

INTEST CORP  
Form 10-Q  
August 14, 2008

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, 2008 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)

7 Esterbrook Lane  
Cherry Hill, New Jersey 08003

(Address of principal executive offices, including zip code)

**(856) 424-6886**

(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 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. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Edgar Filing: INTEST CORP - Form 10-Q

(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, 2008:

9,527,206

---

inTEST CORPORATION

INDEX

		<u>Page</u>
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007	1
	Consolidated Statements of Operations for the three months and six months ended June 30, 2008 and 2007	2
	Consolidated Statements of Comprehensive Loss for the three months and six months ended June 30, 2008 and 2007	3
	Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2008	4
	Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007	5
	Notes to Consolidated Financial Statements	6 - 15
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16 - 22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4T.	Controls and Procedures	22 - 23
PART II.	OTHER INFORMATION	

Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	23 - 24
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3.	Defaults Upon Senior Securities	24
Item 4.	Submission of Matters to a Vote of Securities Holders	24
Item 5.	Other Information	24
Item 6.	Exhibits	24
Signatures		25
Index to Exhibits		25

## PART 1. FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

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

	June 30, 2008	Dec. 31, 2007
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$11,383	\$12,215
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$87 and \$109, respectively	6,482	6,034
Inventories	5,253	5,097
Prepaid expenses and other current assets	<u>606</u>	<u>1,118</u>
Total current assets	<u>23,724</u>	<u>24,464</u>
Property and equipment:		
Machinery and equipment	6,156	6,094
Leasehold improvements	<u>1,832</u>	<u>1,832</u>
	7,988	7,926
Less: accumulated depreciation	<u>(5,983)</u>	<u>(5,728)</u>
Net property and equipment	<u>2,005</u>	<u>2,198</u>

Edgar Filing: INTEST CORP - Form 10-Q

Other assets	813	788
Intangible assets, net	<u>264</u>	<u>273</u>
Total assets	<u>\$26,806</u>	<u>\$27,723</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,657	\$ 1,923
Accrued wages and benefits	1,814	1,800
Accrued warranty	364	387
Accrued sales commissions	487	398
Accrued restructuring and other charges	200	-
Other accrued expenses	1,090	960
Domestic and foreign income taxes payable	209	222
Capital lease obligations	7	7
Deferred rent	<u>118</u>	<u>118</u>
Total current liabilities	<u>6,946</u>	<u>5,815</u>
Capital lease obligations, net of current portion	5	8
Deferred rent, net of current portion	<u>334</u>	<u>393</u>
Total liabilities	<u>7,285</u>	<u>6,216</u>
Commitments and contingencies (Note 7)		
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; 9,666,505 and 9,666,505 shares issued, respectively	97	97
Additional paid-in capital	24,979	24,757
Accumulated deficit	(6,508)	(3,825)
Accumulated other comprehensive earnings	1,814	1,339
Treasury stock, at cost; 139,299 and 139,299 shares, respectively	<u>(861)</u>	<u>(861)</u>
Total stockholders' equity	<u>19,521</u>	<u>21,507</u>
Total liabilities and stockholders' equity	<u>\$26,806</u>	<u>\$27,723</u>
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

- 1 -

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,	
	2008	2007	2008	2007
	-----	-----	-----	-----
Net revenues	\$11,497	\$12,062	\$22,801	\$24,180
Cost of revenues	6,974	7,471	13,825	15,192
	-----	-----	-----	-----
Gross margin	4,523	4,591	8,976	8,988
	-----	-----	-----	-----
Operating expenses:				
Selling expense	2,223	2,279	4,317	4,450
Engineering and product development				

Edgar Filing: INTEST CORP - Form 10-Q

expense	1,417	1,394	2,827	2,798
General and administrative expense	2,040	2,044	4,288	4,175
Restructuring and other charges	200	-	200	-
	-----	-----	-----	-----
Total operating expenses	5,880	5,717	11,632	11,423
	-----	-----	-----	-----
Operating loss	(1,357)	(1,126)	(2,656)	(2,435)
	-----	-----	-----	-----
Other income (expense):				
Interest income	47	104	156	217
Interest expense	-	(1)	-	(1)
Other	-	23	(74)	31
	-----	-----	-----	-----
Total other income	47	126	82	247
	-----	-----	-----	-----
Loss before income tax expense	(1,310)	(1,000)	(2,574)	(2,188)
Income tax expense	47	86	109	119
	-----	-----	-----	-----
Net loss	\$ (1,357)	\$ (1,086)	\$ (2,683)	\$ (2,307)
	=====	=====	=====	=====
Net loss per common share - basic	\$ (0.15)	\$ (0.12)	\$ (0.29)	\$ (0.25)
Weighted average common shares outstanding-basic	9,323,975	9,194,086	9,315,823	9,186,449
Net loss per common share - diluted	\$ (0.15)	\$ (0.12)	\$ (0.29)	\$ (0.25)
Weighted average common and common share equivalents outstanding-diluted	9,323,975	9,194,086	9,315,823	9,186,449

See accompanying Notes to Consolidated Financial Statements.

- 2 -

inTEST CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	-----	-----	-----	-----
Net loss	\$ (1,357)	\$ (1,086)	\$ (2,683)	\$ (2,307)
Foreign currency translation adjustments	(113)	(74)	475	13
	-----	-----	-----	-----

Edgar Filing: INTEST CORP - Form 10-Q

Comprehensive loss	\$ (1,470)	\$ (1,160)	\$ (2,208)	\$ (2,294)
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

- 3 -

inTEST CORPORATION  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)  
(Unaudited)

	Common Stock Shares	Amount	Add'l Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2007	9,666,505	\$ 97	\$24,757	\$ (3,825)	\$1,339	\$ (861)	\$21,507
Net loss	-	-	-	(2,683)	-	-	(2,683)
Other comprehensive earnings	-	-	-	-	475	-	475
Amortization of deferred compensation related to restricted stock	-	-	222	-	-	-	222
Balance, June 30, 2008	9,666,505	\$ 97	\$24,979	\$ (6,508)	\$1,814	\$ (861)	\$19,521
	=====	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

- 4 -

inTEST CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)  
(Unaudited)

Six Months Ended June 30,	
-----	-----
2008	2007

Edgar Filing: INTEST CORP - Form 10-Q

	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(2,683)	\$(2,307)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	488	702
Foreign exchange (gain) loss	162	(7)
Amortization of deferred compensation related to restricted stock	222	166
Profit sharing expense funded through the issuance of treasury stock	-	141
Loss on disposal of fixed assets	-	4
Proceeds from sale of demonstration equipment, net of gain	7	13
Changes in assets and liabilities:		
Trade accounts and notes receivable	(513)	1,025
Inventories	(70)	(470)
Prepaid expenses and other current assets	554	252
Other assets	9	(22)
Accounts payable	713	(706)
Accrued wages and benefits	(21)	(127)
Accrued warranty	(27)	(222)
Accrued sales commissions	82	(24)
Accrued restructuring and other charges	200	-
Other accrued expenses	123	20
Domestic and foreign income taxes payable	(24)	(690)
Deferred rent	(59)	(59)
	-----	-----
Net cash used in operating activities	(837)	(2,311)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(241)	(256)
	-----	-----
Net cash used in investing activities	(241)	(256)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(3)	(4)
	-----	-----
Net cash used in financing activities	(3)	(4)
	-----	-----
Effects of exchange rates on cash	249	(36)
	-----	-----
Net cash used in all activities	(832)	(2,607)
Cash and cash equivalents at beginning of period	12,215	13,174
	-----	-----
Cash and cash equivalents at end of period	\$11,383	\$10,567
	=====	=====
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of non-vested shares of restricted stock	\$ -	\$ 314
	=====	=====
Forfeitures of non-vested shares of restricted stock	\$ -	\$ (42)
	=====	=====
Cash (refunds) payments for:		
Domestic and foreign income taxes	\$ (89)	\$ 763
Interest	-	1

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(1) NATURE OF OPERATIONS

We are an independent designer, manufacturer and marketer of manipulator and docking hardware, temperature management and tester interface products that are 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 manufacture our products in the U.S., Germany and Singapore. Marketing and support activities are conducted worldwide from our facilities in the U.S., the U.K., Germany, Japan and Singapore. We have three reportable segments which are also our reporting units: Manipulator and Docking Hardware, Temperature Management and Tester Interface.

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 or 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 unaudited 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 long-lived assets, inventory, deferred income tax valuation allowances and product warranty reserves, are particularly affected by estimates.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2007 (our "2007 Form 10-K").

Reclassification

Certain prior period amounts have been reclassified to be comparable with the current period's presentation. In particular, prior to the first quarter of 2008, certain facility costs of our Singaporean operation were included under general and administrative expense and selling expense. Effective January 1, 2008, we include these facility costs under cost of revenues to be consistent with the treatment of similar expenses for other manufacturing operations we own. Prior periods have been reclassified accordingly.



**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

- 6 -

inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 \$384 and \$386 for the six months ended June 30, 2008 and 2007, respectively.

**Finite-lived Intangible Asset**

As of June 30, 2008 and December 31, 2007, we had a finite-lived intangible asset which totaled \$264 and \$273, net of accumulated amortization of \$357 and \$302, respectively. This finite-lived intangible asset consists of the patent applications held by our Intestlogic subsidiary at the time of our acquisition of this operation in 2002 and is being amortized using the straight-line method over an estimated useful life of ten years. As of June 30, 2008, the remaining estimated useful life of this asset was approximately five years. This finite-lived intangible asset is allocated to the Manipulator and Docking Hardware reporting unit. The following table sets forth changes in the amount of the carrying value of this finite-lived intangible asset for the six months ended June 30, 2008:

	\$273
Balance - Beginning of period	
	(30)
Amortization	
	<u>21</u>
Impact of foreign currency translation	
	<u>\$264</u>
Balance - End of period	

Estimated annual amortization expense for each of the next five years is \$60.

**Revenue Recognition**

We recognize revenue in accordance with Staff Accounting Bulletin No. 104 ("SAB 104"), *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 collectability 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 sales agreements 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 sales agreements contain customer-specific acceptance criteria, revenue recognition is deferred until customer acceptance.

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 charges for consolidation of excess facilities when we have vacated the premises. Assets that may be

- 7 -

inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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. These estimates are derived using the guidance of Statement of Financial Accounting Standards ("SFAS") No. 146, *Accounting for Exit or Disposal Activities*, and SFAS No. 144, *Accounting for the Impairment of Disposal of Long Lived Assets*.

**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, 2008, we recorded income tax expense of \$109 compared to income tax expense of \$119 for the same period in 2007. 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. During the first half of 2008, the income tax expense recorded primarily represents income tax expense on the taxable income of certain of our foreign operations where we do not have a history of operating losses and, therefore, do not have net operating loss carryforwards to offset income tax expense on those earnings.

**Net Loss Per Common Share**

Net loss per common share is computed in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per common share is computed by dividing net earnings (loss) 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 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:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Weighted average common shares outstanding - basic	9,323,975	9,194,086	9,315,823	9,186,449
Potentially dilutive securities:				
Employee stock options and unvested shares of restricted stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Weighted average common shares outstanding - diluted	<u>9,323,975</u>	<u>9,194,086</u>	<u>9,315,823</u>	<u>9,186,449</u>
	667,219	755,090	675,873	734,081
Average number of potentially dilutive securities excluded from calculation				
	\$3.76	\$4.01	\$3.77	\$4.02
Weighted average exercise price of excluded securities				

- 8 -

**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*. FSP FAS 157-1 amends SFAS No. 157 to exclude certain leasing transactions accounted for under previously existing accounting guidance.

This exclusion, however, does not apply to assets acquired and liabilities assumed in a business combination, regardless of whether those assets and liabilities are related to leases. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date for FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted SFAS No. 157 on January 1, 2008 for assets and liabilities not subject to the deferral. The adoption of SFAS No. 157 as of January 1, 2008 did not have a material impact on our consolidated financial statements. See Note 3 of the Notes to the Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value using an instrument-by-instrument election. SFAS No. 159 requires that unrealized gains and losses be reported in earnings for items measured using the fair value option and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. We adopted SFAS No. 159 on January 1, 2008. The adoption of SFAS No. 159 did not have any impact on our consolidated financial statements as we did not elect to measure any eligible items at fair value that were not already required to be measured at fair value.

New Accounting Standards

In December 2007, the FASB issued SFAS No. 141(revised), *Business Combinations*. SFAS 141(R) significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. SFAS 141(R) is effective as of the beginning of the first fiscal year beginning after December 15, 2008, and early adoption is prohibited. We will adopt SFAS 141(R) beginning in the first quarter of fiscal 2009. SFAS 141(R) will change our accounting for business combinations on a prospective basis.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under

SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 also adds certain disclosures to those already prescribed in SFAS No. 142. FSP FAS 142-3 is effective as of the beginning of the first fiscal year beginning after December 15, 2008, and early adoption is prohibited. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date.

(3) FAIR VALUE

As discussed in Note 2, on January 1, 2008, we adopted SFAS No. 157 for our financial assets and financial liabilities, which consisted of cash and cash equivalents and a note receivable as of June 30, 2008. We will not apply the provisions of SFAS No. 157 until January 1, 2009 for the following major categories of nonfinancial assets and nonfinancial liabilities: Property and Equipment and Intangible Assets. SFAS No. 157 defines fair value as the price that would be received from selling an

- 9 -

**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

(3) FAIR VALUE (Continued)

asset or paid to transfer a liability (an exit price) in an orderly transaction in the principal or most advantageous market for the asset or liability between market participants at the measurement date. SFAS No. 157 also establishes a three-tiered fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs within the fair value hierarchy are as follows:

- ◆ Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- ◆ Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- ◆ Level 3 inputs are prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. This includes inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk), which are developed based on the best information available in the circumstances.

The following table presents our financial assets and financial liabilities that are measured at fair value on a recurring basis as of June 30, 2008, consistent with the fair value hierarchy provisions of SFAS No. 157:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$11,383	\$ -	\$ -	\$11,383

Note receivable	_____ -	_____ -	<u>127</u>	<u>127</u>
			<u>\$11,383</u>	<u>\$ -</u> <u>\$127</u> <u>\$11,510</u>
Total assets measured at fair value at June 30, 2008				

Our financial assets and financial liabilities which are measured and recorded at fair value using Level 3 inputs consist of a note receivable. This note receivable is included in Other Assets on our consolidated balance sheet and is more fully discussed in Note 13 to our consolidated financial statements in our 2007 Form 10-K. Interest accrued on this note receivable is included in Interest Income on our Statement of Operations. This note receivable is denominated in British Pounds Sterling. Any foreign currency transaction gains or losses recorded related to this note receivable are recorded in Other Income (Expense) on our Statement of Operations. A reconciliation of the beginning and ending balance of this note receivable is presented below:

	\$135
Balance - January 1, 2008	
	4
Interest accrued	
	<u>(12)</u>
Repayment of principal and interest	
	)
	<u>\$127</u>
Balance - June 30, 2008	

**(4) MAJOR CUSTOMERS**

Texas Instruments Incorporated accounted for 18% and 14% of our consolidated net revenues for the six months ended June 30, 2008 and 2007, respectively. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Manipulator and Docking Hardware product segment. Teradyne, Inc. accounted for 11% of our consolidated net revenues for the six months ended June 30, 2008. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Tester Interface and Manipulator and Docking Hardware product segments. During the six months ended June 30, 2008 and 2007, no other customer accounted for 10% or more of our consolidated net revenues.

**INVENTORIES**

Inventories held at June 30, 2008 and December 31, 2007 were comprised of the following:

	June 30,	Dec. 31,
	<i>2008</i>	<i>2007</i>
Raw materials	\$3,842	\$3,903
Work in process	701	343
Inventory consigned to others	243	251
Finished goods	<u>467</u>	<u>600</u>
	<u>\$5,253</u>	<u>\$5,097</u>

**(6) LEASEHOLD IMPROVEMENTS AND DEFERRED RENT**

In accordance with FASB Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases*, 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 was \$59 for the six months ended June 30 during both 2008 and 2007.

In addition, certain of our operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. For these leases, we recognize the related rental expense on a straight-line basis over the life of the lease and record the difference between the amounts charged to operations and amounts paid as accrued rent, which is included in other accrued expenses on our balance sheet.

(7)

**COMMITMENTS AND CONTINGENCIES**Minimum Purchase Commitments

On June 1, 2004, we entered into an exclusive rights agreement to market and sell certain products which are the proprietary and confidential designs of one of the suppliers of our Tester Interface Product segment. The terms of this agreement included payment of a \$150 nonrefundable fee, which was expensed on a straight-line basis over the 24 month period beginning in June 2004, and certain minimum purchase requirements, which are applicable to the forty-eight month period beginning April 1, 2006 and total \$1,533. If we fail to satisfy the minimum purchase requirements, the supplier has the right to terminate our exclusive right to market and sell these products.

During 2006, 2007 and the first six months of 2008, we did not meet the minimum purchase requirements. There is no financial liability for not meeting these purchase requirements. During the second quarter of 2008, we were notified that the supplier was terminating the contract. We are

not currently using these products in any of the products we sell. There are no amounts recorded on our balance sheet related to this agreement as of June 30, 2008.

(8)

**GUARANTEES**

Product Warranties

Warranty expense (recovery) for the six months ended June 30, 2008 and 2007 was \$57 and \$(87), respectively. During the six months ended June 30, 2007, we recorded a reduction in our consolidated warranty accrual reflecting favorable claims experience. The level of our product warranty charges both in absolute dollars and as a percentage of net revenues is affected by a number of factors, including the cyclical nature of demand in the ATE industry, the prototype nature of much of our business, the complex nature of many of our products, and, at our discretion, providing warranty repairs or replacements to customers after the contracted warranty period has expired in order to promote strong customer relations.

- 11 -

**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

(8)

**GUARANTEES (Continued)**

The following table sets forth the changes in the liability for product warranties for the six months ended June 30, 2008:

	\$387
Balance - Beginning of period	
	(80)
Payments made under product warranty	
	<u>57</u>
Accruals for product warranty	
	<u>\$364</u>
Balance - End of period	

U.K. Lease Guarantee

In connection with the closure of our U.K. manufacturing operation, as more fully discussed in Notes 9 and 10 to the consolidated financial statements in our 2007 Form 10-K, we have entered into a sub-leasing arrangement for the facility which was occupied by this operation prior to its closure. As a condition of the sub-lease, the landlord of this facility has required that we guarantee the performance of the sub-lessee with respect to the lease payments. We have performed a credit analysis of the sub-lessee and believe that a default by them with regard to their obligations under



the sub-lease agreement is remote. However, as of June 30, 2008, there was approximately \$274 of future payments that we would be obligated to make if the sub-lessee were to default and we were unable to enter into a new sub-lease agreement with another party. Our original lease on this facility extends through December 31, 2010. As of June 30, 2008, we have not recorded any amounts in our financial statements related to this guarantee.

**(9) RESTRUCTURING**

In early 2008, we commenced a review of our operations to more aggressively streamline our cost structure in line with the current business environment. As part of this process, we are focusing on methods to increase our profitability worldwide, including pursuing other types of revenue streams and additional growth opportunities. As a result of this process, on June 30, 2008, we announced that we were reducing the workforce in our Manipulator and Docking Hardware product segment by 18 employees, representing 18% of the total employees in this segment. During the quarter ended June 30, 2008, we incurred \$200 in costs related to this action for severance and medical benefits to be paid to terminated employees. This action was taken to reduce the operating expenses of the Manipulator and Docking Hardware segment in response to continued operating losses in that product segment.

The review of our operations is on-going. We continue to explore methods to further reduce our costs and we will likely incur additional restructuring charges in future periods, however, we cannot predict the amount of such charges at this time.

Our restructuring costs for the six months ended June 30, 2008 are summarized as follows:

	\$ -
Balance - January 1, 2008	
	200
Accruals in the six months ended June 30, 2008	
	<u>-</u>
Severance and other cash payments	
	<u>\$200</u>
Balance - June 30, 2008	

**(10) STOCK-BASED COMPENSATION**

As of June 30, 2008, we have outstanding stock options and unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 14 to our consolidated financial statements in our 2007 Form 10-K.

As of June 30, 2008, total compensation expense to be recognized in future periods was \$613. The weighted average period over which this expense is expected to be recognized is 2.2 years. All of this expense is related to nonvested shares of restricted stock.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

## (10) STOCK-BASED COMPENSATION

(Continued)

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 and six months ended June 30, 2008 and 2007, respectively, related to nonvested shares:

	Three Months Ended <u>June</u> <u>30,</u> <u>2008</u>		Six Months Ended <u>June</u> <u>30,</u> <u>2008</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cost of revenues	\$ 6	\$ 5	\$ 12	\$ 10
Selling expenses	8	3	16	6
Engineering and product development expense	12	5	25	10
General and administrative expenses	<u>85</u>	<u>78</u>	<u>169</u>	<u>140</u>
	<u>\$111</u>	<u>\$91</u>	<u>\$222</u>	<u>\$166</u>

There was no compensation expense capitalized in the six months ended June 30, 2008 or 2007.

The following table summarizes the activity related to nonvested shares for the six months ended June 30, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares outstanding, January 1, 2008	225,750	\$4.29
Granted	-	-
Vested	(23,000)	\$3.25

Forfeited	_____	-
		-
	<u>202,750</u>	\$4.32
Nonvested shares outstanding, June 30, 2008		

Stock Options

The following table summarizes the stock option activity for the six months ended June 30, 2008:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, January 1, 2008 (466,500 exercisable)	466,500	\$3.52
Granted	-	-
Exercised	-	-
Forfeited/Expired	<u>(2,500)</u>	\$3.20
	)	
Options outstanding, June 30, 2008 (464,000 exercisable)	<u>464,000</u>	\$3.52

(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 match a portion of employee contributions. This plan, including our employer matching contributions, is more fully discussed in Note 15 to the consolidated financial statements in our 2007 Form 10-K.

- 13 -

**inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

(11) EMPLOYEE BENEFIT PLANS (Continued)

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. Accruals for profit sharing contributions totaling \$150 were made during the six month periods ended June 30, 2008 and 2007, respectively. Through June 30, 2008, we had made a total of \$1,178 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: Manipulator and Docking Hardware Products, Temperature Management Products and Tester Interface Products. The Manipulator and Docking Hardware product segment includes the operations of our Cherry Hill, New Jersey manufacturing facility as well as the operations of three of our foreign subsidiaries: inTEST KK (Japan), inTEST PTE, Limited (Singapore) and Intestlogic GmbH (Germany). Sales of this segment consist primarily of manipulator and docking hardware products which we design, manufacture and market, as well as certain other related products which we design and market, but which are manufactured by third parties. The Temperature Management product segment includes the operations of Temptronic Corporation in Sharon, Massachusetts as well as Temptronic GmbH (Germany). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic product line. In addition, this segment provides after-sale service and support, which is paid for by its customers. The Tester Interface product 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 Temperature Management product 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net revenues from unaffiliated customers:				
	\$ 4,156	\$ 4,693	\$ 9,182	\$10,650
Manipulator/Docking Hardware	4,753	5,913	9,465	11,452
Temperature Management	2,871	1,966	4,818	3,299
Tester Interface				

	<u>(283)</u>	<u>(510)</u>	<u>(664)</u>	<u>(1,221)</u>
Intersegment sales	)	)	)	)
	<u>\$11,497</u>	<u>\$12,062</u>	<u>\$22,801</u>	<u>\$24,180</u>
Intersegment sales:				
	\$ -	\$ -	\$ -	\$ 4
Manipulator/Docking Hardware				
	109	448	442	1,023
Temperature Management				
	<u>174</u>	<u>62</u>	<u>222</u>	<u>194</u>
Tester Interface				
	<u>\$283</u>	<u>\$510</u>	<u>\$664</u>	<u>\$1,221</u>
Earnings (loss) before income taxes:				
	\$(2,026)	\$(1,190)	\$(3,227)	\$(2,236)
Manipulator/Docking Hardware				
	314	467	459	984
Temperature Management				
	458	(274)	361	(870)
Tester Interface				
	<u>(56)</u>	<u>(3)</u>	<u>(167)</u>	<u>(66)</u>
Corporate	)	)	)	)
	<u>\$(1,310)</u>	<u>\$(1,000)</u>	<u>\$(2,574)</u>	<u>\$(2,188)</u>
	)	)	)	)

- 14 -

**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

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

	Three Months Ended <u>June</u> <u>30,</u>	Six Months Ended <u>June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net earnings (loss):				

Edgar Filing: INTEST CORP - Form 10-Q

Manipulator/Docking Hardware	\$ (2,072)	\$ (1,220)	\$ (3,336)	\$ (2,256)
	313	411	459	885
Temperature Management	458	(274)	361	(870)
Tester Interface	<u>(56)</u>	<u>(3)</u>	<u>(167)</u>	<u>(66)</u>
Corporate	)	)	)	)
	<u>\$ (1,357)</u>	<u>\$ (1,086)</u>	<u>\$ (2,683)</u>	<u>\$ (2,307)</u>
	)	)	)	)

June 30, Dec. 31,

2008 2007

Identifiable assets:

	\$11,082	\$12,948
Manipulator/Docking Hardware	11,974	11,479
Temperature Management	<u>3,750</u>	<u>3,296</u>
Tester Interface	<u>\$26,806</u>	<u>\$27,723</u>

The following table provides information about our geographic areas of operation. Net revenues from unaffiliated customers are based on the location of the selling entity.

	Three Months Ended <u>June</u> <u>30,</u>	Six Months Ended <u>June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net revenues from unaffiliated customers:	\$ 9,063	\$ 9,558	\$17,093	\$18,508
U.S.	1,018	1,195	2,642	2,502
Europe	<u>1,416</u>	<u>1,309</u>	<u>3,066</u>	<u>3,170</u>
Asia-Pacific				

\$11,497   \$12,062   \$22,801   \$24,180

	June 30,	Dec. 31,
	<u>2008</u>	2007
Long-lived assets:		
U.S.	\$1,578	\$1,761
Europe	354	367
	<u>73</u>	<u>70</u>
Asia-Pacific	<u>\$2,005</u>	<u>\$2,198</u>

### (13) SUBSEQUENT EVENT

On July 15, 2008, we acquired the assets of Diamond Integration, L.L.C., a business that provides post-warranty service for ATE equipment to semiconductor manufacturers, for a cash payment of \$239. We expect to complete the purchase price allocation during the third quarter of 2008.

- 15 -

## inTEST CORPORATION

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

#### Overview

As discussed more fully in our 2007 Form 10-K, 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

## Edgar Filing: INTEST CORP - Form 10-Q

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 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 temperature management 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, in recent years we have begun to 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 emerging changes within the ATE market, including, for example, changing product requirements, longer time periods between new product offerings by ATE Manufacturers (OEMs) and changes in customer buying patterns. In particular, demand for our manipulator, docking hardware and tester interface products, which are sold exclusively within the ATE industry, and our operating margins in these product segments have been affected by recent 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 increasing practice of OEMs to specify other suppliers as primary vendors, with less frequent opportunities to compete for such designations, (iii) the increased 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, but it is difficult to quantify the impact of these practices 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, but there can be no assurance that such actions will be fully effective or timely made.

### 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 of the selling entity).

- 16 -

### inTEST CORPORATION

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

(in 000's)				
Three Months				
Ended			Six Months Ended	
		March		
June 30,	June 30,	31,	June 30,	June 30,
2008	2007	2008	2008	2007



Edgar Filing: INTEST CORP - Form 10-Q

Net revenues from unaffiliated customers:	\$ 4,156	\$ 4,693	\$ 5,026	\$ 9,182	\$10,650
Manipulator/Docking Hardware	4,753	5,913	4,712	9,465	11,452
Temperature Management	2,871	1,966	1,947	4,818	3,299
Tester Interface	<u>(283)</u>	<u>(510)</u>	<u>(381)</u>	<u>(664)</u>	<u>(1,221)</u>
Intersegment sales	)	)	)	)	)
	<u>\$11,497</u>	<u>\$12,062</u>	<u>\$11,304</u>	<u>\$22,801</u>	<u>\$24,180</u>

Intersegment sales:	\$ -	\$ -	\$ -	\$ -	\$ 4
Manipulator/Docking Hardware	109	448	333	442	1,023
Temperature Management	<u>174</u>	<u>62</u>	<u>48</u>	<u>222</u>	<u>194</u>
Tester Interface	<u>\$283</u>	<u>\$510</u>	<u>\$381</u>	<u>\$664</u>	<u>\$1,221</u>

Net revenues from affiliated customers (net of intersegment sales)	\$ 4,156	\$ 4,693	\$ 5,026	\$ 9,182	\$10,646
Manipulator/Docking Hardware	4,644	5,465	4,379	9,023	10,429
Temperature Management	<u>2,697</u>	<u>1,904</u>	<u>1,899</u>	<u>4,596</u>	<u>3,105</u>
Tester Interface	<u>\$11,497</u>	<u>\$12,062</u>	<u>\$11,304</u>	<u>\$22,801</u>	<u>\$24,180</u>

Net revenues from unaffiliated customers:	\$ 9,063	\$ 9,558	\$ 8,030	\$17,093	\$18,508
U.S.	1,018	1,195	1,624	2,642	2,502
Europe	<u>1,416</u>	<u>1,309</u>	<u>1,650</u>	<u>3,066</u>	<u>3,170</u>
Asia-Pacific					

\$11,497 \$12,062 \$11,304 \$22,801 \$24,180

Our consolidated net revenues for the quarter ended June 30, 2008 decreased \$565,000, or 5%, as compared to the same period in 2007. During the second quarter of 2008, we continued to experience reduced levels of demand in both our Manipulator and Docking Hardware and Temperature Management product segments where our net revenues (net of intersegment sales) declined \$537,000, or 11%, and \$821,000, or 15%, respectively, as compared to the second quarter of 2007. We believe these declines reflect many of the factors discussed in the Overview. In contrast, the net revenues (net of intersegment sales) of our Tester Interface product segment increased \$793,000, or 42%, for the second quarter of 2008 as compared to the same period in 2007. We believe this increase reflects both the significant extent to which the reduced demand had impacted this segment during the second quarter of 2007, as well as the fact that certain new product initiatives that we have been developing over the last several quarters in this segment are beginning to produce orders and shipments.

Total orders for the quarter ended June 30, 2008 were \$10.0 million compared to \$12.5 million for the quarter ended March 31, 2008 and \$13.8 million for the quarter ended June 30, 2007. The decrease in our orders for the second quarter of 2008 as compared to the first quarter of 2008 was made up of a \$1.3 million, or 26%, decrease in the orders of our Manipulator and Docking Hardware product segment, a \$1.8 million, or 58%, decrease in the orders of our Tester Interface product segment, and a \$686,000, or 16%, increase in the orders of our Temperature Management product segment. We cannot be certain what the level of our orders or net revenues will be in any future period.

### Backlog

At June 30, 2008, our backlog of unfilled orders for all products was approximately \$3.9 million compared with approximately \$5.4 million at March 31, 2008 and \$7.0 million at June 30, 2007. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2008. 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.

- 17 -

## **inTEST CORPORATION**

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

#### Business Restructuring Initiatives

In early 2008, we commenced a review of our operations to more aggressively streamline our cost structure in line with the current business environment. As part of this process, we are focusing on methods to increase our

profitability worldwide, including pursuing other types of revenue streams and additional growth opportunities. As a result of this process, on June 30, 2008, we announced that we were reducing the workforce in our Manipulator and Docking Hardware product segment by 18 employees, representing 18% of the total employees in this segment. During the quarter ended June 30, 2008, we incurred \$200,000 in costs related to this action for severance and medical benefits to be paid to terminated employees. In addition to this workforce reduction, one facility in this segment will go to a reduced work week. These actions were taken to reduce the operating expenses of the Manipulator and Docking Hardware segment in response to continued operating losses in that product segment. The review of our operations is on-going. We continue to explore methods to further reduce our costs and we will likely incur additional restructuring charges in future periods, however, we cannot predict the amount of such charges at this time.

#### 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 impacted 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 Temperature Management product 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, 2008 and 2007, our OEM sales as a percentage of net revenues were 21% and 25%, respectively.

OEM sales generally have a lower gross margin than end user sales, as OEM sales historically have had a more significant discount. Our current net operating margins on most OEM sales, however, are only slightly less than margins on end user sales because of the payment of third-party sales commissions on most end user sales. We have also continued to experience demands from our OEM customers' supply 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.

#### 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. 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" of our 2007 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 2007 Form 10-K.

- 18 -

inTEST CORPORATION

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

Results of Operations

All of our products are used by semiconductor manufacturers in conjunction with ATE in the testing of ICs. Consequently, 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.

	<u>Percentage of Net</u>			
	<u>Revenues</u>			
	<u>Quarters Ended June</u>		<u>Six Months Ended</u>	
	<u>30,</u>		<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	<u>60.7</u>	<u>61.9</u>	<u>60.6</u>	<u>62.8</u>
Gross margin	<u>39.3</u>	<u>38.1</u>	<u>39.4</u>	<u>37.2</u>
Selling expense	19.3	18.9	18.9	18.4
Engineering and product development expense	12.3	11.6	12.4	11.6
General and administrative expense	17.7	16.9	18.8	17.3
Restructuring and other charges	<u>1.7</u>	<u>0.0</u>	<u>0.9</u>	<u>0.0</u>

Edgar Filing: INTEST CORP - Form 10-Q

	(11.7)	(9.3)	(11.6)	(10.1)
Operating loss				
	<u>0.4</u>	<u>1.0</u>	<u>0.4</u>	<u>1.1</u>
Other income				
	(11.3)	(8.3)	(11.2)	(9.0)
Loss before income taxes				
	<u>0.4</u>	<u>0.7</u>	<u>0.5</u>	<u>0.5</u>
Income tax expense				
	<u>(11.7)</u>	<u>(9.0)</u>	<u>(11.7)</u>	<u>(9.5)</u>
Net loss	)%	)%	)%	)%

Quarter Ended June 30, 2008 Compared to Quarter Ended June 30, 2007

*Net Revenues.* Net revenues were \$11.5 million for the quarter ended June 30, 2008 compared to \$12.1 million for the same period in 2007, a decrease of \$565,000, or 5%. The percentage decrease in the net revenues (net of intersegment sales) of our Manipulator and Docking Hardware and Temperature Management product segments were 11% and 15%, respectively, while the net revenues (net of intersegment sales) of our Tester Interface product segment increased 42% for the second quarter of 2008 as compared to the same period in 2007. The decrease in the net revenues of our Manipulator and Docking Hardware and Temperature Management product segments reflects lower levels of demand experienced in the second quarter of 2008 as compared to the same period in 2007 by these groups, which we believe is the result of the factors previously discussed in the Overview. Our Tester Interface product segment has also experienced reduced levels of demand in previous periods as a result of these same factors. We believe the increase in the net revenues of our Tester Interface product segment in the second quarter of 2008 as compared to the same period in 2007 reflects both the significant extent to which the reduced demand had impacted this segment during the second quarter of 2007 as well as increased demand during the second quarter of 2008 for certain products recently developed by this segment, as previously discussed in the Overview.

During the second quarter of 2008, our net revenues from customers in the U.S. decreased 5% as compared to the same period in 2007. Our net revenues from customers in Europe and Asia decreased 29% and 5%, respectively, after adjustment to eliminate the impact of changes in foreign currency exchange rates. The larger percentage decrease in our net revenues from customers in Europe reflects lower demand experienced by our Temperature Management and Manipulator and Docking Hardware product segments at their operations in Germany.

*Gross Margin.*

Gross margin was 39% for the second quarter of 2008 compared to 38% for the same period in 2007. The increase in gross margin is primarily the result of a reduction in our fixed operating costs during the second quarter of 2008 as compared to the second quarter of 2007. The decline in our fixed operating costs was primarily a result of lower salary and benefits expense, reflecting headcount reductions that occurred after the second quarter of 2007. These headcount reductions were primarily driven by the lower levels of demand we have been experiencing for our products. In addition to the decline in salary and benefits expense, we also incurred lower levels of rent, reflecting a reduction in

the amount of space we are

- 19 -

inTEST CORPORATION

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

occupying, and lower depreciation expense, reflecting a lower asset base during the second quarter of 2008 as compared to the same period in 2007. The decrease in our fixed operating costs during the second quarter of 2008 as compared to the same period in 2007 was partially offset by an increase in our component material costs as a percentage of net revenues, primarily reflecting changes in product and customer mix.

*Selling Expense.* Selling expense was \$2.2 million for the second quarter of 2008 compared to \$2.3 million for the same period in 2007, a decrease of \$56,000, or 3%. Lower levels of commissions and a reduction in travel costs were partially offset by increased warranty charges. The lower level of commissions reflects the lower net revenues experienced in the second quarter of 2008 as compared to the second quarter of 2007, as well as changes in product and customer mix. The increase in warranty charges primarily reflects that, during the second quarter of 2007, we recorded a recovery of previously expensed warranty charges as a result of favorable claims experience. There was no similar recovery recorded during the second quarter of 2008.

*Engineering and Product Development Expense.* Engineering and product development expense was relatively unchanged at \$1.4 million for both the second quarter of 2008 and the same period in 2007. Increases in spending for professional fees related to our intellectual property were offset by reductions in salary and benefits expense, primarily reflecting reduced headcount in our Manipulator and Docking Hardware and Tester Interface product segments.

*General and Administrative Expense.* General and administrative expense was relatively unchanged at \$2.0 million for both the second quarter of 2008 and the same period in 2007. Increases in professional fees for third-party consultants who assist us with the documentation and testing of our internal control over financial reporting procedures and related compliance matters were offset by a reduction in salary and benefits expense, reflecting lower headcount.

*Restructuring and Other Charges.* Restructuring and other charges were \$200,000 for the second quarter of 2008. There were no similar charges during the same period in 2007. On June 30, 2008, we reduced the workforce in our Manipulator and Docking Hardware product segment by 18 employees, representing 18% of the total employees in this segment, as previously discussed. The costs incurred related to this action represent severance and medical benefits to be paid to terminated employees.

*Other Income.* Other income was \$47,000 for the second quarter of 2008 compared to \$126,000 for the comparable period in 2007, a decrease of \$79,000. The decrease primarily represents lower interest income, reflecting a reduction in the rate of interest being earned, combined with an increase in foreign currency transaction losses.

*Income Tax Expense.* For the quarter ended June 30, 2008, we recorded income tax expense of \$47,000 compared to income tax expense of \$86,000 for the same period in 2007. 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. During the second quarter of 2008, the income tax expense recorded primarily represents income tax expense on the taxable income of certain of our foreign operations where we do not have a history of operating losses and therefore do not have net operating loss carryforwards to offset income tax expense on those earnings.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

*Net Revenues.* Net revenues were \$22.8 million for the six months ended June 30, 2008 compared to \$24.2 million for the same period in 2007, a decrease of \$1.4 million, or 6%. For the first six months of 2008 as compared to the same period in 2007, our net revenues (net of intersegment sales) in both our Manipulator and Docking Hardware and Temperature Management product segments declined 14%, while the net revenues (net of intersegment sales) of our Tester Interface product segment increased 48%. The decrease in the net revenues of our Manipulator and Docking Hardware and Temperature Management product segments reflects lower levels of demand experienced in the first half of 2008 as compared to the same period in 2007 by these groups which we believe is the result of the factors previously discussed in the Overview. Our Tester Interface product segment has also experienced reduced levels of demand in previous periods as a result of these same factors. We believe the increase in the net revenues of our Tester Interface product segment in the first half of 2008 as compared to the same period in 2007 reflects both the significant extent to which the reduced demand had impacted this segment during the first six months of 2007 as well as increased demand during the first six months of 2008 for certain products recently developed by this segment, as previously discussed in the Overview.

- 20 -

inTEST CORPORATION

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

During the six months ended June 30, 2008, as compared to the same period in 2007, our net revenues from customers in the U.S. decreased 8%. Our net revenues from customers in Europe and Asia decreased 8% and 13%, respectively, after adjustment to eliminate the impact of changes in foreign currency exchange rates.

*Gross Margin.* Gross margin was 39% for the first six months of 2008 as compared to 37% for the same period in 2007. The increase in gross margin is primarily the result of a reduction in our fixed operating costs during the first six months of 2008 as compared to the same period in 2007. The decline in our fixed operating costs was primarily the result of the aforementioned lower salary and benefits expense, reductions in rent and lower depreciation expense, as discussed in the quarter-to-quarter comparison.

*Selling Expense.* Selling expense was \$4.3 million for the first half of 2008 as compared to \$4.5 million for the same period in 2007, a decrease of \$133,000, or 3%. This decrease was primarily a result of lower levels of commissions and a reduction in travel costs were partially offset by increased warranty charges, as previously discussed in the quarter-to-quarter comparison.

*Engineering and Product Development Expense.* Engineering and product development expense was relatively unchanged at \$2.8 million for both the first six months of 2008 and the same period in 2007. Lower salary and benefits expense was offset by an increase in spending on materials used in new product development and professional fees related to our intellectual property.

*General and Administrative Expense.* General and administrative expense was \$4.3 million for the first six months of 2008 compared to \$4.2 million for the same period in 2007, an increase of \$113,000, or 3%. This increase was primarily the result of the increases in professional fees for third-party consultants, which were partially offset by a reduction in salary and benefits expense, as previously discussed in the quarter-to-quarter comparison.

*Restructuring and Other Charges.* Restructuring and other charges were \$200,000 for the first six months of 2008. There were no similar charges during the same period in 2007. As previously discussed, on June 30, 2008, we reduced the workforce in our Manipulator and Docking Hardware product segment. The costs incurred were for severance and medical benefits to be paid to terminated employees.

*Other Income.* Other income was \$82,000 for the six months ended June 30, 2008 compared to \$247,000 for the comparable period in 2007, a decrease of \$165,000. The decrease primarily represents lower interest income, reflecting a reduction in the rate of interest being earned, combined with an increase in foreign currency transaction losses.

*Income Tax Expense.* For the six months ended June 30, 2008, we recorded income tax expense of \$109,000 compared to income tax expense of \$119,000 for the same period in 2007. 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. During the first six months of 2008, the income tax expense recorded primarily represents income tax expense on the taxable income of certain of our foreign operations where we do not have a history of operating losses and therefore do not have net operating loss carryforwards to offset income tax expense on those earnings.

### **Liquidity and Capital Resources**

Net cash used in operations for the six months ended June 30, 2008 was \$837,000 compared to \$2.3 million for the same period in 2007. Accounts payable increased \$713,000 for the first six months of 2008, primarily reflecting the timing of payments to vendors. Prepaid expenses and other current assets declined \$554,000 during the first six months of 2008, primarily as a result of the amortization of prepaid insurance premiums combined with our Japanese operation receiving a refund of an estimated tax payment made in 2007. During the six months ended June 30, 2008, accounts receivable increased \$513,000 reflecting the timing of our net revenues during the period combined with an increase in our average days sales outstanding as of June 30, 2008 compared to December 31, 2007.

Purchases of property and equipment were \$241,000 for the six months ended June 30, 2008. These purchases primarily consisted of demonstration equipment for our facilities in Sharon, Massachusetts and San Jose, California. We have no significant commitments for capital expenditures for the balance of 2008; however, depending upon changes in market demand, we may make such purchases as we deem necessary and appropriate.



Net cash used in financing activities for the six months ended June 30, 2008 was \$3,000, which represents payments made under capital lease obligations.

We have a secured credit facility that provides for maximum borrowings of \$250,000. We have not utilized this facility to borrow any funds. Our usage consists of the issuance of letters of credit in the face amount of \$250,000. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. The terms of the loan agreement require that we maintain a minimum level of \$200,000 of domestic cash. This credit facility expires on September 30, 2008, and we expect it to be renewed for another year.

As of June 30, 2008, we had cash and cash equivalents of \$11.4 million. We believe our cash balances will be sufficient to satisfy our cash requirements for the foreseeable future. In both 2007 and the first seven months of 2008, however, we have experienced operating losses, and our cash and cash equivalents as of July 31, 2008 were approximately \$9.5 million. In early 2008, as previously discussed, we commenced a review of our operations to more aggressively streamline our cost structure in line with the current business environment and during the second quarter of 2008 took actions that are expected to reduce our annual operating expense structure by approximately \$1.2 million. The review of our operations is on-going. We continue to explore methods to further reduce our costs, and we will likely incur additional restructuring charges in future periods, however, we cannot predict the amount of such charges at this time or the potential cost savings that may result from such actions. In addition, we continue to pursue opportunities to make strategic acquisitions of businesses and technology. Such acquisitions may require significant amounts of cash, debt or equity financing, or a combination of the foregoing. In addition to the business acquisition described in Note 13 to our June 30, 2008 consolidated financial statements, we are currently negotiating to acquire another business. That acquisition could require approximately \$2.0 million in cash to close on the transaction. Should the current downturn be prolonged and we are unable to reduce our operating expenses sufficiently, or should we utilize significant amounts of cash to implement our acquisition strategy, we may require additional debt or equity financing to meet working capital or capital expenditure needs. We cannot be certain that, if needed, we would be able to raise such additional financing or upon what terms such financing would be available.

#### **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, 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, 2008, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2007 Form 10-K.

Item 3.

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

This disclosure is not required for a smaller reporting company.

Item 4T. 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 4T 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.

- 22-

#### inTEST CORPORATION

Item 4T. CONTROLS AND PROCEDURES (Continued)

#### 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.

---

## 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

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item IA. Risk Factors in our 2007 Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2007 Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. The information below amends and updates the corresponding risk factor included in the 2007 Form 10-K, and should be read in conjunction with the other risk factors and information disclosed in our 2007 Form 10-K.

**If we are not able to reduce our operating expenses during periods of weak demand, or if we utilize significant amounts of cash to implement our acquisition strategy, we will erode our cash resources and may not have sufficient cash to operate our businesses.**

- 23 -

inTEST CORPORATION

### Item 1A. Risk Factors

(Continued)

In recent years, we have implemented cost controls and restructured our operations with the goal of significantly reducing our fixed operating costs to position ourselves to more effectively meet the needs of the fluid ATE market. In both 2007 and the first seven months of 2008, however, we have experienced operating losses, and our cash and cash equivalents as of July 31, 2008 were approximately \$9.5 million. In early 2008, we commenced a review of our operations to more aggressively streamline our cost structure in line with the current business environment and during the second quarter of 2008 took actions that are expected to reduce our annual operating expense structure by approximately \$1.2 million. The review of our operations is ongoing. We continue to explore methods to further reduce our costs, and we will likely incur additional restructuring charges in future periods, however, we cannot predict the amount of such charges at this time or the potential cost savings that may result from such actions. In addition, we continue to pursue opportunities to make strategic acquisitions of businesses and technology. Such acquisitions may require significant amounts of cash, debt or equity financing, or a combination of the foregoing. In addition to the business acquisition described in Note 13 to our June 30, 2008 consolidated financial statements, we are currently

negotiating to acquire another business. That acquisition could require approximately \$2.0 million in cash to close on the transaction. Should the current downturn be prolonged and we are unable to reduce our operating expenses sufficiently, or should we utilize significant amounts of cash to implement our acquisition strategy, we may require additional debt or equity financing to meet working capital or capital expenditure needs. While we believe our cash balances will be sufficient to satisfy our cash requirements for the foreseeable future, we cannot determine with certainty that, if needed, we would be able to raise additional funding through either equity or debt financing under these circumstances or on what terms such financing would be available.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on June 11, 2008 (the "Meeting"). Notice of the Meeting was mailed to stockholders of record on or about May 9, 2008, together with proxy solicitation materials prepared in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

In the election of the members of the Board of Directors, there was no solicitation in opposition to the nominees of the Board of Directors for election to the Board of Directors and all such nominees were elected. The number of votes cast for or withheld for each nominee for election to the Board of Directors were as follows:

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
Alyn R. Holt	8,958,354	42,122
Robert E. Matthiessen	8,958,354	42,122
Stuart F. Daniels, Ph.D.	8,955,854	46,622
James J. Greed, Jr.	8,887,239	115,237
James W. Schwartz, Esq.	8,887,239	115,237
Thomas J. Reilly, Jr.	8,737,373	265,103

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.

Edgar Filing: INTEST CORP - Form 10-Q

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 14, 2008      /s/ Robert E. Matthiessen  
Robert E. Matthiessen  
*President and Chief Executive Officer*

Date: August 14, 2008      /s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
*Secretary, Treasurer and Chief Financial Officer*

---

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\* By-Laws: Previously filed by the Company as an Exhibit to the Company's Form 8-K dated October 30, 2007, File No. 000-22529, filed November 5, 2007 and incorporated herein by reference.
- 10.1 Change of Control Agreement dated May 5, 2008 between the Company and Daniel J. Graham. (CP)
- 10.2 Change of Control Agreement dated May 5, 2008 between the Company and James Pelrin. (CP)
- 10.3 Change of Control Agreement dated May 5, 2008 between the Company and Dale E. Christman. (CP)
- 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.

(CP) Indicates a management contract or compensatory plan, contract or arrangement in which a director or executive

officers  
participate.

- 25 -