

INTEST CORP
Form 10-Q
November 14, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011 or

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

For the transition period from _____ to _____

Commission File Number 0-22529

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

22-2370659

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices, including zip code)

(856) 505-8800

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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Large accelerated filer ___
Non-accelerated filer ___

Accelerated filer ___

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

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

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

10,386,927

inTEST CORPORATION

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PART 1. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	Sept 30, 2011	Dec. 31, 2010
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$12,064	\$ 6,895
Trade accounts receivable, net of allowance for doubtful accounts of \$147 and \$150, respectively	6,816	6,244
Inventories	4,674	3,489
Deferred tax assets	483	-
Prepaid expenses and other current assets	<u>367</u>	<u>430</u>
Total current assets	<u>24,404</u>	<u>17,058</u>
Property and equipment:		

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Machinery and equipment	3,551	3,534
Leasehold improvements	<u>513</u>	<u>765</u>
Gross property and equipment	4,064	4,299
Less: accumulated depreciation	<u>(2,966)</u>	<u>(3,581)</u>
Net property and equipment	<u>1,098</u>	<u>718</u>
Deferred tax assets	2,422	-
Goodwill	1,656	1,656
Intangible assets, net	976	1,077
Restricted certificates of deposit	500	700
Other assets	<u>171</u>	<u>199</u>
Total assets	<u>\$31,227</u>	<u>\$21,408</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,733	\$ 1,672
Accrued wages and benefits	1,715	1,779
Accrued sales commissions	553	522
Accrued rent	403	83
Accrued professional fees	374	373
Accrued warranty	231	274
Customer deposits	419	84
Other current liabilities	<u>358</u>	<u>478</u>
Total current liabilities	<u>5,786</u>	<u>5,265</u>
Deferred rent, net of current portion	<u>-</u>	<u>39</u>
Total liabilities	<u>5,786</u>	<u>5,304</u>
Commitments and contingencies (Notes 9 and 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 10,463,255 and 10,464,505 shares issued, respectively	105	105
Additional paid-in capital	26,008	25,973
Accumulated deficit	(1,455)	(10,549)
Accumulated other comprehensive earnings	1,255	1,311
Treasury stock, at cost; 76,328 and 119,029 shares, respectively	<u>(472)</u>	<u>(736)</u>
Total stockholders' equity	<u>25,441</u>	<u>16,104</u>
Total liabilities and stockholders' equity	<u>\$31,227</u>	<u>\$21,408</u>
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net revenues	\$11,681	\$11,305	\$37,185	\$36,094
Cost of revenues	5,548	5,853	19,161	18,737

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Gross margin	6,133	5,452	18,024	17,357
Operating expenses:				
Selling expense	1,461	1,444	4,433	4,427
Engineering and product development expense	809	767	2,444	2,255
General and administrative expense	1,448	1,555	4,748	4,689
Total operating expenses	3,718	3,766	11,625	11,371
Operating income	2,415	1,686	6,399	5,986
Other income (expense):				
Interest income	2	2	8	6
Interest expense	(1)	(18)	(3)	(54)
Other	4	24	66	37
Total other income (expense)	5	8	71	(11)
Earnings before income tax expense (benefit)	2,420	1,694	6,470	5,975
Income tax expense (benefit)	(2,762)	16	(2,624)	17
Net earnings	\$ 5,182	\$ 1,678	\$ 9,094	\$ 5,958
Net earnings per common share - basic	\$0.51	\$0.17	\$0.90	\$0.60
Weighted average common shares outstanding - basic	10,182,795	10,033,034	10,132,807	10,011,173
Net earnings per common share - diluted	\$0.50	\$0.17	\$0.88	\$0.59
Weighted average common and common share equivalents outstanding - diluted	10,297,284	10,194,580	10,287,055	10,127,329

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)
(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net earnings	\$ 5,182	\$ 1,678	\$ 9,094	\$ 5,958

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Foreign currency translation adjustments	(143)	96	(56)	(24)
	-----	-----	-----	-----
Comprehensive earnings	\$ 5,039	\$ 1,774	\$ 9,038	\$ 5,934
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)
(Unaudited)

	Common Stock		Additional	Accumulated	Accumulated	Treasury	Total
	Shares	Amount	Paid-In Capital	Deficit	Other Comprehensive Earnings	Stock	Stockholders' Equity
	-----	-----	-----	-----	-----	-----	-----
Balance, January 1, 2011	10,464,505	\$ 105	\$25,973	\$ (10,549)	\$1,311	\$ (736)	\$16,104
Net earnings	-	-	-	9,094	-	-	9,094
Other comprehensive loss	-	-	-	-	(56)	-	(56)
Amortization of deferred compensation related to restricted stock	-	-	119	-	-	-	119
Stock options exercised	10,000	-	30	-	-	-	30
Forfeiture of non-vested shares of restricted stock	(11,250)	-	-	-	-	-	-
Issuance of 42,701 shares to satisfy profit sharing liability	-	-	(114)	-	-	264	150
	-----	-----	-----	-----	-----	-----	-----
Balance, Sept. 30, 2011	10,463,255	\$ 105	\$26,008	\$ (1,455)	\$1,255	\$ (472)	\$25,441
	=====	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

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	Nine Months Ended Sept. 30,	
	2011	2010
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 9,094	\$ 5,958
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	304	281
Foreign exchange (gain) loss	(10)	10
Amortization of deferred compensation related to restricted stock	119	166
Profit sharing expense funded through the issuance of treasury stock	150	75
Gain on sale of property and equipment	(40)	(5)
Proceeds from sale of demonstration equipment, net of gain	107	8
Deferred income tax benefit	(2,905)	-
Changes in assets and liabilities:		
Trade accounts receivable	(601)	(2,540)
Inventories	(1,186)	(131)
Prepaid expenses and other current assets	60	(89)
Restricted certificates of deposit	200	(250)
Other assets	28	1
Accounts payable	62	(1,025)
Accrued wages and benefits	(63)	865
Accrued sales commissions	31	314
Accrued rent	320	(49)
Accrued professional fees	1	31
Accrued warranty	(43)	38
Accrued restructuring and other charges	-	(130)
Customer deposits	341	(32)
Other current liabilities	(121)	186
Deferred rent, net of current portion	(39)	(39)
	-----	-----
Net cash provided by operating activities	5,809	3,643
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(685)	(84)
Proceeds from sale of property and equipment	40	-
	-----	-----
Net cash used in investing activities	(645)	(84)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options exercised	30	-
	-----	-----
Net cash provided by financing activities	30	-
	-----	-----
Effects of exchange rates on cash	(25)	(9)
	-----	-----
Net cash provided by all activities	5,169	3,550
Cash and cash equivalents at beginning of period	6,895	2,647
	-----	-----
Cash and cash equivalents at end of period	\$12,064	\$ 6,197
	=====	=====
Cash payments for:		
Domestic and foreign income taxes	\$ 171	\$ 1
Interest	\$ 1	\$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of non-vested shares of restricted stock	\$ -	\$ 448
Forfeitures of non-vested shares of restricted stock	\$ (20)	\$ (11)

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 mechanical, thermal and electrical products that are primarily used by semiconductor manufacturers in conjunction with automatic test equipment ("ATE") in the testing of integrated circuits ("ICs" or "semiconductors").

The consolidated entity is comprised of inTEST Corporation (parent) and our wholly-owned subsidiaries. We have three reportable segments which are also our reporting units: Mechanical Products, Thermal Products and Electrical Products. We manufacture our products in the U.S. Marketing and support activities are conducted worldwide from our facilities in the U.S., Germany and Singapore.

The semiconductor industry in which we operate is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. This industry is subject to significant economic downturns at various times. Our financial results are affected by a wide variety of factors, including, but not limited to, general economic conditions worldwide and in the markets in which we operate, economic conditions specific to the semiconductor industry, our ability to safeguard patents and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the industry. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included

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

Reclassification

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

Inventories

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventory are recorded in operating cash flows. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current industry conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The charges for excess and obsolete inventory we record establish a new cost basis for the related inventory. We incurred excess and obsolete inventory charges of \$278 and \$421 for the nine months ended September 30, 2011 and 2010, respectively.

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inTEST CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Goodwill, Intangible and Long-Lived Assets

Goodwill is assessed for impairment at least annually in the fourth quarter, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. The goodwill impairment assessment is based upon a combination of the income approach, which estimates the fair value of our reporting units based upon a discounted cash flow approach, and the market approach which estimates the fair value of our reporting units based upon comparable market multiples. This fair value is then reconciled to our market capitalization at year end with an appropriate control premium. The determination of the fair value of our reporting units requires management to make significant estimates and assumptions including the selection of appropriate peer group companies, control premiums, discount rate, terminal growth rates, forecasts of revenue and expense growth rates, changes in working capital, depreciation, amortization and capital expenditures. Changes in assumptions concerning future financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

During the goodwill impairment assessment, we perform a Step I test to identify potential impairment, in which the fair value of a reporting unit is compared with its book value. If the book value of a reporting unit exceeds its fair value, a Step II test is performed in which the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess. Indefinite-lived intangible assets are assessed for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Long-lived assets, which consist of finite-lived intangible assets and property and equipment, are assessed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value. The cash flow estimates used to determine the impairment, if any, contain management's best estimates using appropriate assumptions and projections at that time.

Stock-Based Compensation

We account for stock-based compensation in accordance with Accounting Standards Codification ("ASC") Topic 718 (Compensation - Stock Compensation) which requires that employee share-based equity awards be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value of stock options granted, which is then amortized to expense over the service periods. See further disclosures related to our stock-based compensation plan in Note 10.

Subsequent Events

We have made an assessment of our operations and determined there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the three and nine months ended September 30, 2011.

Revenue Recognition

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

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.

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product Warranties

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

Restructuring and Other Charges

We recognize a liability for restructuring costs at fair value only when the liability is incurred. The three main components of our restructuring plans have been related to workforce reductions, the consolidation of excess facilities and asset impairments. Workforce-related charges are accrued when it is determined that a liability has been incurred, which is generally after individuals have been notified of their termination dates and expected severance benefits. Plans to consolidate excess facilities result in charges for lease termination fees and future commitments to pay lease charges, net of estimated future sub-lease income. We recognize these charges when we have vacated the premises. In addition, as a result of plans to consolidate excess facilities, we may incur other associated costs such as charges to relocate inventory, equipment or personnel. We recognize charges for other associated costs when these costs are incurred, which is generally when the goods or services have been provided to us. Assets that may be impaired consist of property, plant and equipment and intangible assets. Asset impairment charges are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of the asset.

Income Taxes

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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 nine months ended September 30, 2011, we recorded an income tax benefit of \$2,624 compared with income tax expense of \$17 for the same period in 2010. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. During the past several years, due to our history of operating losses in both our domestic and certain of our foreign operations, we had recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believed it was more likely than not that we would not have sufficient taxable income to utilize these assets before they expire. During the third quarter of 2011, we reversed \$2,905 of the valuation allowance which had been recorded against the deferred tax assets of these operations. The reversal of this amount of the valuation allowance was based on our current assessment that it is now more likely than not that we will be able to fully utilize these assets in the near future. Some of the key factors we considered in making our assessment included our profitability in both 2011 and 2010 and our level of certainty with regard to our forecasts of near term future profitability for the operations to which these assets relate.

Net Earnings Per Common Share

Net earnings per common share - basic is computed by dividing net earnings by the weighted average number of common shares outstanding during each period. Net earnings per common share - diluted is computed by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent stock options and unvested shares of restricted stock and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

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

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inTEST CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

	Three Months Ended		Nine Months Ended	
	Sept. 30,		Sept. 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding - basic	10,182,795	10,033,034	10,132,807	10,011,173
Potentially dilutive securities:				
Employee stock options and unvested shares of restricted stock	114,489	161,546	154,248	116,156
	10,297,284	10,194,580	10,287,055	10,127,329

Weighted average common shares outstanding - diluted

Average number of potentially dilutive securities excluded from calculation	114,280	155,861	79,633	255,835
	\$3.85	\$3.91	\$4.17	\$3.72
Weighted average exercise price of excluded securities				

Effect of Recently Adopted Amendments to Authoritative Accounting Guidance

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

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

In December 2010, the FASB issued an amendment to goodwill impairment testing. The amendment modifies Step I of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step II of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance did not have any impact on our consolidated financial statements.

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

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

In June 2011, the FASB issued an amendment to ASC Topic 220, Comprehensive Income. Under the amendment, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In September 2011, the FASB issued an amendment to existing guidance on the assessment of goodwill impairment which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The update also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, an entity can choose to adopt this guidance early even if its annual test date is before the issuance of the final standard, provided that the entity has not yet performed its 2011 annual impairment test or issued its financial statements. We do not expect the adoption of this amendment to have a material impact on our consolidated financial statements.

(3) GOODWILL AND INTANGIBLE ASSETS

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

As of September 30, 2011 and December 31, 2010, we had finite-lived intangible assets which totaled \$466 and \$567, net of accumulated amortization of \$404 and \$303, respectively. At September 30, 2011 and

December 31, 2010 we had three finite-lived intangible assets which consisted of customer relationships, software and patents held by Sigma at the time of our acquisition of this operation in October 2008. These intangible assets are being amortized on a straight-line basis over estimated useful lives of 72 months, 120 months and 60 months, respectively. As of September 30, 2011, these assets had remaining estimated useful lives of 36 months, 84 months, and 24 months, respectively. These intangible assets are allocated to our Thermal Products segment.

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

	\$567
Balance - January 1, 2011	
	<u>(101</u>
Amortization	
)
	<u>\$466</u>
Balance - September 30, 2011	

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

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

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) RESTRUCTURING AND OTHER CHARGES

In response to the significant decline in our orders and net revenues during 2008 and 2009, we took actions to reduce our cost structure, including facility closures, workforce reductions and salary and benefits reductions. We consider some of the actions we took to be temporary in nature, such as certain salary and benefits reductions for current employees. At the time we took these temporary actions, it was generally our intent to

restore all or a portion of the reduced salary and benefits in future periods when our results of operations and our cash flows improved sufficiently so as to allow us to do so. Any such restoration would impact the ultimate level of savings which will result from our restructuring actions. Effective January 1, 2010, we restored all of the temporary salary reductions we implemented in 2008 and 2009 for our domestic employees, with the exception of the salary of our Executive Chairman, which was restored to approximately 65% of its full reinstated level, reflecting a voluntary continued 35% reduction in his salary. Also on this date, we restored the fees paid to our Board of Directors, which had been reduced by approximately 50%. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees and the Temptronic profit sharing contributions which had been suspended for most of these employees at the beginning of 2009. There are no other temporary actions remaining to be restored.

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

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

(5)

MAJOR CUSTOMERS

Texas Instruments Incorporated accounted for 12% and 13% of our consolidated net revenues for the nine months ended September 30, 2011 and 2010, respectively. Teradyne, Inc. accounted for 14% of our consolidated net revenues for the nine months ended September 30, 2010. While all three of our operating segments sold products to these customers, these revenues were primarily generated by our Mechanical Products and Electrical Products segments. During the nine months ended September 30, 2011 and 2010, no other customer accounted for 10% or more of our consolidated net revenues.

(6) INVENTORIES

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

Sept. 30, Dec. 31,

	<i>2011</i>	<i>2010</i>
Raw materials	\$3,387	\$2,268
Work in process	581	385
Inventory consigned to others	348	223
Finished goods	<u>358</u>	<u>613</u>
	<u>\$4,674</u>	<u>\$3,489</u>

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(7)

DEBTLine of Credit

At December 31, 2010, we had a secured credit facility that provided for maximum borrowings of \$250 and was secured by pledged certificates of deposit totaling \$250. During the quarter ended September 30, 2011, this facility was terminated. While this facility was in place, we did not use it to borrow any funds. Our usage consisted of the issuance of two letters of credit in the face amounts of \$200 and \$50, respectively. These letters of credit were issued as security deposits under two of our operating leases. We paid a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. At the time this facility was terminated, the \$200 letter of credit that had been issued under this facility had already been terminated, as discussed below, and the \$50 letter of credit that had been issued under this facility was converted to a standalone letter of credit which is secured by a pledged certificate of deposit.

Letters of Credit

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

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

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

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

(8)

LEASEHOLD IMPROVEMENTS AND DEFERRED RENT

We record tenant improvements made to our leased facilities based on the amount of the total cost to construct the improvements regardless of whether a portion of that cost was paid through an allowance provided by the facility's landlord. The amount of the allowance, if any, is recorded as deferred rent. We amortize deferred rent on a straight-line basis over the lease term and record the amortization as a reduction of rent expense. Amortization of deferred rent for the nine months ended September 30, 2011 and 2010 was \$88 and \$88, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(9) GUARANTEES

Product Warranties

Warranty expense for the nine months ended September 30, 2011 and 2010 was \$90 and \$144, respectively. The following table sets forth the changes in the liability for product warranties for the nine months ended September 30, 2011:

	\$274
Balance - January 1, 2011	
Payments made under product warranty	(133)
	<u>90</u>
Accruals for product warranty	

Balance - September 30, 2011

\$231**(10) STOCK-BASED COMPENSATION**

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

As of September 30, 2011, total compensation expense to be recognized in future periods was \$259. The weighted average period over which this expense is expected to be recognized is 2.4 years. All of this expense is related to nonvested shares of restricted stock.

Restricted Stock Awards

We record compensation expense for restricted stock awards (nonvested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. The following table shows the allocation of the compensation expense we recorded during the three months and nine months ended September 30, 2011 and 2010, respectively, related to nonvested shares:

	Three Months Ended <u>Sept. 30.</u>		Nine Months Ended <u>Sept. 30.</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cost of revenues	\$ 3	\$ 3	\$ 9	\$ 8
Selling expense	3	5	13	13
Engineering and product development expense	8	13	34	29
General and administrative expense	<u>18</u>	<u>49</u>	<u>63</u>	<u>116</u>
	<u>\$32</u>	<u>\$70</u>	<u>\$119</u>	<u>\$166</u>

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

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

	Weighted Average Grant Date Fair Value
<u>Number of Shares</u>	<u>Fair Value</u>

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Nonvested shares outstanding, January 1, 2011	303,250	\$1.89
Granted	-	-
Vested	(97,000)	2.45
Forfeited	<u>(11,250)</u>	1.73
)	
Nonvested shares outstanding, September 30, 2011	<u>195,000</u>	1.62

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(10) STOCK-BASED COMPENSATION

(Continued)

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2011:

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

(11)

EMPLOYEE BENEFIT PLANS

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

In addition to the employer matching contributions for which employees of our Temptronic subsidiary are eligible, upon the termination of the Temptronic Equity Participation Plan ("EPP"), we acknowledged that it was our intention to contribute \$3,000 in the aggregate to the inTEST 401(k) Plan as a form of profit sharing (not to exceed \$300 per year) for the benefit of Temptronic employees. The amount of these profit sharing contributions approximates the amount that we had been committed to contribute to the EPP as of its termination date. All such profit sharing contributions are at the discretion of management, and will be allocated to employees annually in essentially the same manner in which the shares held by the EPP had been allocated. The vesting provisions for these contributions are the same as those of the inTEST 401(k) Plan. Effective January 1, 2009, we temporarily suspended profit sharing contributions due to operating losses being incurred by Temptronic. Effective April 1, 2010, profit sharing contributions were reinstated. Accruals for profit sharing contributions totaling \$225 and \$150 were made during the nine months ended September 30, 2011 and 2010, respectively. Through September 30, 2011, we had made a total of \$1,778 in profit sharing contributions. We have historically funded these obligations through the use of treasury shares during the quarter subsequent to the quarter in which we record the profit sharing liability, although management has the discretion to use cash to fund these obligations. Our current intention is to use cash to fund these obligations when our stock price is below \$3.00 per share.

(12) SEGMENT INFORMATION

We have three reportable segments, which are also our reporting units: Mechanical Products, Thermal Products and Electrical Products. The Mechanical Products segment includes the operations of our Mt. Laurel, New Jersey manufacturing facility. Sales of our Mechanical Products segment consist primarily of manipulator and docking hardware products, which we design, manufacture and market. In addition, this segment provides post warranty service and support for various ATE equipment.

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

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

We operate our business worldwide, and all three segments sell their products both domestically and internationally. All three segments sell to semiconductor manufacturers, third-party test and assembly houses and ATE manufacturers. Our Thermal Products segment also sells into a variety of industries outside of the semiconductor industry, including the aerospace,

(Unaudited)

(12) SEGMENT INFORMATION

(Continued)

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 Sept. 30,		Nine Months Ended Sept. 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net revenues from unaffiliated customers:				
Mechanical Products	\$ 3,172	\$ 3,952	\$13,299	\$16,486
Thermal Products	7,572	4,830	19,593	13,068
Electrical Products	941	2,552	4,327	6,590
	<u>(4</u>	<u>(29</u>	<u>(34</u>	<u>(50</u>
Intersegment sales))))
	<u>\$11,681</u>	<u>\$11,305</u>	<u>\$37,185</u>	<u>\$36,094</u>
Intersegment sales:				
Mechanical Products	\$ 3	\$ 5	\$ 7	\$ 9
Thermal Products	-	-	-	-
Electrical Products	<u>1</u>	<u>24</u>	<u>27</u>	<u>41</u>
	<u>\$ 4</u>	<u>\$ 29</u>	<u>\$ 34</u>	<u>\$ 50</u>
Earnings (loss) before income taxes:				
Mechanical Products	\$ 218	\$ 277	\$1,330	\$3,191
Thermal Products	2,346	624	4,939	1,123

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	(65)	791	615	1,916
Electrical Products	<u>(79)</u>	<u>2</u>	<u>(414)</u>	<u>(255)</u>
Corporate))))
	<u>\$2,420</u>	<u>\$1,694</u>	<u>\$6,470</u>	<u>\$5,975</u>
Net earnings (loss):	\$1,540	\$ 263	\$2,567	\$3,169
Mechanical Products	3,203	623	5,737	1,129
Thermal Products	508	791	1,168	1,916
Electrical Products	<u>(69)</u>	<u>1</u>	<u>(378)</u>	<u>(256)</u>
Corporate))))
	<u>\$5,182</u>	<u>\$1,678</u>	<u>\$9,094</u>	<u>\$5,958</u>

	Sept. 30,	Dec. 31,
	<u>2011</u>	<u>2010</u>
Identifiable assets:	\$ 9,783	\$ 7,617
Mechanical Products	18,090	11,315
Thermal Products	<u>3,354</u>	<u>2,476</u>
Electrical Products	<u>\$31,227</u>	<u>\$21,408</u>

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

Three Months Ended	Nine Months Ended
<u>Sept. 30,</u>	<u>Sept. 30,</u>
<u>2011</u>	<u>2010</u>

Net revenues from unaffiliated customers:

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U.S.	\$ 4,797	\$ 4,595	\$13,820	\$12,807
	<u>6.884</u>	<u>6.710</u>	<u>23.365</u>	<u>23.287</u>
Foreign				
	<u>\$11,681</u>	<u>\$11,305</u>	<u>\$37,185</u>	<u>\$36,094</u>

			Sept. 30,	Dec. 31,
Long-lived assets:			<u>2011</u>	<u>2010</u>
U.S.			\$ 813	\$359
			<u>285</u>	<u>359</u>
Foreign				
			<u>\$1,098</u>	<u>\$718</u>

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inTEST CORPORATION

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

Risk Factors and Forward-Looking Statements

In addition to historical information, this discussion and analysis contains statements relating to possible future events and results that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should" or "anticipates" or similar terminology. See Part I, Item 1 - "Business - Cautionary Statement Regarding Forward-Looking Statements" in our 2010 Form 10-K for examples of statements made in this report which may be "forward-looking statements." These statements involve risks and uncertainties and are based on various assumptions. Although we believe that our expectations are based on reasonable assumptions, investors and prospective investors are cautioned that such statements are only projections, and there cannot be any assurance that these events or results will occur.

Information about the primary risks and uncertainties that could cause our actual future results to differ materially from our historic results or the results described in the forward-looking statements made in this report or presented elsewhere by Management from time to time are included in Part I, Item 1A - "Risk Factors" in our 2010 Form 10-K. Material changes to such risk factors may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2010 Form 10-K.

Overview

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

Our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. In the past, the semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have a severe impact on the semiconductor industry's demand for ATE, including the products we

manufacture. This can cause wide fluctuations in both our orders and net revenues and, depending on our ability to react quickly to these shifts in demand, can significantly impact our results of operations. These industry cycles are difficult to predict and in recent years have become more volatile and, in certain cases, shorter in duration. Because the industry cycles are generally characterized by sequential periods of growth or declines in orders and net revenues during each cycle, year over year comparisons of operating results may not always be as meaningful as comparisons of periods at similar points in either up or down cycles. In addition, during both downward and upward cycles in our industry, in any given quarter, the trend in both our orders and net revenues can be erratic. This can occur, for example, when orders are canceled or currently scheduled delivery dates are accelerated or postponed by a significant customer or when customer forecasts and general business conditions fluctuate during a quarter.

We believe that purchases of most of our products are typically made from semiconductor manufacturers' capital expenditure budgets. Certain portions of our business, however, are generally less dependent upon the capital expenditure budgets of the end users. For example, purchases of certain related ATE interface products, such as sockets and interface boards, which must be replaced periodically, are typically made from the end users' operating budgets. In addition, purchases of certain of our products, such as docking hardware, for the purpose of upgrading or improving the utilization, performance and efficiency of existing ATE, tend to be counter cyclical to sales of new ATE. Moreover, we believe a portion of our sales of thermal products results from the increasing need for temperature testing of circuit boards and specialized components that do not have the design or quantity to be tested in an electronic device handler. In addition, we market our Thermostream temperature management systems in industries outside semiconductor test, such as the automotive, aerospace, medical and telecommunications industries. We believe that these industries usually are less cyclical than the ATE industry.

While the majority of our orders and net revenues are derived from the ATE market, our operating results do not always follow the overall trend in the ATE market in any given period. We believe that these anomalies may be driven by a variety of changes within the ATE market, including, for example, changing product requirements, longer time periods between new product offerings by OEMs and changes in customer buying patterns. In particular, demand for our mechanical and electrical products, which are sold exclusively within the ATE industry, and our operating margins in these product segments have been affected by shifts in the competitive landscape, including (i) customers placing heightened emphasis on shorter lead times (which places increased demands on our available engineering and production capacity increasing unit costs) and ordering in smaller quantities (which prevents us from acquiring component materials in larger volumes at lower cost and increasing unit costs), (ii) the practice of OEM manufacturers to specify other suppliers as primary vendors, with less frequent opportunities to

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

.(Continued)

compete for such designations, (iii) the role of third-party test and assembly houses in the ATE market and their requirement of products with a greater range of use at the lowest cost, and (iv) customer supply line management groups demanding lower prices and spreading purchases across multiple vendors. These shifts in market practices have had, and may continue to have, varying levels of impact on our operating results, which are difficult to quantify or predict from period to period. Management has taken, and will continue to take, such actions it deems appropriate to adjust our strategies, products and operations to counter such shifts in market practices as they become evident.

Net Revenues and Orders

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

<u>(in 000's)</u>				
<u>Three Months Ended</u>			<u>Nine Months Ended</u>	
<u>Sept. 30,</u>	<u>June 30,</u>		<u>Sept. 30,</u>	
<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>

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Net revenues from unaffiliated customers:

	\$ 3,172	\$ 3,952	\$ 5,097	\$13,299	\$16,486
Mechanical Products					
	7,572	4,830	6,667	19,593	13,068
Thermal Products					
	941	2,552	2,040	4,327	6,590
Electrical Products					
	<u>(4</u>	<u>(29</u>	<u>(4</u>	<u>(34</u>	<u>(50</u>
Intersegment sales)))))
	<u>\$11,681</u>	<u>\$11,305</u>	<u>\$13,800</u>	<u>\$37,185</u>	<u>\$36,094</u>

Intersegment sales:

	\$ 3	\$ 5	\$ 4	\$ 7	\$ 9
Mechanical Products					
	-	-	-	-	-
Thermal Products					
	<u>1</u>	<u>24</u>	<u>-</u>	<u>27</u>	<u>41</u>
Electrical Products					
	<u>\$ 4</u>	<u>\$29</u>	<u>\$ 4</u>	<u>\$34</u>	<u>\$50</u>

Net revenues from unaffiliated customers (net of intersegment sales):

	\$ 3,169	\$ 3,947	\$ 5,093	\$13,292	\$16,477
Mechanical Products					
	7,572	4,830	6,667	19,593	13,068
Thermal Products					
	<u>940</u>	<u>2,528</u>	<u>2,040</u>	<u>4,300</u>	<u>6,549</u>
Electrical Products					
	<u>\$11,681</u>	<u>\$11,305</u>	<u>\$13,800</u>	<u>\$37,185</u>	<u>\$36,094</u>

Net revenues from unaffiliated customers:

	\$ 4,797	\$ 4,595	\$ 4,796	\$13,820	\$12,807
U.S.					
	<u>6,884</u>	<u>6,710</u>	<u>9,004</u>	<u>23,365</u>	<u>23,287</u>
Foreign					

\$11.681 \$11.305 \$13.800 \$37.185 \$36.094

Our consolidated net revenues for the quarter ended September 30, 2011 increased \$376,000 or 3% as compared to the same period in 2010. This increase consisted of a \$2.7 million or 57% increase in the net revenues (net of intersegment sales) of our Thermal Products segment which was offset by decreases in the net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments of \$778,000 or 20% and \$1.6 million or 63%, respectively. Our consolidated net revenues for the quarter ended September 30, 2011 decreased \$2.1 million or 15% as compared to the quarter ended June 30, 2011. The net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased \$1.9 million or 38% and \$1.1 million or 54% respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased \$905,000 or 14%. We believe the decrease in the level of net revenues in our Mechanical and Electrical Products segments during the quarter ended September 30, 2011 reflects reduced demand within the ATE industry, which we had begun to see reflected in the level of our orders for these segments during the second quarter of 2011. We believe the increase in the net revenues of our Thermal Products segment as compared to the decreases in our other two product segments primarily reflects that this segment has historically lagged our other two product segments in regard to experiencing the impact of both increases and decreases in the levels of demand within the ATE industry. In addition, approximately 50-60% of this segment's sales are to customers in various industries outside the ATE industry where we have experienced recent strength in demand.

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inTEST CORPORATION

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

Total consolidated orders for the quarter ended September 30, 2011 were \$10.5 million compared to \$13.5 million for the quarter ended June 30, 2011 and \$9.8 million for the quarter ended September 30, 2010. For the quarter ended September 30, 2011, orders for our Mechanical, Thermal and Electrical Products segments were \$2.3 million, \$7.4 million and \$827,000, respectively, compared to \$4.3 million, \$7.5 million and \$1.7 million for the quarter ended June 30, 2011, respectively, and \$3.7 million, \$4.3 million and \$1.8 million for the quarter ended September 30, 2010, respectively. We cannot be certain what the level of our orders or net revenues will be in any future period for any of our product segments.

Backlog

At September 30, 2011, our backlog of unfilled orders for all products was approximately \$6.1 million compared with approximately \$7.2 million at June 30, 2011 and \$4.5 million at September 30, 2010. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2011. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

Business Restructuring Initiatives

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

Product/Customer Mix

Our three product segments each have multiple products that we design, manufacture and sell to our customers. The gross margin on each product we offer is affected by a number of factors including the amount of intellectual property (such as patents) utilized in the product, the number of units ordered by the customer at one time, or the amount of inTEST designed and fabricated material included in our product compared with the amount of third-party designed and fabricated material included in our product. The weight of each of these factors, as well as the current market conditions, determines the ultimate sales price we can obtain for our products and the resulting gross margin.

The mix of products we sell in any period is ultimately determined by our customers' needs. Therefore, the mix of products sold in any given period can change significantly from the prior period. As a result, our consolidated gross margin can be significantly impacted in any given period by a change in the mix of products sold in that period.

We sell most of our products to semiconductor manufacturers and third-party test and assembly houses (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. Our Thermal Products segment also sells into a variety of other industries including the aerospace, automotive, communications, consumer electronics, defense, and medical industries. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. For the nine months ended September 30, 2011 and 2010, our OEM sales as a percentage of net revenues were 13% and 20%, respectively.

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OEM sales generally have a lower gross margin than end user sales, as OEM sales historically have had a more significant discount. Our current net operating margins on most OEM sales, however, are only slightly less than margins on end user sales because of the payment of third party sales commissions on most end user sales. We have also continued to experience demands from our OEM customers' supply line managers to reduce our sales prices to them. If we cannot further reduce our manufacturing and operating costs, these pricing pressures will continue to reduce our gross and operating margins.

Results of Operations

All of our products are used by semiconductor manufacturers in conjunction with ATE in the testing of ICs. In addition, some of the products manufactured by our Thermal Products segment are used in industries outside of the semiconductor industry, including the aerospace, automotive, communications, consumer electronics, defense and medical industries. The results of operations for each product segment are generally affected by the same factors. Separate discussions and analyses for each product segment would be repetitive and obscure any unique factors that affected the results of operations of our different product segments. The discussion and analysis that follows, therefore, is presented on a consolidated basis and includes discussion of factors unique to each product segment where significant to an understanding of that segment.

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

	<u>Percentage of Net Revenues</u>			
	<u>Quarters Ended Sept.</u>		<u>Nine Months Ended Sept.</u>	
	<u>30,</u>		<u>30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	<u>47.5</u>	<u>51.8</u>	<u>51.5</u>	<u>51.9</u>
Gross margin	<u>52.5</u>	<u>48.2</u>	<u>48.5</u>	<u>48.1</u>
Selling expense	12.5	12.8	11.9	12.3
Engineering and product development expense	6.9	6.8	6.6	6.2
General and administrative expense	<u>12.4</u>	<u>13.8</u>	<u>12.8</u>	<u>13.0</u>
Operating income	20.7	14.8	17.2	16.6
	<u>0.0</u>	<u>0.1</u>	<u>0.2</u>	<u>0.0</u>

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Other income (expense)	20.7	14.9	17.4	16.6
Earnings before income tax expense (benefit)				
	<u>(23.6)</u>	<u>0.1</u>	<u>(7.1)</u>	<u>0.1</u>
Income tax expense (benefit)))		
	<u>44.3</u>	<u>14.8</u>	<u>24.5</u>	<u>16.5</u>
Net earnings	%	%	%	%

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

Net Revenues. Net revenues were \$11.7 million for the quarter ended September 30, 2011 compared to \$11.3 million for the same period in 2010, an increase of \$376,000 or 3%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased \$778,000 or 20% and \$1.6 million or 63%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased \$2.7 million or 57% for the quarter ended September 30, 2011 as compared to the same period in 2010. We believe the increase in our consolidated net revenues during the third quarter of 2011 primarily reflects the factors previously discussed in the Overview.

During the quarter ended September 30, 2011, our net revenues from customers in the U.S. increased 4% and our net revenues from foreign customers increased 3%, as compared to the same period in 2010. Adjusted to eliminate the impact of changes in foreign currency exchange rates, the increase from foreign customers would have been 2%.

Gross Margin. Gross margin was 53% for the third quarter of 2011 compared to 48% for the same period in 2010. The increase in gross margin primarily reflects changes in product mix for our Mechanical Products segment. During the quarter ended September 30, 2011, sales of our docking products represented a much greater percentage of the total net revenues for this segment as compared to the same period in 2010. Our docking products generally have a significantly higher gross margin than the other products manufactured by our Mechanical Products segment. During the third quarter of 2011, our fixed

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operating costs, direct labor and obsolescence expense were all relatively unchanged both in absolute dollar terms and as a percentage of net revenues. Increases in salary and benefits expense reflecting increased levels of staff, primarily at our Thermal Products segment, were offset by reductions in facility related costs as a result of the relocation of two of our domestic operations to smaller facilities during the first quarter of 2011.

Selling Expense. Selling expense was \$1.5 million for the third quarter of 2011 compared to \$1.4 million for the same period in 2010, an increase of \$17,000 or 1%. Increases in salaries and benefits expense and travel,

primarily reflecting additional sales staff and increased international travel, were partially offset by decreases in commissions to internal sales staff and a reduction in accruals for product warranty claims.

Engineering and Product Development Expense. Engineering and product development expense was \$809,000 for the third quarter of 2011 compared to \$767,000 for the same period in 2010, an increase of \$42,000 or 6%. The increase in engineering and product development expense primarily reflects higher legal fees related to our intellectual property.

General and Administrative Expense. General and administrative expense was \$1.4 million for the third quarter of 2011 compared to \$1.6 million for the same period in 2010, a decrease of \$107,000 or 7%. The decrease primarily reflects lower levels of professional fees and a reduction in bad debt expense, which were partially offset by an increase in accruals for profit-related bonuses.

Other Income (Expense). Other income was \$5,000 for the third quarter of 2011 compared to other income of \$8,000 for the third quarter of 2010. The decrease primarily reflects lower interest expense as a result of the repayment of the notes payable to stockholder during the fourth quarter of 2010. This decrease was partially offset by reductions in other miscellaneous income items.

Income Tax Expense (Benefit). For the quarter ended September 30, 2011, we recorded an income tax benefit of \$2.8 million compared to income tax expense of \$16,000 for the same period in 2010. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. During the past several years, due to our history of operating losses in both our domestic and certain of our foreign operations, we had recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believed it was more likely than not that we would not have sufficient taxable income to utilize these assets before they expire. During the third quarter of 2011, we reversed \$2.9 million of the valuation allowance which had been recorded against the deferred tax assets of these operations. The reversal of this amount of the valuation allowance was based on our current assessment that it is now more likely than not that we will be able to fully utilize these assets in the near future. Some of the key factors we considered in making our assessment included our profitability in both 2011 and 2010 and our level of certainty with regard to our forecasts of near term future profitability for the operations to which these assets relate.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Net Revenues. Net revenues were \$37.2 million for the nine months ended September 30, 2011 compared to \$36.1 million for the same period in 2010, an increase of \$1.1 million or 3%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased \$3.2 million or 19% and \$2.2 million or 34%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased \$6.5 million or 50% for the nine months ended September 30, 2011 as compared to the same period in 2010. We believe the increase in our consolidated net revenues during the first nine months of 2011 primarily reflects the factors previously discussed in the Overview.

During the nine months ended September 30, 2011, our net revenues from customers in the U.S. increased 8% while our net revenues from foreign customers were relatively unchanged as compared to the same period in 2010. Adjusted to eliminate the impact of changes in foreign currency exchange rates, our net revenues from foreign customers would have decreased 1%.

Gross Margin. Gross margin was 49% for the nine months ended September 30, 2011 compared to 48% for the same period in 2010. While our fixed operating costs increased in absolute dollar terms by \$298,000 during the first nine months of 2011 as compared to the same period in 2010, these costs remained relatively unchanged as a percentage of net revenues for both periods. The increase in the absolute dollar value of these

costs was primarily the result of higher salary and benefits expense during the first nine months of 2011 as compared to the same period in 2010, reflecting additional headcount and, to a lesser extent, the restoration of 401(k) Plan discretionary matching contributions effective April 1, 2010 and annual raises for employees which generally occur each July. We also incurred approximately \$74,000 of move-related costs as a result of the

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relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011. These increases were partially offset by reductions in other facility related costs which are the result of these two operations now occupying smaller facilities. Our direct labor costs were relatively unchanged, both in absolute dollar terms and as a percentage of net revenues for the first nine months of 2011 as compared to the same period in 2010. Our charges for obsolete and excess inventory were relatively unchanged at approximately 1% of net revenues for both the first nine months of 2011 and 2010; however, in absolute dollar terms, these charges decreased \$143,000 during the first nine months of 2011 as compared to the same period in 2010, primarily reflecting fewer items falling into our standard obsolete and excess criteria.

Selling Expense. Selling expense was relatively unchanged at \$4.4 million for both the first nine months of 2011 and 2010. Lower levels of commissions reflecting changes in product and customer mix were offset by an increase in salary and benefits expense and higher levels of international travel. The increase in salary and benefits expense primarily reflects the hiring of additional sales staff and, to a lesser extent, the aforementioned restoration of the 401(k) Plan discretionary matching contributions.

Engineering and Product Development Expense. Engineering and product development expense was \$2.4 million for the first nine months of 2011 compared to \$2.3 million for the same period in 2010, an increase of \$189,000 or 8%. The increase in engineering and product development expense primarily reflects higher legal fees related to our intellectual property and higher levels of spending on materials used in research and development activities.

General and Administrative Expense. General and administrative expense was \$4.7 million for both the first nine months of 2011 and 2010. During the first nine months of 2011, salary and benefits expense increased reflecting additional headcount and, to a lesser extent, the aforementioned restoration of 401(k) Plan discretionary matching contributions and annual raises for employees which generally occur each July. The increase salary and benefits expense was offset by decreases in bad debt expense and lower levels of fees paid to third-party professionals that assist us with various compliance matters.

Other Income (Expense). Other income was \$71,000 for the first nine months of 2011 compared to other expense of \$11,000 for the same period in 2010. The shift from other expense in 2010 to other income in 2011 primarily reflects lower interest expense as a result of the repayment of the notes payable to stockholder during the fourth quarter of 2010 combined with a gain on sale of machinery and equipment during the first quarter of 2011.

Income Tax Expense (Benefit). For the nine months ended September 30, 2011, we recorded an income tax benefit of \$2.6 million compared with income tax expense of \$17,000 for the same period in 2010. On a

quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. During the past several years, due to our history of operating losses in both our domestic and certain of our foreign operations, we had recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believed it was more likely than not that we would not have sufficient taxable income to utilize these assets before they expire. During the third quarter of 2011, we reversed \$2.9 million of the valuation allowance which had been recorded against the deferred tax assets of these operations. The reversal of this amount of the valuation allowance was based on our current assessment that it is now more likely than not that we will be able to fully utilize these assets in the near future. Some of the key factors we considered in making our assessment included our profitability in both 2011 and 2010 and our level of certainty with regard to our forecasts of near term future profitability for the operations to which these assets relate.

Liquidity and Capital Resources

Net cash provided by operations for the nine months ended September 30, 2011 was \$5.8 million compared to net cash provided by operations of \$3.6 million for the same period in 2010. While there was a \$2.9 million increase in our deferred tax assets during the first nine months of 2011 as a result of reversing a portion of the valuation allowance against these assets, this transaction had no net impact on the cash provided by operations during the first nine months of 2011. The positive impact on our cash flow from operations from this increase in our deferred tax assets will be realized in future periods when we are able to reduce the amount of our cash payments to taxing authorities as we utilize these assets to offset future tax liabilities. The increase in net cash provided by operations primarily reflects a lower level of increase in the amount of accounts receivable during the first nine months of 2011 as compared to the first nine months of 2010 which was partially offset by an increase in the level of inventory we are carrying. Both of these changes reflect the overall higher level of business activity we have experienced in late 2010 and the first nine months of 2011 as compared to the same periods in 2009/2010. At the same time, during the first nine months of 2011, we have not seen a significant change in the average amount of our outstanding accounts payable compared to a \$1.0 million decrease in the amount of our outstanding accounts payable during the comparable period

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in 2010. This primarily reflects the fact that we had been paying many of our vendors more slowly during 2009, but as business began to improve in 2010, we brought our vendors back to more normal payment terms. Similarly, there has been no significant change in accrued wages and benefits during the first nine months of 2011 compared with an \$865,000 increase in accrued wages and benefits during the first nine months of 2010. This primarily reflects that during both 2010 and 2011 we have accrued profit-based bonuses on our positive results. These bonuses are not paid out until the first quarter of the year following the year in which they are accrued. There were no similar bonuses accrued during 2009 as we lost money for the full year. Accordingly, there were no accrued profit-based bonuses on the balance sheet at the end of 2009.

Purchases of property and equipment were \$685,000 for the nine months ended September 30, 2011. These purchases primarily represent leasehold improvements and other equipment purchased as a result of the relocation of two of our domestic facilities during the first quarter of 2011. We have no significant

commitments for capital expenditures for the balance of 2011, however, depending upon changes in market demand, we may make such purchases as we deem necessary and appropriate.

During the third quarter of 2011, we terminated our secured credit facility. This credit facility had provided for maximum borrowings of \$250,000. While this facility was in place, we had not used it to borrow any funds. Our usage consisted of the issuance of two letters of credit in the face amounts of \$200,000 and \$50,000, respectively. These letters of credit were issued as security deposits under two of our operating leases. We paid a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. At the time this facility was terminated, the \$200,000 letter of credit that had been issued under this facility had already been terminated, as the lease in connection with which it had been issued ended in February 2011. The \$50,000 letter of credit that had been issued under this facility was converted to a standalone letter of credit which is secured by a pledged certificate of deposit. On April 1, 2010 and November 8, 2010, two additional letters of credit were issued in the face amounts of \$250,000 and \$200,000, respectively. These letters of credit are supported by separate pledged certificates of deposit that were not a part of our secured credit facility.

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

As of September 30, 2011, we had cash and cash equivalents of \$12.1 million. We currently expect our cash and cash equivalents and projected future cash flow to be sufficient to support our short term working capital requirements. We do not currently have any available credit facilities under which we can borrow to help fund our working capital requirements. We cannot be certain that, if needed, we would be able to obtain any credit facilities or under what terms such credit facilities would be available.

New or Recently Adopted Accounting Standards

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

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, goodwill, identifiable intangibles, income taxes 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

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affecting them may differ markedly from what had been assumed when the financial statements were prepared. As of September 30, 2011, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2010 Form 10-K.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements during the three months ended September 30, 2011 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our interests.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This disclosure is not required for a smaller reporting company.

Item 4. CONTROLS AND PROCEDURES

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

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

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

Limitations on the Effectiveness of Controls. Our management, including the CEO and CFO, does not

expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within an entity have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a system of controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our management has designed the disclosure controls and procedures to provide reasonable assurance that the objectives of the control system were met.

CEO/CFO Conclusions about the Effectiveness of the Disclosure Controls and Procedures. As required by Rule 13a-15(b), inTEST management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this Report, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were effective at the reasonable assurance level.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. [Removed and Reserved]

Item 5. Other Information

None

Item 6. Exhibits

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

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Signatures

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

inTEST Corporation

Date: November 14,
2011

/s/ Robert E. Matthiessen
Robert E. Matthiessen
President and Chief Executive Officer

Date: November 14,
2011

/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* ByLaws of inTEST Corporation, as amended on October 30, 2007: Previously filed as Exhibit 3.2 of the Company's Form 8-K on November 5, 2007 and incorporated herein by reference.
- 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.