

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2003 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**

(State or other jurisdiction of incorporation or organization)

**22-2370659**

(I.R.S. Employer Identification Number)

**7 Esterbrook Lane**

**Cherry Hill, New Jersey 08003**

(Address of principal executive offices, including zip code)

**(856) 424-6886**

(Registrant's Telephone Number, including Area Code)

Indicate by check 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  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Number of shares of Common Stock, \$.01 par value, outstanding as of July 31, 2003:

8,325,607

**inTEST CORPORATION**

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**PART I. FINANCIAL INFORMATION**

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

	June 30, 2003	Dec. 31, 2002
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 7,560	\$ 8,145
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$131 and \$130, respectively	6,299	6,584
Inventories	6,150	7,002
Deferred tax assets	863	863
Refundable domestic income taxes	1,902	1,927
Other current assets	397	487
Total current assets	<u>23,171</u>	<u>25,008</u>
Property and equipment:		
Machinery and equipment	9,624	9,007
Leasehold improvements	<u>2,488</u>	<u>2,480</u>
	12,112	11,487
Less: accumulated depreciation	<u>(7,494)</u>	<u>(6,596)</u>
Net property and equipment	<u>4,618</u>	<u>4,891</u>
Deferred tax assets	1,159	349
Other assets	694	691
Goodwill	1,243	1,243
Intangible assets, net of accumulated amortization of \$20 and \$-0-, respectively	<u>380</u>	<u>400</u>
Total assets	<u>\$31,265</u>	<u>\$32,582</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,720	\$ 2,388
Accrued expenses	2,460	2,425
Foreign income taxes payable	176	116

Capital lease obligations	<u>86</u>	<u>86</u>
Total current liabilities	<u>5,442</u>	<u>5,015</u>
Capital lease obligations, net of current portion	<u>167</u>	<u>210</u>
 Total liabilities	 <u>5,609</u>	 <u>5,225</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 8,701,255 and, 8,700,005 shares issued, respectively	87	87
Additional paid-in capital	21,820	21,816
Retained earnings	6,058	7,844
Accumulated other comprehensive earnings (loss)	13	(68)
Treasury stock, at cost; 375,648 shares	<u>(2,322)</u>	<u>(2,322)</u>
Total stockholders' equity	<u>25,656</u>	<u>27,357</u>
Total liabilities and stockholders' equity	<u>\$31,265</u>	<u>\$32,582</u>
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net revenues	\$11,269	\$12,963	\$20,458	\$19,931
Cost of revenues	6,800	7,576	13,000	12,610
Gross margin	4,469	5,387	7,458	7,321
Operating expenses:				
Selling expense	2,280	2,114	4,258	3,575
Engineering and product development expense	1,468	1,313	2,948	2,501
General and administrative expense	1,528	1,483	2,848	2,587
Total operating expenses	5,276	4,910	10,054	8,663
Operating income (loss)	(807)	477	(2,596)	(1,342)
Other income (expense):				
Interest income	19	26	39	54
Interest expense	(5)	(12)	(10)	(18)
Other	48	35	68	56
Total other income	62	49	97	92
Earnings (loss) before income taxes	(745)	526	(2,499)	(1,250)
Income tax benefit	(102)	(406)	(713)	(1,091)
Net earnings (loss)	<u>\$ (643)</u>	<u>\$ 932</u>	<u>\$(1,786)</u>	<u>\$ (159)</u>
Net earnings (loss) per common share - basic	\$(0.08)	\$0.11	\$(0.22)	\$(0.02)
Weighted average common shares outstanding-basic	8,324,645	8,311,709	8,324,502	8,310,473
Net earnings (loss) per common share - diluted	\$(0.08)	\$0.11	\$(0.22)	\$(0.02)
Weighted average common and common share equivalents outstanding-diluted	8,324,645	8,575,749	8,324,502	8,310,473

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net earnings (loss)	\$ (643)	\$ 932	\$(1,786)	\$ (159)
Foreign currency translation adjustments	122	306	81	239
Comprehensive earnings (loss)	\$ (521)	\$1,238	\$(1,705)	\$ 80

See accompanying Notes to Consolidated Financial Statements.

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**inTEST CORPORATION**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In thousands, except share data)  
(Unaudited except Balance, December 31, 2002)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings(Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2002	8,700,005	\$ 87	\$21,816	\$ 7,844	\$ (68)	\$(2,322)	\$27,357
Net loss	-	-	-	(1,786)	-	-	(1,786)
Other comprehensive earnings	-	-	-	-	81	-	81
Stock options exercised	1,250	-	4	-	-	-	4
Balance, June 30, 2003	8,701,255	\$ 87	\$21,820	\$ 6,058	\$ 13	\$(2,322)	\$25,656

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(1,786)	\$ (159)
Adjustments to reconcile net loss to net cash provided by operating activities:		

Depreciation and amortization	991	927
Deferred taxes	(807)	(29)
Foreign exchange loss	6	4
Deferred compensation relating to stock options	-	16
Loss on disposal of fixed assets	-	7
Changes in assets and liabilities:		
Trade accounts and notes receivable	266	(3,124)
Inventories	893	352
Proceeds from sale of demonstration equipment, net of gain	43	50
Refundable domestic income taxes	25	1,241
Other current assets	97	220
Accounts payable	339	1,069
Foreign income taxes payable	47	(172)
Accrued expenses	29	238
Other assets	(4)	(1)
	-----	-----
Net cash provided by operating activities	139	639
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(723)	(298)
	-----	-----
Net cash used in investing activities	(723)	(298)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of capital lease obligations	(43)	(40)
Proceeds from stock options exercised	4	38
Other	-	(22)
	-----	-----
Net cash used in financing activities	(39)	(24)
	-----	-----
Effects of exchange rates on cash	38	124
	-----	-----
Net cash provided by (used in) all activities	(585)	441
Cash and cash equivalents at beginning of period	8,145	7,281
	-----	-----
Cash and cash equivalents at end of period	\$ 7,560	\$ 7,722
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Cash payments (refunds) for:		
Domestic and foreign income taxes	\$ 7	\$(2,078)
Interest	10	18

See accompanying Notes to Consolidated Financial Statements.

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**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Information as of June 30, 2003 and for the six months ended  
June 30, 2003 and 2002 is unaudited)  
(In thousands, except share and per share data)

**(1) NATURE OF OPERATIONS**

We are a leading independent designer, manufacturer and marketer of positioner and docking hardware products, temperature management systems and tester interface products that are used by semiconductor manufacturers in conjunction with automatic test equipment, or ATE, in the testing of integrated circuits, or ICs.

The consolidated entity is comprised of inTEST Corporation (parent) and our wholly-owned subsidiaries. We manufacture our products in the U.S., the U.K., Germany and Singapore. Marketing and support activities are conducted worldwide from our facilities in the U.S., the U.K., Germany, Japan and Singapore.

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

**Basis of Presentation**

The accompanying unaudited consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in 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 goodwill, inventory obsolescence write-downs, deferred income tax valuation allowances and 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 in our Annual Report on Form 10-K filed

on March 31, 2003.

### **Concentration of Other Risks**

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 general economic conditions worldwide or in the markets in which we operate, economic conditions specific to the semiconductor industry, our ability to safeguard patents and intellectual property in a rapidly evolving market 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.

### **Reclassification**

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

### **Net Earnings (Loss) Per Common Share**

Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per common share is computed in a manner consistent with that of basic earnings (loss) per common share except that weighted average shares outstanding are increased to include common share equivalents. Common share equivalents represent stock options and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

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**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(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 for the six months ended June 30, 2003 and 2002 was \$513 and \$361, respectively.

The following table sets forth the changes in the liability for product warranties for the six months ended June 30, 2003:

Balance as of December 31, 2002	\$ 558
Payments made under product warranty	(625)
Accruals for product warranties issued	<u>513</u>
Balance as of June 30, 2003	<u>\$ 446</u>

### **Stock-Based Compensation**

At June 30, 2003, we have certain stock-based employee compensation plans. We account for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in the statement of operations when options granted under these plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

Prior to our merger with Tempronic Corporation ("Tempronic") in March 2000, Tempronic had granted certain non-qualified stock options to employees which had an exercise price below the estimated fair value of Tempronic's common stock at the date of grant. For these options, compensation cost, equaling the difference between the fair market value of the underlying stock and the cost to exercise the options, was recorded as deferred compensation at the date of grant. This cost was amortized to expense as the options vested. Total compensation cost recognized for the quarters ended June 30, 2003 and 2002 was \$0 and \$6, respectively. Total compensation cost recognized for the six months ended June 30, 2003 and 2002 was \$0 and \$16, respectively.

The following table illustrates the effect on our net loss and net loss per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net earnings (loss), as reported	\$ (643)	\$ 932	\$ (1,786)	\$ (159)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	--	4	--	10

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	_(140)	_(207)	_(605)	_(470)
Pro forma net earnings (loss)	\$(783)	\$729	\$(2,391)	\$(619)
Net earnings (loss) per share:				
Basic - as reported	\$(0.08)	\$0.11	\$(0.22)	\$(0.02)
Basic - pro forma	\$(0.09)	\$0.09	\$(0.29)	\$(0.07)
Diluted - as reported	\$(0.08)	\$0.11	\$(0.22)	\$(0.02)
Diluted - pro forma	\$(0.09)	\$0.08	\$(0.29)	\$(0.07)

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

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

**New Accounting Pronouncements**

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantees. FIN 45 also requires additional disclosure about the guarantor's obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective after December 15, 2002 and are included above under "Product Warranties."

On January 1, 2003, we adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses the accounting and reporting of expenses related to restructurings initiated after 2002, and applies to costs associated with an exit activity (including a restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. SFAS No. 146 changes some of the criteria for recognizing a liability for these activities. The adoption of SFAS No. 146 did not have an effect on our results of operations, financial condition or long-term liquidity.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Effective January 1, 2003, we adopted the disclosure requirements of SFAS No. 148 regarding disclosure requirements for condensed consolidated financial statements for interim periods, as required. We have not yet determined if we will make the voluntary change to the fair value based method of accounting for stock-based employee compensation at this time.

**(3) SEGMENT INFORMATION**

We consider the various products we design, manufacture and market to form three reportable segments: positioner/docking hardware products, temperature management systems and tester interface products. The positioner/docking hardware segment includes the operations of our Cherry Hill, New Jersey manufacturing facility as well as the operations of four of our foreign subsidiaries: inTEST Limited (U.K.), inTEST Kabushiki Kaisha (Japan), inTEST PTE, Limited (Singapore) and Intelogic Technologies GmbH (Germany) which we acquired in October 2002. Sales of this segment consist primarily of positioner and docking hardware products which we design, manufacture and market, as well as certain other related products which we design and market, that are manufactured by our other segments or by third parties. The temperature management segment includes the operations of Tempronic in Sharon, Massachusetts as well as inTEST GmbH (Germany). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Tempronic product line. In addition, this segment provides after sale service and support, which is paid for by its customers. The tester interface segment includes the operations of inTEST Sunnyvale Corp. in Sunnyvale, California. Sales of this segment consist primarily of tester interface products which we design, manufacture and market under our TestDesign product line. We allow customers to place orders for any product we manufacture from any one of our operations worldwide. As a result, the net revenues reported for each segment represent the actual invoiced sales which were made by that segment and may include sales of products manufactured by one or more of the other segments.

We operate our business worldwide, and all three segments sell their products both domestically and internationally. All three segments sell to semiconductor manufacturers and ATE manufacturers. Intercompany pricing between segments is either a multiple of cost for component parts or a percentage discount from list price for finished goods.

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

**(3) SEGMENT INFORMATION (Continued)**

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Net revenues from unaffiliated customers:</b>				
Positioner/Docking Hardware	\$ 5,588	\$ 6,167	\$10,154	\$ 9,033
Temperature Management	4,568	4,951	8,019	8,301
Tester Interface	1,982	2,248	4,172	3,234
Intersegment sales	<u>—(869)</u>	<u>—(403)</u>	<u>—(1,887)</u>	<u>—(637)</u>
	<u>\$11,269</u>	<u>\$12,963</u>	<u>\$20,458</u>	<u>\$19,931</u>
<b>Intersegment sales:</b>				
Positioner/Docking Hardware	\$ 4	\$ 1	\$ 5	\$ 1
Temperature Management	395	88	718	208
Tester Interface	<u>470</u>	<u>314</u>	<u>1,164</u>	<u>428</u>
	<u>\$869</u>	<u>\$403</u>	<u>\$1,887</u>	<u>\$637</u>
<b>Earnings (loss) before income taxes:</b>				
Positioner/Docking Hardware	\$(778)	\$ 40	\$(2,087)	\$ (757)
Temperature Management	100	49	(394)	(564)
Tester Interface	<u>—(67)</u>	<u>437</u>	<u>—(18)</u>	<u>71</u>
	<u>\$(745)</u>	<u>\$526</u>	<u>\$(2,499)</u>	<u>\$(1,250)</u>
<b>Net earnings (loss):</b>				
Positioner/Docking Hardware	\$(625)	\$300	\$(1,462)	\$(112)
Temperature Management	29	201	(308)	(227)
Tester Interface	<u>—(47)</u>	<u>431</u>	<u>—(16)</u>	<u>180</u>
	<u>\$(643)</u>	<u>\$932</u>	<u>\$(1,786)</u>	<u>\$(159)</u>
<b>Identifiable assets:</b>				
Positioner/Docking Hardware			<u>June 30,</u> <u>2003</u>	<u>Dec. 31,</u> <u>2002</u>
			\$17,712	\$17,916
Temperature Management			10,014	10,179
Tester Interface			<u>3,539</u>	<u>4,487</u>
			<u>\$31,265</u>	<u>\$32,582</u>

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

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Net revenues from unaffiliated customers:</b>				
U.S.	\$ 8,663	\$11,567	\$15,211	\$17,493
Europe	1,203	790	2,019	1,372



Asia-Pacific	<u>1,403</u>	<u>606</u>	<u>3,228</u>	<u>1,066</u>
	<u>\$11,269</u>	<u>\$12,963</u>	<u>\$20,458</u>	<u>\$19,931</u>
<b>Long-lived assets:</b>			<b>June 30,</b>	<b>Dec. 31,</b>
			<b>2003</b>	<b>2002</b>
U.S.			\$3,932	\$4,092
Europe			554	631
Asia-Pacific			<u>132</u>	<u>168</u>
			<u>\$4,618</u>	<u>\$4,891</u>

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**inTEST CORPORATION**

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

**Overview**

As discussed more fully in our Annual Report on Form 10-K for the period ended December 31, 2002 (our "2002 Form 10-K"), our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. 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 cyclicity has been clearly evidenced during the recent downward cycle that began during the fourth quarter of 2000.

The most recent downward cycle has not been constant quarter to quarter, as we have experienced some quarters of sequential growth in revenues, such as during the second and third quarters of 2002 and the second quarter of 2003. The decline in revenues that began in the fourth quarter of 2002, is not considered by many in the industry to be the beginning of another downturn, but instead is considered to be the continuation of the downturn which began in late 2000. The current industry consensus is that the two quarters of revenue growth during mid-2002 may have represented a correction of the significant under-spending that occurred in 2001 and not the beginning of the next up cycle. Recently, the industry consensus is that the bottom of the downturn was reached during the first quarter of 2003 and that the industry will sustain moderate quarter over quarter growth in new orders booked ("bookings") and net revenues throughout the second half of 2003. ATE utilization rates, considered by management and others in the industry to be a strong indicator of future ATE sales, have been steadily increasing throughout the first half of 2003, and management believes that, should current trends continue, increased spending on ATE may be anticipated in the second half of 2003.

This view is supported by the growth in our consolidated quarterly bookings in the second quarter of 2003, which increased to \$12.6 million from \$7.7 million in the first quarter of 2003. While management believes that the increased ATE utilization rates, as well as other performance metrics such as increased IC unit production, suggest that we should have future quarterly growth in bookings and net revenues, we cannot be certain that these current indications will continue, or that they signal that we are coming to the end of the current downturn.

**Cost Containment Initiatives**

As discussed in our 2002 Form 10-K, in response to the severe downturn, we implemented significant cost containment initiatives during 2001 to reduce operating losses and preserve cash. With the increases that we experienced in both bookings and net revenues during the first half of 2002, we re-evaluated each of our facilities based upon its then current and projected operations and profitability, and employee compensation and benefits were restored where it was deemed appropriate. However, when we began experiencing declines in our bookings during the third quarter of 2002, as well as customer order delays, both of which resulted in the reduced net revenues during the fourth quarter of 2002, we again temporarily eliminated employee benefits and instituted additional expense controls in certain facilities.

Given the continuing uncertainty in the industry regarding whether the current downturn has ended, we are continuing to monitor our costs and cash balances closely. Should the positive trend we have seen in our bookings during the second quarter of 2003 reverse and the current downturn in the industry be further prolonged, we are prepared to take additional steps to reduce operating losses and preserve cash.

**Acquisition**

On October 1, 2002, we acquired Intelogic Technologies GmbH ("Intelogic"), a privately-held German corporation. Intelogic is engaged in the design, manufacture and sale of positioner and docking hardware products used by semiconductor manufacturers. We acquired Intelogic to obtain technologies we believe will be beneficial to the further development of our positioner and docking hardware products, as well as to gain better access to the German ATE markets, where historically we have not been successful in increasing our market share. The purchase price consisted of a cash payment of \$395,000, plus transaction costs of approximately \$185,000. In addition, up to 200,000 shares of our stock will be issued to the seller if certain revenue targets are achieved during 2003 and 2004. Immediately after the acquisition, we made additional cash payments of \$190,000 to retire outstanding shareholder loans and bank debt. In connection with the acquisition, we recorded goodwill and other intangible assets of approximately \$710,000.

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

### Customer Mix

We sell our products to both semiconductor manufacturers (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. Since 2000, many semiconductor manufacturers have shown a preference for purchasing from a single source the various components of the ATE (excluding temperature management systems) that they need. Typically, this source is the tester manufacturer, who manufactures the largest and most expensive components of the ATE system. Our OEM sales as a percentage of net revenues for the years ended December 31, 2002 and 2001 were 44% and 45%, respectively. For the six months ended June 30, 2003 and 2002, our OEM sales as a percentage of net revenues were 37% and 41%, respectively. We anticipate that OEM sales as a percentage of net revenues will generally range from 35% to 55% in future periods.

The impact of an increase in OEM sales as a percentage of net revenues is a reduction in our gross margin, as OEM sales have a more significant discount than end user sales. 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 also expect to continue to experience demands from our OEM customers' supply line management groups to reduce our sales prices to them. This continued price pressure may have the ultimate effect of reducing our gross and operating margins if we cannot further reduce our manufacturing and operating costs.

### Other

Please refer to the section entitled "Risks That Could Affect Future Results" below, and to our 2002 Form 10-K, for a discussion of other important factors that could cause our results to differ materially from our prior results or those expressed or implied by our forward-looking statements.

### Results of Operations

All of our products are used by semiconductor manufacturers in conjunction with ATE in the testing of ICs. Consequently, the results of operations for each product segment are generally affected by the same factors. Separate discussions and analyses for each product segment would be repetitive and obscure any unique factors that affected the results of operations of our different product segments. The discussion and analysis that follows, therefore, is presented on a consolidated basis for the Company as a whole and includes discussion of factors unique to each product segment where significant to an understanding of such segment.

### Quarter Ended June 30, 2003 Compared to Quarter Ended June 30, 2002

*Net Revenues.* Net revenues were \$11.3 million for the quarter ended June 30, 2003 compared to \$13.0 million for the same period in 2002, a decrease of \$1.7 million or 13%. We believe that the decrease in net revenues over the comparable prior period reflects the continued cyclical downturn in demand for ATE that started late in 2000. As discussed above, this downturn has not been constant quarter after quarter, and we have experienced some sequential quarterly increases during this period. Thus, although our net revenues for the quarter ended June 30, 2003 decreased as compared to the same period in 2002, our net revenues for the quarter ended June 30, 2003 increased \$2.1 million or 23% compared to the first quarter of 2003.

*Gross Margin.* Gross margin decreased to 40% for the quarter ended June 30, 2003 from 42% for the comparable period in 2002. The decrease in gross margin is primarily the result of our fixed manufacturing costs being better absorbed over the higher net revenue levels in the second quarter of 2002. The reduction in gross margin was partially offset by reductions in consolidated component material costs in the second quarter of 2003 compared to 2002. In addition, material costs declined during the quarter ended June 30, 2003 compared to the same period in 2002 in the temperature management and tester interface product segments as a result of both continued efforts to reduce component material costs in our manufactured products as well as changes in product mix.

*Selling Expense.* Selling expense was \$2.3 million for the quarter ended June 30, 2003 compared to \$2.1 million for the same period in 2002, an increase of \$166,000 or 8%. We attribute the increase primarily to increased salary and benefits expense resulting from the return of certain benefits which had been reduced or eliminated due to our cost containment efforts. In

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

addition, there were increases in sales commission expense in our positioner/docking hardware and temperature management product segments as a result of an increase in commissioned end user sales. To a lesser extent, we attribute the increase to higher expenditures for warranty and demonstration equipment. These increases were offset by reductions in spending on travel and freight in 2003 compared to 2002.

*Engineering and Product Development Expense.* Engineering and product development expense was \$1.5 million for the quarter ended June 30, 2003 compared to \$1.3 million for the same period in 2002, an increase of \$155,000 or 12%. We attribute the increase primarily to increased salary and benefits expense resulting from the return of certain benefits which had been reduced or eliminated due to our cost containment efforts. This increase was offset by reductions in expenditures for product development materials and fees paid to consultants.

*General and Administrative Expense.* General and administrative expense was \$1.5 million for the quarter ended June 30, 2003, compared to \$1.5 million for the same period in 2002, an increase of \$45,000 or 3%. We attribute the increase primarily to increased salary and benefits expense resulting from the return of certain benefits which had been reduced or eliminated due to our cost containment efforts and, to a lesser extent, to increased expenditures for director's fees and investor relations. These increases were offset by a decrease in legal fees due to the settlement of patent litigation during the first quarter of 2003, as well as reductions in spending on communications, equipment rental, administrative travel and office supplies.

*Other Income.* Other income was \$62,000 for the quarter ended June 30, 2003 compared to \$49,000 for the same period in 2002, an increase of \$13,000 or 27%. The increase is primarily the result of an increase in third party royalty income in 2003 compared to 2002.

*Income Tax Benefit.* Income tax benefit was \$102,000 for the quarter ended June 30, 2003, compared to \$406,000 for the same period in 2002. Our effective tax rate for the first quarter of 2003 was 14% compared to 77% for the comparable period in 2002. During the second quarter of 2002, we

recorded a one-time tax benefit of approximately \$600,000. This benefit was due to the filing of amended prior year tax returns that were filed to claim additional research and experimentation credits for these years. Adjusted to exclude this item, our effective tax rate for the second quarter of 2002 was 37%. The decrease in the effective tax rate in 2003 compared to 2002, as adjusted, is due to the recording of a 100% valuation allowance against tax benefits accrued on the operating losses of one of our German operations and our Japanese operation and the changes in the corresponding weighting of those operation's losses relative to our other operations on which either an income tax benefit or income tax expense was accrued.

#### Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

*Net Revenues.* Net revenues were \$20.5 million for the six months ended June 30, 2003 compared to \$19.9 million for the same period in 2002, an increase of \$527,000 or 3%. In both 2003 and 2002, the six month periods reflect strong growth in net revenues in the second quarter compared to the first quarter. While net revenues increased over the comparable prior period in our positioner/docking hardware and tester interface product segments by 12% and 7%, respectively, the net revenues of our temperature management product segment decreased by 10% over the comparable prior period. We believe that the decline in net revenues in this segment reflects the fact that demand for certain products of this segment are less dependent upon the demand for semiconductors and, so, is less subject to shifts in demand that our other segments have experienced.

*Gross Margin.* On a consolidated basis, gross margin was unchanged at 37% for the six months ended June 30, 2003 and 2002. Gross margin improved in our temperature management and tester interface product segments as a result of the aforementioned improvements in component material cost. In addition, these segments' gross margins improved due to reductions in manufacturing costs in absolute dollar terms (temperature management product segment only) as well as better absorption of fixed manufacturing costs due to higher revenue levels. The reduction in manufacturing costs in the temperature management product segment was primarily the result of reductions in salary and benefit expense due to reduced work schedules for manufacturing staff in 2003 compared to 2002.

*Selling Expense.* Selling expense was \$4.3 million for the six months ended June 30, 2003 compared to \$3.6 million for the same period in 2002, an increase of \$683,000 or 19%. We attribute the increase primarily to increased salary and benefits expense resulting from the return of certain benefits which had been reduced or eliminated due to our cost containment efforts,

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### **inTEST CORPORATION**

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

increased sales commission expense due to increased commissioned end user sales, and increased warranty expense due to increased claims at our temperature management product segment. In addition, we had increased expenditures for demonstration equipment. These increases were partially offset by reductions in spending on advertising, third party installation and freight in 2003 compared to 2002.

*Engineering and Product Development Expense.* Engineering and product development expense was \$2.9 million for the six months ended June 30, 2003 compared to \$2.5 million for the same period in 2002, an increase of \$447,000 or 18%. We attribute the increase primarily to increased salary and benefits expense resulting from the return of certain benefits which had been reduced or eliminated due to our cost containment efforts. In addition, we had increased spending on third-party consultants in 2003 compared to 2002. These increases were offset by reduced expenditures for product development materials.

*General and Administrative Expense.* General and administrative expense was \$2.8 million for the six months ended June 30, 2003, compared to \$2.6 million for the same period in 2002, an increase of \$261,000 or 10%. We attribute the increase primarily to increased salary and benefits expense resulting from the return of certain benefits which had been reduced or eliminated due to our cost containment efforts as well as costs related to the impending company-wide ERP system conversion scheduled for the second half of 2003. In addition, we had increased expenditures for director's fees, directors and officers liability insurance and investor relations. These increases were offset by a decrease in legal fees which resulted from the receipt of a cash payment in 2003 related to the settlement of patent infringement litigation as well as reductions in spending on fees for tax services and communications.

*Other Income.* Other income was \$97,000 for the six months ended June 30, 2003 compared to \$92,000 for the same period in 2002, a increase of \$5,000 or 5%. The increase is the result of an increase in third party royalty income in 2003 compared to 2002.

*Income Tax Benefit.* Income tax benefit was \$713,000 for the six months ended June 30, 2003, compared to \$1.1 million for the same period in 2002. Our effective tax rate for the first six months of 2003 was 29% compared to 87% for the comparable period in 2002. During the six months ended June 30, 2002, we recorded a one-time tax benefit of approximately \$600,000. This benefit was due to the filing of amended prior year tax returns that were filed to claim additional research and experimentation credits for these years. Adjusted to exclude this item, our effective tax rate for the six months ended June 30, 2002 was 39%. The decrease in the effective tax rate in 2003 compared to 2002, as adjusted, is due to the recording of a 100% valuation allowance against tax benefits accrued on the operating losses of one of our German operations and our Japanese operation and the changes in the corresponding weighting of those operation's losses relative to our other operations on which either an income tax benefit or income tax expense was accrued.

#### **Liquidity and Capital Resources**

Net cash provided by operations for the six months ended June 30, 2003 was \$139,000. Accounts receivable decreased \$266,000 from December 31, 2002 to June 30, 2003 due to decreased sales volume in the first half of 2003 compared to the last half of 2002 as well as strong cash collections. Inventories decreased \$893,000 primarily as a result of shipments of previously ordered materials in excess of purchases of new materials during the period. Refundable domestic income taxes declined \$25,000 due to state income tax refunds received during 2003. Deferred tax assets increased \$807,000, as a result of recording an income tax benefit on the operating loss for the period. Other current assets decreased \$97,000 primarily as a result of a decrease in prepaid expenses.

Accounts payable increased \$339,000 primarily due to increased sales activity in the second quarter of 2003. Foreign income taxes payable increased \$47,000 as a result of accruing income tax expense on the operating profits of one of our German operations. Accrued expenses increased \$29,000 primarily as a result of increases in salary and benefit accruals as well as sales commissions.

Purchases of property and equipment were \$723,000 for the six months ended June 30, 2003, which consisted of \$371,000 primarily for demonstration equipment for our Tempronnic facility, \$258,000 primarily for computer hardware and software related to the implementation of a new ERP system for our Cherry Hill facility and \$54,000 primarily for demonstration equipment for our Sunnyvale facility. The remaining purchases of approximately \$40,000 were for equipment for our foreign subsidiaries.

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

Net cash used in financing activities for the six months ended June 30, 2003 was \$39,000, which primarily represented payments made under capital lease obligations.

We have a secured credit facility which provides for maximum borrowings of \$200,000. We have not utilized this facility to borrow any funds. Our only usage consists of the issuance of a letter of credit in the face amount of \$200,000. We pay a quarterly commitment fee of 0.425% per annum on the unused portion of the facility; however, based upon current projected usage, we do not expect to pay a fee in 2003. The terms of the loan agreement require that we maintain a minimum level of \$200,000 of domestic cash. This credit facility expires on September 30, 2004.

We believe that our existing cash balances plus the anticipated net cash provided from operations will be sufficient to satisfy our cash requirements for the foreseeable future. However, we have been experiencing operating losses due to the severe industry downturn. Should the current industry downturn continue for longer than anticipated, or be more severe than we currently project, and we are unable to further reduce our fixed operating expenses, we may require additional equity or debt financing to meet working capital requirements or capital expenditure needs. We cannot determine with certainty that, if needed, we would be able to raise additional funding through either equity or debt financing.

**New Accounting Pronouncements**

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantees. FIN 45 also requires additional disclosure about the guarantor's obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective after December 15, 2002 and are included in Note 2 to our Consolidated Financial Statements under "Product Warranties."

On January 1, 2003, we adopted Statement of Financial Accounting Standards ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses the accounting and reporting of expenses related to restructurings initiated after 2002, and applies to costs associated with an exit activity (including a restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. SFAS No. 146 changes some of the criteria for recognizing a liability for these activities. The adoption of SFAS No. 146 did not have an effect on our results of operations, financial condition or long-term liquidity.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. This statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Effective January 1, 2003, we adopted the disclosure requirements of SFAS No. 148 regarding disclosure requirements for condensed consolidated financial statements for interim periods, as required. We have not yet determined if we will make the voluntary change to the fair value based method of accounting for stock-based employee compensation at this time.

**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 and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, identifiable intangibles, long-lived assets and related goodwill, deferred income tax valuation allowances and warranty reserves. We base our estimates on historical experience and on appropriate and customary assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Some of these accounting estimates and assumptions are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ markedly from what had been assumed

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

when the financial statements were prepared. As of June 30, 2003, there have been no significant changes to the accounting policies that we have deemed critical. Our critical accounting policies are more fully described in our 2002 Form 10-K.

**International Operations**

Net revenues generated by our foreign subsidiaries were 26% and 12% of consolidated net revenues for the six months ended June 30, 2003 and 2002, respectively. We anticipate that net revenues generated by our foreign subsidiaries will continue to account for a significant portion of consolidated net revenues in the foreseeable future. The net revenues generated by our foreign subsidiaries will continue to be subject to certain risks, including political and economic instability of foreign countries, the imposition of financial and operational controls or regulatory restrictions by foreign governments, the need to comply with a variety of U.S. and foreign export and import laws, the uncertainty and potential adverse impact that Severe Acute Respiratory Syndrome (SARS) may have on demand for and production of semiconductors, trade restrictions, changes in tariffs and taxes, longer payment cycles, fluctuations in foreign currency exchange rates, and the greater difficulty of administering business abroad. We cannot predict whether quotas, duties, taxes or other charges or restrictions will be implemented by the U.S. or any other country upon the importation or exportation of our products in the future. Any of these factors or the adoption of restrictive policies could have a material adverse effect on our business, financial condition or results of operations.

Net revenues denominated in foreign currencies were 10% and 10% of consolidated net revenues for the six months ended June 30, 2003 and 2002, respectively. Although we seek to operate our business such that a significant portion of our product costs are denominated in the same currency as the associated sales, we may be adversely affected in the future due to our exposure to foreign operations. Moreover, net revenues denominated in currencies other than U.S. dollars expose us to currency fluctuations, which can adversely affect our results of operations.

Net revenues derived from sales to the Asia-Pacific region were 16% and 5% of consolidated net revenues for the six months ended June 30, 2003 and 2002, respectively. Countries in the Asia-Pacific region, including Japan, have experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Continued economic instability could have a material adverse effect on demand for our products and our consolidated results of operations.

### **Risks That Could Affect Future Results**

A number of the matters and subject areas discussed in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report that are not historical or current facts deal with potential future circumstances and developments. These forward-looking statements typically can be identified by the use of 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 other factors described elsewhere in this report, our actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by factors, including, without limitation: the highly cyclical nature of the semiconductor industry, the continuing downturn in the semiconductor and ATE industries and the uncertainty regarding the timing of a reversal of this cycle; the uncertainty and potential adverse impact that SARS (Severe Acute Respiratory Syndrome) may have on demand for and production of semiconductors; dependence upon capital expenditures of semiconductor manufacturers; developments and trends in the semiconductor and ATE industries; changes in general economic, business and financial market conditions; future acquisitions and our ability to successfully integrate the businesses, technologies or products that we may acquire; costs and capital requirements associated with future acquisitions and integration of operations; the impairment of goodwill related to prior or future acquisitions; increased competition and potential loss of market share due to the expiration of patent rights; the loss of, or reduction in orders from, one or more major customers; cancellation or delays in shipment of orders in our backlog; competition from other manufacturers of docking hardware, positioners, tester interfaces and temperature management products; progress of product development programs; technological obsolescence of our inventory; unanticipated exchange rate fluctuations; the availability of qualified personnel; the ability to effectively control operating costs; competitive pricing pressures; the mix of products sold; the mix of customers and geographic regions where products are sold; the development of new products and technologies by our competitors; our ability to obtain patent protection and to enforce patent rights for existing and developing proprietary technologies; and the sufficiency of cash balances, lines of credit and net cash from operations. Additional information regarding these risks and uncertainties may be found elsewhere in this report or in our other periodic reports filed with the Securities and Exchange Commission, including our 2002 Form 10 - -K.

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## **inTEST CORPORATION**

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Exchange Rate Risk Management**

We are exposed to currency exchange rate risk in the normal course of our business, primarily in our foreign operations. Our exposure results from the fact that some or all of the product sales at these operations are in one currency and inventory purchases are in another currency. In our U.K. operation, approximately 50% to 70% of our sales are in U.S. dollars and the corresponding inventory purchases to support these sales are in British pounds. In our Singapore operation, 100% of our sales are in U.S. dollars but some of our manufacturing costs are in British pounds and Singapore dollars. In our Japanese operation, our sales are in Japanese yen and inventory purchases are in U.S. dollars. In one of our German operations, our sales are in Euros while inventory purchases are in U.S. dollars. From time to time we employ risk management strategies, including the use of forward exchange rate contracts, to manage our exposure to exchange rate risks involving the yen, and may, in the future, use forward exchange rate contracts to manage our exposure to exchange rate risks involving the British pound, the Singapore dollar or the Euro.

Our objective in managing currency exchange risk is to minimize the impact of significant currency exchange rate fluctuations. Periodically, we use forward exchange rate contracts to establish a fixed conversion rate between the Japanese yen and the U.S. dollar so that the level of our gross margin from sales in Japan is not negatively affected by significant movements in the Japanese yen to U.S. dollar exchange rate. We purchase forward exchange rate contracts on a monthly basis as needed in the amounts management deems appropriate in light of the amount of the U.S. dollar denominated obligations of our Japanese subsidiary that are due within the month. We do not purchase forward contracts with settlement dates beyond 30 days. As of June 30, 2003, there were no forward exchange rate contracts outstanding.

It is our policy to enter into forward exchange rate contracts only to the extent necessary to achieve the desired objectives of management in limiting our exposure to significant fluctuations in currency exchange rates. We do not hedge all of our currency exchange rate risk exposures in a manner that would completely eliminate the impact of changes in currency exchange rates on our net earnings. We do not expect that the results of our operations or our liquidity will be materially affected by these risk management activities.

#### **Interest Rate Risk Management**

As of June 30, 2003, we had cash and cash equivalents of \$7.6 million. We generally place our investments in U.S. Treasury obligations or money market funds backed by such investments. We have not held and do not hold any derivatives related to our interest rate exposure. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that had the average yield of our investments decreased by 100 basis points per annum, our interest income for the six months ended June 30, 2003 would have decreased by less than \$20,000. This estimate assumes that the decrease occurred on the first day of the period and reduced the yield of each investment by 100 basis points per annum. The impact on our future interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents and short-term investments. See "Liquidity and Capital Resources" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **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 of our Quarterly Report contains information concerning the evaluations of our disclosure controls and procedures and internal control over financial reporting 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 presented.

**Evaluation of Our Disclosure Controls and Procedures.** The Securities and Exchange Commission (the "SEC") requires that as of the end of the quarter covered by this Report, the CEO and the 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 Quarterly 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

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### Item 4. CONTROLS AND PROCEDURES (Continued)

such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Evaluation of Our Internal Control Over Financial Reporting.** The SEC also requires that the CEO and CFO certify certain matters regarding our internal control over financial reporting.

"Internal control over financial reporting" means the process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Among the matters our CEO and CFO must certify in the Section 302 Certifications are whether all "significant deficiencies" or "material weakness" in the design or operation of our internal control over financial reporting that are likely to adversely affect our ability to record, process, summarize and report financial information have been disclosed to our auditors and the Audit Committee of our Board of Directors. "Significant deficiencies" has the same meaning as the term "reportable conditions" in auditing literature. Both terms represent deficiencies in the design or operation of internal control over financial reporting that could adversely affect a company's ability to record, process, summarize and report financial data consistent with the assertions of management in a company's financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the design or operation of one or more internal control over financial reporting components does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. A "material weakness" constitutes a greater deficiency than a "significant deficiency, but an aggregation of significant deficiencies may constitute a material weakness in a company's internal control over financial reporting.

**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.

**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 the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, subject to the limitations noted above, our disclosure controls and procedures are effective to provide reasonable assurance that the disclosure controls and procedures will meet their objectives.

**Changes in Internal Control Over Financial Reporting.** As required by Rule 13a-15(d), inTEST management, including the CEO and CFO conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. That evaluation did not identify any such change during the quarter covered by this report.

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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 2. Changes in Securities and Use of Proceeds

None

## Item 3. Defaults Upon Senior Securities

None

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

The Annual Meeting of Stockholders of the Company was held on June 11, 2003 (the "Meeting"). Notice of the Meeting was mailed to stockholders of record on or about May 12, 2003, together with proxy solicitation materials prepared in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

The matters submitted to a vote of stockholders at the Meeting were the following:

1. Election of the members of the Board of Directors;
2. Ratification of the appointment by the Board of Directors of KPMG LLP as the independent public accountants for inTEST for the year ending December 31, 2003.

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

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
Alyn R. Holt	7,292,062	548,904
Robert E. Matthiessen	7,383,730	457,236
Daniel J. Graham	7,383,730	457,236
Richard O. Endres	7,838,593	2,373
Stuart F. Daniels, Ph.D.	7,401,682	439,284
Gregory W. Slayton	7,838,663	2,303
James J. Greed, Jr.	7,838,593	2,373

The proposal to ratify the appointment of KPMG LLP as the Company's independent public accountants for the year ending December 31, 2003 was ratified. The number of votes cast for or against as well as the number of abstentions for the ratification were as follows:

<u>For</u>	<u>Against</u>	<u>Abstentions</u>
7,838,406	1,910	650

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## Item 5. Other Information

None

## Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits:*

- 3.1\* Articles of Incorporation: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, and incorporated herein by reference.
- 3.2\* By-Laws: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, 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

(b) *Reports on Form 8-K*

On April 30, 2003, we filed a Current Report on Form 8-K providing information responsive to the requirements of Item 5, 7 and 12 of that form regarding our financial results and conference call for the quarter ended March 31, 2003.

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**Signatures**

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

**inTEST Corporation**

Date: August 14, 2003      /s/ Robert E. Matthiessen  
Robert E. Matthiessen  
*President and Chief Executive Officer*

Date: August 14, 2003      /s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
*Treasurer and Chief Financial Officer*

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**Index to Exhibits**

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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

**CERTIFICATION**

I, Robert E. Matthiessen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of inTEST Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

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

**CERTIFICATION**

I, Hugh T. Regan, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of inTEST Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

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

**inTEST CORPORATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert E. Matthiessen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 14, 2003

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

**inTEST CORPORATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh T. Regan, Jr., Secretary, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 14, 2003

/s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
Secretary, Treasurer and Chief Financial Officer