

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, 1998

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 No.)

2 Pin Oak Lane, Cherry Hill, New Jersey

08003

(Address of principal executive offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (609) 424-6886

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

Yes X No

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Number of shares of Common Stock, \$.01 par value, outstanding as of September
30, 1998:

6,536,034

INTEST CORPORATION

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inTEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	Sept. 30, 1998 ----- (Unaudited)	Dec. 31, 1997 ----- (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,551	\$12,035
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$197 at September 30, 1998 and \$144 at December 31, 1997	3,293	4,058
Inventories	2,631	1,649
Prepaid income taxes	352	-
Other current assets	629	301
	-----	-----
Total current assets	15,456	18,043
	-----	-----
Property and equipment:		
Machinery and equipment	2,331	1,129
Leasehold improvements	218	179
	-----	-----
	2,549	1,308
Less: accumulated depreciation	(1,745)	(831)
	-----	-----
Net property and equipment	804	477
	-----	-----
Other assets	151	136
Goodwill	7,004	1,289
	-----	-----
Total assets	\$23,415	\$19,945
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,136	\$ 1,142
Accrued expenses	803	955
Domestic and foreign income taxes payable	-	1,291
	-----	-----
Total current liabilities	1,939	3,388
	-----	-----
Commitments		
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; 6,536,034 shares issued and outstanding at September 30, 1998; 5,911,034 shares issued and outstanding at December 31, 1997	65	59
Additional paid-in capital	16,647	13,981
Retained earnings	4,932	2,643
Accumulated other comprehensive expense	(168)	(126)
	-----	-----
Total stockholders' equity	21,476	16,557
	-----	-----
Total liabilities and stockholders' equity	\$23,415	\$19,945
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except share data)

	Three Months Ended		Nine Months Ended	
	9/30/98	9/30/97	9/30/98	9/30/97
Revenues	\$ 4,449	\$ 6,212	\$15,238	\$14,719
Cost of revenues	2,118	2,319	6,453	5,756
Gross profit	2,331	3,893	8,785	8,963
Operating expenses:				
Selling expense	862	706	2,281	1,799
Research and development expense	483	455	1,338	1,230
General and administrative expense	726	666	1,902	1,567
Total operating expenses	2,071	1,827	5,521	4,596
Operating income	260	2,066	3,264	4,367
Other income (expense):				
Interest income	111	138	377	204
Interest expense	(1)	(6)	(3)	(14)
Other	(10)	(8)	2	(6)
Total other income (expense)	100	124	376	184
Earnings before income taxes and minority interest	360	2,190	3,640	4,551
Provision for income taxes:				
Domestic	30	673	931	827
Foreign	103	251	420	546
Income tax expense	133	924	1,351	1,373
Earnings before minority interest	227	1,266	2,289	3,178
Minority interest	-	-	-	(25)
Net earnings	\$ 227	\$ 1,266	\$ 2,289	\$ 3,153
Net earnings per common share - basic	\$ 0.04	\$ 0.21	\$ 0.38	\$ 0.69
Weighted average common shares outstanding - basic	6,311,849	5,911,034	6,046,107	4,598,379
Net earnings per common share - diluted	\$ 0.04	\$ 0.21	\$ 0.38	\$ 0.68
Weighted average common and common equivalent shares outstanding - diluted	6,317,578	5,966,143	6,055,217	4,617,444

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998

(In thousands, except share data)

(Unaudited except Balance, December 31, 1997)

	Common Stock ----- Shares Amount -----	Additional Paid-In Capital -----	Retained Earnings -----	Accumulated Other Comprehensive Expense -----	Total Stockholders' Equity -----	
Balance, December 31, 1997	5,911,034	\$ 59	\$13,981	\$ 2,643	\$ (126)	\$16,557
Net earnings	-	-	-	2,289	-	2,289
Issuance of common stock in connection with the Acquisition	625,000	6	2,666	-	-	2,672
Accumulated other comprehensive expense	-	-	-	-	(42)	(42)
	-----	----	-----	-----	-----	-----
Balance, September 30, 1998	<u>6,536,034</u>	<u>\$ 65</u>	<u>\$16,647</u>	<u>\$ 4,932</u>	<u>\$ (168)</u>	<u>\$21,476</u>

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share data)

	Nine Months Ended September 30,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 2,289	\$ 3,153
Adjustments to reconcile net earnings to net cash:		
Depreciation and amortization	303	157
Foreign exchange (gain) loss	6	10
Minority interest	-	25
Allowance for bad debts	-	50
Changes in assets and liabilities, net of effects of Acquisition:		
Accounts and notes receivable	1,507	(2,650)
Inventories	(134)	(10)
Prepaid income taxes	(352)	-
Other current assets	(94)	(250)
Accounts payable	(70)	567
Dividends payable	-	(973)
Domestic and foreign income taxes payable	(1,482)	553
Accrued expenses	(415)	166
	(731)	(2,355)
Total adjustments		
Net cash provided by operating activities	1,558	798
CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of property and equipment	(165)	(50)
Acquisition of business, net of cash acquired	(4,629)	-
Other long-term asset	(21)	(49)
	(4,815)	(99)
Net cash provided by (used in) investing activities		
CASH FLOW PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Dividends paid	-	(5,551)
Principal debt repayments	(215)	(189)
Net proceeds from public offering	-	11,635
	(215)	5,895
Net cash provided by (used in) financing activities		
Effects of exchange rates on cash	(12)	(39)
	\$(3,484)	\$ 6,555
Net cash provided by (used in) all activities	\$ (3,484)	\$ 6,555
Cash at beginning of period	\$12,035	\$ 3,692
Cash at end of period	\$ 8,551	\$10,247
Supplemental Schedule of Non-Cash Investing Activities:		
Details of Acquisition:		
Fair value of assets acquired net of cash acquired	\$ 1,669	
Liabilities assumed	(215)	
Common stock issued	(2,672)	
Goodwill resulting from Acquisition	5,847	
	\$ 4,629	
Net cash paid for Acquisition	\$ 4,629	

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of September 30, 1998 and for the three months and nine months ended September 30, 1998 and 1997 is unaudited)

(In thousands, except for share data)

(1) NATURE OF OPERATIONS

inTEST Corporation (the "Company") designs, manufactures and markets docking hardware, test head manipulators and wafer test interfaces used by semiconductor manufacturers during the testing of wafers and packaged devices. The Company also designs and markets related automatic test equipment interface products.

The consolidated entity is comprised of inTEST Corporation (parent) and seven 100% owned subsidiaries: inTEST Limited (Thame, UK), inTEST Kabushiki Kaisha (Kichijoji, Japan), inTEST PTE, Limited (Singapore), inTEST Sunnyvale Corp. (Delaware), inTEST Investments, Inc. (a Delaware holding company), inTEST IP Corp. (a Delaware holding company) and inTEST Licensing Corp. (a Delaware holding company).

The Company manufactures its products in the U.S. and the U.K. Marketing and support activities are conducted worldwide from the Company's facilities in the U.S., U.K., Japan and Singapore.

On June 20, 1997, the Company completed an initial public offering of 2.275 million common shares through which the Company issued 1.82 million new shares of common stock (the "Offering"). Simultaneous with the closing of the Offering, the Company acquired the 21% minority interests in each of its three foreign subsidiaries in exchange for an aggregate of 300,443 shares of the Company's common stock (the "Exchange"). Prior to the Offering the Company owned 79% of each of the three foreign subsidiaries.

On August 3, 1998, the Company acquired all of the outstanding capital stock of TestDesign Corporation ("TestDesign"), a privately held California corporation (the "Acquisition"). Subsequent to the Acquisition, the Company changed the name of TestDesign to inTEST Sunnyvale Corp. TestDesign is engaged in the design and manufacture of wafer test interfaces used by the semiconductor industry. The purchase price was paid by delivery to Douglas W. Smith, the sole shareholder of TestDesign (the "Seller"), of \$4.4 million in cash and 625,000 shares of the Company's Common Stock (subject to certain adjustments). Although the Company's common stock had a market price of \$4.75 per share on the closing date of the transaction, all of the 625,000 shares issued in connection with the Acquisition are subject to legal restrictions on transfer and have been valued at a 10% discount to the market price of the shares. In addition, the Company incurred transactions costs of approximately \$425,000 in completing the Acquisition. The following is an allocation of purchase price:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

(1) NATURE OF OPERATIONS (Continued)

Cash payment	\$4,400
625,000 common shares at \$4.28	2,672
Transaction costs	425

	7,497
Estimated fair value of identifiable assets acquired net of liabilities assumed	1,650

Goodwill to be amortized over 15 years	\$5,847
	=====

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Reporting

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normally 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 financial statements. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Net Earnings Per Common Share

Net earnings per common share is computed in accordance with the Statement of Financial Accounting Standard No. 128, Earnings per Share. Basic earnings per share is computed by dividing net income by the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Earnings Per Common Share (Continued)

weighted average number of common shares outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during each period. Common share equivalents include stock options using the treasury stock method.

As discussed in Note 3, pro forma earnings per share information for the three months and nine months ended September 30, 1998 includes certain adjustments to reflect results as if (i) the Company had been taxed as a C corporation for the entire nine month period ended September 30, 1997; (ii) as if the acquisition of the minority interests in the Company's three foreign subsidiaries had occurred January 1, 1997; and (iii) as if the Acquisition of TestDesign had occurred on January 1, 1997.

Income Taxes

Just prior to the closing of the Offering, the Company terminated its status as an S corporation for Federal tax purposes and in the State of New Jersey. As an S corporation, any Federal and certain New Jersey state income tax liabilities were those of the former S corporation stockholders, not of the Company. All tax liabilities on income earned subsequent to the revocation of the S corporation election are liabilities of the Company. The Company is taxed in foreign countries and for activity in certain states. The Company accounts for income taxes in accordance with the Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes.

Foreign Currency

The accounts of the foreign subsidiaries are translated in accordance with the Statement of Financial Accounting Standard No. 52, Foreign Currency Translation, which requires that assets and liabilities of international operations be translated using the exchange rate in effect at the balance sheet date. The results of operations are translated using an average exchange rate for the period. The effects of rate fluctuations in translating assets and liabilities of international operations into U.S. dollars are accumulated and reflected as accumulated other comprehensive expense in the consolidated statements of stockholders' equity. Transaction gains or losses are included in net earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In June 1997, the FASB issued SFAS 131, Disclosures About Segments of an Enterprise and Related Information. This Statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company plans to adopt this Statement for the year ended December 31, 1998, as required. The adoption of this Statement will not affect results from operations, financial condition or long-term liquidity.

In March 1998, the AICPA issued Statement of Position 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. This Statement requires that certain costs related to the development or purchase of internal software be capitalized and amortized over the estimated useful life of the software. This Statement also requires that costs related to the preliminary project stage and the post implementation/operation stage of an internal use computer software development project be expensed as incurred. The Company plans to adopt this Statement for the year ended December 31, 1999, as required. The adoption of this Statement is not expected to have a material effect on the results of operations, financial condition or long-term liquidity.

(3) PRO FORMA STATEMENT OF EARNINGS INFORMATION

The Company terminated its status as an S corporation just prior to the closing of the Offering, described in Note 1, and is subject to Federal and additional state income taxes for periods after such termination.

Accordingly, for informational purposes, the following pro forma information for the three and nine months ended September 30, 1998 and 1997, respectively, is presented to show pro forma earnings on an after-tax basis, assuming the Company had been taxed as a C corporation since January 1, 1997. The difference between the Federal statutory income tax rate and the pro forma income tax rate are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

(3) PRO FORMA STATEMENT OF EARNINGS INFORMATION (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Federal statutory tax rate	34%	34%	34%	34%
State income taxes, net of Federal benefit	(4)	3	2	3
Foreign income taxes	29	11	12	7
Non-deductible goodwill amortization	8	-	1	1
Tax exempt interest income	(5)	-	(2)	-
Undistributed earnings of foreign subsidiaries permanently reinvested	(25)	(6)	(10)	-
Other	-	-	-	(1)
	--	--	--	--
Pro forma income tax rate	37%	42%	37%	44%

Set forth below are pro forma results of the Company's operations for the three months and nine months ended September 30, 1998 and 1997. These pro forma results reflect adjustments for:

- (i) the aforementioned change in method of computing taxes.
- (ii) the amortization of goodwill resulting from the acquisition of minority interests in the Company's three foreign subsidiaries, net of the elimination of the minority interest charge reflected in the historical financial statements, as if the Exchange had occurred on January 1, 1997. The goodwill resulting from the Exchange, which totaled \$1.3 million, is being amortized over 15 years.
- (iii) the results of TestDesign for these periods as if the Acquisition had occurred on January 1, 1997, net of the amortization of goodwill resulting from the Acquisition. The goodwill resulting from the Acquisition, which totaled \$5.8 million, is being amortized over 15 years.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Pro forma revenues	\$ 4,816	\$ 8,316	\$19,498	\$21,559
Pro forma earnings before income taxes	294	2,188	3,505	4,546
Pro forma income taxes	133	924	1,351	1,981
Pro forma net earnings	161	1,264	2,154	2,565
Pro forma net earnings per common share-basic	\$ 0.02	\$ 0.19	\$ 0.33	\$ 0.47
Pro forma weighted average common shares outstanding - basic	6,536,034	6,536,034	6,536,034	5,409,367
Pro forma net earnings per common share - diluted	\$ 0.02	\$ 0.19	\$ 0.33	\$ 0.47
Pro forma weighted average common and common stock equivalent shares outstanding - diluted	6,541,763	6,591,413	6,545,144	5,428,433

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

(3) PRO FORMA STATEMENT OF EARNINGS INFORMATION (Continued)

Pro forma net earnings per common share - basic was calculated by dividing pro forma net earnings by the pro forma weighted average number of shares of common stock outstanding during the period calculated as if the Exchange and the Acquisition had occurred on January 1, 1997.

Pro forma net earnings per common share - diluted was calculated by dividing pro forma net earnings by the pro forma weighted average number of shares of common and common stock equivalent shares outstanding during the period calculated as if the Exchange and the Acquisition had occurred on January 1, 1997.

(4) COMPREHENSIVE INCOME

On January 1, 1998, the Company adopted SFAS 130, Reporting Comprehensive Income. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is computed as follows:

	Three Months Ended		Nine Months Ended	
	9/30/98	9/30/97	9/30/98	9/30/97
Net income	\$ 227	\$ 1,266	\$ 2,289	\$ 3,153
Other comprehensive expense, net of tax:				
Foreign currency translation adjustment	19	(65)	(42)	(75)
	\$ 246	\$ 1,201	\$ 2,247	\$ 3,078
	=====	=====	=====	=====

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

Overview

- - - - -

The Company designs, manufactures and markets docking hardware, test head manipulators and wafer test interfaces, which are used with automatic test equipment ("ATE") by semiconductor manufacturers during the testing of wafers and packaged devices. The Company also designs and markets related ATE interface products including high performance test sockets, interface boards and probing assemblies. The Company's products are designed to improve the utilization and cost-effectiveness of ATE (including testers, wafer probers and device handlers) during the testing of linear, digital and mixed signal integrated circuits.

The Company's revenues are substantially dependent upon the demand for ATE by semiconductor manufacturers and, therefore, fluctuate generally as a result of cyclicity in the semiconductor manufacturing industry. The Company believes that purchases of the Company's docking hardware, manipulators and wafer test interfaces are typically made from its customers' capital expenditure budgets, while related ATE interface products, which must be replaced periodically, are typically made from its customers' operating budgets.

During the last three years, the demand for ATE by the semiconductor industry exhibited a high degree of cyclicity. When semiconductor manufacturing activity generally slowed during much of 1996, many semiconductor manufacturers reduced their capital expenditure budgets and, correspondingly, postponed or canceled orders for ATE and related equipment. As a result, orders for and sales of the Company's products experienced sequential quarterly declines throughout most of 1996. The beginning of 1997 marked a turnaround in the semiconductor industry which was evidenced by a renewal in demand for ATE and related equipment. This resulted in sequential quarterly increases in orders for and sales of the Company's products throughout most of 1997. During the first nine months of 1998, orders for and sales of the Company's products have declined on a sequential quarterly basis. This decline can be attributed to a number of factors including the worldwide decline in demand for integrated circuits and the economic downturns in many world economies, especially those in Southeast Asia and Japan. As a result of the reduced demand for products manufactured by semiconductor manufacturers, their need for new or additional equipment for the manufacture and testing of semiconductors has been substantially reduced. The Company believes that demand for and sales of its products may continue to decline during the next several quarters. This reduced demand is reflected in the Company's backlog, which was \$6.2 million at December 31, 1997 and \$3.7 million at September 30, 1998.

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

On June 20, 1997 the Company completed an initial public offering of 2.275 million common shares through which the Company issued 1.82 million new shares of common stock (the "Offering"). Prior to the Offering the Company was an S corporation, and the net earnings of the Company were taxed as income to the Company's stockholders for Federal and certain New Jersey state income tax purposes. The Company terminated its status as an S corporation prior to the closing of the Offering and is subject to Federal and additional state income taxes for periods after such termination.

On August 3, 1998, the Company acquired all of the outstanding capital stock of TestDesign Corporation ("TestDesign"), a privately held California corporation (the "Acquisition"). TestDesign is engaged in the design and manufacture of wafer test interfaces used by the semiconductor industry. The purchase price was paid by delivery to Douglas W. Smith, the sole shareholder of TestDesign, of \$4.4 million in cash and 625,000 shares of the Company's common stock (subject to certain adjustments).

Results of Operations

- - - - -

Three Months Ended September 30, 1998 Compared to Three Months Ended September 30, 1997:

Revenues. Revenues were \$4.4 million for the quarter ended September 30, 1998 compared to \$6.2 million for the same period in 1997, a decrease of \$1.8 million or 28%. The decrease in revenue over the comparable prior period reflects the aforementioned downward cyclical trend which has occurred in the ATE industry during 1998 offset, in part, by the additional revenues of TestDesign.

Gross Margin. Gross margin declined to 52% for the quarter ended September 30, 1998 compared to 63% for the comparable period in 1997. The reduction in gross margin was primarily the result of the additional fixed costs of manufacturing of TestDesign which were impacted unfavorably by the substantially reduced revenue levels during the quarter. In addition, material costs as a percentage of sales increased over the comparable prior period due to an increase in the level of sales of certain products with a greater component material cost in 1998 compared to 1997.

Selling Expense. Selling expense was \$862,000 for the quarter ended September 30, 1998 compared to \$706,000 for the same period in 1997, an increase of \$156,000 or 22%. The increase was attributable to several factors including the additional salary and commission expenses of TestDesign and increased travel expenses incurred in connection with the Company's sales activities.

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

Research and Development Expense. Research and development expense was \$483,000 for the quarter ended September 30, 1998 compared to \$455,000 for the same period in 1997, an increase of \$28,000 or 6%. The increase was attributable to the additional salary expense of TestDesign coupled with a growth in the number of engineering and technical staff offset in part by reductions in spending on research and development materials and travel expenses in 1998 as compared to 1997.

General and Administrative Expense. General and administrative expense was \$726,000 for the quarter ended September 30, 1998 compared to \$666,000 for the same period in 1997, an increase of \$60,000 or 9%. The increase was primarily attributable to the additional salary and other administrative costs of TestDesign. Also contributing to the increase in 1998 was the amortization of goodwill resulting from the Acquisition. These increases were offset by a reduction in bad debt expense, which was zero in 1998 compared to \$50,000 in 1997.

Income Tax Expense. Income tax expense decreased to \$133,000 for the quarter ended September 30, 1998 from \$924,000 for the comparable period in 1997, an decrease of \$791,000. The Company's effective tax rate was 37% for the third quarter of 1998 compared to 42% for the same period in 1997. The reduction in the effective tax rate is the result of several factors including the implementation of tax favorable corporate structures and a lower percentage of earnings attributable to the Company's Japanese subsidiary in 1998 as compared to 1997.

Nine Months Ended September 30, 1998 Compared to Nine Months Ended September 30, 1997:

Revenues. Revenues were \$15.2 million for the nine months ended September 30, 1998 compared to \$14.7 million for the same period in 1997, an increase of \$519,000 or 4%. The increase in revenue reflects the additional sales of TestDesign offset, in part, by the lower demand for ATE and related products in the nine months ended September 30, 1998 as compared to the nine months ended September 30, 1997.

Gross Margin. Gross margin declined to 58% for the nine months ended September 30, 1998 compared to 61% for the comparable prior period in 1997. The reduction in gross margin was primarily the result of an increase in material costs as a percentage of sales due to an increase in the level of sales of certain products with a greater component material cost in 1998 compared to 1997. To a lesser extent, the gross margin during 1998 was also reduced by the additional fixed manufacturing costs of TestDesign which were unfavorably impacted by the reduced revenue levels in the most recent quarter.

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

Selling Expense. Selling expense was \$2.3 million for the nine months ended September 30, 1998 compared to \$1.8 million for the same period in 1997, an increase of \$482,000 or 27%. The majority of the increase was attributable to a significant increase in commission expense resulting from a higher level of commissioned sales to semiconductor manufacturers in 1998 over the comparable prior period. The increase in selling expense also reflects an increase in warranty and travel expenses over the same period in 1997. Also contributing to the increase in selling expenses were the additional salaries, commission and travel expenses of TestDesign.

Research and Development Expense. Research and development expense was \$1.3 million for the nine months ended September 30, 1998 compared to \$1.2 million for the same period in 1997, an increase of \$108,000 or 9%. The increase was primarily the result of the additional salary expense of TestDesign. In addition, the increase was attributable to a growth in the number of engineering and technical staff prior to the Acquisition, and to a lesser extent, to increased levels of spending on research and development materials in 1998 as compared to 1997.

General and Administrative Expense. General and administrative expense was \$1.9 million for the nine months ended September 30, 1998 compared to \$1.6 million for the same period in 1997, an increase of \$335,000 or 21%. The increase was primarily attributable to the additional costs associated with professional fees, shareholder and investor relations and increased expenditures for outside directors' fees incurred as a public company. Other factors contributing to the increase in 1998 were the amortization of goodwill resulting from both the Acquisition and the acquisition of the minority interests in the Company's three foreign subsidiaries in connection with the Offering, salary increases of administrative staff and higher levels of travel expenses.

Income Tax Expense. Income tax expense remained relatively constant at \$1.4 million for both the nine months ended September 30, 1998 and 1997. The Company's effective tax rate was 37% for the first nine months of 1998 compared to 30% for the same period in 1997. The significant increase in the effective tax rate was caused by the accrual of Federal income tax on 100% of the Company's 1998 earnings due to the change of tax status from S corporation to C corporation in June 1997 in connection with the Offering.

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

Liquidity and Capital Resources

The Company realized net cash proceeds of \$11.7 million (after payment of direct expenses of the Offering) from the sale of 1.82 million newly issued shares in the Offering in June 1997. The proceeds from the Offering are expected to be used for working capital, general corporate purposes and possible acquisitions of businesses, technologies or products complementary to the Company's business. On August 3, 1998, the Company acquired all of the outstanding capital stock of TestDesign Corporation ("TestDesign"), a privately held California corporation (the "Acquisition"). The purchase price was \$4.4 million in cash and 625,000 shares of the Company's common stock (subject to certain adjustments). In addition, the Company incurred transactions costs of approximately \$425,000 in connection with the Acquisition. The Company funded the cash portion of the purchase price from its cash on hand. At September 30, 1998, the Company's cash and cash equivalents included \$5,038,597 of temporary investments attributable to such Offering.

Net cash provided from operations for the nine months ended September 30, 1998 was \$1.6 million. Accounts receivable decreased \$1.5 million from December 31, 1997 to September 30, 1998 due to the sequential quarterly reductions in sales levels during 1998. Inventories increased \$134,000 primarily as a result of postponements of shipments by certain customers. Prepaid income taxes increased \$352,000 as a result of lower levels of earnings than were originally forecasted at the time estimated Federal and state income tax payments were made. Other current assets increased \$94,000, primarily as a result of increases in prepaid expenses. Accounts payable decreased \$70,000 due to the lower production levels. Accrued expenses decreased \$415,000 primarily as a result of the timing of payments of previously accrued expenses. Domestic and foreign income taxes payable decreased \$1.5 million as a result of the payment of previously accrued of Federal, state and foreign income tax on earnings.

Purchases of property and equipment and other assets were \$165,000 for the nine months ended September 30, 1998. The Company plans to spend approximately \$500,000 between the fourth quarter of 1998 and the second quarter of 1999 to renovate and expand its UK manufacturing facility and to purchase a coordinate measuring machine for this facility.

Simultaneous with the Offering, the Company acquired the 21% minority interests in each of its three foreign subsidiaries in exchange for an aggregate of 300,443 shares of the Company's common stock. This acquisition, which was accounted for using the purchase method, created goodwill of

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

approximately \$1.3 million, which is being amortized over a period of 15 years. The acquisition of TestDesign, which was accounted for using the purchase method, resulted in goodwill of \$5.8 million, which is being amortized over a period of 15 years.

The Company believes that existing cash and cash equivalents, its \$1.5 million unused line of credit and the anticipated net cash provided from operations will be sufficient to satisfy the Company's cash requirements (including those of its new subsidiary) for the foreseeable future. However, additional acquisitions may require additional equity or debt financing to meet working capital requirements or capital expenditure needs. Although the Company, as an S corporation, historically paid cash dividends to its stockholders, the Company does not anticipate that it will pay dividends in the foreseeable future.

Year 2000

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The Year 2000 issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, a temporary inability to process transactions, send invoices, or engage in normal business activities.

Currently, the Company has a program in process to analyze potentially affected business and process systems and replace or correct all non-compliant critical business and process systems that it will require in the new millennium. Prior to the acquisition of TestDesign, the Company had completed its review and testing of its then existing systems and determined that they were Year 2000 compliant. The Company has identified those systems of TestDesign which are not yet Year 2000 compliant and has begun converting them to systems which are Year 2000 compliant. The Company intends to have all of its systems Year 2000 compliant by mid-1999.

The products that the Company has sold and currently sells are not date-sensitive, and therefore the Company believes its product related exposures are low.

In conjunction with the Company's Year 2000 effort, all suppliers that are critical to the function of the Company are being surveyed to insure readiness and non-disruption to the Company supply chain. The Company relies on subcontractors for fabrication and certain other processes performed on its products and utilizes third-party network equipment and software products

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

which may or may not be Year 2000 compliant. In addition, the Company relies on utility and telecommunications suppliers to operate its businesses worldwide. The Company has sent questionnaires to these critical suppliers to determine the extent to which the Company's operations are exposed to failure of Year 2000 issues. The Company is waiting for responses from most of these suppliers. There can be no assurance that the Company will be successful in its efforts to identify and resolve any Year 2000 issues involving its suppliers or to continue receiving products and services from these suppliers if Year 2000 problems were to materialize. The failure to resolve these issues could result in the shut-down of some or all of the Company's operations, which would have a material adverse effect on the Company.

The total expense of the Company's Year 2000 effort is currently estimated at less than \$100,000, for the identification and remediation of any Year 2000 problems related to the Company's internal systems. If required modifications to existing software and hardware are not made, or are not completed in a timely manner, the Year 2000 could have a material impact on the operations of the Company. There can be no assurance that the costs to remediate any Year 2000 problems which may be identified in the future will not exceed the Company's current estimate or that the Company will be able to resolve these issues in a timely manner. The expenses of the Year 2000 project are being funded through operating cash flows.

The Company does not currently have any information concerning Year 2000 compliance status of its customers. If any of the Company's significant customers and suppliers do not successfully and in a timely manner achieve Year 2000 compliance, and as a result of such non-compliance such customers operations are disrupted, shut-down or otherwise impacted, the Company's business or operations could be adversely affected. There can be no assurance that another company's failure to ensure Year 2000 capability would not have an adverse effect on the Company.

The Company has not yet developed a comprehensive contingency plan to address situations that may result if the Company is unable to achieve Year 2000 readiness of its critical operations. There can be no assurance that the Company will be able to develop a contingency plan that will adequately address issues that may arise in the Year 2000. The failure of the Company to successfully resolve such issues could result in a shut-down of some or all of the Company's operations, which would have a material adverse effect on the Company.

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

Cautionary Statement Regarding Forward Looking Statements

This Report contains certain statements of a forward-looking nature relating to future events, such as statements regarding the Company's plans and strategies or future financial performance. Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Investors and prospective investors are cautioned that such statements are only projections and that actual events or results may differ materially from those expressed in any such forward-looking statements. In addition to the factors described in this Report, the Company's actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by additional factors, including, without limitation: changes in business conditions and the economy, generally; the ability of the Company to obtain patent protection, and enforce its patent rights, for existing and developing proprietary technologies; the ability of the Company to integrate successfully businesses, technologies or products which it may acquire; the effect of the loss of, or reduction in orders from, a major customer; and competition from other manufacturers of docking hardware, test head manipulators, wafer test interfaces and related ATE interface products.

International Operations

Revenues generated by the Company's foreign subsidiaries were 35% and 36% of consolidated revenues for the nine months ended September 30, 1998 and 1997, respectively. The Company anticipates that revenues generated by the Company's foreign subsidiaries will continue to account for a significant portion of consolidated revenues in the foreseeable future. These revenues generated by the Company's foreign subsidiaries will continue to be subject to certain risks, including changes in regulatory requirements, tariffs and other barriers, political and economic instability, an outbreak of hostilities, foreign currency exchange rate fluctuations, potentially adverse tax consequences and the possibility of difficulty in accounts receivable collection. The Company cannot predict whether quotas, duties, taxes or other charges or restrictions will be implemented by the United States or any other country upon the importation or exportation of the Company's products in the future. Any of these factors or the adoption of restrictive policies could have a material adverse effect on the Company business, financial condition or results of operations.

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

Revenues denominated in foreign currencies were 26% and 30% of consolidated revenues for the nine months ended September 30, 1998 and 1997, respectively. Although the Company operates its business such that a significant portion of its product costs are denominated in the same currency that the associated sales are made in, there can be no assurance that the Company will not be adversely impacted in the future due to its exposure to foreign operations. Revenues denominated in currencies other than U.S. dollars expose the Company to currency fluctuations, which can adversely affect results of operations.

The portion of the Company's consolidated revenues that were derived from sales to the Asia Pacific region were 26% and 29% for the nine months ended September 30, 1998 and 1997, respectively. Countries in the Asia Pacific region, including Japan, have recently experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Although the current economic instability in the Asia Pacific region has not materially adversely affected the Company's order backlog, balance sheet, or results of operations to date, there can be no assurance that continued economic instability will not in the future have a material adverse affect on demand for the Company's products and its consolidated results of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

Part II. Other Information

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

On June 17, 1997, the Company's Registration Statement on Form S-1 covering the Offering of 2,275,000 shares of the Company's Common Stock, Commission file number 333-26457, was declared effective. The Offering commenced on June 20, 1997, managed by Janney Montgomery Scott, Inc. and Needham & Company, Inc. as representatives of the several underwriters named in the Registration Statement (the "Underwriters").

Of the 2,275,000 shares sold pursuant to the Offering, 1,820,000 shares were sold by the Company and 455,000 were sold by certain selling stockholders (the "Selling Stockholders"). In addition, the Underwriters exercised an over-allotment option to purchase an additional 341,250 shares of the Company's Common Stock from the Selling Stockholders. The total price to the public for the shares offered and sold by the Company and the Selling Stockholders was \$13,650,000 and \$5,971,875, respectively.

The amount of expenses incurred for the Company's account in connection with the Offering are as follows:

Underwriting discounts and commissions:	\$1,023,750
Finders' fees:	None
Expenses paid to or for the Underwriters:	16,650
Other expenses:	954,758

Total expenses:	\$1,995,158
	=====

All of the foregoing expenses were direct or indirect payments to persons other than (i) directors, officers or their associates; (ii) persons owning ten percent (10%) or more of the Company's Common Stock; or (iii) affiliates of the Company.

The net proceeds of the Offering to the Company (after deducting the foregoing expenses) was \$11,654,842. From the effective date of the Registration Statement through September 30, 1998, the net proceeds have been used for the following purposes:

inTEST CORPORATION

Part II. Other Information (Continued)

Item 2. Changes in Securities and Use of Proceeds (Continued)

Construction of plant, building and facilities	\$	-
Purchase and installation of machinery and equipment		202,657
Purchase of real estate		-
Acquisition of other business (including transaction costs)		4,825,000
Repayment of indebtedness		388,098
Working capital		599,725
Temporary investments, including cash & cash equivalents		5,038,597
Other purposes (for which at least \$100,000 has been used), including:		
Payment of final S corporation distribution		600,765

		\$11,654,842
		=====

In connection with the termination of the Company's status as an S corporation, the Company used \$601,000 of the net proceeds to pay a portion of the \$4.3 million final distribution of previously taxed but undistributed earnings of the Company.

All of the foregoing payments with the exception of the final S corporation distribution were direct or indirect payments to persons other than (i) directors, officers or their associates; (ii) persons owning ten percent (10%) or more of the Company's Common Stock; or (iii) affiliates of the Company.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

inTEST CORPORATION

PART II. Other Information (Continued)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

3(i) 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(ii) By-Laws: 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.

27 Financial Data Schedule

(b) Reports on Form 8-K

The Company filed a report on Form 8-K on August 5, 1998 (the "Initial Report") reporting the acquisition of TestDesign Corporation by the Company. A report on Form 8-K/A was filed on October 2, 1998 to amend the Initial Report to include the following financial statements:

(a) Financial Statements of TestDesign:

Balance Sheets as of May 31, 1998 and June 30, 1997
Statements of Earnings for the eleven months ended
May 31, 1998 and the year ended June 30, 1997
Statements of Shareholder's Equity for the eleven
months ended May 31, 1998 and the year ended June 30,
1997
Statements of Cash Flows for the eleven months ended
May 31, 1998 and the year ended June 30, 1997

(b) Pro Forma Financial Information to reflect the acquisition of TestDesign Corporation by the Company:

Pro Forma Consolidated Balance Sheet as of June 30, 1998
Pro Forma Consolidated Statements of Earnings for the
six months ended June 30, 1998 and the year ended
December 31, 1997

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 16, 1998

/s/ Robert E. Matthiessen

Robert E. Matthiessen
President and Chief Executive Officer

Date: November 16, 1998

/s/ Hugh T. Regan, Jr.

Hugh T. Regan, Jr.
Treasurer and Chief Financial Officer

Index to Exhibits

Item 6. Exhibits and Reports on Form 8-K

27 Financial Data Schedule

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INTEST CORPORATION

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9-MOS		
DEC-31-1998	JAN-01-1998	SEP-30-1998
		8,551
	0	
	3,293	
	197	
	2,631	
15,456		2,549
	1,745	
	23,415	
1,939		0
	0	
	0	65
	21,411	
23,415		15,238
	15,238	6,453
	5,521	
	0	
	0	
	3	
	3,640	
	1,351	
2,289		
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	0	
		0
	2,289	
	.38	
	.38	