

INTEST CORP  
Form 10-Q  
November 13, 2009

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, 2009 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22529

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

22-2370659

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

7 Esterbrook Lane  
Cherry Hill, New Jersey 08003

(Address of principal executive offices, including zip code)

(856) 424-6886

(Registrant's Telephone Number, including Area Code)

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS 232.405 of this chapter) during the preceding 12 month (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

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Large accelerated filer   
Non-accelerated filer

Accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of shares of Common Stock, \$.01 par value, outstanding as of the close of business on October 31, 2009:

10,053,956

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inTEST CORPORATION

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## PART 1. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION  
CONSOLIDATED BALANCE SHEETS

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

	Sept. 30, 2009	Dec. 31, 2008
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,428	\$ 7,137
Trade accounts receivable, net of allowance for doubtful accounts of \$187 and \$148, respectively	4,169	3,758
Inventories	3,237	4,193
Prepaid expenses and other current assets	<u>467</u>	<u>816</u>

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Total current assets	<u>11,301</u>	<u>15,904</u>
Property and equipment:		
Machinery and equipment	3,858	3,869
Leasehold improvements	<u>576</u>	<u>576</u>
	4,434	4,445
Less: accumulated depreciation	<u>(4,076)</u>	<u>(3,828)</u>
Net property and equipment	<u>358</u>	<u>617</u>
Goodwill	1,656	1,656
Intangible assets, net	1,245	1,346
Other assets	<u>284</u>	<u>969</u>
Total assets	<u>\$14,844</u>	<u>\$20,492</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,249	\$ 1,830
Accrued wages and benefits	773	1,569
Accrued professional fees	336	391
Accrued warranty	240	281
Accrued sales commissions	300	160
Accrued restructuring and other charges	4	141
Other accrued expenses	471	553
Domestic and foreign income taxes payable	10	173
Deferred rent	118	118
Capital lease obligations	<u>3</u>	<u>8</u>
Total current liabilities	<u>4,504</u>	<u>5,224</u>
Notes payable to stockholder	1,525	1,525
Deferred rent, net of current portion	187	275
Capital lease obligations, net of current portion	<u>-</u>	<u>1</u>
Total liabilities	<u>6,216</u>	<u>7,025</u>
Commitments and contingencies (Notes 9 and 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 10,193,255 and 10,209,005 shares issued, respectively	102	102
Additional paid-in capital	25,765	25,665
Accumulated deficit	(17,943)	(12,958)
Accumulated other comprehensive earnings	1,565	1,519
Treasury stock, at cost; 139,299 and 139,299 shares, respectively	<u>(861)</u>	<u>(861)</u>
Total stockholders' equity	<u>8,628</u>	<u>13,467</u>
Total liabilities and stockholders' equity	<u>\$14,844</u>	<u>\$20,492</u>
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	----- 2009 -----	----- 2008 -----	----- 2009 -----	----- 2008 -----
Net revenues	\$ 6,009	\$ 9,159	\$15,076	\$31,960

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Cost of revenues	3,577	6,197	10,425	20,022
	-----	-----	-----	-----
Gross margin	2,432	2,962	4,651	11,938
	-----	-----	-----	-----
Operating expenses:				
Selling expense	988	1,863	3,161	6,180
Engineering and product development expense	515	1,235	1,848	4,062
General and administrative expense	1,161	1,750	4,219	6,038
Impairment of long-lived assets	-	133	-	133
Restructuring and other charges	27	61	356	261
	-----	-----	-----	-----
Total operating expenses	2,691	5,042	9,584	16,674
	-----	-----	-----	-----
Operating loss	(259)	(2,080)	(4,933)	(4,736)
	-----	-----	-----	-----
Other income (expense):				
Interest income	7	40	40	196
Interest expense	(20)	(1)	(54)	(1)
Other	(5)	46	(44)	(28)
	-----	-----	-----	-----
Total other income (expense)	(18)	85	(58)	167
	-----	-----	-----	-----
Loss before income tax expense (benefit)	(277)	(1,995)	(4,991)	(4,569)
Income tax expense (benefit)	1	37	(6)	146
	-----	-----	-----	-----
Net loss	\$ (278)	\$ (2,032)	\$ (4,985)	\$ (4,715)
	=====	=====	=====	=====
Net loss per common share - basic	\$ (0.03)	\$ (0.22)	\$ (0.50)	\$ (0.51)
Weighted average common shares outstanding-basic	9,982,972	9,337,092	9,971,157	9,322,964
Net loss per common share - diluted	\$ (0.03)	\$ (0.22)	\$ (0.50)	\$ (0.51)
Weighted average common and common share equivalents outstanding-diluted	9,982,972	9,337,092	9,971,157	9,322,964

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)  
(Unaudited)

Three Months Ended      Nine Months Ended

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	Sept. 30,		Sept. 30,	
	2009	2008	2009	2008
Net loss	\$ (278)	\$ (2,032)	\$ (4,985)	\$ (4,715)
Foreign currency translation adjustments	114	(455)	46	20
Comprehensive loss	\$ (164)	\$ (2,487)	\$ (4,939)	\$ (4,695)

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)  
(Unaudited)

	Common Stock	Addt'l	Accumulated	Accumulated	Treasury	Total	
	Shares	Amount	Paid-In	Deficit	Stock	Stockholders'	
			Capital			Equity	
Balance, January 1, 2009	10,209,005	\$ 102	\$25,665	\$ (12,958)	\$1,519	\$ (861)	\$13,467
Net loss	-	-	-	(4,985)	-	-	(4,985)
Other comprehensive earnings	-	-	-	-	46	-	46
Forfeiture of non-vested shares of restricted stock	(15,750)	-	-	-	-	-	-
Amortization of deferred compensation related to restricted stock	-	-	100	-	-	-	100
Balance, September 30, 2009	10,193,255	\$ 102	\$25,765	\$ (17,943)	\$1,565	\$ (861)	\$ 8,628

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)  
(Unaudited)

	Nine Months Ended Sept. 30,	
	2009	2008
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (4,985)	\$ (4,715)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	389	744
Impairment of long-lived assets	-	133
Foreign exchange loss	113	172
Amortization of deferred compensation related to restricted stock	100	334
Loss on disposal of fixed assets	33	-
Proceeds from sale of demonstration equipment, net of gain	3	7
Changes in assets and liabilities:		
Trade accounts and notes receivable	(116)	423
Inventories	963	611
Prepaid expenses and other current assets	336	318
Other assets	661	16
Accounts payable	420	333
Accrued wages and benefits	(779)	(78)
Accrued professional fees	(56)	87
Accrued warranty	(42)	(64)
Accrued sales commissions	140	(11)
Accrued restructuring and other charges	(136)	51
Other accrued expenses	(78)	122
Domestic and foreign income taxes payable	(159)	(35)
Deferred rent	(88)	(88)
	-----	-----
Net cash used in operating activities	(3,281)	(1,640)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	-	(262)
Purchase of property and equipment	(61)	(320)
	-----	-----
Net cash used in investing activities	(61)	(582)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(6)	(5)
	-----	-----
Net cash used in financing activities	(6)	(5)
	-----	-----
Effects of exchange rates on cash	(361)	(43)
	-----	-----
Net cash used in all activities	(3,709)	(2,270)
Cash and cash equivalents at beginning of period	7,137	12,215
	-----	-----
Cash and cash equivalents at end of period	\$ 3,428	\$ 9,945
	=====	=====
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Details of acquisition:		
Fair value of assets acquired		\$ 132
Liabilities assumed		-
Goodwill resulting from acquisition		130

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Net cash paid for acquisition		----- \$ 262 =====
Forfeitures of non-vested shares of restricted stock	\$ (64)	\$ - =====
Cash payments (refunds) for:		
Domestic and foreign income taxes	\$ 160	\$ (53)
Interest	3	1

See accompanying Notes to Consolidated Financial Statements.

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**(1) NATURE OF OPERATIONS**

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

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

During 2008, we acquired Diamond Integration L.L.C. ("Diamond") and Sigma Systems Corp. ("Sigma"), as discussed further in Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 (our "2008 Form 10-K"). The results of Diamond from the date of acquisition are included in our Mechanical Products segment. The results of Sigma from the date of acquisition are included in our Thermal Products segment.

During the fourth quarter of 2008, we closed our manufacturing facility in Amerang, Germany, and our engineering and sales office in the U.K., as discussed further in Note 4. On April 8, 2009, we approved the closure of our Japanese operation, and, on April 14, 2009, we approved reductions in workforce in our Singaporean operation, as discussed further in Note 4. In connection with these actions, we centralized manufacturing of mechanical products in our Cherry Hill, New Jersey operation. All of these operations are included in our Mechanical Products segment.

During the third quarter of 2009, we approved the relocation of Sigma to Sharon, Massachusetts. Sigma will share a facility with Tempronic Corporation. These two companies, along with an operation in Germany, comprise our Thermal Products segment. This relocation will commence in mid-December and we expect it to be completed and that Sigma will be fully operational by January 4, 2010. The anticipated costs associated with this relocation are discussed further in Note 4.



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

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

### Going Concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. We have incurred significant losses in three of the last five years, including losses in 2007 and 2008 and the first nine months of 2009. These losses were attributable to operations as well as to charges for impairments and restructurings. We have managed our liquidity during this time primarily through a series of cost reduction initiatives. However, the continuing weakness and turmoil of the macroeconomic environment that began in 2008, worsened in 2009 and resulted in a significant reduction in equipment utilization rates in the semiconductor industry. While we presently see positive indicators in all of our segments, and although our bookings for the third quarter of 2009 increased to \$7,886 as compared to \$4,563 for the second quarter of the year, we continue to remain focused on methods to reduce our cash burn and manage our cash flow. As a result of our continued operating losses in 2009, primarily incurred during the first half of the year, combined with an increase in inventory purchases resulting from the increase in the level of orders during the third quarter of 2009, as of September 30, 2009, our cash and cash equivalents declined to \$3,428 as compared to \$4,606 as of June 30, 2009 and \$7,137 as of December 31, 2008.

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### inTEST CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

During the quarter ended June 30, 2009, we received approximately \$944, which represented the cash surrender value of several life insurance policies which were cancelled in connection with the closure of our Japanese operation. Of the amount received, approximately \$494 represented retirement assets which were paid out to the former managing director of this operation during the third quarter of 2009. We do not currently have any available credit facilities under which we can borrow to help fund our working capital requirements.

In light of deteriorating conditions in the semiconductor industry and the global economy, we initiated a series

of restructuring and cost reduction programs during the fourth quarter of 2008, which continued in the first nine months of 2009, in order to conserve cash and reduce costs. In addition, in April 2009, we retained a financial advisor to explore strategic alternatives to enhance operating performance and stockholder value. We determined that under the then current market conditions and with our then current resources, our goals were to continue conserving cash, reducing costs and generating sales of our products. Since that time, we have implemented strategies consistent with those goals and remain committed to those objectives. We also continue to consider other alternatives as we may deem appropriate. If we are not successful in generating sufficient additional sales and conserving cash, or if we cannot obtain adequate financing for our working capital needs if our business continues expanding, we may be forced to seek relief through a filing under the U.S. Bankruptcy Code. We will likely incur additional restructuring charges in future periods; however, we cannot predict the amount of such charges at this time.

As a result of these conditions, in connection with the audit of our financial statements as of December 31, 2008, we received a report from our independent registered public accounting firm expressing substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on many events, some of which may be outside of our direct control, including, among other things, the success and timeliness of our cost reduction initiatives and the availability of financing, if needed, to fund our working capital requirements. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### **Basis of Presentation and Use of Estimates**

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our 2008 Form 10-K.

#### **Inventories**

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventory are recorded in operating cash flows. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current industry conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The charges for excess and obsolete inventory we record establish a new cost basis for the related inventory. We incurred excess and obsolete inventory charges of \$804 and \$816 for the nine months ended September 30, 2009 and 2008,

respectively.

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Goodwill, Intangible and Long-Lived Assets

Goodwill is assessed for impairment at least annually in the fourth quarter, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess. Indefinite-lived intangible assets are assessed for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

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

Revenue Recognition

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

With respect to sales tax collected from customers and remitted to governmental authorities, we use a net presentation in our consolidated statement of operations. As a result, there are no amounts included in either our net revenues or

cost of revenues related to sales tax.

**Product Warranties**

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

**Restructuring and Other Charges**

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

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

**Income Taxes**

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

For the nine months ended September 30, 2009, we recorded an income tax (benefit) of \$(6) compared to income tax expense of \$146 for the same period in 2008. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. Due to our history of operating losses in our domestic and certain of our foreign operations, we have recorded a full

valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire.

### Net Earnings (Loss) Per Common Share

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

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

	Three Months Ended		Nine Months Ended	
	Sept. 30,		Sept. 30,	
	2009	2008	2009	2008
Weighted average common shares outstanding - basic	9,982,972	9,337,092	9,971,157	9,322,964
Potentially dilutive securities:				
Employee stock options and unvested shares of restricted stock	-	-	-	-
Weighted average common shares outstanding - diluted	<u>9,982,972</u>	<u>9,337,092</u>	<u>9,971,157</u>	<u>9,322,964</u>
Average number of potentially dilutive securities excluded from calculation	479,690	630,680	505,125	660,808
Weighted average exercise price of excluded securities	\$3.55	\$3.74	\$3.57	\$3.76

### Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification ("ASC") as the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 is codified as ASC Topic 105. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the ASC

carries an equal level of authority. On the effective date of SFAS No. 168, the ASC superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the ASC became non-authoritative. SFAS No. 168 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. Subsequent to the effective

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

date of SFAS No. 168, the FASB no longer issues new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB issues Accounting Standards Updates. The FASB does not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. We adopted SFAS No. 168 as of the end of the third fiscal quarter of 2009. The adoption of FAS No. 168 did not have any impact on our consolidated financial statements, however, it changes our footnote referencing related to the sources for existing GAAP and recently issued modifications of GAAP.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 and related interpretations are codified as ASC Topic 820. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date for FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted SFAS No. 157 as of January 1, 2008 for assets and liabilities not subject to the deferral. We adopted SFAS No. 157 as of January 1, 2009 for assets and liabilities that were subject to the deferral. The adoption of SFAS No. 157 as of January 1, 2008 and January 1, 2009, respectively, did not have a material impact on our consolidated financial statements. In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. We adopted FSP FAS 157-4 effective as of the beginning of the second fiscal quarter of 2009. The adoption of FSP FAS 157-4 did not have any impact on our consolidated financial statements.

In April 2009, the FASB also issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP FAS 107-1 and APB 28-1 is codified as ASC Topic 825 and relates to fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair

value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. We adopted FSP FAS 107-1 and APB 28-1 effective as of the beginning of the second fiscal quarter of 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS 141(R) and related interpretations are codified as ASC Topic 805. SFAS 141(R) significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. In April 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. SFAS 141(R) and FSP FAS 141(R)-1 are effective as of the beginning of the first fiscal year beginning after December 15, 2008, and early adoption is prohibited. We adopted SFAS 141(R) and FSP FAS 141(R)-1 as of January 1, 2009. The adoption of SFAS 141(R) and FSP FAS 141(R)-1 will change our accounting for business combinations on a prospective basis for any business combination completed on or after January 1, 2009.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 is codified as ASC Topic 350 and amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 also adds certain disclosures to those already prescribed in SFAS No. 142. FSP FAS 142-3 is effective as of the beginning of the first fiscal year beginning after December 15, 2008, and early adoption is prohibited. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure

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

requirements must be applied prospectively to all intangible assets recognized as of the effective date. We adopted FSP FAS 142-3 as of January 1, 2009. FSP FAS 142-3 will change our accounting for intangible assets acquired after the adoption date.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. FSP FAS 133-1 and FIN 45-4 is codified as ASC Topic 815 and amends SFAS No. 133 to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument. The intent of these enhanced disclosures is to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including*

*Indirect Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 is effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008, with early application encouraged. FSP FAS 133-1 and FIN 45-4 encourages, but does not require, comparative disclosures. We adopted FSP FAS 133-1 and FIN 45-4 at the beginning of the fourth quarter of fiscal 2008. The adoption of FSP 133-1 and FIN 45-4 for reporting as of December 31, 2008, did not have any impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 is codified as ASC Topic 855 and provides authoritative accounting guidance regarding subsequent events that was previously addressed in auditing literature. SFAS 165 modifies the guidance in AU Section 560 to name the two types of subsequent events as either recognized subsequent events (previously referred to in practice as, "Type I subsequent events") or non-recognized subsequent events (previously referred to in practice as, "Type II subsequent events"), and to require companies to disclose the date through which it has evaluated subsequent events, which for public companies should be the date the financial statements are issued. SFAS 165 is effective on a prospective basis for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have any impact on our consolidated financial statements. We have evaluated subsequent events through November 13, 2009. We have determined there were no material subsequent events requiring disclosure in our consolidated financial statements for the nine months ended September 30, 2009.

#### **New Accounting Standards**

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, *Measuring Liabilities at Fair Value* ("ASU 2009-05"), which amends ASC Topic 820, Fair Value Measurements. ASU 2009-05 clarifies the application of certain valuation techniques in circumstances when a quoted price in an active market for the identical liability is not available and clarifies that when estimating the fair value of a liability, the fair value is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The guidance provided in ASU 2009-05 is effective for us beginning October 1, 2009. We do not expect ASU 2009-05 to have a material impact on our consolidated financial statements once adopted.

### **(3) GOODWILL AND INTANGIBLE ASSETS**

As of September 30, 2009 and December 31, 2008, our goodwill totaled \$1,656 and \$1,656, respectively, and our indefinite-lived intangible asset totaled \$510 and \$510, respectively. The goodwill and indefinite-lived intangible asset are both a result of our acquisition of Sigma in October 2008 and are allocated to our Thermal Products reporting unit, as discussed in Note 3 to the consolidated financial statements in our 2008 Form 10-K.

As of September 30, 2009 and December 31, 2008, we had finite-lived intangible assets which totaled \$735 and \$836, net of accumulated amortization of \$135 and \$34, respectively. At September 30, 2009 and December 31, 2008, we had three finite-lived intangible assets which consisted of customer relationships, software and patents held by Sigma at the time of our acquisition of this operation in October 2008, as discussed further in Note 3 to the consolidated financial statements in our 2008 Form 10-K. These intangible assets are being amortized on a straight-line basis over estimated useful lives of 72 months, 120 months and 60 months, respectively. As of September 30, 2009, these assets had remaining estimated useful lives of 60 months, 108 months, and 48 months, respectively. These intangible assets are allocated to our Thermal Products segment.



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**(3) GOODWILL AND INTANGIBLE ASSETS (Continued)**

The following table sets forth changes in the amount of the carrying value of finite-lived intangible assets for the nine months ended September 30, 2009:

	\$836
Balance - January 1, 2009	
	<u>(101</u>
Amortization	
	)
	<u>\$735</u>
Balance - September 30, 2009	

The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

	\$135
2010	
	\$135
2011	
	\$135
2012	
	\$123
2013	
	\$ 73
2014	

(4)

**RESTRUCTURING AND OTHER CHARGES**

In response to the significant decline in our orders and net revenues during 2008 and the first half of 2009, we have taken actions to reduce our cost structure. The actions we have taken are described below. The review of our operations is on-going. We continue to explore methods to further reduce our costs and we will likely incur additional restructuring charges in future periods; however, we cannot predict the amount of such charges at this time.

During the third quarter of 2009, we approved the relocation of Sigma, currently located in El Cajon, California, to Sharon, Massachusetts where Temptronic Corporation's manufacturing operations are currently located (both of these operations are part of our Thermal Products segment). Sigma will share a facility with Temptronic Corporation. On September 30, 2009, we announced this relocation to the Sigma employees. In connection with the facility closure in El Cajon, we plan to terminate 18 Sigma employees during the fourth quarter of 2009, representing approximately 32% of the employees in this segment, and expect to incur approximately \$104 in one-time termination benefits

related to this action. We expect to complete the facility closure in El Cajon by the end of the fourth quarter of 2009 and incur approximately \$77 of facility closure costs related to this action. We expect to incur approximately \$125 to \$150 of other costs associated with this consolidation of facilities. We expect to incur all of these costs during the fourth quarter of 2009 and expect that the completed actions in this segment will reduce our annual operating expenses by approximately \$636. This action is being taken to reduce the operating expenses of this segment in response to current business conditions.

**2009 Restructuring Actions**

***Thermal Products Segment***

During the first six months of 2009, we approved three separate workforce reductions in our Thermal Products segment. On January 15, 2009, we approved a reduction of 5 employees, representing approximately 6% of the total employees in this segment and on February 19, 2009, we approved a reduction in workforce of 6 employees, representing approximately 8% of the total employees in this segment (collectively the "Q1 2009 TP Workforce Reduction"). We completed the communications of these actions to our employees on January 22, 2009 and February 19, 2009, respectively. We incurred \$60 in total costs related to these actions for one-time termination benefits. These costs were incurred in the first quarter of 2009. On April 8, 2009, we approved a reduction of 11 employees, representing approximately 15% of the total employees in this segment (the "Q2 2009 TP Workforce Reduction"). We completed the communication of this action to our employees on April 15, 2009. We incurred approximately \$62 in total costs related to these actions for one-time termination benefits. These costs were incurred in the second quarter of 2009.

These actions were taken to reduce the operating expenses of this segment in response to current business conditions. We expect that the completed actions in this segment will reduce our annual operating expense structure by approximately \$1,256.

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**RESTRUCTURING AND OTHER CHARGES (Continued)**

**Mechanical Products Segment**

On April 8, 2009, we approved a reduction in workforce in our Mechanical Products segment of 13 employees which represented approximately 20% of the employees in this segment. We incurred approximately \$71 in total costs related to this action for one-time termination benefits. These costs were incurred in the second quarter of 2009. We completed the communication of this action to our employees on April 15, 2009.

Also on April 8, 2009, we approved the closure of our Japanese operation, which is part of our Mechanical Products segment. The four full-time and one part-time employees were notified of this planned closure on April 24, 2009. Three full-time employees were terminated on May 31, 2009. No one-time termination benefits were paid to these employees or will be paid to the current employees when they are terminated. We currently expect to terminate the final two employees by the end of the fourth quarter of 2009. During the third quarter of 2009, we recorded facility

closure costs of \$27 for our Japanese operation. We vacated our Japanese facility at the end of the third quarter of 2009.

On April 14, 2009, we approved reductions in workforce in our Singaporean operation, which is also part of our Mechanical Products segment, of 8 employees and notified these employees of their planned termination on April 20, 2009. We terminated four employees on May 15, 2009, one employee on May 31, 2009, and three employees on June 30, 2009. We incurred approximately \$51 in total costs related to this action for one-time termination benefits. We incurred these costs during the second quarter of 2009. In connection with this action, we plan to centralize manufacturing of all mechanical products in our Cherry Hill, New Jersey operation.

The reductions in force noted above for our Japanese and Singaporean operations totaled 13 employees, representing 26% of the employees in our Mechanical Products segment.

These actions (collectively, the "Q2 2009 MP Plan") were taken to reduce the operating expenses of this segment in response to current business conditions. We expect that the completed actions in this segment will reduce our annual operating expense structure by approximately \$1,538.

#### ***Electrical Products Segment***

On April 27, 2009, we approved workforce reductions in our Electrical Products segment (the "Q2 2009 EP Workforce Reduction"). On April 30, 2009, we terminated 10 employees and an additional staff person was terminated on May 15, 2009, which represented 61% of the employees in this segment. We incurred approximately \$77 in total costs related to these actions for one-time termination benefits. We incurred these costs during the second quarter of 2009.

These actions were taken to reduce the operating expenses of this segment in response to current business conditions. We expect that the completed actions in this segment will reduce our annual operating expense structure by approximately \$779.

#### ***Corporate Segment***

On April 8, 2009, we approved a reduction in workforce in our Corporate segment of one employee which represented approximately 20% of the employees in this segment (the "Q2 2009 Corporate Workforce Reduction"). We incurred approximately \$6 in total costs related to this action for one-time termination benefits. These costs were incurred in the second quarter of 2009. We also approved a reduction in the base salary of our Executive Chairman of approximately \$152. We completed the communications of these actions to our employees on April 15, 2009. These actions were taken to reduce the operating expenses of this segment in response to current business conditions. We expect that the completed actions in this segment will reduce our annual operating expense structure by approximately \$202.

Our restructuring costs for the nine months ended September 30, 2009 are summarized as follows:

	Q3 2008	Q4 2008	Q3 2008	Q4 2008	Sub-Total
	MP	MP	EP	EP	
	<u>Plan</u>	<u>Plan</u>	<u>Plan</u>	<u>Plan</u>	<b><u>2008</u></b>
					<b><u>Plans</u></b>
Balance - January 1, 2009	\$ 72	\$ 28	\$ 3	\$ 38	\$141
Accruals for (reversals of) one-time termination benefits	10	-	(3)	(5)	2

Severance and other cash payments related to one-time termination benefits	(82	(24	-	(33	(139)
	)	)	)	)	)
	\$ -	\$ 4	\$ -	\$ -	\$ 4
Balance - September 30, 2009					

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**RESTRUCTURING AND OTHER CHARGES** (Continued)

	Q1 2009 TP Workforce Reduction	Q2 2009 TP Workforce Reduction	Q2 2009 MP Plan	Q2 2009 EP Workforce Reduction	Q2 2009 Corporate Workforce Reduction	Sub-Total <b>2009 Plans</b>	Total <b>All Plans</b>
Balance - January 1, 2009	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141
Accruals for one-time termination benefits	60	62	122	77	6	327	329
Accruals for facility closure costs	-	-	27	-	-	27	27
Severance and other cash payments related to one-time termination benefits )	(60	(62	(149	(77	(6	(354	(493)
	)	)	)	)	)	)	)
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4
Balance - September 30, 2009							

2008 Restructuring Actions

***Mechanical Products Segment***

On June 30, 2008, we announced that we were reducing the workforce in our Mechanical Products segment by 18 employees, representing 18% of the total employees in this segment, and implementing a reduced work week for our manufacturing facility in Amerang, Germany (the "Q2 2008 MP Workforce Reduction"). The total costs incurred related to this action were \$200. These costs represented one-time termination benefits. This action was completed in

the third quarter of 2008. We expect that the completed Q2 2008 MP Workforce Reduction will reduce our annual operating expense structure by approximately \$1,378.

On September 12, 2008, we approved a restructuring plan for our Mechanical Products segment (the "Q3 2008 MP Plan"). As a part of this plan, we closed our manufacturing facility in Amerang, Germany and our engineering and sales office in the U.K. In addition to these facility closures, we reduced our domestic workforce by 4 employees, which represented approximately 7% of the total employees in this segment. We also implemented temporary salary reductions for certain employees of this segment, temporarily reduced the fees paid to members of our Board of Directors and implemented permanent reductions for expenses related to our use of third-party vendors. Effective January 1, 2009, we implemented additional temporary and permanent cost reductions associated with our employee benefit plans. This includes the temporary suspension of our 401(k) matching contributions and the implementation of an employee contribution of a portion of the cost of medical coverage for our domestic employees in this segment. The total costs incurred related to these actions were \$331 which is made up of \$140 for one-time termination benefits and \$191 for facility closure costs. These actions were completed during the fourth quarter of 2008. We expect that the completed Q3 2008 MP Plan will reduce our annual operating expense structure by approximately \$2,176.

On December 9, 2008, we approved a further reduction in workforce in our Mechanical Products segment of 9 employees, representing approximately 11% of the total employees in this segment (the "Q4 2008 MP Plan"). We incurred approximately \$101 in total costs related to this action for one-time termination benefits. These costs were incurred in the fourth quarter of 2008. In addition to the reduction in workforce, we reduced by 40% the hours worked by three employees and reduced by 25% the salary of two employees. These actions were taken to reduce the operating expenses of this segment in response to continued operating losses. These actions were completed during the fourth quarter of 2008. We expect that the completed Q4 2008 MP Plan will reduce our annual operating expense structure by approximately \$798.

#### ***Electrical Products Segment***

On September 12, 2008, we approved a restructuring plan for our Electrical Products segment (the "Q3 2008 EP Plan"). As a part of this plan, we reduced our workforce by 3 employees, which represented approximately 9% of the total employees in this segment. We also implemented temporary salary reductions for certain employees of this segment, and, effective January 1, 2009, we implemented additional temporary and permanent cost reductions associated with our employee benefit plans, similar to those discussed above for the Q3 2008 MP Plan. The total costs incurred related to this action were \$8, which represented one-time termination benefits. This action was completed in the third quarter of 2008. We expect that the completed Q3 2008 EP Plan will reduce our annual operating expense structure by approximately \$546.

On November 19, 2008, we approved a further reduction in workforce in our Electrical Product segment of 10 employees, representing approximately 36% of the total employees in this segment (the "Q4 2008 EP Plan"). We incurred \$77 in total costs related to this action for one-time termination benefits. This action was taken to reduce the operating expenses of this segment in response to continued operating losses. These actions were completed during the fourth quarter of 2008. We expect that the completed Q4 2008 EP Plan will reduce our annual operating expense structure by approximately \$646.

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**RESTRUCTURING AND OTHER CHARGES** (Continued)

Our restructuring costs for the nine months ended September 30, 2008 are summarized as follows:

	Q2 2008 MP Workforce <u>Reduction</u>	Q3 2008 MP <u>Plan</u>	Q3 2008 EP <u>Plan</u>	<u>Total</u>
Balance - January 1, 2008	\$ -	\$ -	\$ -	\$ -
Accruals for one-time termination benefits	200	53	8	261
Severance and other cash payments related to one-time termination benefits	<u>(188)</u>	<u>(25)</u>	<u>-</u>	<u>(213)</u>
Balance - September 30, 2008	<u>\$ 12</u>	<u>\$ 28</u>	<u>\$ 8</u>	<u>\$ 48</u>

(5)

**MAJOR CUSTOMERS**

Texas Instruments Incorporated accounted for 12% and 17% of our consolidated net revenues for the nine months ended September 30, 2009 and 2008, respectively. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Mechanical Products segment. Teradyne, Inc. accounted for 10% of our consolidated net revenues for the nine months ended September 30, 2008. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Electrical Products and Mechanical Products segments. During the nine months ended September 30, 2009 and 2008, no other customer accounted for 10% or more of our consolidated net revenues.

(6)

**INVENTORIES**

Inventories held at September 30, 2009 and December 31, 2008 were comprised of the following:

	Sept. 30, <b>2009</b>	Dec. 31, <b>2008</b>
Raw materials	\$2,398	\$3,145
Work in process	378	298
Inventory consigned to others	110	165
	<u>351</u>	<u>585</u>

Finished goods

\$3,237    \$4,193

(7)

**NOTES PAYABLE TO STOCKHOLDER**

As a result of our acquisition of Sigma, as more fully discussed in Note 3 to the consolidated financial statements in our 2008 Form 10-K, we had non-negotiable promissory notes in an aggregate principal amount of \$1,525 and \$1,525 outstanding at September 30, 2009 and December 31, 2008, respectively. The notes bear interest at the prime rate plus 1.25% and are secured by the assets of Sigma. Interest is payable annually on the anniversary of closing. Principal is payable in four equal annual installments beginning on October 6, 2010. During the first nine months of 2009, we recorded \$51 of interest expense related to these notes payable, none of which was paid during the first nine months of 2009.

(8)

**LEASEHOLD IMPROVEMENTS AND DEFERRED RENT**

We record tenant improvements made to our leased facilities based on the amount of the total cost to construct the improvements regardless of whether a portion of that cost was paid through an allowance provided by the facility's landlord. The amount of the allowance, if any, is recorded as deferred rent. We amortize deferred rent on a straight-line basis over the lease term and record the amortization as a reduction of rent expense. Amortization of deferred rent was \$88 for the nine months ended September 30 during both 2009 and 2008. In addition, certain of our operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. For these leases, we recognize the related rental expense on a straight-line basis over the life of the lease and record the difference between the amounts charged to operations and amounts paid as accrued rent which is included in other accrued expenses on our balance sheet.

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**GUARANTEES**Product Warranties

Warranty expense for the nine months ended September 30, 2009 and 2008 was \$49 and \$63, respectively. The level of our product warranty charges both in absolute dollars and as a percentage of net revenues is affected by a number of factors including the cyclical nature of demand in the ATE industry, the prototype nature of much of our business, the complex nature of many of our products, and, at our discretion, providing warranty repairs or replacements to customers after the contracted warranty period has expired in order to promote strong customer relations.

The following table sets forth the changes in the liability for product warranties for the nine months ended September 30, 2009:

	\$281
Balance - January 1, 2009	
	(90)
Payments made under product warranty	
	<u>49</u>
Accruals for product warranty	
	<u>\$240</u>
Balance - September 30, 2009	

U.K. Lease Guarantee

In connection with the closure of our U.K. manufacturing operation, as more fully discussed in Note 13 to the consolidated financial statements in our 2008 Form 10-K, we have entered into a sub-leasing arrangement for the facility which was occupied by this operation prior to its closure. As a condition of the sub-lease, the landlord of this facility has required that we guarantee the performance of the sub-lessee with respect to the lease payments. We have performed a credit analysis of the sub-lessee and believe that a default by the sub-lessee with regard to its obligations under the sub-lease agreement is remote. However, as of September 30, 2009, there was approximately \$110 of future payments that we would be obligated to make if the sub-lessee were to default and we were unable to enter into a new sub-lease agreement with another party. Our original lease on this facility extends through December 31, 2010. As of September 30, 2009, we have not recorded any amounts in our financial statements related to this guarantee.

(10) STOCK-BASED COMPENSATION

As of September 30, 2009, we have outstanding stock options and unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 17 to the consolidated financial statements in our 2008 Form 10-K.

As of September 30, 2009, total compensation expense to be recognized in future periods was \$220. The weighted average period over which this expense is expected to be recognized is 1.6 years. All of this expense is related to nonvested shares of restricted stock.

Restricted Stock Awards

We record compensation expense for restricted stock awards (nonvested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. The following table shows the allocation of the compensation expense we recorded during the three and nine months ended September 30, 2009 and 2008, respectively, related to nonvested shares:

	Three Months	Nine Months
	Ended <u>      </u> Sept.	Ended <u>      </u> Sept.
	<u>30.</u>	<u>30.</u>



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	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cost of revenues	\$ 1	\$ 6	\$ 4	\$ 18
Selling expenses	3	9	8	25
Engineering and product development expense	7	12	18	37
General and administrative expenses	<u>23</u>	<u>85</u>	<u>70</u>	<u>254</u>
	<u>\$34</u>	<u>\$112</u>	<u>\$100</u>	<u>\$334</u>

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(10) STOCK-BASED COMPENSATION

(Continued)

There was no compensation expense capitalized in the nine months ended September 30, 2009 or 2008.

The following table summarizes the activity related to nonvested shares for the nine months ended September 30, 2009:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested shares outstanding, January 1, 2009	119,000	\$4.14
Granted	-	-
Vested	(36,750)	4.12
Forfeited	<u>(15,750)</u>	4.09
	)	
Nonvested shares outstanding, September 30, 2009	<u>66,500</u>	4.16

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2009:

	Number of Shares	Weighted Average <u>Exercise</u> <u>Price</u>
Options outstanding, January 1, 2009 (420,000 exercisable)	420,000	\$3.44
Granted	-	-
Exercised	-	-
Forfeited/Expired	<u>(12,000)</u>	3.29
	)	
Options outstanding, September 30, 2009 (408,000 exercisable)	<u>408,000</u>	3.45

#### (11) EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan (the "inTEST 401(k) Plan") for our employees who work in the U.S. As a part of this plan, we may match a portion of employee contributions. This plan, including our discretionary employer matching contributions, is more fully discussed in Note 18 to the consolidated financial statements in our 2008 Form 10-K. Effective January 1, 2009, we temporarily suspended our discretionary employer matching contributions to this plan.

In addition to the employer matching contributions for which employees of our Temptronic subsidiary are eligible, upon the termination of the Temptronic Equity Participation Plan ("EPP"), we acknowledged that it was our intention to contribute \$3,000 in the aggregate to the inTEST 401(k) Plan as a form of profit sharing (not to exceed \$300 per year) for the benefit of Temptronic employees. The amount of these profit sharing contributions approximates the amount that we had been committed to contribute to the EPP as of its termination date. All such profit sharing contributions are at the discretion of management, and will be allocated to employees annually in essentially the same manner in which the shares held by the EPP had been allocated. The vesting provisions for these contributions will be the same as those of the inTEST 401(k) Plan. Accruals for profit sharing contributions totaling \$0 and \$225 were made during the nine month periods ended September 30, 2009 and 2008, respectively. Through December 31, 2008, we had made a total of \$1,328 in profit sharing contributions. Effective January 1, 2009, we temporarily suspended profit sharing contributions due to operating losses being incurred by Temptronic. We have historically funded these contributions through the use of treasury shares during the quarter subsequent to the quarter in which we record the profit sharing liability, although management has the discretion to use cash to fund these contributions. Our current intention is to use cash to fund these contributions when our stock price is below \$3.00 per share.

#### (12) SEGMENT INFORMATION

We have three reportable segments, which are also our reporting units: Mechanical Products (formerly known as Manipulator and Docking Hardware), Thermal Products (formerly known as Temperature Management) and

Electrical Products (formerly known as Tester Interface).

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inTEST CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(12) SEGMENT INFORMATION

(Continued)

The Mechanical Products segment includes the operations of our Cherry Hill, New Jersey manufacturing facility as well as the operations of three of our foreign subsidiaries: inTEST KK (Japan), inTEST Pte, Limited (Singapore) and Intestlogic GmbH (Germany). As discussed more fully in Note 4, we closed Intestlogic GmbH during the fourth quarter of 2008 and we closed inTEST KK during the third quarter of 2009. In addition, we reduced our workforce significantly at inTEST Pte and have centralized the manufacturing of all Mechanical Products in our Cherry Hill, New Jersey manufacturing facility. Diamond, which we acquired in July 2008, as more fully discussed in Note 3 to the consolidated financial statements in our 2008 Form 10-K, is included in the operations of our Cherry Hill, NJ manufacturing facility. Sales of this segment consist primarily of manipulator and docking hardware products, which we design, manufacture and market, as well as certain other related products which we design and market, but which are manufactured by third parties. In addition, this segment provides post warranty service and support for various ATE equipment.

The Thermal Products segment includes the operations of Temptronic Corporation in Sharon, Massachusetts, Temptronic GmbH (Germany) and Sigma, which we acquired in October 2008, as more fully discussed in Note 3 to the consolidated financial statements in our 2008 Form 10-K. Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic and Sigma Systems product lines. In addition, this segment provides post warranty service and support.

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

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

Three Months Ended <u>Sept.</u>	Nine Months Ended <u>Sept. 30.</u>		
<u>30.</u>			
<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>

Net revenues from unaffiliated customers:

\$2,340	\$3,792	\$ 5,475	\$12,974
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Mechanical Products

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Thermal Products	2,913	4,537	8,632	14,002
	981	1,385	1,924	6,203
Electrical Products	<u>(225)</u>	<u>(555)</u>	<u>(955)</u>	<u>(1,219)</u>
Intersegment sales	)	)	)	)
	<u>\$6,009</u>	<u>\$9,159</u>	<u>\$15,076</u>	<u>\$31,960</u>
Intersegment sales:				
	\$ 11	\$ -	\$ 11	\$ -
Mechanical Products	213	449	599	891
Thermal Products	<u>1</u>	<u>106</u>	<u>345</u>	<u>328</u>
Electrical Products	<u>\$225</u>	<u>\$555</u>	<u>\$955</u>	<u>\$1,219</u>
Earnings (loss) before income taxes:				
	\$(399)	\$(1,849)	\$(2,922)	\$(5,076)
Mechanical Products	38	267	(1,222)	726
Thermal Products	45	(507)	(825)	(146)
Electrical Products	<u>39</u>	<u>94</u>	<u>(22)</u>	<u>(73)</u>
Corporate	)	)	)	)
	<u>\$(277)</u>	<u>\$(1,995)</u>	<u>\$(4,991)</u>	<u>\$(4,569)</u>
	)	)	)	)
Net earnings (loss):				
	\$(400)	\$(1,886)	\$(2,916)	\$(5,222)
Mechanical Products	38	267	(1,222)	726
Thermal Products	45	(507)	(825)	(146)
Electrical Products	<u>39</u>	<u>94</u>	<u>(22)</u>	<u>(73)</u>
Corporate	)	)	)	)

\$(278)   \$(2,032)   \$(4,985)   \$(4,715)

)                    )                    )                    )

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inTEST CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(12) SEGMENT INFORMATION

(Continued)

	Sept. 30,	Dec. 31,
	<u>2009</u>	2008
Identifiable assets:		
	\$ 4,545	\$ 7,128
Mechanical Products		
	9,057	12,018
Thermal Products		
	<u>1,242</u>	<u>1,346</u>
Electrical Products		