

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1999 or

Transaction 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
or incorporation or organization)

(I.R.S. Employer Identification No.)

2 Pin Oak Lane, Cherry Hill, NJ

08003

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code:856-424-6886

Securities registered pursuant to Section 12(b) of the Act:None

Securities registered pursuant to Section 12(g) of the Act:Common Stock,
par value \$0.01 per share.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the closing price of such stock on March 22, 2000 as quoted on the Nasdaq National Market system was \$90,354,167.

The number of shares outstanding of the Registrant's Common Stock, as of March 22, 2000 is 8,582,827.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

inTEST Corporation
Annual Report on Form 10-K

INDEX

Part I:	Page
-----	-----
Item 1: Business	3

Item 2:	Properties	13
Item 3:	Legal Proceedings	14
Item 4:	Submission of Matters to a Vote of Security Holders	14
Part II:		

Item 5:	Market for Registrant's Common Equity and Related Stockholder Matters	15
Item 6:	Selected Financial Data	17
Item 7:	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk	23
Item 8:	Financial Statements and Supplementary Data	23
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	23
Part III:		

Item 10:	Directors and Executive Officers	24
Item 11:	Executive Compensation	24
Item 12:	Security Ownership of Certain Beneficial Owners and Management	24
Item 13:	Certain Relationships and Related Transactions	24
Part IV:		

Item 14:	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	24
	Signatures	26
	Index to Exhibits	27
	Index to Consolidated Financial Statements and Consolidated Financial Statement Schedule	28

inTEST Corporation
Annual Report on Form 10-K

PART I:

Item 1. BUSINESS

INTRODUCTION

On March 9, 2000, we acquired all of the stock of Temptronic Corporation. The acquisition was in the form of a merger of Temptronic into a subsidiary of ours, and was accounted for as a pooling of interests. (The financial statements included in this report do not reflect the acquisition of Temptronic.) Temptronic makes and sells high-performance temperature management products used in the manufacture and testing of integrated circuits, or ICs, and other electronic products. These temperature management products are complementary to the manipulator and docking hardware and tester interface products manufactured by us prior to the merger.

Although the merger occurred after the period covered by this report, the

following discussion of our business is presented on a post-merger, combined basis, except where information is specifically given as of December 31, 1999 (such as in the sections describing "Employees," "Backlog," "Customers," "Patents and Other Proprietary Rights," and "Engineering and Product Development") or as otherwise noted. The portions of this discussion of our business that describe the design, manufacture and marketing of "temperature management products" relate to the business of Temptronic and did not contribute to our results of operations in 1999.

We are a leading independent designer and manufacturer of test head manipulators, docking hardware, temperature management products and tester interface products. Semiconductor manufacturers use our products in conjunction with automatic test equipment, or ATE, in the testing of ICs. The testing of integrated circuits is an essential step in the IC manufacturing process and comprises a significant percentage of the total cost of manufacturing integrated circuits. We focus on producing high quality products and developing innovative proprietary technologies designed to improve the efficiency and cost-effectiveness of the ATE used in the IC testing process. Our products are used by leading semiconductor manufacturers worldwide.

We were incorporated in New Jersey in 1981 and reincorporated in Delaware in April 1997. We established inTEST Limited in the U.K. in 1985, inTEST Kabushiki Kaisha in Japan in 1987 and inTEST PTE, Limited in Singapore in 1990. inTEST Limited designs, manufactures and markets our products principally in the European market. inTEST Kabushiki Kaisha acts as a liaison office with Japanese ATE manufacturers and markets our products in Japan. In addition, inTEST Kabushiki Kaisha initiated our business of designing and marketing related tester interface products, including sockets and interface boards. inTEST PTE, Limited designs, manufactures, markets and provides technical support to customers in Southeast Asia. In 1997, we completed our initial public offering. In 1998, we acquired all of the stock of TestDesign Corporation, which expanded our capabilities in the design, manufacture and marketing of tester interface products. As described above, we acquired all of the stock of Temptronic Corporation in the first quarter of 2000.

IC INDUSTRY BACKGROUND

Overview

The semiconductor market is a high volume, high growth market characterized by rapid technological change and wide fluctuations in demand. Semiconductor manufacturers generally compete based on product performance and price. Therefore, they seek to maintain high production yields and maximize the utilization of the expensive facilities and capital equipment required in the manufacturing process. The quality of testing during manufacturing directly affects both production yield and efficiency. Accordingly, semiconductor manufacturers seek to use testing processes that optimize the utilization of ATE and floor space dedicated to testing.

3

The demand for ATE is driven by several factors, including demand for products that incorporate ICs, increasing complexity of ICs and the emergence of new IC technologies. The increasing use of ICs in a variety of consumer products is well recognized, as are the continuing advances in the performance characteristics of ICs. Some of the newer IC technologies include the use of 300 mm wafers in production and system-on-a-chip ("SOC") where digital, analog and memory functions are combined on a single IC. As a result of these and other advances, semiconductor manufacturers must purchase additional ATE to handle the increased production and more sophisticated testing requirements.

Driven by higher demand for ICs and the emergence of new IC technologies, we believe semiconductor manufacturers will increase their capital expenditures for the expansion and upgrading of their manufacturing operations over the next few years.

IC Test Process

ICs are the building blocks of modern electronics. Microprocessors, memory chips, telecommunication ICs, digital signal processors and various other types of ICs are used in a variety of products, ranging from complex

products such as computers, cell phones, televisions, automobile electronics, digital cameras and DVD players to a simple household lamp dimmer. As electronic products become more intricate, so do the ICs that perform the necessary functions. Manufacturers have continued to seek innovation in the design, architecture and functionality of the ATE used in the testing of ICs because of the need to produce increasingly complex products more efficiently.

ICs are typically manufactured in multiples of several hundred on a silicon wafer which are later separated or "diced" into individual ICs. Extended leads are then attached to the individual ICs, for later connection to other electrical components, and the ICs are put in a plastic, ceramic or other protective housing. This process step is called "packaging." Wafers are tested before being diced and packaged, to insure that only properly functioning ICs are packaged. This testing step has several names including "front-end test," "wafer test" or "wafer probe." In front-end test, a piece of equipment known as a wafer prober automatically positions the wafer under a "test head," which is connected electronically to a test system. Once the good ICs have been identified, they are packaged. The packaged IC also requires testing, called "back-end test," to determine if it meets design and performance specifications. Packaged ICs are placed into a machine called a handler, which then plugs the packaged ICs into an environmentally-controlled test head, which includes a test socket, for testing.

Testers range in price from approximately \$500,000 to over \$3.0 million each, depending primarily on the complexity of the IC to be tested and the number of test heads, typically one or two, with which each tester is configured. Probers and handlers range in price from approximately \$100,000 to \$500,000. A typical test floor of a large semiconductor manufacturer may have 100 test heads and 100 probers or 250 handlers supplied by various vendors for use at any one time.

Test head manipulators facilitate the movement of the test head to the wafer prober in front-end test, and to the handler in back-end test. Docking hardware connects the test head to the wafer prober and handler. Tester interface products provide the electrical connection between the test head and the wafer or packaged IC. Traditionally, temperature management products are used in back-end test to allow a manufacturer to test packaged ICs under the extreme temperature conditions in which the IC may be required to operate. However, inTEST believes temperature-controlled testing will be an increasingly important part of front-end wafer testing as the demand for front-end testing grows.

Trends in IC Testing -----

While the basic purpose of testing ICs during production is to identify unacceptable products, a related goal of the semiconductor manufacturer is to perform the test in the most efficient and cost-effective manner possible. To provide testing equipment that can help manufacturers meet this goal, the ATE industry must respond to the following developments:

Change in Technology. Currently, most semiconductor manufacturers use 150 mm and 200 mm wafer technology. In order to increase throughput and lower IC cost, 300 mm wafer production capability will be needed over the next few years. In addition, end-user applications are demanding ICs with increasingly higher performance, greater speeds, and smaller sizes. ICs that meet these higher standards are more complex and dense. SOC designs are expected to be subject to growing demand in the future. These technology trends have significant implications for the IC testing process, including:

- * the need for larger, heavier and more complex test heads;
- * higher pin densities;
- * increasing test speeds; and
- * a new generation of testers for SOC and other technologies.

Need for Plug-Compatibility and Integration. Semiconductor manufacturers need test methodologies that will perform increasingly complex tests while lowering the overall cost of testing. This can require combining ATE manufactured by various companies into optimally performing systems. Semiconductor manufacturers have to work closely with various test hardware, software, interface and component vendors, therefore, to resolve design and

compatibility issues. Independent ATE manufacturers not only have to meet higher product performance requirements, but they must make their products plug-compatible with test equipment manufactured by other vendors.

Testing under Extreme Conditions. ICs are expected to perform across a wider spectrum of temperature and environmental conditions than ever before. Temperature testing is expected to find an increasing role in front-end, wafer level testing. Creating a uniform thermal profile over much larger areas, as in the case of wafer level testing, represents a significant engineering and design challenge for ATE manufacturers.

Demand for Higher Level of Technical Support. As IC testing becomes more complex, IC manufacturers are increasingly demanding higher level of technical support on a routine basis. ATE manufacturers must commit greater resources to technical support in order to develop close working relationships with their customers. This level of support also requires close proximity of service and support centers to customers' facilities.

Cost Reduction through Front-End Testing. As the cost of testing ICs increases, semiconductor manufacturers will continue to look for ways to streamline the testing process to make it more cost-effective. inTEST believes that this factor will lead to more front-end wafer testing.

inTEST'S SOLUTIONS

We have focused our efforts on designing and producing only high quality products that provide superior performance and cost-effectiveness. We seek to address a manufacturer's individual needs through innovative, customized designs, use of the best materials available, quality manufacturing practices and personalized service. We design solutions to overcome the evolving challenges facing the ATE industry by providing the following advantages:

High Performance Technology. Our universal test head manipulators provide six degrees of motion freedom to enable the maximum flexibility with the minimum amount of effort. As a result, our products can be used in virtually any test setting. Our manipulators have kept pace with the rapidly increasing size of test heads, which can weigh up to 900 pounds and are expected to continue to get larger as the required level of testing sophistication increases. Our docking hardware offers precise control over the connection to

5

test sockets, probing assemblies and interface boards, reducing downtime and minimizing costly damage to fragile components. We believe that these characteristics will become even more important as testing becomes more complicated.

Broad ATE compatibility. A hallmark of our products has been, and continues to be, compatibility with a wide variety of ATE. Our universal manipulators can handle different test heads produced by different manufacturers. We also design and manufacture docking hardware that can be used with otherwise incompatible ATE. Such an integrated approach to ATE leads to smooth changeover from one tester to another, longer lives for interface components, better test results and lower overall test costs.

Wafer Level Testing. Our redesigned ThermoChuck* products can be used for front-end temperature stress screening at the wafer level. This can provide significant cost savings from early identification of IC that will not perform at specified temperatures, thus improving IC production yields as well as product quality and reliability. ThermoChuck products are capable of handling any size wafer, including a 300 mm wafer, for thermal test without causing the wafer distortion that can occur as temperature changes are introduced. In addition, our Pro Dock* can be used in front-end testing by a single operator to position a test head weighing up to 1,000 pounds. The Pro Dock has a relatively small footprint that significantly increases test floor space utilization. We believe that these characteristics will become even more important as testing becomes more complicated.

Worldwide Customer Service and Support. We have long recognized the need to maintain a physical presence near our customers' facilities. We have manufacturing facilities in New Jersey, Massachusetts, California, the U.K. and Singapore, and we provide service to our customers from 11 sales and service

offices in the U.S., the U.K., Japan, and Singapore. Thus, our engineers are easily accessible to, and can work directly with, our customers from the time we begin developing our initial proposal through the delivery, installation and use of the product by our customer. In this way, we are able to develop and maintain close relationships with our customers.

* "ThermoChuck" and "Pro Dock" are registered trademarks of inTEST Corporation.

inTEST'S STRATEGY

Our goals are to increase our recognition as the designer and manufacturer of the highest quality products in our markets, and to become a supplier for all of our customers' ATE needs, other than probers, handlers and testers. Our general strategies to achieve these goals include the following:

Providing technologically advanced solutions. We are committed to designing and producing only the highest quality products which incorporate innovative designs to achieve optimal cost-effectiveness and functionality for each customer's particular situation. Our engineering and design staff are continually engaged in developing new and improved products and manufacturing processes.

Leveraging strong OEM relationships. Our technical personnel work closely with ATE manufacturers to design tester interface and docking hardware that are compatible with their ATE. As a result, we are often privy to proprietary technical data and information about these manufacturers' products. We believe that because we do not compete with ATE manufacturers in the prober, handler and tester markets, we have been able to establish strong collaborative relationships with these manufacturers that enable us to develop ancillary ATE products on an accelerated basis.

Continuing our international expansion. Our existing and potential customers are concentrated in certain regions throughout the world. We believe that we must maintain a presence in the markets in which our customers operate. We currently have offices in the U.S., the U.K., Japan, and Singapore, and we will be opening an office in Germany in the near future.

6

Pursuing synergistic acquisitions. A key element of our growth strategy is to acquire businesses, technologies or products that are complementary to our current product offerings. Our TestDesign and Temptronic acquisitions have expanded our line of product offerings and given us the opportunity to market a broader range of products to our customer base. We expect to make acquisitions that will further expand our product lines, enabling us to become a single source supplier to the test floor for a complete selection of equipment compatible with testers, probers and handlers of all manufacturers.

OUR PRODUCTS

We design and manufacture manipulators, docking hardware, temperature management products and tester interface products, all of which are designed to improve the utilization and performance of ATE used by semiconductor manufacturers in the testing of ICs. Our primary line of manipulators and our docking hardware are used most frequently during back-end testing of specialized packaged ICs. Our temperature management products and tester interface products are used in either front-end or back-end testing of specialized packaged ICs. Specialized ICs include microprocessors, digital signal processing chips, application specific ICs and specialized memory ICs, and are used primarily in the automotive, computer, consumer products and telecommunications industries. Most of our products are custom-designed for our customer's particular combination of ATE. We have designed over 5,000 products, each of which is used to facilitate the use of one or more of over 175 different test heads with one or more of over 30 probers or 300 handlers, all of which are mechanically different models.

Manipulator Products

Universal Manipulators: Our primary line of manipulator products consists of the in2* Test Head Positioners, which are free-standing universal manipulators.

Universal manipulators are manipulators that can hold a variety of test heads and enable the test head to be repositioned for alternate use with any one of several probers or handlers on a test floor. The in2 is distinguished from universal manipulators manufactured by competitors by our innovative, floating-head design. This design permits a test head weighing up to 900 pounds to be held in an effectively weightless state, so it can be moved manually up or down, right or left, forward or backward and rotated around each axis by an operator using no more than 22 pounds of force. Consequently, an operator can manually reposition the test head by grasping it in his or her hands and gently moving the test head into position to dock with the prober or handler. This same design feature enables the operator to dock the test interface board without causing inadvertent damage to the fragile electrical contacts. As a result, after testing a particular production lot of ICs, a test head held in an in2 manipulator and equipped with our docking hardware can be disconnected quickly and easily and docked to another handler for testing either a subsequent lot of the same packaged IC or to test a different IC. in2 manipulators range in price from approximately \$12,000 to \$100,000.

Dedicated Manipulators: In addition to our free-standing universal manipulators, we manufacture several models of dedicated manipulators. We recently developed a fully-automatic, electrically-powered and microprocessor-controlled dedicated manipulator we call the Pro Dock. We believe it is the only fully-automatic manipulator which enables a test head to be automatically docked to a prober or handler with the push of one button. The patented, overhead design of the Pro Dock series manipulator uses a powered scissor mechanism to raise and lower a test head to a prober or a top docking handler. This design enables a Pro Dock to dock very large test heads (weight tested to 1,000 pounds). We believe that the Pro Dock series of manipulators will be attractive to semiconductor manufacturers for testing 300 mm wafers and packaged memory ICs because the size of test heads for these wafers and ICs make manual manipulation cumbersome. In addition, we believe that the Pro Dock will enable semiconductor manufacturers to increase floor space utilization of their ATE systems by 25% to 40% over that achieved by other dedicated or universal manipulators because a Pro Dock series manipulator has virtually a zero footprint. We have not yet sold, and do not expect significant sales of, Pro Dock manipulators until demand for 300 mm wafers reach levels warranting significant investment in new testing equipment by semiconductor manufacturers.

* "in2" is a registered trademark of inTEST Corporation.

Docking Hardware

Our docking hardware products mechanically control the delicate interface between the test head's interface board and the prober's probing assembly or the handler's test socket, and protects them from damage as they are brought together, or "docked." A simple cam action docks and locks the test head to the prober or handler, thus eliminating motion of the test head relative to the prober or handler. This minimizes deterioration of the interface boards, test sockets and probing assemblies which is caused by the constant vibration during testing. Our docking hardware is used primarily with floating-head universal manipulators when maximum mobility and inter-changeability of handlers between test heads is required. Our docking hardware enables semiconductor manufacturers to achieve cost savings by improving ATE utilization, improving the accuracy and integrity of test results, and reducing the need to repair or replace expensive ATE interface products.

Our docking hardware products are distinguished from those offered by competing ATE manufacturers by our ability to make multiple competing brands of test heads compatible with multiple brands of probers and handlers used by a semiconductor manufacturer by only changing interface boards. This is called "plug-compatibility." Plug-compatibility reduces the changeover time required to undock a test head from one handler and dock it to another handler between production lots or when changing the IC type being tested. This enables increased flexibility and utilization of test heads, probers and handlers purchased from various manufacturers. We believe that because we do not compete with ATE manufacturers in the sale of probers, handlers or testers, ATE manufacturers are willing to provide us with the information that is integral to the design of plug-compatible products. Our docking hardware products range in price from approximately

\$2,000 to \$12,000.

Temperature Management Products

Our temperature management products enable a manufacturer to test a semiconductor wafer or IC over the extreme and variable temperature conditions that can occur in the actual use of the electronic device containing the ICs. Temperature management products must test ICs over a variety of temperature ranges, rapidly shifting between temperature levels, without removing the wafer or IC from its testing environment. Our temperature management products control and quickly change test temperatures, within a range of temperatures specified by the customer.

ThermoChuck Products: Our ThermoChuck precision vacuum platform assemblies contain heating and cooling elements and associated equipment such as temperature controllers, compressors, heaters and dehumidifiers, for quickly changing and stabilizing the temperature of semiconductor wafers prior to their dicing and packaging. Such temperatures can range from as low as -65 degrees Celsius to a high of +400 degrees Celsius. They are incorporated into wafer prober equipment for laboratory analysis and for in-line production testing of semiconductor wafers. The ThermoChuck product line was recently redesigned, and an innovative manufacturing process for the product line was developed. We believe this new design and manufacturing process will improve the reliability and performance of ThermoChuck products. Specifically, new ThermoChuck products stay flatter, remain more level and maintain more uniform temperatures during testing than our previous design. In addition, the new manufacturing process is expected to reduce production costs for these products. We expect to be able to market the redesigned ThermoChuck products during 2000. Our ThermoChuck products range in price from approximately \$14,000 to \$55,000.

8

ThermoStream* Products: Our ThermoStream stand-alone temperature management systems use a temperature-controlled air stream to rapidly change and stabilize the temperature of packaged ICs and printed circuit boards. ThermoStreams provide a source of heated and cooled air which can be directed over the component or device under test. ThermoStream products contain heating elements, refrigeration systems, air dryers, and sophisticated computer controls. These systems are capable of controlling temperatures to within 1.0 degree Celsius over a -80 degrees Celsius to +225 degrees Celsius range. Traditionally, our customers used ThermoStream products primarily in engineering, quality assurance and short-run manufacturing environments, however, these products are being used increasingly in longer-run production applications. Our ThermoStream products range in price from approximately \$4,200 to \$36,000.

* "ThermoStream" is a registered trademark of inTEST Corporation.

Other temperature management products: We also manufacture ancillary temperature management products including temperature-controlled contact probes, temperature-controlled enclosures, and precision temperature platforms.

Tester Interface Products

We custom design our tester interface products for each application to ensure a secure electrical connection between the tester and the probe card on the prober or the test socket on the handler. Our designs optimize the integrity of the transmitted signal which increases the accuracy of the test data, so our tester interface products can be used with high speed, high frequency, digital or mixed signal interfaces used in testing more complex ICs. Because our tester interface products enable the tester to provide more reliable yield data, our interfaces may also reduce IC production costs. We offer over 200 different types of tester interface products that range in price from \$6,000 to \$46,000.

MARKETING, SALES AND CUSTOMER SUPPORT

We market and sell our products in all markets where semiconductors or ATE are manufactured. North American and European semiconductor manufacturers have located most of their back-end factories in Southeast Asia. The front-end

wafer fabrication plants of U.S. semiconductor manufacturers are primarily in the U.S. Likewise, European, Taiwanese, South Korean and Japanese semiconductor manufacturers generally have located their wafer fabrication plants in their respective countries.

Manipulator Products, Docking Hardware and Tester Interface Products: In North America, we sell to semiconductor manufacturers principally through independent, commissioned sales representatives. Sales to ATE manufacturers are handled by our account managers. North American sales representatives also coordinate product installation and support with our technical staff and participate in trade shows. Technical support is provided to North American customers and independent sales representatives by employees based in New Jersey, California, Texas, Arizona, and Oregon.

In Europe and Japan, we sell to semiconductor and ATE manufacturers through our account managers. In China, Hong Kong, Malaysia, the Philippines, South Korea, Taiwan and Thailand, we sell through independent sales representatives. International sales representatives are responsible for sales, installation, support and trade show participation in their geographic market areas.

Our account managers are responsible for a portfolio of customer accounts and for managing certain independent sales representatives. In addition, our account managers are responsible for applications engineering, custom product design, pricing, quotations, proposals and transaction negotiations.

Temperature Management Products: In the U.S., we sell to semiconductor manufacturers through thirteen independent sales representative organizations, except in New England and upstate New York where we sell directly through our sales staff. Sales to ATE manufacturers are handled by our direct sales force.

9

We are represented in over 30 countries by 21 distributors. Typically, we sell our products overseas through distributors, except in some countries (India, Israel, Italy and South Korea) where we sell directly to the customer. Almost all of our international distributors have represented us for between five and fifteen years. We visit our distributors regularly and have trained them to sell and service all of our temperature management products.

Post-merger Integration: We believe one of the benefits that may result from the merger of inTEST and Temptronic is the opportunity to combine our sales and distribution efforts. In the several weeks since the merger occurred, we have started the process of cross-training our sales forces, and will continue integrating our sales and marketing teams over the balance of the year.

CUSTOMERS

We market all of our products to semiconductor manufacturers and ATE manufacturers. In the case of temperature management products, we also market our products to independent testers of semiconductors, manufacturers of electronic products, and semiconductor research facilities. Our products are used by our customers principally in production testing, although our ThermoStream products have been used largely in engineering development and quality assurance. We believe we sell to most major semiconductor manufacturers in the world.

During 1999, sales to two customers exceeded 10% of our consolidated net revenues (not including the net revenues of Temptronic): Teradyne - 14% and Lucent Technologies - 11%. On a post-merger, pooled basis (that is, including the net revenues of Temptronic), no one customer accounted for more than 10% of our net revenues in 1999.

Our largest customers include:

Semiconductor Manufacturers	ATE Manufacturers
-----	-----
Hewlett Packard	Analog Devices
Lucent Technologies	LTX
Motorola	Teradyne
ST Microelectronics	Cascade Microtech*
Texas Instruments	Electrogilas*

* Sales consist primarily of temperature management products.

MANUFACTURING AND SUPPLY

Our principal manufacturing operations consist of assembly and testing at our facilities in New Jersey, Massachusetts, California, the U.K., and Singapore. By maintaining manufacturing facilities and technical support in geographic markets where our customers are located, we believe that we are able to respond more quickly and effectively to our customers' needs. We have recently expanded our manufacturing facilities in California, and will be moving our headquarters, manufacturing and warehouse facility in New Jersey in the third quarter of this year to a larger facility located within half-a-mile of our current facility.

We assemble most of our products from a combination of standard components and custom parts which have been fabricated to our specifications by either third party manufacturers or our own fabrication operations in New Jersey and California. The manufacturing of ThermoStreams also involves a plating operation which is currently performed in our Massachusetts facility. Our practice is to use the highest quality raw materials and components in our products. The primary raw materials used in fabricated parts are all widely available. Substantially all components are purchased from multiple suppliers. Although certain raw materials and components are purchased from single suppliers, we believe that all materials and components are available in adequate amounts from other sources.

10

We seek to control the quality of raw materials, fabricated parts and components by conducting incoming inspections using sophisticated measurement equipment. This includes testing with coordinate measuring machines in New Jersey, Massachusetts, the U.K. and Singapore, to ensure that products with critical dimensions meet our specifications. Our inspection standards have been designed to comply with applicable MIL specifications and ANSI standards. We have retained a consultant to prepare a quality manual and assist in our application for ISO 9001 certification.

ENGINEERING AND PRODUCT DEVELOPMENT

Our success is dependent on our ability to provide our customers with products and solutions that are well engineered, and to design those products and solutions before, or at least no later than, our competitors. As of December 31, 1999, inTEST (exclusive of Temptronic) employed a total of 25 engineers who are engaged full time in engineering and product development. Our practice in most cases has been to assign engineers to work with specific customers rather than on specific products, thereby enabling us to develop the relationships and free exchange of information that is most conducive to successful product development and enhancement.

We have not historically maintained a separate research and development department or group. Rather, since most of our products are customized, we consider substantially all our engineering activities to be engineering and product development. Temptronic has historically taken a different approach and, as of December 31, 1999, employed 16 engineers and technicians for new product research and development in Newton, Massachusetts. The principal focus of Temptronic's research and development activities during the past several years has been on the design and manufacturing process for the redesigned ThermoChuck.

inTEST (exclusive of Temptronic) spent approximately \$3.2 million on engineering and product development in 1999, \$1.9 million in 1998, and \$1.7 million in 1997.

PATENTS AND OTHER PROPRIETARY RIGHTS

As of December 31, 1999, inTEST (exclusive of Temptronic) held 14 U.S. patents and 68 foreign patents and had pending 3 U.S. patent applications and more than 38 foreign applications that cover various aspects of our technology.

Our policy is to protect our technology by filing patent applications for the technologies that we consider important to our business. Our U.S. issued patents will expire at various times beginning in 2002 and extending through 2014. We cannot assure you that the U.S. Patent and Trademark Office will issue additional patents on our pending and future applications. Furthermore, any patents now or hereafter owned by us may not be afforded protection against competitors that develop similar technology or products. There are no pending lawsuits or claims against us regarding infringement of any existing patents or other intellectual property rights of others.

We also rely on trade secrets and unpatentable know-how to protect our proprietary rights. It is our practice to require, as a condition of permanent employment, that all of our employees agree to assign to us all rights to inventions or other discoveries relating to our business made while employed by us. In addition, all employees agree not to disclose any information about us which is private or confidential.

COMPETITION

Our competitors include independent manufacturers, ATE manufacturers and, to a lesser extent, semiconductor manufacturers' in-house ATE interface groups. We compete on the basis of product performance, functionality, reliability, customer service, applications support, price and timely product delivery. We believe that our long-term relationships with the industry's leading semiconductor manufacturers and other customers, and our commitment to and reputation for providing high quality products are important elements in our ability to compete effectively in all our markets.

11

The independent manufacturers of docking hardware and manipulators that compete with us include Reid-Ashman Manufacturing and Microhandling GmbH, each of which manufactures docking hardware and manipulators. The manufacturers of ATE that compete with us in the sale of docking hardware and universal manipulators include Credence Systems, LTX, Schlumberger and Teradyne. Some manufacturers of ATE are both our competitors and our customers. Our principal competitors for temperature management products are ERS Elektronik GmbH, Thermonics, Inc. and Trio Tech International. The independent manufacturers of tester interface products that compete with us include Cerprobe Corporation, Synergetix, a division of IDI, and Xandex Corporation. ATE manufacturers that compete with us in the sale of tester interface products include Credence Systems, Electroglas, LTX and Teradyne. In addition, while we do not know the precise number of competitors that sell related ATE interface products, we believe there are at least 20 manufacturers of interface boards and at least five manufacturers of high performance test sockets.

BACKLOG

At December 31, 1999, our backlog of unfilled orders for all products (exclusive of Temptronic's backlog) was approximately \$9.5 million compared with approximately \$3.4 million at December 31, 1998. Our backlog includes customer purchase orders which we have accepted, substantially all of which we expect to deliver in the current fiscal year. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

EMPLOYEES

At December 31, 1999, inTEST (exclusive of Temptronic) employed a total of 164 full time employees, including 64 in customer service and support, 80 in manufacturing operations and 20 in administration. We also had 5 temporary employees, primarily in manufacturing jobs. Substantially all of our key employees are highly skilled and trained technical personnel. None of our employees is represented by a labor union, and we have never experienced a work stoppage. We believe that our relationship with our employees is very good.

12

Item 2: Properties

At December 31, 1999, we leased nine facilities worldwide. We expanded our Singapore and U.K. facilities during 1999, our Sunnyvale, California facility and Japan facilities during the first quarter of 2000, and we plan to move to larger facilities in Cherry Hill, NJ in the second quarter of 2000. The following chart provides information regarding each of the facilities we occupied at December 31, 1999, the facilities occupied by Temptronic at December 31, 1999, and the facilities which we have occupied or signed leases for in the first quarter of 2000. We believe that additional space to meet our current and foreseeable future needs is readily available.

Location -----	Lease Expiration -----	Approximate Square Footage -----	Principal Uses -----
Cherry Hill, NJ(1)	9/2010	80,000	Future headquarters, design, manufacturing, service and sales - manipulators and docking hardware.
Cherry Hill, NJ(2)	5/2003	28,630	Headquarters, design, manufacturing, service and sales - manipulators and docking hardware.
Cherry Hill, NJ(2)	2/2003	11,082	Warehouse storage space.
Cherry Hill, NJ	8/2004	11,000	Machine shop.
Newton, MA(3)	8/2001	44,000	Design, manufacturing, service and sales - temperature management products.
Sunnyvale, CA	12/2004	18,255	Design, manufacturing, service and sales - tester interface products.
Sunnyvale, CA	12/2001	1,109	Machine shop.
Sunnyvale, CA	8/2001	1,900	Storage area. 67% is occupied by subtenant.
San Diego, CA(3)	5/2002	1,604	Design, manufacturing, service and sales - temperature management products.
Thame, UK	12/2005	4,600	Design, manufacturing, service and sales - manipulators and docking hardware.
Surrey, UK(3)	12/2001	1,200	Service and sales - temperature management products.
Singapore	4/2001	3,077	Design, manufacturing, service and sales - manipulators, docking hardware and certain tester interface products, including sockets and interface boards.
Kichijoji, Japan(4)	Upon notice	1,200	Design, service and sales - manipulators, docking hardware and certain tester interface products, including sockets and interface boards.
Tokyo, Japan(5)	3/2002	1,932	Design, service and sales - manipulators, docking hardware and certain tester interface products, including sockets and interface boards.

-
- (1) Lease to commence September 2000.
 - (2) These leases will be terminated upon occupancy of the new headquarters.
 - (3) Facility occupied by Temptronic.
 - (4) Lease terminated March 2000.
 - (5) Lease commenced March 2000.

Item 3: Legal Proceedings

On April 16, 1999, inTEST and its subsidiary, inTEST IP Corp., which holds title to all Company intellectual property, filed suit in the Federal District Court in Wilmington, DE against Reid-Ashman Manufacturing, Inc., the defendant, for infringement of a United States patent held by inTEST. The patent is referred to as the 815 Patent. The invention disclosed and claimed in the 815 Patent is directed to a system for positioning and docking a heavy electronic test head of a test system with respect to an electronic device handler. The system is used in the automatic testing of IC's and other electronic devices. inTEST sells products covered by the 815 Patent worldwide.

As alleged in the complaint, the defendant began manufacturing, offering to sell, and selling products as early as 1991 that, without license, infringed upon claims of the 815 Patent. The complaint asks the court to enjoin the defendant from further acts of infringement, including the acts of manufacturing, using, offering for sale, selling and importing positioner systems that embody the invention claimed in the 815 Patent. The complaint also asks the Court to award inTEST damages, including lost profits. Alleging that the defendant's infringement is and has been deliberate, willful, and wanton, with knowledge of inTEST's patent rights, the complaint asks the Court to award increased damages up to three times the amount assessed. The complaint also seeks an award of interest, costs and reasonable attorney fees.

The presiding judge has attempted to facilitate a settlement through mediation. Discovery has begun in parallel with the mediation process. The Court granted the defendant's motion for partial summary judgment, ruling that damages for infringement of claims 3 through 9 of the 815 Patent can only be obtained for products that infringe after the date when the reexamination proceedings were completed. The parties continue to negotiate in an effort to settle the litigation. To date, however, the negotiations have been unsuccessful. All legal fees incurred in connection with this matter have been expensed.

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

No matters were submitted to a vote during the fourth quarter of 1999.

During the first quarter of 2000, a Special Meeting of Shareholders was held on March 9, 2000 for the purpose of considering and voting upon the proposal to approve the merger agreement among inTEST, Temptronic Corporation and one of our wholly-owned subsidiaries.

The number of votes cast for or against as well as the number of abstentions and broker non-votes for the above proposal were as follows:

For -----	Against -----	Abstentions -----	Broker Non-Votes -----
5,445,958	450	200	0

Part II:

Item 5: Market for Registrant's Common Equity and Related Stockholder Matters

- (a) Our common stock trades on the Nasdaq National Market system under the symbol "INTT".

The table below sets forth the high and low prices of our common stock, as reported in published financial sources during the periods

indicated. Sales prices have been rounded to the nearest full cent:

	High -----	Low -----
Fiscal Year Ended December 31, 1998:		
First Quarter	\$10.25	\$6.25
Second Quarter	9.50	6.00
Third Quarter	6.50	3.75
Fourth Quarter	9.63	4.00
Fiscal Year Ended December 31, 1999:		
First Quarter	\$ 8.25	\$5.25
Second Quarter	8.00	3.63
Third Quarter	11.25	6.50
Fourth Quarter	20.38	6.63

As of March 22, 2000, there were approximately 1,000 holders of record of the Company's common stock.

We have not paid dividends on our common stock since our initial public offering, and we do not plan to pay cash dividends in the foreseeable future. Our current policy is to retain any future earnings for reinvestment in the operation and expansion of our business, including possible acquisitions of other business, technologies or products. Payment of any future dividends will be at the discretion of our board of directors. In addition, our current credit agreement prohibits us from paying cash dividends without the lender's prior consent.

(b) Use of Proceeds from Offering:

On June 17, 1997, the Commission declared inTEST's registration statement on Form S-1 covering the offering of 2,275,000 shares of inTEST's common stock, Commission file number 333-26457, effective. The offering closed on June 20, 1997, managed by Janney Montgomery Scott Inc. and Needham & Company, Inc. as representatives of the several underwriters named in the registration statement.

Of the 2,275,000 shares sold under the offering, 1,820,000 shares were sold by inTEST and 455,000 were sold by certain selling stockholders. In addition, the underwriters exercised an over-allotment option to purchase an additional 341,250 shares of inTEST's common stock from the selling shareholders. The total purchase price to the public for the shares offered and sold by inTEST and the selling shareholders was \$13,650,000 and \$5,971,875, respectively.

The amount of expenses incurred for inTEST's account in connection with the offering were as follows:

15

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

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

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

The net proceeds of the offering to inTEST (after deducting the foregoing expenses) was \$11,654,842. From the effective date of the registration statement, the net proceeds have been used for the following purposes through December 31, 1999:

Construction of plant, building and facilities	\$ -
Purchase and installation of machinery and equipment	1,655,822
Purchase of real estate	-
Acquisition of businesses	4,825,000
Repayment of indebtedness	388,098
Working capital	599,725
Temporary investments, including cash & cash equivalents	3,585,432
Other purposes (for which at least \$100,000 has been used) including:	
Payment of final S corporation distribution	600,765

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

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

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

16

Item 6: Selected Financial Data

The following table contains certain selected consolidated financial data of inTEST and is qualified by the more detailed Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included in this Annual Report on Form 10-K.

	Years Ended December 31,				
	1999	1998	1997	1996	1995

	(in thousands, except per share data)				

Consolidated Statement of Earnings Data:

Net revenues	\$34,496	\$19,075	\$20,746	\$18,582	\$14,442
Gross margin	18,891	10,673	12,938	11,827	9,251
Operating income	6,322	2,518	6,187	5,616	4,037
Net earnings	4,094	1,927	4,332	4,646	3,252
Earnings per share (1997 and 1996 information is pro forma):					
Basic63	.31	.74	.83	
Diluted62	.31	.73	.83	
Weighted average shares outstanding (1997 and 1996 information is pro forma):					
Basic	6,536	6,170	5,068	4,091	

Diluted. 6,626 6,186 5,092 4,091

As of December 31,

	1999	1998	1997	1996	1995
--	------	------	------	------	------

(in thousands)

Consolidated Balance Sheet Data:

Cash and cash equivalents	\$12,018	\$ 8,468	\$12,035	\$ 3,692	\$ 1,919
Working capital	16,978	13,312	14,655	4,377	4,201
Total assets.	31,260	23,218	19,945	7,716	6,352
Long term debt.	-	-	-	155	-
Total stockholders' equity.	25,386	21,226	16,557	4,587	4,048

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion relates to the results of operations and financial condition of inTEST Corporation on a historical basis and, thus, does not reflect the performance of Temptronic Corporation or the merged entities on a pooled basis.

Overview

Our revenues are substantially dependent upon the demand for ATE by semiconductor manufacturers and, therefore, fluctuate generally in response to the cyclicity in the semiconductor manufacturing industry. During the past several years, the demand for ATE by the semiconductor industry exhibited a high degree of cyclicity. In 1996, we experienced sequential quarterly declines in orders for and sales of our products. We believe this was due to a reduced level of semiconductor manufacturing activity and corresponding cutbacks in semiconductor manufacturers' capital budgets. 1997 marked a turnaround in the semiconductor industry, which was evidenced by renewal in demand for ATE and related equipment, which resulted in sequential quarterly increases in orders for and sales of our products. 1998, like 1996, was another year of sequential quarterly declines in orders for and sales of our products, but to a more significant degree than in 1996. In 1998, we believe worldwide demand for ICs fell dramatically due to excess inventory of older IC designs, and slower transition to new IC designs resulting from softening demand for end user products. In addition, the economic downturns in many world economies, especially those in Southeast Asia and Japan, exacerbated the semiconductor industry downturn. The combination of these conditions contributed to a reduced demand for products manufactured by semiconductor manufacturers, which in turn significantly reduced their need for new or additional ATE equipment.

1999, like 1997, marked a turnaround in the semiconductor industry and we experienced significant increases in the level of orders for our products ("bookings"). Bookings were \$42.1 million for 1999 compared with \$17.4 million for 1998. As a result of the increased booking activity, our backlog increased from \$3.4 million at December 31, 1998 to \$9.5 million at December 31, 1999. During 1999, we experienced significant quarterly increases in our net revenues, which grew from \$4.8 million for the quarter ended March 31, 1999 to a record \$13.1 million for the quarter ended December 31, 1999. We believe the increases in our bookings, net revenues and backlog reflect the increased demand for ATE by semiconductor manufacturers resulting from increased worldwide demand for ICs combined with back end ATE capacity constraints caused by the significantly reduced capital spending during 1998. While bookings and backlog are calculated on the basis of firm orders, no assurance can be given that customers will purchase the

equipment subject to such orders. As a result, our bookings for any period and backlog at any particular date are not necessarily indicative of actual sales for any succeeding period.

Certain portions of our business are less dependent upon the capital expenditure budgets of semiconductor manufacturers and so are less subject to fluctuation. For example, some of our tester interface products are consumable, and sales depend upon operating expenditures of our semiconductor manufacturer customers. Also, semiconductor manufacturers may purchase our products for the purpose of upgrading, or to improve the utilization, performance and efficiency of, existing ATE. Such upgrades tend to be counter cyclical to sales of new ATE.

Results of Operations

1999 Compared to 1998

Net Revenues. Net revenues were a record \$34.5 million for 1999 compared to \$19.1 million for 1998, an increase of \$15.4 million or 81%. The significant increase in net revenues over the comparable prior period is the result of the aforementioned turnaround in the demand for ATE in 1999 compared to 1998. Net revenues for 1999 excluding the net revenues of inTEST Sunnyvale (formerly, TestDesign Corporation) which was acquired on August 3, 1998 increased \$8.7 million or 49% over 1998.

Gross Margin. Gross margin decreased to 55% for 1999 from 56% in 1998. The reduction in gross margin was primarily the result of the additional fixed costs of manufacturing of inTEST Sunnyvale as well as the higher component material costs of the inTEST Sunnyvale products as compared with our traditional products. In addition, the fixed costs of our new domestic fabrication operation and our manufacturing operations in Singapore, both of which commenced late in the third quarter of 1999, had a negative impact on the gross margin as these operations were not fully functional until late in the fourth quarter of 1999.

Selling Expense. Selling expense was \$4.9 million for 1999 compared to \$3.3 million for 1998, an increase of \$1.5 million or 46%. The increase was attributable to several factors including the salary expense of new sales and marketing staff, increased expenditures for travel, increased commission expenses for external sales representatives resulting from the higher sales levels, increased advertising costs and higher levels of freight expenses.

Engineering and Product Development Expense. Engineering and product development expense was \$3.2 million for 1999 compared to \$1.9 million for 1998, an increase of \$1.3 million or 66%. The increase was attributable, in large part, to the additional salary expense of inTEST Sunnyvale engineering and technical staff coupled with an increase in the number of engineering and technical staff. To a lesser extent, increased costs of materials used in product development and travel expenses to facilitate collaboration among our several offices contributed to the overall increase in this expense category.

General and Administrative Expense. General and administrative expense was \$4.5 million for 1999 compared to \$2.9 million for 1998, an increase of \$1.6 million or 56%. The increase was primarily attributable to increases in administrative salary expense due to both staffing additions (including the staff of inTEST Sunnyvale) and salary and incentive compensation increases for existing staff, legal costs related to both our patent infringement suit and to maintain existing patents and file for new patents worldwide and the amortization of goodwill resulting from the acquisition of inTEST Sunnyvale.

Income Tax Expense. Income tax expense increased to \$2.6 million for 1999 from \$1.1 million for 1998, an increase of \$1.5 million. Our effective tax rate was 39% for 1999 compared to 36% for 1998. The increase in the effective tax rate is primarily the result of goodwill amortization related to the acquisition of inTEST Sunnyvale, which is not deductible for tax purposes, and a higher effective tax rate in Japan, caused by certain recurring expenses which are not deductible for tax purposes which was compounded by the reduced profitability of our Japanese operations in 1999

compared to 1998.

1998 Compared to 1997

Net Revenues. Net revenues were \$19.1 million for 1998 compared to \$20.7 million for 1997, a decrease of \$1.7 million or 8%. The decline in net revenues from the prior year is the result of the aforementioned severe downturn that the ATE industry experienced during 1998 offset, in part, by the net revenues of inTEST Sunnyvale from its acquisition in August 1998 through year end.

19

Gross Margin. Gross margin declined to 56% for 1998 from 62% in 1997. The reduction in gross margin was primarily the result of the additional fixed costs of manufacturing of inTEST Sunnyvale which were impacted unfavorably by the significantly reduced revenue levels during the year. In addition, material costs as a percentage of sales increased over the comparable prior period due to an increase in the level of sales of certain products with a greater component material cost in 1998 compared to 1997.

Selling Expense. Selling expense was \$3.3 million for 1998 compared to \$2.8 million for 1997, an increase of \$557,000 or 20%. The increase was attributable to several factors including the additional salary and commission expenses of inTEST Sunnyvale and increased travel expenses incurred in connection with inTEST's sales activities, higher levels of warranty expenses and increased advertising expenditures.

Engineering and Product Development Expense. Engineering and product development expense was \$1.9 million for 1998 compared to \$1.7 million for 1997, an increase of \$197,000 or 11%. The increase was primarily attributable to the additional salary expense of inTEST Sunnyvale coupled with a growth in the number of engineering and technical staff offset in part by reductions in spending on product development materials and travel expenses in 1998 as compared to 1997.

General and Administrative Expense. General and administrative expense was \$2.9 million in 1998 compared to \$2.2 million in 1997, an increase of \$650,000 or 29%. The increase was primarily attributable to the additional salary and other administrative costs of inTEST Sunnyvale. Also contributing to the increase in 1998 were the amortization of goodwill resulting from the acquisition, additional administrative staff, increases in professional fees, and the increase in amortization of certain prepaid expenses.

Income Tax Expense. Income tax expense decreased to \$1.1 million for 1998 from \$2.1 million in 1997, a decrease of \$991,000 or 47%. Our effective tax rate was 36% for 1998 compared to 32% in 1997. The increase in the effective tax rate was caused by the accrual of federal income tax on our earnings due to the change of tax status from an S corporation to a C corporation in June 1997, offset in part by the implementation of tax favorable corporate structures and a lower percentage of earnings attributable to inTEST's Japanese subsidiary in 1998 as compared to 1997.

Liquidity and Capital Resources

Net cash provided from operations for 1999 was \$4.9 million. Accounts receivable increased \$3.2 million from \$3.3 million at December 31, 1998 to \$6.5 million at December 31, 1999 due to the significant increase in sales activity during 1999. Inventories increased \$1.3 million also as a result of the increased sales activity as we made purchases for future product shipments. Refundable domestic and foreign income taxes decreased \$664,000 due to a refund of excess Federal taxes paid during 1998. Other current assets increased \$399,000, primarily as a result of increases in prepaid expenses. Accounts payable increased \$1.6 million due to the higher production levels during 1999. Accrued expenses increased \$920,000 primarily as a result of the increased sales activity and staffing additions and their related expense accruals. Domestic and foreign income taxes payable

increased \$1.8 million as a result of the accrual of income taxes on earnings during 1999.

Purchases of machinery and equipment were \$1.4 million for 1999, which consisted primarily of improvements to our facilities in the United States and, to a lesser extent, the UK and Singapore. During the third quarter of 1999 we increased our domestic fabrication capacity through the addition of a machining operation in Cherry Hill and acquired machinery for this operation at a cost of approximately

20

\$600,000. During 1999, we acquired additional production equipment and computer equipment for our domestic operations at a cost of approximately \$210,000 and made leasehold improvements to existing facilities and furnished these improvements at a cost of approximately \$90,000. We completed a renovation of our UK manufacturing facility during the third quarter of 1999 and spent approximately \$70,000 on leasehold improvements and \$150,000 on a new coordinate measuring machine for this facility. During the fourth quarter of 1999, we spent approximately \$200,000 on leasehold improvements for a new facility for our inTEST Sunnyvale operation, which relocated during the first quarter of 2000. We estimate that we will spend a total of \$400,000 to complete this new facility. We commenced manufacturing operations at our Singapore facility late in the third quarter of 1999 and invested approximately \$40,000 for new manufacturing equipment related to this operation.

On March 9, 2000, we completed our merger with Temptronic Corporation. We estimate the costs incurred by both inTEST and Temptronic in connection with the merger to be approximately \$2.5 million, including fees paid to investment bankers, professional fees, printing, escrow and other miscellaneous costs. We will expense these costs at the end of the first quarter of 2000. We are beginning to assess ways to cross-train our personnel and promote collaborative product development. Such efforts may temporarily increase operating costs or distract us from customary day-to-day business.

At December 31, 1999, we had \$12.0 million of existing cash and cash equivalents and a \$1.5 million unused line of credit. We believe that these sources of liquidity plus the anticipated net cash provided from operations will be sufficient to satisfy our cash requirements, including those of Temptronic, for the foreseeable future. However, future acquisitions may require additional equity or debt financing to meet working capital requirements or capital expenditure needs. We do not anticipate paying dividends in the foreseeable future.

Year 2000

We rely on our telephone and computer systems, software and other systems in operating and monitoring all aspects of our business. We also rely heavily on the systems of our suppliers. Both inTEST's and Temptronic's efforts to be prepared for the Year 2000 appear to have been successful, but if problems were to develop with our systems or with those of our suppliers and other vendors, we might be unable to engage in normal business activities for a period of time or times after January 1, 2000. Any such disruption could cause our business to suffer.

International Operations

Net revenues generated by inTEST's foreign subsidiaries were 23% of consolidated net revenues in 1999, 34% in 1998 and 34% in 1997. Export sales from our U.S. manufacturing facilities totaled \$8.3 million, or 24% of consolidated net revenues in 1999, \$4.4 million, or 23% in 1998 and \$2.0 million or 10% in 1997. We anticipate that net revenues generated by our foreign subsidiaries or from export sales 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 changes in regulatory requirements, tariffs and other barriers, political and economic instability, an outbreak of hostilities, foreign currency exchange rate fluctuations, potentially adverse tax consequences and the possibility of difficulty in accounts receivable collection. We cannot predict whether quotas, duties, taxes or other charges or restrictions will be implemented by the United States or any other country upon the importation or exportation of 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.

21

Net revenues denominated in foreign currencies were 15% in 1999, 24% in 1998 and 27% in 1997. Although we seek to operate our business such that a significant portion of our product costs are denominated in the same currency that the associated sales are made in, there can be no assurance that we will not be adversely affected in the future due to our exposure to foreign operations. Net revenues denominated in currencies other than U.S. dollars expose us to currency fluctuations, which can adversely affect results of operations.

The portion of our consolidated net revenues that were derived from sales to the Asia-Pacific region were 16% in 1999, 25% in 1998 and 28% in 1997. Countries in the Asia-Pacific region, including Japan, have experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Although the past economic instability in the Asia-Pacific region has not had a material adverse effect on our order backlog, balance sheet, or results of operations to date, there can be no assurance that continued economic instability will not in the future have a material adverse effect on demand for our products and our consolidated results of operations.

Cautionary Statement Regarding Forward Looking Statements

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

22

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to currency exchange rate risk in the normal course of its business. The Company employs risk management strategies including the use of forward exchange rate contracts to manage this exposure. The Company's objective in managing currency exchange risk is to minimize the impact of significant currency exchange rate fluctuations primarily in the Japanese Yen. The Company's Japanese operations expose its earnings to changes in currency exchange rates because its Japanese subsidiary makes its sales in Japanese Yen

and purchases its sales inventory in U.S. dollars. Forward exchange rate contracts are used to establish a fixed conversion rate between the Japanese Yen and the U.S. dollar so that the level of the Company's gross margin from sales in Japan is not negatively impacted from significant movements in the Japanese Yen to U.S. dollar exchange rate. The Company purchases forward exchange rate contracts on a monthly basis in the amounts necessary to pay the U.S. dollar denominated obligations of its Japanese subsidiary. As of December 31, 1999, there were no forward exchange rate contracts outstanding.

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

The notional amounts of inTEST's forward exchange rate contracts are used only to satisfy current payments to material vendors to be exchanged and are not a measure of inTEST's credit risk or its future cash requirements. Exchange risk related to forward exchange rate contracts is limited to movement in the exchange rates that would provide a more favorable exchange rate than that locked in the forward contract and forward contract amounts purchased in excess of the amount needed by inTEST to satisfy its obligations. inTEST manages that rate risk by limiting the size of the forward contracts purchased to the known amount of obligations due and not purchasing forward contracts with settlement dates beyond 30 days. We believe that the risk of loss due to exchange rate fluctuations is remote and that any losses would not be material to its financial condition or results of operations.

Item 8: Financial Statements and Supplementary Data

Consolidated financial statements are set forth in this report beginning at page F-1

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

23

Part III:

Item 10: Directors and Executive Officers

The information required by this item will be filed not later than April 29, 2000 by an amendment to this report or incorporation by reference to the proxy statement for our 2000 Annual Meeting of Stockholders.

Item 11: Executive Compensation

The information required by this item will be filed not later than April 29, 2000 by an amendment to this report or incorporation by reference to the proxy statement for our 2000 Annual Meeting of Stockholders.

Item 12: Security Ownership of Certain Beneficial Owners and Management

The information required by this item will be filed not later than April 29, 2000 by an amendment to this report or incorporation by reference to the proxy statement for our 2000 Annual Meeting of Stockholders.

Item 13: Certain Relationships and Related Transactions

The information required by this item will be filed not later than April 29, 2000 by an amendment to this report or incorporation by reference to the proxy statement for our 2000 Annual Meeting of Stockholders.

Item 14: Exhibits, Financial Statement Schedules and Reports on Form 8-K

- (a) The documents filed as part of this Annual Report on Form 10-K are:
- (i) The Company's consolidated financial statements and notes thereto as well as the applicable report of the independent certified public accountants are included in Part II, Item 8 of this Annual Report on Form 10-K.
 - (ii) The following consolidated financial statement schedule should be read in conjunction with the consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K:

Schedule II - Valuation and Qualifying Accounts

- (iii) The exhibits required by Item 601 of Regulation S-K are included under Item 14(c) of this Annual Report on Form 10-K.
- (b) Reports on Form 8-K
- No reports on Form 8-K were filed during the fourth quarter of 1999.

24

- (c) Exhibits required by Item 601 of Regulation S-K:

Exhibit Number	Description of Exhibit
3.1	Certificate of Incorporation.
3.2	Bylaws of the Company
10.1	Amended and Restated Loan Agreement, dated June 30, 1996, between inTEST Corporation and PNC Bank, National Association. (Amended effective June 30, 1999 pursuant to a letter dated July 8, 1999 which is filed as Exhibit 10.6 to this Report)
10.2	Lease Agreement, dated February 11, 1996, between First Industrial L.P. (formerly Cherry Hill Industrial Sites, Inc.) and the Company.
10.3	Lease, dated August 5, 1996, between KIP Properties and the Company.
10.4	1997 Stock Plan.
10.5	Consulting Agreement, dated April 1, 1997, between the Company and Stuart F. Daniels, Ph.D.
10.6	Letter dated July 8, 1999, amending the loan agreement filed as Exhibit 10.1 to this report.
10.7	Lease, dated September 28, 1999, between Earl E. and Mitsue Jio and inTEST Sunnyvale, a wholly owned subsidiary of inTEST Corporation, a Delaware Corporation signed October 27, 1999.
21	Subsidiaries of the Company.
23	Consent of KPMG LLP.
24	Financial Data Schedule.

25

Signatures:

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Robert E. Matthiessen

Robert E. Matthiessen
President and Chief Executive Officer

Pursuant to the requirements of Securities Exchange Act of 1934,
this report has been signed below by the following persons on behalf
of the Registrant and in the capacities and on the dates indicated.

/s/ Robert E. Matthiessen March 30, 2000

Robert E. Matthiessen, President,
Chief Executive Officer and Director
(principal executive officer)

/s/ Hugh T. Regan, Jr. March 30, 2000

Hugh T. Regan, Jr., Treasurer, Chief
Financial Officer and Secretary
(principal financial officer)

/s/ Douglas W. Smith March 30, 2000

Douglas W. Smith, Executive Vice President,
Chief Operating Officer and Director

/s/ Daniel J. Graham March 30, 2000

Daniel J. Graham, Vice Chairman, Senior
Vice President

/s/ Alyn R. Holt March 30, 2000

Alyn R. Holt, Chairman

/s/ Richard O. Endres March 30, 2000

Richard O. Endres, Director

/s/ Stuart F. Daniels March 30, 2000

Stuart F. Daniels, Ph.D., Director

/s/ Gregory W. Slayton March 30, 2000

Gregory W. Slayton, Director

/s/ William M. Stone March 30, 2000

William M. Stone, Director

/s/ James Greed, Jr. March 30, 2000

James Greed, Jr., Director

3.2	Bylaws of the Company.*
10.1	Amended and Restated Loan Agreement, dated June 30, 1996, between inTEST Corporation and PNC Bank, National Association.* (Amended effective June 30, 1999 pursuant to a letter dated July 8, 1999 which is filed as Exhibit 10.6 to this Report)
10.2	Lease, dated February 11, 1996, between First Industrial L.P. (formerly Cherry Hill Industrial Sites, Inc.) and the Company.*
10.3	Lease, dated August 5, 1996, between KIP Properties and the Company.*
10.4	1997 Stock Plan.**
10.5	Consulting Agreement, dated April 1, 1997, between the Company and Stuart F. Daniels, Ph.D.*
10.6	Letter dated July 8, 1999, amending the loan agreement filed as Exhibit 10.1 to this Report.
10.7	Lease, dated September 28, 1999, between Earl E. and Mitsue Jio and inTEST Sunnyvale, a wholly owned subsidiary of inTEST Corporation, a Delaware Corporation signed October 27, 1999.
21	Subsidiaries of the Company.
23	Consent of KPMG LLP.
27	Financial Data Schedule.

* Previously filed by the Company as an exhibit to the Company's Registration Statement on Form S-1, Registration Statement No. 333-26457.

** Previously filed by the Company as an exhibit to the Company's Registration Statement on Form S-8, Registration Statement No. 333-44059.

inTEST CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULE

	Page
CONSOLIDATED FINANCIAL STATEMENTS:	
Independent Auditors' Report	F- 1
Consolidated Balance Sheets as of December 31, 1999 and 1998	F- 2
Consolidated Statements of Earnings for the years ended December 31, 1999, 1998 and 1997	F- 3
Consolidated Statements of Comprehensive Earnings for the years ended December 31, 1999, 1998 and 1997	F- 4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1999, 1998 and 1997	F- 5
Consolidated Statements of Cash Flows for the years ended	

December 31, 1999, 1998 and 1997

F- 6

Notes to Consolidated Financial Statements

F- 7

CONSOLIDATED FINANCIAL STATEMENT SCHEDULE:

Schedule II - Valuation and Qualifying Accounts

F-26

28

Independent Auditors' Report

The Board of Directors and Stockholders
inTEST Corporation

We have audited the accompanying consolidated balance sheets of inTEST Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule of valuation and qualifying accounts as of and for the three years ended December 31, 1999. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of inTEST Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Philadelphia, Pennsylvania
February 23, 2000

F - 1

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

	December 31,	
	1999	1998
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,018	\$ 8,468
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$185 and \$168, respectively	6,473	3,275
Inventories	3,826	2,521
Deferred tax asset	359	245
Refundable domestic and foreign income taxes	-	658
Other current assets	536	137
	-----	-----
Total current assets	23,212	15,304
	-----	-----
Machinery and equipment:		
Machinery and equipment	2,844	1,690
Leasehold improvements	424	223
	-----	-----
	3,268	1,913
Less: accumulated depreciation	(1,483)	(1,078)
	-----	-----
Net machinery and equipment	1,785	835
	-----	-----
Other assets	218	195
Goodwill, net of accumulated amortization of \$780 and \$301, respectively	6,405	6,884
	-----	-----
Total assets	\$ 31,620	\$ 23,218
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,480	\$ 969
Accrued expenses	1,946	1,023
Domestic and foreign income taxes payable	1,808	-
	-----	-----
Total current liabilities	6,234	1,992
	-----	-----
Commitments		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 6,536,034 issued and outstanding	65	65
Additional paid-in capital	16,647	16,647
Retained earnings	8,664	4,570
Accumulated other comprehensive earnings (expense)	10	(56)
	-----	-----
Total stockholders' equity	25,386	21,226
	-----	-----
Total liabilities and stockholders' equity	\$ 31,620	\$ 23,218
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

	1999	1998	1997
	-----	-----	-----
Net revenues	\$34,496	\$19,075	\$20,746
Cost of revenues	15,605	8,402	7,808
	-----	-----	-----
Gross margin	18,891	10,673	12,938
	-----	-----	-----
Operating expenses:			
Selling expense	4,869	3,346	2,789
Engineering and product development expense	3,209	1,934	1,737
General and administrative expense	4,491	2,875	2,225
	-----	-----	-----
Total operating expenses	12,569	8,155	6,751
	-----	-----	-----
Operating income	6,322	2,518	6,187
	-----	-----	-----
Other income (expense):			
Interest income	348	455	349
Interest expense	(17)	(3)	(15)
Other	76	56	(74)
	-----	-----	-----
Total other income	407	508	260
	-----	-----	-----
Earnings before income taxes and minority interest	6,729	3,026	6,447
Income tax expense	2,635	1,099	2,090
	-----	-----	-----
Earnings before minority interest	4,094	1,927	4,357
Minority interest	-	-	(25)
	-----	-----	-----
Net earnings	\$ 4,094	\$ 1,927	\$ 4,332
	=====	=====	=====
Pro forma information (unaudited) (Note 3)			
Pro forma earnings before income taxes			\$ 6,407
Pro forma income taxes			2,680
Pro forma net earnings			3,726
Earnings per share (1997 information is pro forma):			
Basic	\$ 0.63	\$ 0.31	\$ 0.74
Diluted	0.62	0.31	0.73
Weighted average shares outstanding (1997 information is pro forma):			
Basic	6,536,034	6,169,596	5,068,349
Diluted	6,626,118	6,186,460	5,092,490

See accompanying Notes to Consolidated Financial Statements.

F - 3

inTEST CORPORATION AND SUBSIDIARIES

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

	Years Ended December 31,		
	-----	-----	-----
	1999	1998	1997
	-----	-----	-----
Net earnings	\$ 4,094	\$ 1,927	\$ 4,332

Foreign currency translation adjustments	66	70	(153)
	-----	-----	-----
Comprehensive earnings	\$ 4,160	\$ 1,997	\$ 4,179
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

F - 4

inTEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Expense)	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 1997	3,790,591	\$ 38	\$ 689	\$ 3,833	\$ 27	\$ 4,587
Dividends-\$1.46 per share	-	-	-	(5,522)	-	(5,522)
Net earnings	-	-	-	4,332	-	4,332
Acquisition of minority interest	300,443	3	1,655	-	-	1,658
Issuance of common stock in connection with Offering, net	1,820,000	18	11,637	-	-	11,655
Other comprehensive expense	-	-	-	-	(153)	(153)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997	5,911,034	59	13,981	2,643	(126)	16,557
Net earnings	-	-	-	1,927	-	1,927
Issuance of common stock in connection with Acquisition	625,000	6	2,666	-	-	2,672
Other comprehensive earnings	-	-	-	-	70	70
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998	6,536,034	65	16,647	4,570	(56)	21,226
Net earnings	-	-	-	4,094	-	4,094
Other comprehensive earnings	-	-	-	-	66	66
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1999	6,536,034	\$ 65	\$ 16,647	\$ 8,664	\$ 10	\$ 25,386
	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

F - 5

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

Years Ended December 31,		
-----	-----	-----
1999	1998	1997
-----	-----	-----

CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	\$ 4,094	\$ 1,927	\$ 4,332
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	408	239	168
Amortization of goodwill	479	252	49
Deferred taxes	(114)	(79)	(165)
Foreign exchange (gain) loss	(49)	(41)	62
Allowance for doubtful accounts, net	16	(32)	49
Minority interest	-	-	25
Changes in assets and liabilities, net of effects of Acquisition:			
Trade accounts and notes receivable	(3,162)	1,747	(2,226)
Inventories	(1,308)	10	(352)
Refundable domestic and state income taxes	664	(658)	-
Other current assets	(399)	32	(71)
Accounts payable	1,559	(257)	535
Domestic and foreign income taxes payable	1,808	(1,333)	845
Dividends payable	-	-	(973)
Accrued expenses	920	(244)	331
	-----	-----	-----
Net cash provided by operating activities	4,916	1,563	2,609
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of business, net of cash acquired	-	(4,629)	-
Purchase of machinery and equipment	(1,357)	(261)	(70)
Other long-term asset	(4)	(42)	(54)
	-----	-----	-----
Net cash used in investing activities	(1,361)	(4,932)	(124)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	-	-	(5,541)
Net principal debt repayments	-	(215)	(189)
Net proceeds from offering	-	-	11,655
	-----	-----	-----
Net cash provided by (used in) financing activities	-	(215)	5,925
	-----	-----	-----
Effects of exchange rates on cash	(5)	17	(67)
	-----	-----	-----
Net cash provided by (used in) all activities	3,550	(3,567)	8,343
Cash and cash equivalents at beginning of period	8,468	12,035	3,692
	-----	-----	-----
Cash and cash equivalents at end of period	\$12,018	\$ 8,468	\$12,035
	=====	=====	=====
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES			
Details of Acquisition:			
Fair value of assets acquired, net of cash acquired		\$ 2,003	
Liabilities assumed		(549)	
Common stock issued		(2,672)	
Goodwill resulting from Acquisition		5,847	

Net cash paid for Acquisition		\$ 4,629	
		=====	
Cash payments made for:			
Domestic and foreign income taxes	\$ 297	\$ 3,210	\$ 1,366
Interest	17	3	14

See accompanying Notes to Consolidated Financial Statements.

F - 6

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(1) NATURE OF OPERATIONS

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

The consolidated entity is comprised of inTEST Corporation (parent) and eight 100% owned subsidiaries: inTEST Limited (Thame, UK), inTEST Kabushiki Kaisha (Kichijoji, Japan), inTEST PTE, Limited (Singapore), inTEST Sunnyvale Corp. (Delaware) (acquired in the third quarter of 1998 - see Note 4), Temptronic Corporation (Delaware) (established December 1999 for proposed merger with Temptronic Corporation - see Note 17), inTEST Investments, Inc. (a Delaware holding company), inTEST IP Corp. (a Delaware holding company) and inTEST Licensing Corp. (a Delaware holding company).

The Company manufactures its products in the U.S., the U.K. and Singapore (where the Company commenced manufacturing during September 1999). Marketing and support activities are conducted worldwide from the Company's facilities in the U.S., U.K., Japan and Singapore.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

Cash and Cash Equivalents

Short-term investments, which have maturities of three months or less when purchased, are considered to be cash equivalents and are carried at cost, which approximates market value.

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes Receivable

Notes receivable are due from trade customers in Japan, and have original maturities of less than four months. The notes are non-interest bearing.

Notes receivable were \$141 and \$524 at December 31, 1999 and 1998, respectively.

Credit Risks

The Company grants credit to customers and generally requires no collateral. To minimize its risk, the Company performs ongoing credit evaluations of its customers financial condition. Bad debt expense (recoveries) were \$16, \$(5) and \$61 for the years ended December 31, 1999, 1998, and 1997, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the first-in first-out (FIFO) method.

Machinery and Equipment

Machinery and equipment are stated at cost. Depreciation is based upon the estimated useful life of the assets using the straight line method. The estimated useful lives range from three to seven years. Leasehold improvements are recorded at cost and amortized over the shorter of the lease term or the estimated useful life of the asset. Total depreciation expense was \$408, \$239 and \$168 for the years ended December 31, 1999, 1998 and 1997, respectively. Expenditures for maintenance and repairs are charged to operations as incurred.

Intangibles

Goodwill resulting from the acquisition of the minority interests in the Company's three foreign subsidiaries and the acquisition of TestDesign (as described in Note 4) is amortized on a straight line basis over 15 years. Total amortization expense for the years ended December 31, 1999, 1998 and 1997 was \$479, \$252 and \$49, respectively. When events or circumstances so indicate, the Company assesses the potential impairment of its intangible assets and other long-lived assets based on anticipated undiscounted cash flows from operations. Such events and circumstances include a sale of all or a significant part of the operations associated with the long-lived asset, or a significant decline in the operating performance of the asset. If an impairment is indicated, the amount of impairment charge would be calculated by comparing the anticipated discounted future cash flows to the carrying value of the long-lived asset. At December 31, 1999, no impairment was indicated.

F - 8

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except share data)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Just prior to the closing of the Offering (as described in Note 1), the Company terminated its status as an S corporation for Federal tax purposes and in the state of New Jersey. As an S corporation, any Federal and certain New Jersey state income tax liabilities were those of the former S corporation stockholders, not of the Company. All tax liabilities on income earned subsequent to the revocation of the S corporation election are liabilities of the Company. The Company is taxed in foreign countries and for activity in certain states. The Company accounts for income taxes in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income

Taxes.

Net Earnings Per Common Share

Net earnings per common share is computed in accordance with SFAS No. 128, Earnings per Share. Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during each year. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding during each year. Common share equivalents represent stock options using the treasury stock method.

A reconciliation of weighted average shares outstanding - basic to weighted average shares outstanding - diluted appears below:

	Years Ended December 31,		
	1999	1998	1997
Weighted average shares outstanding-basic	6,536,034	6,169,596	5,068,349
Potentially dilutive securities:			
Employee stock options	90,084	16,864	24,141
Weighted average shares outstanding-diluted	6,626,118	6,186,460	5,092,490

As discussed in Note 3, pro forma earnings per share information for the year ended December 31, 1997 includes certain adjustments to reflect results as if (i) the Company had been taxed as a C corporation for all of 1997 and (ii) the acquisition of the minority interests in the Company's three foreign subsidiaries had occurred on January 1, 1996.

Revenue Recognition

Revenue from sales of products are recognized upon shipment to customers.

F - 9

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Engineering and Product Development

Engineering and product developments costs, which consist primarily of salary and related benefit costs of the Company's technical staff, as well as product development costs, are expensed as incurred.

Product Warranties

The Company generally provides product warranties and records estimated warranty expense at the time of sale based upon historical claims experience. Warranty expense for the years ended December 31, 1999, 1998 and 1997 was \$300, \$202 and \$147, respectively.

Stock Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation, was adopted by the Company effective with adoption of its 1997 Stock Plan. As permitted by SFAS No. 123, the Company has elected to continue to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), in accounting for its stock option plans. Under APB 25, the Company does not recognize compensation expense on the issuance of its stock options because the option terms are fixed and the exercise price equals the market price of the underlying stock on the grant date.

Foreign Currency

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

Financial Instruments

The Company's financial instruments, principally accounts and notes receivable and accounts payable, are carried at cost which approximates fair value, due to the short maturities of the accounts.

F - 10

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This Statement requires that certain costs related to the development or purchase of internal software be capitalized and amortized over the estimated useful life of the software. This Statement also requires that costs related to the preliminary project stage and the post implementation/operation stage of an internal use computer software development project be expensed as incurred. The Company adopted this Statement in the first quarter of 1999, as required. The adoption of this Statement did not have a material affect on the results of operations, financial condition or long-term liquidity of the Company.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company plans to adopt this Statement in the first quarter of 2001, as required. The adoption of this Statement is not expected to have a material effect

on the results of operations, financial condition or long-term liquidity of the Company.

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

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

Accordingly, for informational purposes, the following pro forma information for the year ended December 31, 1997 is presented to show pro forma earnings on an after-tax basis, assuming the Company had been taxed as a C corporation since January 1, 1997. The difference between the Federal statutory income tax rate and the pro forma income tax rate is as follows:

	1997

Federal statutory tax rate	34%
State income taxes, net of Federal benefit	4
Foreign income taxes	4
Non-deductible goodwill amortization	1
Research credits	(1)
	--
Pro forma income tax rate	42%
	==

F - 11

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

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

Set forth below are pro forma results of the Company's operations for the year ended December 31, 1997. These pro forma results reflect adjustments for:

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

	1997

Pro forma earnings before income taxes	\$ 6,407

Pro forma income taxes	2,680
Pro forma net earnings	3,726
Pro forma net earnings per common share - basic	\$ 0.74
Pro forma weighted average common shares outstanding - basic	5,068,349
Pro forma net earnings per common share - diluted	\$ 0.73
Pro forma weighted average common and common share equivalents outstanding - diluted	5,092,490

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

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

(4) ACQUISITION

On August 3, 1998, the Company acquired all of the outstanding capital stock of TestDesign Corporation ("TestDesign"), a privately held California corporation (the "Acquisition"). Subsequent to the Acquisition, the Company changed the name of TestDesign to inTEST Sunnyvale Corp. TestDesign is engaged in the design and manufacture of tester interfaces used by the semiconductor industry. The purchase price was \$4.4 million in cash and 625,000 shares of the Company's common stock (subject to certain adjustments). An escrow (held by a third party escrow agent) of \$1.0 million of the cash portion of the purchase price

F - 12

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(4) ACQUISITION (Continued)

was established at closing. If the Company is entitled to indemnification pursuant to the terms of its agreement with the Seller, such claims will be paid first from any funds held in escrow. The escrowed funds will remain in escrow until July 31, 2000, unless any indemnity claims are then pending, in which case an amount equal to the amount of such pending claims will be retained in escrow until resolution of the claims. Although the Company's common stock had a market price of \$4.75 per share on the closing date of the transaction, all of the 625,000 shares issued in connection with the Acquisition are subject to legal restrictions on transfer and have been valued at a 10% discount to the market price of the shares. In addition, the Company incurred transaction costs of approximately \$425 in completing the Acquisition. The following is an allocation of the purchase price:

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

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

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

The Acquisition has been accounted for as a purchase and the results of operations of the acquired business have been included in the Company's consolidated financial statements since the date of the Acquisition. The following unaudited pro forma information presents a summary of consolidated results of operations for the Company and TestDesign as if the Acquisition had occurred on January 1, 1997 (the 1997 amounts also reflect the pro forma adjustments described in Note 3):

	Years Ended December 31,	
	1998	1997
	-----	-----
Pro forma net revenues	\$ 23,335	\$ 29,689
Pro forma earnings before income taxes	2,892	6,440
Pro forma income taxes	1,081	2,698
Pro forma net earnings	1,811	3,742
Pro forma net earnings per common share - basic	\$ 0.28	\$ 0.66
Pro forma weighted average common shares outstanding - basic	6,536,034	5,693,349
Pro forma net earnings per common share - diluted	\$ 0.28	\$ 0.65
Pro forma weighted average common shares and common share equivalents outstanding - diluted	6,552,898	5,717,490

F - 13

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(5) SEGMENT INFORMATION

The various products the Company designs, manufactures and markets, which include docking hardware, test head manipulators and tester interfaces, are considered by management to be a single product segment. Included in this segment are products the Company designs and markets that are manufactured by third parties, which include high performance test sockets and interface boards. The Company operates its business worldwide and divides the world into three geographic segments: North America, Asia-Pacific and Europe. The North America segment includes the Company's manufacturing, design and service facilities in New Jersey, and California; the Asia-Pacific segment includes the Company's manufacturing, design and service facilities in Singapore and the Company's design and service facilities in Japan; and the Europe segment includes the Company's manufacturing, design and service facility in the UK. Each segment sells Company designed and manufactured products, while products produced by third party manufacturers are primarily distributed by the Company's Asia-Pacific segment. All three segments sell to semiconductor manufacturers and automatic test equipment manufacturers. The North America segment sells through Company account managers and independent sales representatives; the Asia-Pacific segment sells through Company account managers and independent sales representatives; and the Europe segment sells through Company account managers.

Intercompany pricing between segments is either a multiple of cost for component parts used in manufacturing or a percentage discount from list price for finished goods sold to non-manufacturing segments.

	Years Ended December 31,		
	1999	1998	1997
	-----	-----	-----
Net revenues from unaffiliated customers:			
North America	\$26,548	\$12,637	\$13,608
Asia - Pacific	5,465	4,727	5,743
Europe	2,483	1,711	1,395
	-----	-----	-----
	\$34,496	\$19,075	\$20,746
	=====	=====	=====
Affiliate sales or transfer from:			
North America	\$ 1,600	\$ 943	\$ 768
Asia - Pacific	-	-	-
Europe	951	378	500
	-----	-----	-----
	\$ 2,551	\$ 1,321	\$ 1,268
	=====	=====	=====
Depreciation/amortization:			
North America	\$ 831	\$ 414	\$ 127
Asia - Pacific	19	53	69
Europe	36	24	28
	-----	-----	-----
	\$ 886	\$ 491	\$ 224
	=====	=====	=====

F - 14

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(5) SEGMENT INFORMATION (Continued)

	Years Ended December 31,		
	1999	1998	1997
	-----	-----	-----
Operating income:			
North America	\$ 4,746	\$ 1,705	\$ 5,067
Asia - Pacific	333	299	651
Europe	1,243	514	469
	-----	-----	-----
	\$ 6,322	\$ 2,518	\$ 6,187
	=====	=====	=====
Earnings before income taxes and minority interest:			
North America	\$ 5,022	\$ 2,100	\$ 5,356
Asia - Pacific	442	379	606
Europe	1,265	547	485
	-----	-----	-----
	\$ 6,729	\$ 3,026	\$ 6,447

	=====	=====	=====
Income tax expense:			
North America	\$ 2,000	\$ 747	\$ 1,517
Asia - Pacific	339	263	463
Europe	296	89	110
	-----	-----	-----
	\$ 2,635	\$ 1,099	\$ 2,090
	=====	=====	=====
Net earnings:			
North America	\$ 3,022	\$ 1,353	\$ 3,839
Asia - Pacific	103	116	131
Europe	969	458	362
	-----	-----	-----
	\$ 4,094	\$ 1,927	\$ 4,332
	=====	=====	=====
Identifiable assets:			
North America	\$27,036	\$20,226	\$16,177
Asia - Pacific	2,595	1,706	2,679
Europe	1,989	1,286	1,089
	-----	-----	-----
	\$31,620	\$23,218	\$19,945
	=====	=====	=====

Substantially all interest income is generated by the North America segment. Export sales from the Company's domestic manufacturing facilities (New Jersey and California) totaled \$8.3 million, \$4.4 million and \$2.0 million during the years ended December 31, 1999, 1998 and 1997, respectively. During the years ended December 31, 1999, 1998 and 1997 the Company had sales to Japan of \$2.8 million, \$2.9 million and \$4.3 million, respectively.

F - 15

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(6) MAJOR CUSTOMERS

The Company's customers are in the semiconductor industry. During 1999, 1998 and 1997 the Company had sales to certain customers which exceeded 10% of the Company's consolidated revenues. Those sales were as follows:

Customer	1999	1998	1997

A (North America, Asia-Pacific, Europe)	14%	9%	5%
B (North America, Asia-Pacific)	11	16	11
C (North America, Asia-Pacific, Europe)	9	11	7
D (North America, Asia-Pacific)	8	13	5
D (North America, Asia-Pacific, Europe)	3	7	11
	--	--	--
Total	45%	56%	39%
	==	==	==

Additionally, at December 31, 1999, these five customers accounted for 33% of trade receivables.

(7) INVENTORIES

Inventories held at December 31, were comprised of the following:

	1999	1998
	-----	-----
Raw materials	\$2,014	\$1,097
Work in process	1,789	1,305
Finished goods	377	339
Reserve for obsolete inventory	(354)	(220)
	-----	-----
	\$3,826	\$2,521
	=====	=====

(8) LINE OF CREDIT

The Company has a \$1.5 million line of credit. Borrowings under this line of credit are principally used for working capital purposes. Borrowings on the line of credit bear interest at prime rate, which is payable monthly on any outstanding balance. The Company is required to maintain a \$50 compensating balance at the bank which granted the line of credit. The credit line expires on June 28, 2000. At December 31, 1999, there were no borrowings outstanding.

F - 16

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(9) STOCK OPTION PLAN

The 1997 Stock Plan (the "Plan") provides for the granting of either incentive stock options or non-qualified stock options to purchase shares of the Company's common stock and for other stock-based awards to key employees and directors responsible for the direction and management of the Company and to non-employee consultants. The Plan consists of two parts: the Non-Qualified Plan (administered by the Board of Directors of the Company) and the Key Employee Plan (administered by the Compensation Committee of the Board of Directors of the Company). The Company has reserved 500,000 shares of common stock for issuance upon exercise of options or stock awards under the Plan.

No option may be granted with an exercise period in excess of ten years from date of grant. Generally, incentive stock options will be granted with an exercise price equal to the fair market value on the date of grant; the exercise price of non-qualified stock options will be determined by either the Board of Directors or the Compensation Committee of the Board of Directors.

Had compensation costs for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net earnings and net earnings per share for the years ended December 31, 1999, 1998 and 1997, would have been reduced to the unaudited pro forma amounts indicated below:

1999	1998	1997
-----	-----	-----

Net earnings:			
As reported (pro forma for 1997)	\$ 4,094	\$ 1,927	\$ 3,726
Pro forma	\$ 3,960	\$ 1,790	\$ 3,643
Net earnings per share - basic:			
As reported (pro forma for 1997)	\$ 0.63	\$ 0.31	\$ 0.74
Pro forma	\$ 0.61	\$ 0.29	\$ 0.72
Net earnings per share - diluted:			
As reported (pro forma for 1997)	\$ 0.62	\$ 0.31	\$ 0.73
Pro forma	\$ 0.60	\$ 0.29	\$ 0.72

The fair value for stock options granted in 1998 and 1997 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1998 and 1997:

	1998 -----	1997 -----
Risk-free interest rate	5.65%	5.67%
Dividend yield	0.00%	0.00%
Expected common stock market price volatility factor	0.82	0.65
Weighted average expected life of stock options	5 years	5 years

The per share weighted average fair value of stock options issued by the Company in 1998 and 1997 was \$3.92 and \$4.61, respectively. The Company did not issue stock options during 1999.

F - 17

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(9) STOCK OPTION PLAN (Continued)

The options which have been issued vest 20% one year from date of grant and 20% in each of the succeeding four years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. As the Company's stock options have characteristics significantly different from those of traded options, and as changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

The following table summarizes the stock option activity for the periods ended December 31, 1997, 1998 and 1999:

Weighted

	Number of Shares -----	Average Exercise Price -----
Options outstanding, January 1, 1997	-	-
Granted	160,000	\$7.72
Exercised	-	-
Canceled	(9,000)	7.50
	-----	-----
Options outstanding, December 31, 1997 (none exercisable)	151,000 =====	\$7.73 =====
Granted	150,000	\$4.25
Exercised	-	-
Canceled	(10,000)	6.00
	-----	-----
Options outstanding, December 31, 1998 (28,200 exercisable)	291,000 =====	\$5.10 =====
Granted	-	-
Exercised	-	-
Canceled	(3,000)	\$6.00
	-----	-----
Options outstanding, December 31, 1999 (85,200 exercisable)	288,000 =====	\$5.09 =====

On June 30, 1998, the Company modified 141,000 options originally exercisable at \$7.50 per share and 10,000 options originally exercisable at \$11.00 per share to reduce the exercise price of such options to \$6.00 per share.

F - 18

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(9) STOCK OPTION PLAN (Continued)

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices -----	Number Outstanding at 12/31/99 -----	Maximum Life -----	Weighted Average Remaining Life -----	Weighted Average Exercise Price of Outstanding Options -----	Number Exercisable at 12/31/99 -----	Weighted Average Exercise Price of Exercisable Options -----
\$ 6.00	138,000	10 years	7.5 years	\$ 6.00	55,200	\$ 6.00
\$ 4.25	150,000	10 years	8.6 years	\$ 4.25	30,000	\$ 4.25

(10) COMMITMENTS

The Company leases its offices, warehouse facilities, automobiles and certain equipment under noncancellable operating leases which expire at various dates through 2005. Total rental expense for the years ended December 31, 1999, 1998 and 1997 was \$655, \$536 and \$442, respectively. The aggregate minimum rental commitments under the noncancellable operating leases in effect at December 31, 1999, are as follows:

2000	\$ 756
2001	717
2002	656
2003	510
2004	375
Thereafter	35

(11) INCOME TAXES

As discussed in Notes 2 and 3, prior to the Offering the Company had elected S corporation status for Federal and State of New Jersey tax purposes, and therefore, was not directly subject to Federal and certain New Jersey income taxes. Immediately prior to the Offering, the Company terminated its status as an S corporation and is now subject to Federal and additional state income taxes. In addition, the Company is taxed in foreign countries and for activity in certain states. The cumulative amount of undistributed earnings of foreign subsidiaries for which U.S. income taxes have not been provided was approximately \$3.0 million at December 31, 1999. As of December 31, 1999, the Company had repatriated a portion of the earnings of its foreign subsidiaries. The estimated tax effect of distributing such earnings is expected to be offset by available foreign tax credits.

F - 19

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(11) INCOME TAXES (Continued)

Earnings before income taxes were as follows:

	Years Ended December 31,		
	1999	1998	1997
Domestic	\$5,022	\$2,100	\$5,356
Foreign	1,707	926	1,091
	=====	=====	=====
	\$6,729	\$3,026	\$6,447
	=====	=====	=====

Income tax expense was as follows:

	Years Ended December 31,		
	1999	1998	1997
Current:			
Domestic - Federal	\$1,882	\$ 772	\$1,379
Domestic - state	215	54	303
Foreign	652	352	573
	-----	-----	-----
	2,749	1,178	2,255
	-----	-----	-----
Deferred:			
Domestic - Federal	(100)	(54)	(147)
Domestic - state	(14)	(25)	(18)
	-----	-----	-----
	(114)	(79)	(165)
	-----	-----	-----
Income tax expense	\$2,635	\$1,099	\$2,090
	=====	=====	=====

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31, 1999 and 1998:

F - 20

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(11) INCOME TAXES (Continued)

	1999	1998
	-----	-----
Deferred Tax Assets:		
Accrued vacation pay	\$ 104	\$ 91
Allowance for doubtful accounts	67	60
Inventories (principally due to obsolescence reserve)	219	107
Accrued warranty	44	17
Accrued bonuses	13	-
Capital loss carryforward	90	90
Other	-	(5)
	-----	-----
	537	360
Valuation allowance	(90)	(90)

Deferred tax assets	447	270
Deferred Tax Liabilities:		
Accrued royalty income	(65)	(25)
Other	(23)	-
Deferred tax liabilities	(88)	(25)
Net deferred tax asset	\$ 359	\$ 245

Based on the Company's history of prior operating earnings, and its expectation of the future, management believes that taxable income will more likely than not be sufficient to realize the net deferred tax assets of \$359 at December 31, 1999. A valuation allowance of \$90 was established in 1998 to offset the domestic capital loss carryforward.

An analysis of the effective tax rate on earnings and a reconciliation from the expected statutory rate are as follows:

	Years Ended December 31,		
	1999	1998	1997
Expected income tax provision at U.S.			
Statutory rate	\$2,288	\$1,029	\$2,192
State taxes, net of Federal benefit	133	19	188
Increase (decrease) in tax from:			
Non-deductible goodwill	163	86	17
Foreign income tax rate differences	58	12	219
Tax exempt interest	(40)	(80)	-
S corporation earnings not subject to Federal taxation	-	-	(549)
Other	33	33	23
Income tax expense	\$2,635	\$1,099	\$2,090

F - 21

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(12) EMPLOYEE BENEFIT PLANS

In 1996, the Company instituted a defined contribution 401(k) plan for its employees who work in the U.S. All permanent employees of inTEST Corporation and inTEST Sunnyvale who are at least 18 years of age and have completed six months of service with the Company are eligible to participate in the plan. Under the plan, the Company matches employee contributions dollar for dollar up to 10% of the employee's annual compensation up to \$5. In addition, the Company may match employee contributions dollar for dollar for amounts exceeding 10% up to 15% of the employee's annual compensation to a maximum of \$5. Employer contributions vest over a six-year period. The Company contributed \$221, \$157 and \$129 to the plan for the years ended December 31, 1999, 1998 and 1997, respectively.

inTEST Sunnyvale (formerly TestDesign) adopted a defined contribution 401(k) plan for its employees in July 1994. All permanent employees who are at least 18 years of age and have completed six months of service with inTEST Sunnyvale are eligible to participate in the plan. Under the plan, inTEST Sunnyvale matched employee contributions equal to 25% of an employee's contributions up to 5% of gross salary. Matching contributions for the plan were \$6 from the date of the Acquisition through December 31, 1998. In addition, the plan allowed inTEST Sunnyvale to make discretionary matching contributions up to 6.5% of an employee's gross salary for the year based upon inTEST Sunnyvale's profitability. There were no discretionary matching contributions made from the date of the Acquisition through December 31, 1998. Effective October 1, 1998, all inTEST Sunnyvale permanent employees who were at least 18 years of age and had completed six months of service were offered enrollment in the Company's 401(k) plan, and employee contributions and employer matching contributions into the inTEST Sunnyvale plan ceased. The Company is currently in the process of terminating the inTEST Sunnyvale plan at which time the former participants will have the option of rolling their assets into the Company's plan.

(13) ACCRUED EXPENSES

Accrued expenses consists of the following:

	December 31,	
	1999	1998
	-----	-----
Accrued commissions	\$ 611	\$ 206
Accrued vacation	290	236
Accrued bonuses	256	-
Accrued professional fees	179	78
Accrued wages	153	106
Accrued warranty	115	45
Accrued directors fees	105	109
Customer deposits	101	100
Accrued shareholder relations	40	42
Accrued other	96	101
	-----	-----
	\$1,946	\$1,023
	=====	=====

F-22

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(14) RELATED PARTY TRANSACTIONS

The Company paid consulting fees to one individual who is a member of the Board of Directors of the parent company which totaled \$67, \$56 and \$17 during the years ended December 31, 1999, 1998 and 1997, respectively.

During 1998, in connection with the acquisition of TestDesign, the Company repaid \$215 on a note due to a firm ("PRIM") controlled by Douglas W. Smith, Executive Vice President and Chief Operating Officer of the Company. This note, which did not bear interest or have a maturity date, evidenced borrowings that TestDesign had made from PRIM prior to the acquisition. In addition, subject to the terms of a consulting

agreement between TestDesign and Gregory W. Slayton, a current board member of the Company, the Company paid directly to Mr. Slayton, on behalf of TestDesign, \$170 in cash and 31,250 shares of the Company's common stock. These payments are included in the merger consideration and are accounted for as described in Note 4.

The Company's foreign subsidiaries paid directors' fees to several individuals who are members of management of the parent company which totaled \$119, \$104 and \$177 during the years ended December 31, 1999, 1998 and 1997, respectively.

At December 31, 1999 and 1998 there were \$48 and \$49 of foreign directors' fees payable to members of management of the parent company.

(15) LEGAL PROCEEDINGS

On November 18, 1998, the Company and its subsidiary, inTEST IP Corp. (which holds title to all Company intellectual property), filed suit against a competitor for infringement of a United States patent held by the Company (the "815 Patent").

The invention disclosed and claimed in the 815 Patent is directed to a system for positioning and docking a heavy electronic test head of a test system with respect to an electronic device handler. The system is used in the automatic testing of integrated circuits and other electronic devices. The Company sells products covered by the 815 Patent worldwide.

As alleged in the complaint, the competitor began manufacturing, offering to sell, and selling products as early as 1991 that, without license, infringe claims of the 815 Patent. The parties have been discussing possible settlement of the dispute since the Company first became aware of the defendants' infringement in 1991. Discussions were abated at the end of 1995 so that the United States Patent and Trademark Office (the "PTO") could reexamine the 815 Patent. On April 7, 1998, the PTO completed the reexamination and affirmed the patentability of the nine claims in the patent with minor, technical, clarifying changes. Thereafter, the parties resumed settlement negotiations, however, to date such negotiations have been unsuccessful.

F - 23

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(15) LEGAL PROCEEDINGS (Continued)

The complaint asks the court to enjoin the competitor from further acts of infringement, including the acts of manufacturing, using, offering for sale, selling and importing positioner systems that embody the patented invention claimed in the 815 Patent. The complaint also asks the court to award the Company damages against the competitor, including the Company's lost profits. Alleging that the competitor's infringement is and has been deliberate, willful, and wanton, with knowledge of the Company's patent rights, the complaint asks the court to award increased damages up to three times the amount assessed. The complaint also seeks an award of interest, costs and reasonable attorney fees.

All legal fees incurred in connection with this matter have been

expensed. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

(16) QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

The following tables present certain unaudited consolidated quarterly financial information for each of the eight quarters ended December 31, 1999. In the opinion of the Company's management, this quarterly information has been prepared on the same basis as the Consolidated Financial Statements and includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information for the periods presented. The results of operations for any quarter are not necessarily indicative of results for the full year or for any future period.

The Company's business is not seasonal; therefore year-over-year quarterly comparisons of the Company's results of operations may not be as meaningful as the sequential quarterly comparisons set forth below which tend to reflect the cyclical activity of the semiconductor industry as a whole. Quarterly fluctuations in expenses either are related directly to sales activity and volume, or tend to be a function of personnel costs and the timing of expenses incurred throughout the year.

	Quarters Ended				Total
	3/31/99	6/30/99	9/30/99	12/31/99	
Net revenues	\$ 4,810	\$ 6,485	\$ 10,097	\$ 13,104	\$ 34,496
Gross margin	2,532	3,506	5,543	7,310	18,891
Earnings before income taxes	297	850	2,242	3,340	6,729
Income tax	125	357	901	1,252	2,635
Net earnings	172	493	1,341	2,088	4,094
Net earnings per common share - basic	\$ 0.03	\$ 0.07	\$ 0.21	\$ 0.32	\$ 0.63
Weighted average common shares					
outstanding - basic	6,536,034	6,536,034	6,536,034	6,536,034	6,536,034
Net earnings per common share - diluted	\$ 0.03	\$ 0.07	\$ 0.20	\$ 0.31	\$ 0.62
Weighted average common shares and common					
share equivalents outstanding-diluted	6,602,317	6,591,785	6,626,342	6,683,137	6,626,118
Other comprehensive earnings (expense)	\$ (75)	\$ (11)	\$ 168	\$ (16)	\$ 66

F - 24

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

(16) QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

	Quarters Ended				Total
	3/31/98	6/30/98	9/30/98	12/31/98	

Net revenues	\$ 5,626	\$ 5,163	\$ 4,449	\$ 3,837	\$ 19,075
Gross margin	3,426	3,029	2,331	1,887	10,673
Earnings (loss) before income tax expense	1,822	1,458	360	(614)	3,026
Income taxes	668	550	133	(252)	1,099
Net earnings (loss)	1,154	908	227	(362)	1,927
Net earnings(loss) per common share-basic	\$ 0.20	\$ 0.15	\$ 0.04	\$(0.06)	\$ 0.31
Weighted average common shares					
outstanding-basic	5,911,034	5,911,034	6,311,849	6,536,034	6,169,596
Net earnings(loss) per common share-diluted	\$ 0.19	\$ 0.15	\$ 0.04	\$(0.06)	\$ 0.31
Weighted average common shares and common					
share equivalents outstanding-diluted	5,924,949	5,918,809	6,317,578	6,536,034	6,186,460
Other comprehensive earnings (expense)	\$ (42)	\$ (19)	\$ 19	\$ 112	\$ 70

(17) SUBSEQUENT EVENT

On December 16, 1999, the Board of Directors of the Company authorized a merger with Temptronic Corporation, a Massachusetts corporation ("Temptronic"). Each issued and outstanding common share of Temptronic will be exchanged for 0.925 shares of the Company's common stock. Upon closing of the proposed merger, which must be ratified by the shareholders of both the Company and Temptronic, Temptronic will be merged into a wholly-owned subsidiary of the Company. On January 4, 2000, the Company, Temptronic and the Company's wholly-owned subsidiary (into which Temptronic will be merged) entered into an Agreement and Plan of Merger and Reorganization. On February 3, 2000, a joint proxy statement/prospectus for the proposed merger was filed with the Securities and Exchange Commission and shortly thereafter mailed to all shareholders of the Company and Temptronic to vote on the proposed merger. Should the proposed merger be approved by a majority of the shareholders of both the Company and Temptronic, the Company will issue approximately 2.2 million shares of its common stock to Temptronic shareholders. Special shareholder meetings of both the Company and Temptronic have been scheduled for March 9, 2000 to vote on the proposed merger.

F - 25

inTEST CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Acquisition of TestDesign	Additions		Balance at End of Period
	-----	-----	Expense	Other Deductions	-----
Year Ended December 31, 1999					
Allowance for doubtful accounts	\$168	\$ -	\$ 16	\$ (1)	\$185
Inventory obsolescence reserve	220	-	193	59	354
Warranty reserve	45	-	300	230	115
Year Ended December 31, 1998					
Allowance for doubtful accounts	144	54	(5)	25	168
Inventory obsolescence reserve	119	38	193	130	220

Warranty reserve	25	20	202	202	45
Year Ended December 31, 1997					
Allowance for doubtful accounts	96	-	61	13	144
Inventory obsolescence reserve	-	-	178	59	119
Warranty reserve	25	-	147	147	25

PNC BANK LETTERHEAD

July 8, 1999

inTEST Corporation
2 Pin Oak Lane
Cherry Hill, NJ 08003
Attention: Hugh T. Regan, Jr.

Re: Review of Expiration Date for Committed Line of Credit

Dear Mr. Regan:

We are pleased to inform you that your committed line of credit has been renewed. The Expiration Date, as set forth in that certain Amended and Restated Loan Agreement dated June 30, 1996, and in the Amended and Restated Committed Line of Credit Note executed and delivered pursuant to that Amended and Restated Loan Agreement, has been extended from June 29, 1999 to June 28, 2000, effective on June 30, 1999. All other terms and conditions of the Amended and Restated Committed Line of Credit Note and the Amended and Restated Loan Agreement remain in full force and effect.

It has been a pleasure working with you and I look forward to a continued successful relationship. Thank you again for your business.

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: /s/Denise Viola Monahan

Denise Viola Monahan
Vice President

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- NET
(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. Basic Provisions ("Basic Provisions").

1.1 Parties: This Lease (Lease), dated for reference purposes only, September 28 1999, is made by and between Earl S. and Mitsue Jio ("Lessor") and inTEST Sunnyvale Corporation, a wholly owned subsidiary of inTEST Corporation, a Delaware corporation ("Lessee"), collectively the "Parties," or individually a "Party").

1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 1275-1279 Lawrence Station Road, Sunnyvale (Exhibit A), located in the County of Santa Clara, State of California, and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project) all that certain real property consisting of approximately 18,255 square feet shown on Exhibit B ("Premises"). (See also Paragraph 2)

1.3 Term: Five (5) years and Zero (0) months ("Original Term") commencing January 1, 2000 ("Commencement Date") and ending December 31, 2004 ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: Upon full execution of lease document ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: \$25,557.00 per month ("Base Rent"), payable on the First day of each month commencing January 1, 2000. (See also Paragraph 4)

if this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 Base Rent Paid Upon Execution: \$25,557.00 as Base Rent for the period.

1.7 Security Deposit: \$29,208.00 ("Security Deposit"). (See also Paragraph 5)

1.8 Agreed Use: The Premises shall be used and occupied for general office, light assembly, machine shop, warehousing and other legal related uses. (See also Paragraph 6)

1.9 Insuring Party: Lessor is the "Insuring Party" unless otherwise stated herein. (See also Paragraph 8)

1.10 Real Estate Brokers: (See also Paragraph 15)

(a) Representation: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

CPS represents Lessor exclusively ("Lessor's Broker");

Grubb & Ellis represents Lessee exclusively ("Lessee's Broker");

(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Broker the fee agreed to in their separate written agreement (or if there is no such agreement, the sum of _ % of the total Base Rent for the brokerage services rendered by said Broker).

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by inTEST Corporation, a Delaware corporation ("Guarantor"). (See also Paragraph 37)

1.12 Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 56 and Exhibits A, B and C, all of which constitute a part of this Lease.

2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the

actual size is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee within thirty (30) days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "Building") shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If, after the Start Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within: (i) one year as to the surface of the roof and the structural portions of the roof, foundations and bearing walls, (ii) six (6) months as to the HVAC systems, (iii) thirty (30) days as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 Compliance. Lessor warrants that the improvements on the Premises comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("Applicable Requirements") in effect on the Start Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed, If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within six (6) months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Start Date, which is addressed in Paragraph 6.2(e) below) so as to require during the term of this Lease the construction of an addition to or an alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Building ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Lessee may instead terminate this Lease unless Lessor

Page 1 of 11

notifies Lessee, in writing, within ten (10) days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent, If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for such costs pursuant to the

provisions of Paragraph 7.1(c); provided, however, that if such Capital Expenditure is required during the last two years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon ninety (90) days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within ten (10) days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon thirty (30) days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 Acknowledgements. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements), and their suitability for Lessee's intended use; (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefore as the same relate to its occupancy of the Premises; and (c) neither Lessor, Lessor's agents, nor any Broker has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (a) Broker has made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises; and (b) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including, but not limited to, the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 Delay In Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing within ten (10) days after the end of such sixty (60) day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said ten (10) day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not

delivered within four (4) months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 Lessee Compliance. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent.

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

4.2 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof, If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof, If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on said change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within fourteen (14) days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within thirty (30) days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the

mechanical or electrical systems therein, is not significantly more burdensome to the Premises, If Lessor elects to withhold consent, Lessor shall within five (5) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law

Page 2 of 11

theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation possession, storage, use, transportation or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) Lessee Remediation. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) Lessee Indemnification. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties).

Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee. and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in Paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) Lessor Termination Option. If a Hazardous Substance Condition occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within ten (10) days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available, If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint

or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

6.4 Inspection; Compliance. Lessor and Lessor's "Lender" (as defined in Paragraph 30 below) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspections, so long as such inspection is reasonably related to the violation or contamination.

7. Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations.

7.1 Lessee's Obligations.

(a) In General. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, heating, ventilating, air-conditioning, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) Service Contracts. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment (ii) boiler, and pressure vessels, (iii) fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (v) roof covering and drains, (vi) driveways and parking lots, (vii) clarifiers (viii) basic utility feed to the perimeter of the Building, and (ix) any other equipment, if reasonably required by Lessor.

(c) Replacement. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving

Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if the Basic Elements described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such Basic Elements, then such Basic Elements shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is the number of months of the useful life of such replacement as such useful life is specified pursuant to Federal income tax regulations or guidelines for

depreciation thereof (including interest on the unamortized balance as is then commercially reasonable in the judgment of Lessor's accountants), with Lessee reserving the right to prepay its obligation at any time.

7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance) 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) Definitions; Consent Required. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cost thereof during this Lease as extended does not exceed \$50,000 in the aggregate or \$10,000 in any one year.

(b) Consent. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent (which shall not be unreasonably withheld) of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount equal to the greater of one month's Base Rent, or \$10,000, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) Indemnification. Lessee shall pay, when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof, If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee,

but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per Paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee Owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity.

8.1 Payment For Insurance. Lessee shall pay for all insurance required under Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of \$2,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and Lessor against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$2,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire. The Policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an 'insured contract' for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) Building and Improvements. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any groundlessor, and to any Lender(s) insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lenders, but in no event more than the commercially reasonable and available insurable value thereof. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the

result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the

Page 4 of 11

Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$1,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

(b) Rental Value. The insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one (1) year. Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of Rent from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) Adjacent Premises. If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4 Lessee's Property/Business Interruption Insurance.

(a) Property Damage. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with Written evidence that such insurance is in force.

(b) Business Interruption. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies, Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V. as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect;

provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective sixty (60) days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within ten (10) days after receipt of the termination notice to give written notice to

Page 5 of 11

Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment this Lease shall terminate as of the date specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate sixty (60) days following such Destruction, if the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last six (6) months of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving a written termination notice to Lessee within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on

or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect, If Lessee fails to exercise such option and provide such funds or assurance during such period. then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent; Lessee's Remedies.

(a) Abatement. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) Remedies. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Termination - Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes.

10.1 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to. a change in the ownership of the Premises.

10.2

(a) Payment of Taxes. Lessee shall pay the Real Property Taxes applicable to the Premises during the term of this Lease. Subject to Paragraph 10.2(b), all such payments shall be made at least ten (10) days prior to any delinquency date. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax

bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment. If Lessee shall fail to pay any required Real Property Taxes, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) Advance Payment. In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent, If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes, If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. All monies paid to Lessor under this Paragraph may be intermingled with other monies of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may, at the option of Lessor, be treated as an additional Security Deposit.

10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

10.4 Personal Property Taxes. Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause such property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon, If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered.

12. Assignment and Subletting.

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) A change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than twenty-five percent (25%) of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice

and grace period, If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon thirty (30) days written notice, increase the monthly Base Rent to one hundred ten percent (110%) of the Base Rent

Page 6 of 11

then in effect. Further in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to one hundred ten percent (110%) of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to One Hundred Ten Percent (110%) of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease; (ii) release Lessee of any obligations hereunder; or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$1,000 or ten percent (10%) of the current monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any

of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or rules under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) business days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) a Tenancy Statement, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph 13.1 (a) is contrary to any applicable law, such provision shall be of no force or

effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor; (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty; (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing; (iv) a Guarantor's refusal to honor the guaranty; or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within sixty (60) days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent

Page 7 of 11

which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful defamer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by s~id statute.

(b) Continue the Lease and Lessee's right to possession and

recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of Rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to ten percent (10%) of each such overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Interest. Any monetary payment due Lessor hereunder other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the thirty-first (31st) day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus four percent (4%), but shall not exceed the maximum rate allowed bylaw. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 Breach by Lessor.

(a) Notice of Breach. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

(b) Performance by Lessee on Behalf of Lessor. In the event that neither Lessor nor Lender cures said breach within thirty (30)

days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building portion of the Premises, or more than twenty-five percent (25%) of the land area portion of the Premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession, If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation Lessor shall repair any damage to the Premises caused by such Condemnation.

15. Brokers' Fee.

15.1 Additional Commission. In addition to the payments owed pursuant to Paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same project, if any, within which the Premises is located, (c) if Lessee remains in possession of the Premises with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein then, Lessor shall pay Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.2 Assumption of Obligations. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Each Broker shall be a third party beneficiary of the provisions of Paragraphs 1.10, 15.22 and 31. If Lessor fails to a to a Broker any amounts due as and for commissions pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within ten (10) days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker.

15.3 Representations and Indemnities of Broker Relationships. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from

and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. Estoppel Certificates.

(a) Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such ten day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's Rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including, but not limited to, Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6 above.

18. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Days. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. Limitation on Liability. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely

upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. The liability (including court costs and Attorneys' fees), of any Broker with respect to negotiation, execution, delivery or performance by either Lessor or Lessee under this Lease or any amendment or modification hereto shall be limited to an amount up to the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

23. Notices.

23.1 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees applicable thereto.

26. No Right To Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to one hundred fifty percent (150%) of the Base Rent applicable during the month immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions; Construction of Agreement. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings

and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lessor's Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (ii) be subject to any offsets or defenses which Lessee

Page 9 of 11

might have against any prior lessor; or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease. Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said sixty (60) days, then Lessee may, at Lessee's option, directly contact Lessor's lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorneys' Fees. If any Party or Broker brings an action or proceeding involving the Premises to enforce the terms hereof or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees

award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "For Sale" signs and Lessor may during the last six (6) months of the term hereof place on the Premises any ordinary "For Lease" signs. Lessee may at any time place on or about the Premises any ordinary "For Sublease" sign.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs. Except for ordinary "For Sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

37. Guarantor.

37.1 Execution. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2 Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee

shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options.

39.1 Definition. "Option" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 Options Personal To Original Lessee. Each Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 Multiple Options. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given three (3) or more notices of separate Default, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of thirty (30) days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee three (3) or more notices of separate Default during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Multiple Buildings. If the Premises are a part of a group of buildings controlled by Lessor. Lessee agrees that it will observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other

under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum, If it shall be adjudged that there was no legal obligation on the part of said Party to pay such

sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. Authority. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within thirty (30) days after request, deliver to the other Party satisfactory evidence of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. Offer. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. Multiple Parties. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. Mediation and Arbitration of Disputes. An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease is not attached to this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

See Paragraph 50, "Option to Extend", which is attached hereto and incorporated herein as part of this Lease. See Addendum 1 which is attached hereto and Incorporated herein as part of this Lease and sets forth Paragraphs 52 through 56.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES, SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

By LESSOR:

Earl E. and Mitsue Jio

By: /s/Earl E. Jio

Earl E. Jio

By LESSEE:

inTEST Sunnyvale Corporation, a wholly-owned subsidiary of inTEST Corporation, a Delaware Corporation

By: /s/Douglas W. Smith

Douglas W. Smith
Exec. VP, COO

By: /s/Mitsue Jio

Mitsue Jio

NOTE: These forms are often modified to meet the changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 So. Flower Street, Suite 600, Los Angeles, California 90017. (213)687-8777. Fax No. (213)687-8616

Page 11 of 11

OPTION(S) TO EXTEND
STANDARD LEASE ADDENDUM

Dated: September 28, 1999

By and Between (Lessor) Earl E. and Mitsue Jio
(Lessee) inTEST Corporation

Address of Premises: 1275-1279 Lawrence Station Road, Sunnyvale, CA

Paragraph 50

A. OPTION(S) TO EXTEND:

Lessor hereby grants to Lessee the option to extend the term of this Lease for One (1) additional Sixty (60) month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) In order to exercise an option to extend, Lessee must give written notice of such election to Lessor and Lessor must receive the same at least 3 but not more than 4 months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire. Options (if there are more than one) may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this Option.

(iii) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(iv) This Option is personal to the original Lessee and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(v) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below:
(Check Method(s) to be Used and Fill in Appropriately)

I. Cost of Living Adjustment(s) (COLA)

N/A

II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s)) December 1, 2004 the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date, If agreement cannot be reached, within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next thirty days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

Initials: EJ
MJ

Initial: DWS

Page 1 of 2

(i) Within fifteen days thereafter, Lessor and Lessee shall each select an El appraiser or El broker ("Consultant" - check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The three arbitrators shall within thirty days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified fifteen days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, ie. the one that is NOT the closest to the actual MRV.

2) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and

2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

III. Fixed Rental Adjustment(s) (FRA)

N/A

B. NOTICE:

Unless specified otherwise herein, notice of any rental adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE:

The Brokers specified in paragraph 1.10 shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease.

Initials: EJ
MJ

Initial: DWS

Page 2 of 2

ADDENDUM 1

THIS ADDENDUM IS ATTACHED TO AND MADE A PART OF THAT CERTAIN LEASE AGREEMENT BY AND BETWEEN EARL E. AND MITSUE JIO ("LESSOR") AND INTEST SUNNYVALE CORPORATION ("LESSEE") FOR THE PREMISES LOCATED AT 1275-1279 LAWRENCE STATION ROAD, SUNNYVALE, CALIFORNIA AND DATED SEPTEMBER 28, 1999 FOR REFERENCE PURPOSES ONLY.

51. Tenant Improvements: Lessor shall provide a \$15.00 per square foot tenant improvement allowance. All tenant improvements shall be performed in accordance with the terms and provisions of the Lease. Lessee shall invoice Lessor for the cost of such tenant improvements with such backup information as is reasonably requested by Lessor. Lessor shall make payment of such Invoices within the amount of the allowance within 30 day's of receipt of the invoice and statutory lien releases from all contractors and subcontractors performing improvements to the property. The allowance shall be used for the following items:

- a. all ADA upgrades;
- b. interior paint and patching;
- c. interior floor covering (cat-pet and VCT); and
- d. specific changes for Lessee's intended use, which will be mutually agreed upon with Lessor.

52. Rent:

Months	Rent/SF/Mo/NNN
12/01/99-11/30/00	\$25,557.00
12/01/00-11/30/01	\$26,469.75
12/01/01-11/30/02	\$27,382.50
12/01/02-11/30/03	\$28,295.25
12/01/03-11/30/04	\$29,208.00

53. Alterations: Lessee, at Lessee's sole cost and expense may install vents in the roof for the machine shop. Therefore, Lessor shall not be responsible for any roof leaks associated with said vents.

54. Purchase Option: Lessee shall have an option to purchase the building at Fair Market Value if the Lessor, at its sole option, elects to sell the building. In the event Lessor makes a decision to offer the property for sale, Lessor shall provide written notice to Lessee. Lessee shall have an option, exercisable within 15 days of the date of the notice, to purchase the building at Fair Market Value to be determined by independent appraisal as follows: Lessor and Lessee shall each choose an MAI appraiser to separately determine a value of the property. If the Fair Market Value as determined by the two appraisers varies by less than \$50,000, the amounts of the appraisals shall be averaged and that average shall be the purchase price. If the Fair Market Value as determined by the appraisers varies by \$50,000 or more, the two appraisers shall select a third MAI appraiser. That third appraiser shall appraise the property and the three appraisers shall meet and mutually agree on a Fair Market Value for the property. If the three appraisers are unable to so agree, the Fair Market Value shall be determined by a court of competent jurisdiction.

55. Lessor shall repair or replace asphalt, at Lessor's option, and completely resurface the paved parking areas surrounding the building within 36 months of the Commencement Date.

56. Lessor at its cost shall paint the exterior of the building.

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
GUARANTY OF LEASE

WHEREAS Earl E. and Mitsue Jio, hereinafter "Lessor", and inTEST Sunnyvale Corporation, a wholly owned subsidiary of inTEST Corporation, hereinafter "Lessee", are about to execute a document entitled "Lease" dated September 28, 1999 concerning the premises commonly known as 1275-1279 Lawrence Station Road, Sunnyvale wherein Lessor will lease the premises to Lessee, and

WHEREAS, inTEST Corporation, a Delaware corporation hereinafter "Guarantors" have a financial interest in Lessee, and

WHEREAS, Lessor would not execute the Lease if Guarantors did not execute and deliver to Lessor this Guarantee of Lease.

NOW THEREFORE, in consideration of the execution of the foregoing Lease by Lessor and as a material inducement to Lessor to execute said Lease, Guarantors hereby jointly, severally, unconditionally and irrevocably guarantee the prompt payment by Lessee of all rents and all other sums payable by Lessee under said Lease and the faithful and prompt performance by Lessee of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Lessee.

It is specifically agreed that the terms of the foregoing Lease may be modified by agreement between Lessor and Lessee, or by a course of conduct, and said Lease may be assigned by Lessor or any assignee of Lessor without consent or notice to Guarantors and that this Guaranty shall guarantee the performance of said Lease as so modified.

This Guaranty shall not be released, modified or affected by the failure or delay on the part of Lessor to enforce any of the rights or remedies of the Lessor under said Lease, whether pursuant to the terms thereof or at law or in equity.

No notice of default need be given to Guarantors, it being specifically agreed that the guarantee of the undersigned is a continuing guarantee under which Lessor may proceed immediately against Lessee and/or against Guarantors following any breach or default by Lessee or for the enforcement of any rights which Lessor may have as against Lessee under the terms of the Lease or at law or in equity.

Lessor shall have the right to proceed against Guarantors hereunder following any breach or default by Lessee without first proceeding against Lessee and without previous notice to or demand upon either Lessee or Guarantors.

Guarantors hereby waive (a) notice of acceptance of this Guaranty, (b) demand of payment, presentation and protest, (c) all right to assert or plead any statute of limitations relating to this Guaranty or the Lease, (d) any right to require the Lessor to proceed against the Lessee or any other Guarantor or any other person or entity liable to Lessor, (e) any right to require Lessor to apply to any default any security deposit or other security it may hold under the Lease, (f) any right to require Lessor to proceed under any other remedy Lessor may have before proceeding against Guarantors, (g) any right of subrogation.

Guarantors do hereby subrogate all existing or future indebtedness of Lessee to Guarantors to the obligations owed to Lessor under the Lease and this Guaranty.

If a Guarantor is married, such Guarantor expressly agrees that recourse may be had against his or her separate property for all of the obligations hereunder.

The obligations of Lessee under the Lease to execute and deliver estoppel statements and financial statements, as therein provided, shall be deemed to also require the Guarantors hereunder to do and provide the same.

The term "Lessor" refers to and means the Lessor named in the Lease and also Lessor's successors and assigns. So long as Lessor's interest in the Lease, the leased premises or the rents, issues and profits therefrom, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantors of the Lessor's interest shall affect the continuing obligation of Guarantors under this Guaranty which shall nevertheless continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment and their successors and assigns.

The term "Lessee" refers to and means the Lessee named in the Lease and also Lessee's successors and assigns.

In the event any action be brought by said Lessor against

Guarantors hereunder to enforce the obligation of Guarantors hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee which shall be fixed by the court.

If this Form has been filled in, it has been prepared for submission to your attorney for his approval. No representation or recommendation is made by the American Industrial Real Estate Association, the real estate broker or its agents or employees as to the legal sufficiency, legal effect, or tax consequences of this Form or the transaction relating thereto.

Executed at: Sunnyvale, CA
On 10/27/99
Address 542 Lakeside Drive

/s/Douglas W. Smith

Exec. VP, COO

"GUARANTORS"

Exhibit 21

Subsidiaries of the Registrant

Name of Subsidiaries and Names Under Which Subsidiaries Do Business -----	Jurisdiction of Incorporation -----
inTEST Limited	England
inTEST Kabushiki Kaisha	Japan
inTEST PTE, Ltd.	Singapore
inTEST Investments, Inc.	Delaware
inTEST IP Corp.	Delaware
inTEST Licensing Corp.	Delaware
inTEST Sunnyvale Corp.	Delaware
Temptronic Corporation*	Delaware

* Incorporated on December 14, 1999, for the purpose of acquiring
Temptronic.

EXHIBIT 23

Consent of Independent Auditors

The Board of Directors and Stockholders
inTEST Corporation

We consent to the incorporation by reference in the registration statement (No. 333-44059) on Form S-8 of inTEST Corporation of our report dated February 23, 2000, relating to the consolidated balance sheets of inTEST Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999, and the related consolidated financial statement schedule, which report appears in the December 31, 1999 annual report on Form 10-K of inTEST Corporation.

KPMG LLP
Philadelphia, Pennsylvania
March 29, 2000

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE 1999 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

</LEGEND>

<CIK> 0001036262

<NAME> INTEST CORPORATION

<MULTIPLIER> 1,000

<CURRENCY> USD

<PERIOD-TYPE>

12-MOS

<FISCAL-YEAR-END>

DEC-31-1999

<PERIOD-START>

JAN-01-1999

<PERIOD-END>

DEC-31-1999

<EXCHANGE-RATE>

1

<CASH>

12,018

<SECURITIES>

0

<RECEIVABLES>

6,473

<ALLOWANCES>

185

<INVENTORY>

3,826

<CURRENT-ASSETS>

23,212

<PP&E>

3,268

<DEPRECIATION>

1,483

<TOTAL-ASSETS>

31,620

<CURRENT-LIABILITIES>

6,234

<BONDS>

0

<PREFERRED-MANDATORY>

0

<PREFERRED>

0

<COMMON>

65

<OTHER-SE>

25,321

<TOTAL-LIABILITY-AND-EQUITY>

31,620

<SALES>

34,496

<TOTAL-REVENUES>

34,496

<CGS>

15,604

<TOTAL-COSTS>

12,569

<OTHER-EXPENSES>

0

<LOSS-PROVISION>

0

<INTEREST-EXPENSE>

17

<INCOME-PRETAX>

6,729

<INCOME-TAX>

2,635

<INCOME-CONTINUING>

4,094

<DISCONTINUED>

0

<EXTRAORDINARY>

0

<CHANGES>

0

<NET-INCOME>

4,094

<EPS-BASIC>

.63

<EPS-DILUTED>

.62