) SEGMENT INFORMATION** (Continued)

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

	Three Months Ended <u>June 30, 2011</u>		Six Months Ended <u>June 30, 2011</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net revenues from unaffiliated customers:				
U.S.	\$ 4,796	\$ 5,429	\$ 9,023	\$ 8,212
	<u>9,004</u>	<u>9,831</u>	<u>16,481</u>	<u>16,577</u>
Foreign	<u>\$13,800</u>	<u>\$15,260</u>	<u>\$25,504</u>	<u>\$24,789</u>

	June 30, <u>2011</u>		Dec. 31, <u>2010</u>	
Long-lived assets:				
U.S.		\$ 827		\$359
		<u>310</u>		<u>359</u>
Foreign		<u>\$1,137</u>		<u>\$718</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 2010 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 2010 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 2010 Form 10-K.

**Overview**

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

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inTEST CORPORATION

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

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. 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. These industry cycles are difficult to predict and in recent years have become more volatile and, in certain cases, shorter in duration. Because the industry 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.

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 related ATE interface products, such as sockets and interface boards, which must be replaced periodically, are typically made from the end users' operating budgets. In addition, 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. In addition, we market our Thermostream temperature management systems in industries outside semiconductor test, such as the automotive, aerospace, medical and telecommunications industries. We believe that these industries usually are less cyclical than the ATE industry.

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 industry, 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, and (iv) customer supply line management groups demanding lower prices and spreading purchases across multiple vendors. These shifts in market practices have had, and may continue to have, varying levels of impact on our operating results, which 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.

#### Net Revenues and Orders

The following table sets forth, for the periods indicated, a breakdown of the net revenues from unaffiliated customers both by product segment and geographic area (based on the location to which the goods are shipped).

## inTEST CORPORATION

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

. (Continued)

	<u>(in 000's)</u>				
	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>June 30.</u>		<u>March</u>	<u>June 30.</u>	
	<u>2011</u>	<u>2010</u>	<u>31,</u>	<u>2011</u>	<u>2010</u>
Net revenues from unaffiliated customers:					
	\$ 5,097	\$ 7,778	\$ 5,030	\$10,127	\$12,534
Mechanical Products	6,667	4,726	5,354	12,021	8,238
Thermal Products	2,040	2,776	1,346	3,386	4,038
Electrical Products	<u>(4</u>	<u>(20</u>	<u>(26</u>	<u>(30</u>	<u>(21</u>
Intersegment sales	) ) ) ) ) )				
	<u>\$13,800</u>	<u>\$15,260</u>	<u>\$11,704</u>	<u>\$25,504</u>	<u>\$24,789</u>
Intersegment sales:					
	\$ 4	\$ 4	\$ -	\$ 4	\$ 4
Mechanical Products	-	-	-	-	-
Thermal Products	<u>-</u>	<u>16</u>	<u>26</u>	<u>26</u>	<u>17</u>
Electrical Products	<u>\$ 4</u>	<u>\$20</u>	<u>\$26</u>	<u>\$30</u>	<u>\$21</u>
Net revenues from unaffiliated customers (net of intersegment sales):					
	\$ 5,093	\$ 7,774	\$ 5,030	\$10,123	\$12,530
Mechanical Products	6,667	4,726	5,354	12,021	8,238

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Thermal Products	<u>2,040</u>	<u>2,760</u>	<u>1,320</u>	<u>3,360</u>	<u>4,021</u>
Electrical Products	<u>\$13,800</u>	<u>\$15,260</u>	<u>\$11,704</u>	<u>\$25,504</u>	<u>\$24,789</u>
Net revenues from unaffiliated customers:					
U.S.	\$ 4,796	\$ 5,429	\$ 4,227	\$ 9,023	\$ 8,212
Foreign	<u>9,004</u>	<u>9,831</u>	<u>7,477</u>	<u>16,481</u>	<u>16,577</u>
	<u>\$13,800</u>	<u>\$15,260</u>	<u>\$11,704</u>	<u>\$25,504</u>	<u>\$24,789</u>

Our consolidated net revenues for the quarter ended June 30, 2011 increased \$2.1 million or 18% as compared the quarter ended March 31, 2011. Net revenues (net of intersegment sales) of our Mechanical, Thermal and Electrical Products segments increased \$63,000 or 1%, \$1.3 million or 25% and \$720,000 or 55%, respectively, for the quarter ended June 30, 2011 as compared to the quarter ended March 31, 2011. We believe the level of our net revenues during the quarter ended June 30, 2011 reflects continued strong demand in the ATE industry, although, as can be seen in the lower percentage increase in the net revenues of our Mechanical Products segment, we have recently experienced some softening in the level of demand within the industry. We believe the impact of this softening in demand was offset for our Electrical Products segment by new business we were able to win at one of our largest customers. For our Thermal Products segment, the impact of both increases and decreases in demand within the ATE industry are less significant due to the fact that only approximately 40-50% of this segment's sales are to semiconductor manufacturers with the balance of its sales being to customers in various industries outside the ATE industry. In addition, our Thermal Products segment has historically lagged our other two product segments in regard to experiencing the impact of both increases and decreases in the levels of demand within the ATE industry; this historical trend has held true in this most recent up cycle.

As compared to the same period in 2010, our consolidated net revenues for the quarter ended June 30, 2011 decreased \$1.5 million or 10%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased \$2.7 million or 35% and \$720,000 or 26%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased \$1.9 million or 41% for the quarter ended June 30, 2011 as compared to the same period in 2010. We believe the decreases in the net revenues of our Mechanical and Electrical Products segments for the quarter ended June 30, 2011 as compared to the same period in 2010 primarily reflect a spike in demand that was experienced by both of these segments during the second quarter of 2010 caused by pent up demand following the significant down cycle that the ATE industry experienced from 2007 through 2009. In early 2010, many of our customers accelerated their orders as the lead times for certain of our products began to increase, resulting in the spike in demand during the second quarter of 2010. In contrast to our Mechanical and Electrical products segments, the net revenues of our Thermal Products segment increased significantly in the second quarter of 2011 as compared to the same period in 2010, as previously mentioned. We believe this increase reflects both that this segment lagged our other two product segments in coming out of the 2007/2009 downturn, combined with the recent strength in the industries other than ATE to which this segment sells.

## inTEST CORPORATION

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

Total consolidated orders for the quarter ended June 30, 2011 were \$13.5 million compared to \$13.1 million for the quarter ended March 31, 2011 and \$12.2 million for the quarter ended June 30, 2010. For the quarter ended June 30, 2011, orders for our Mechanical, Thermal and Electrical Products segments were \$4.3 million, \$7.5 million and \$1.7 million, respectively, compared to \$5.6 million, \$5.8 million and \$1.7 million for the quarter ended March 31, 2011, respectively, and \$4.5 million, \$5.7 million and \$2.0 million for the quarter ended June 30, 2010, respectively. We cannot be certain what the level of our orders or net revenues will be in any future period for any of our product segments.

*Backlog*

At June 30, 2011, our backlog of unfilled orders for all products was approximately \$7.2 million compared with approximately \$7.5 million at March 31, 2011 and \$6.0 million at June 30, 2010. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2011. 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.

*Business Restructuring Initiatives*

In response to the significant decline in our orders and net revenues during 2008 and early 2009, we took actions to reduce our cost structure, including facility closures, workforce reductions and temporary salary and benefits reductions. We consider some of the actions we took to be temporary in nature, such as certain salary and benefits reductions for current employees. At the time we took these temporary actions, it was generally our intent to restore all or a portion of the reduced salary and benefits in future periods when our results of operations and our cash flows improved sufficiently so as to allow us to do so. Any such restoration impacts the ultimate level of savings which result from our restructuring actions. The actions we took during 2009 are discussed in Note 4 to our 2010 Form 10-K. There were no additional restructuring actions taken in either 2010 or the first six months of 2011. Effective January 1, 2010, we restored all of the temporary salary reductions we implemented in 2008 and 2009 for our domestic employees, with the exception of the salary of our Executive Chairman, which was restored to approximately 65% of its full reinstated level, reflecting a voluntary continued 35% reduction in his salary. Also on this date, we restored the fees paid to our Board of Directors, which had been reduced by approximately 50%. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees and the Temptronic profit sharing contributions which had been suspended for most of these employees at the beginning of 2009. There are no other temporary actions remaining to be restored.

*Product/Customer Mix*

Our three product segments each have multiple products that we design, manufacture and sell to our customers. The gross margin on each product we offer is affected by a number of factors including the amount of intellectual property (such as patents) utilized in the product, the number of units ordered by the customer

at one time, or the amount of inTEST designed and fabricated material included in our product compared with the amount of third-party designed and fabricated material included in our product. The weight of each of these factors, as well as the current market conditions, determines the ultimate sales price we can obtain for our products and the resulting 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 semiconductor manufacturers. Our Thermal Products segment also sells into a variety of other industries including the aerospace, automotive, communications, consumer electronics, defense, and medical industries. 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, 2011 and 2010, our OEM sales as a percentage of net revenues were 14% and 21%, respectively.

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#### inTEST CORPORATION

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

. (Continued)

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 line managers to reduce our sales prices to them. If we cannot further reduce our manufacturing and operating costs, these pricing pressures will continue to reduce our gross and operating margins.

#### **Results of Operations**

All of our products are used by semiconductor manufacturers in conjunction with ATE in the testing of ICs. In addition, some of the products manufactured by our Thermal Products segment are used in industries outside of the semiconductor industry, including the aerospace, automotive, communications, consumer electronics, defense and medical industries. The results of operations for each product segment are generally affected by the same factors. Separate discussions and analyses for each product segment would be repetitive and obscure any unique factors that affected the results of operations of our different product segments. 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.

The following table sets forth, for the periods indicated, the principal items included in the Consolidated Statements of Operations as a percentage of total net revenues.

Percentage of Net Revenues

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	<u>Quarters Ended June</u>		<u>Six Months Ended June</u>	
	<u>30,</u>		<u>30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	100.0%	100.0%	100.0%	100.0%
Net revenues				
Cost of revenues	<u>50.7</u>	<u>51.7</u>	<u>53.4</u>	<u>52.0</u>
Gross margin	<u>49.3</u>	<u>48.3</u>	<u>46.6</u>	<u>48.0</u>
Selling expense	11.5	11.5	11.7	12.0
Engineering and product development expense	6.0	5.2	6.4	6.0
General and administrative expense	<u>12.1</u>	<u>10.8</u>	<u>12.9</u>	<u>12.6</u>
Operating income	19.7	20.8	15.6	17.4
Other income (expense)	<u>0.1</u>	<u>(0.1)</u>	<u>0.3</u>	<u>(0.1)</u>
	)	)	)	)
Earnings before income tax expense (benefit)	19.8	20.7	15.9	17.3
Income tax expense (benefit)	<u>0.6</u>	<u>0.0</u>	<u>0.5</u>	<u>0.0</u>
Net earnings	<u>19.2</u>	<u>20.7</u>	<u>15.4</u>	<u>17.3</u>
	%	%	%	%

Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010

*Net Revenues.* Net revenues were \$13.8 million for the quarter ended June 30, 2011 compared to \$15.3 million for the same period in 2010, a decrease of \$1.5 million or 10%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased \$2.7 million or 35% and \$720,000 or 26%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased \$1.9 million or 41% for the quarter ended June 30, 2011 as compared to the same period in 2010. We believe the decrease in our consolidated net revenues during the second quarter of 2011 primarily reflects the factors previously discussed in the Overview.

During the quarter ended June 30, 2011, our net revenues from customers in the U.S. decreased 12% and our net revenues from foreign customers decreased 8%, as compared to the same period in 2010. Adjusted to eliminate the impact of changes in foreign currency exchange rates, the decrease from foreign customers would have been 10%.

*Gross Margin.* Gross margin was 49% for the second quarter of 2011 compared to 48% for the same period in 2010. While our fixed operating costs declined in absolute dollar terms by \$154,000 during the second quarter of 2011 as compared to the same period in 2010, as a result of the decline in the level of our consolidated net revenues during this period, these costs remained unchanged at 11% of net revenues for both periods. The decline in the absolute dollar value of these costs during the second quarter of 2011 as compared to the same period in 2010 primarily reflects lower facility related costs as a result of the relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011. During the quarter ended June 30, 2011, our direct labor costs decreased \$65,000, primarily reflecting the reduction in the level of our

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

. (Continued)

consolidated net revenues, and our charges for obsolete and excess inventory decreased \$100,000, primarily reflecting fewer items falling into our standard obsolete and excess criteria. As a percentage of net revenues, the combined decrease in our direct labor costs and our charges for obsolete and excess inventory was approximately 1%.

*Selling Expense.* Selling expense was \$1.6 million for the second quarter of 2011 compared to \$1.8 million for the same period in 2010, a decrease of \$167,000 or 10%. The decrease in selling expense primarily reflects lower levels of commissions as a result of the decrease in net revenues experienced in the second quarter of 2011 as compared to the second quarter of 2010. To a lesser extent, there was also a decrease in accruals for product warranty claims. These decreases were partially offset by an increase in salary and benefits expense reflecting the hiring of additional sales staff.

*Engineering and Product Development Expense.* Engineering and product development expense was \$822,000 for the second quarter of 2011 compared to \$787,000 for the same period in 2010, an increase of \$35,000 or 4%. The increase in engineering and product development expense primarily reflects higher legal fees related to our intellectual property.

*General and Administrative Expense.* General and administrative expense was relatively unchanged at \$1.7 million for both the second quarter of 2011 and the same period in 2010. Higher levels of professional fees, primarily related to the filing of our shelf registration statement on Form S-3 in May 2011, were offset by a reduction in bad debt expense.

*Other Income (Expense).* Other income was \$10,000 for the second quarter of 2011 compared to other expense of \$8,000 for the second quarter of 2010. The shift from other expense in 2010 to other income in 2011 primarily reflects lower interest expense as a result of the repayment of the notes payable to stockholder during the fourth quarter of 2010.

*Income Tax Expense.* For the quarter ended June 30, 2011, we recorded income tax expense of \$78,000 compared to an income tax benefit of \$2,000 for the same period in 2010. 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. Due to our history of operating losses in both our domestic and certain of our foreign operations, we have recorded a full valuation allowance against the deferred tax

assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire. The income tax expense recorded in 2011 primarily represents tax liabilities in various states in which we operate.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

*Net Revenues.* Net revenues were \$25.5 million for the six months ended June 30, 2011 compared to \$24.8 million for the same period in 2010, an increase of \$715,000 or 3%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased \$2.4 million or 19% and \$661,000 or 16%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased \$3.8 million or 46% for the six months ended June 30, 2011 as compared to the same period in 2010. We believe the increase in our consolidated net revenues during the first six months of 2011 primarily reflects the factors previously discussed in the Overview.

During the six months ended June 30, 2011, our net revenues from customers in the U.S. increased 10% while our net revenues from foreign customers decreased 1%, respectively, as compared to the same period in 2010. Adjusted to eliminate the impact of changes in foreign currency exchange rates, the decrease from foreign customers would have been 2%.

*Gross Margin.* Gross margin was 47% for the six months ended June 30, 2011 compared to 48% for the same period in 2010. While our fixed operating costs increased in absolute dollar terms by \$321,000 during the first six months of 2011 as compared to the same period in 2010, these costs remained relatively unchanged at 13% of net revenues for both periods. The increase in the absolute dollar value of these costs was primarily the result of higher salary and benefits expense during the first six months of 2011 as compared to the same period in 2010, reflecting additional headcount and, to a lesser extent, the restoration of 401(k) Plan discretionary matching contributions effective April 1, 2010 and annual raises for employees which generally occur each July. We also incurred additional rent and maintenance costs associated with the relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011. The move-related costs included in our fixed operating costs for the first six months of 2011 were \$74,000. Our direct labor costs were relatively unchanged, both in absolute dollar terms and as a percentage of net revenues for the first six months of 2011 as compared to the same period in 2010. Our charges for obsolete and excess inventory were relatively unchanged at approximately 1% of net revenues for both the first six months of 2011 and 2010; however, in absolute dollar terms, these charges decreased \$156,000 during the first six month of 2011 as compared to the same period in 2010, primarily reflecting fewer items falling into our standard obsolete and excess criteria.

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

. (Continued)

Selling Expense.

Selling expense was relatively unchanged at \$3.0 million for both the first six months of 2011 and 2010. Lower levels of commissions reflecting changes in product and customer mix were offset by an increase in salary and benefits expense, primarily reflecting the hiring of additional sales staff and, to a lesser extent, the aforementioned restoration of the 401(k) Plan discretionary matching contributions.



*Engineering and Product Development Expense.* Engineering and product development expense was \$1.6 million for the first six months of 2011 compared to \$1.5 million for the same period in 2010, an increase of \$147,000 or 10%. The increase in engineering and product development expense reflects higher legal fees related to our intellectual property, an increase in salary and benefits expense, primarily as a result of the aforementioned restoration of 401(k) Plan discretionary matching contributions and higher levels of spending on materials used in research and development activities.

*General and Administrative Expense.* General and administrative expense was \$3.3 million for the first six months of 2011 compared to \$3.1 million for the same period in 2010, an increase of \$166,000 or 5%. This increase was primarily a result of higher salary and benefits expense reflecting additional headcount and, to a lesser extent, the aforementioned restoration of 401(k) Plan discretionary matching contributions and annual raises for employees which generally occur each July. Also contributing to the increase were \$54,000 of costs associated with the relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011 and professional fees related to the filing of our shelf registration statement on Form S-3 in May 2011. These increases were partially offset by a reduction in bad debt expense.

*Other Income (Expense).* Other income was \$66,000 for the first six months of 2011 compared to other expense of \$19,000 for the same period in 2010. The shift from other expense in 2010 to other income in 2011 primarily reflects lower interest expense as a result of the repayment of the notes payable to stockholder during the fourth quarter of 2010 combined with a gain on sale of machinery and equipment during the first quarter of 2011.

*Income Tax Expense.* For the six months ended June 30, 2011, we recorded income tax expense of \$138,000 compared to income tax expense of \$1,000 for the same period in 2010. 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. Due to our history of operating losses in both our domestic and certain of our foreign operations, we have recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire. The income tax expense recorded in 2011 primarily represents tax liabilities in various states in which we operate.

### **Liquidity and Capital Resources**

Net cash provided by operations for the six months ended June 30, 2011 was \$2.5 million compared to net cash provided by operations of \$623,000 for the same period in 2010. The increase in net cash provided by operations primarily reflects a lower level of increase in the amount of accounts receivable during the first six months of 2011 as compared to the first six months of 2010. During the first six months of 2011, accounts receivable increased \$2.0 million compared to an increase of \$5.3 million during the first six months of 2010. The lower level of increase in the first six months of 2011 primarily reflects that there was a more significant increase in sales activity late in the second quarter of 2010 as compared to the same period in 2011.

During the first six months of 2011, inventories increased \$761,000 and accounts payable increased \$432,000, reflecting increased business activity. Other accrued expenses increased \$383,000 during the six months ended June 30, 2011, primarily reflecting an increase in the amount of customer deposits on hand combined with higher accrued rent as a result of the relocation of two of our domestic facilities in the first quarter of 2011. Accrued wages and benefits decreased \$295,000 during the six months ended June 30, 2011, primarily reflecting the payment in March 2011 of profit-related bonuses that had been accrued based on the financial results for the year ended December 31, 2010.

Purchases of property and equipment were \$640,000 for the six months ended June 30, 2011. These purchases primarily represent leasehold improvements and other equipment purchased as a result of the relocation of two of our

domestic facilities during the first quarter of 2011. We have no significant commitments for capital expenditures for the balance of 2011, however, depending upon changes in market demand, we may make such purchases as we deem necessary and appropriate.

We have a secured credit facility that provides for maximum borrowings of \$250,000. We have not used this credit facility to borrow any funds. Our usage consists of the issuance of letters of credit in the face amount of \$250,000. This facility is secured by pledged certificates of deposit totaling \$250,000. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. This credit facility expires on September 30, 2011. On April 1, 2010 and November 8, 2010, two

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## inTEST CORPORATION

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

. (Continued)

additional letters of credit were issued in the face amounts of \$250,000 and \$200,000, respectively. These letters of credit are supported by separate pledged certificates of deposit that are not a part of our secured credit facility.

On May 4, 2011, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission for the offering, from time to time, of securities to be issued by us. The shelf registration statement will allow us to raise capital from the offering of up to \$30 million of common stock, preferred stock, warrants, debt securities and/or units, conducted in one or more offerings while the shelf registration statement is effective. The specific terms of any particular securities that we may offer will be determined at the time of such offering and will be described in a separately filed prospectus supplement at the time of such offering. The maximum amount of securities offered and sold under the registration statement during any period of twelve months immediately prior to and including such sale, may not exceed one-third of the aggregate market value of the common equity held by non-affiliates. An offering under this registration statement would provide us with increased financial flexibility. Proceeds may be used for possible acquisitions of businesses, technologies or products that are complementary to our existing businesses or for other general corporate purposes, including working capital.

As of June 30, 2011, we had cash and cash equivalents of \$8.9 million. We currently expect our cash and cash equivalents and projected future cash flow to be sufficient to support our short term working capital requirements. We do not currently have any available credit facilities under which we can borrow to help fund our working capital requirements. We cannot be certain that, if needed, we would be able to obtain any credit facilities or under what terms such credit facilities would be available.

#### **Income Tax Valuation Allowance**

At June 30, 2011, we had a full valuation allowance recorded against our deferred tax assets of \$3.2 million. In assessing the ability to realize our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In recent years, due to our history of operating losses, we believed it was more likely than not that we would not ultimately realize the benefit of the deferred tax assets.

We returned to profitability in the fourth quarter of 2009 and have been profitable since that time. We

currently expect our profitability to continue for the balance of 2011 and into 2012. In the foreseeable future, we expect that we will determine that it is more likely than not that we will be able to realize some portion or all of the deferred tax assets. At that time, we expect to reverse that portion of the valuation allowance related to the deferred tax assets that we believe are more likely than not to be realized.

#### **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, deferred income tax valuation allowances and product warranty reserves. 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, 2011, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2010 Form 10-K.

#### **Off -Balance Sheet Arrangements**

There were no off-balance sheet arrangements during the three months ended June 30, 2011 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.

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Item 3.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

This disclosure is not required for a smaller reporting company.

Item 4. CONTROLS AND PROCEDURES

CEO and CFO Certifications

. Included with this Quarterly Report as Exhibits 31.1 and 31.2 are two certifications, one by each of our Chief Executive Officer and our Chief Financial Officer (the "Section 302 Certifications"). This Item 4 contains information concerning the evaluations of our disclosure controls and procedures that are referred to in the Section 302 Certifications. This information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics addressed therein.

**Evaluation of Our Disclosure Controls and Procedures.** The SEC requires that as of the end of the quarter covered by this Report, our CEO and CFO must evaluate the effectiveness of the design and operation of our disclosure controls and procedures and report on the effectiveness of the design and operation of our disclosure controls and procedures.

"Disclosure controls and procedures" mean the controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the "Exchange Act"), such as this Report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the SEC. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Limitations on the Effectiveness of Controls.** 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. 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. 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. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within an entity have been detected. 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. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a system of controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. 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.

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PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

From time to time we may be a party to legal proceedings occurring in the ordinary course of business. We are not currently involved in any material legal proceedings.

**Item 1A. Risk Factors**

Information regarding the primary risks and uncertainties that could materially and adversely affect our future performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements, appears in Part I, Item 1A -- "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes in risk factors from those set forth in our 2010 Form 10-K.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. [Removed and Reserved]**

**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, 2011      /s/ Robert E. Matthiessen  
Robert E. Matthiessen  
*President and Chief Executive Officer*

Date: August 12, 2011      /s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
*Secretary, Treasurer and Chief Financial Officer*

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Index to Exhibits

- 3.1\* Articles of Incorporation: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, and incorporated herein by reference.
- 3.2\* ByLaws of inTEST Corporation, as amended on October 30, 2007: Previously filed as Exhibit 3.2 of the Company's Form 8-K on November 5, 2007 and incorporated herein by reference.

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- 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.

\* Indicates document previously filed.