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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001 or

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

For the transition period from ________________ to _________________

Commission File Number 0-22529

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**22-2370659**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7 Esterbrook Lane
Cherry Hill, New Jersey 08003
(Address of principal executive offices, including zip code)

(856) 424-6886
(Registrant's Telephone Number, including Area Code)

Indicate by check X whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO ___

Number of shares of Common Stock, $.01 par value, outstanding as of September 30, 2001:

8,679,655

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inTEST CORPORATION

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PART 1. FINANCIAL INFORMATION

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

	Sept. 30, 2001 (Unaudited)	Dec. 31, 2000 (Audited)
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 6,974	$ 5,680
Trade accounts and notes receivable, net of allowance for doubtful accounts of $342 and $241, respectively	5,732	14,752
Inventories	9,091	12,559

Deferred tax asset	2,640	1,287
Refundable domestic and foreign income taxes	1,243	158
Other current assets	819	463
Total current assets	26,499	34,899
Property and equipment:		
Machinery and equipment	9,584	9,856
Leasehold improvements	2,631	2,750
	12,215	12,606
Less: accumulated depreciation	(6,068)	(7,519)
Net property and equipment	6,147	5,087
Deferred tax asset	210	210
Other assets	405	407
Goodwill, net of accumulated amortization of $384 and $1,259, respectively	955	5,926
Total assets	$34,216	$46,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,963	$ 4,563
Accrued expenses	2,235	3,568
Capital lease obligations	78	-
Total current liabilities	4,276	8,131
Capital lease obligations, net of current portion	317	-
Total liabilities	4,593	8,131
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; 8,679,655 and 8,658,511 shares issued, respectively	87	87
Additional paid-in capital	21,759	22,328
Retained earnings	10,454	19,456
Accumulated other comprehensive expense	(328)	(300)
Deferred compensation	(25)	(98)
Note receivable from Equity Participation Plan	-	(3,075)
Treasury stock, at cost; 375,982 and 0 shares, respectively	(2,324)	-
Total stockholders' equity	29,623	38,398
Total liabilities and stockholders' equity	$34,216	$46,529

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2001	2000	2001	2000
Net revenues	$ 7,428	$24,491	$44,208	$66,061
Cost of revenues	9,175	13,230	32,460	34,319
Gross margin	(1,747)	11,261	11,748	31,742
Operating expenses:				
Selling expense	1,864	3,252	7,009	8,279

Engineering and product development expense	1,603	1,591	4,837	4,662
General and administrative expense	2,475	1,999	6,469	5,342
Impairment of goodwill	4,612	-	4,612	-
Merger-related costs	-	-	-	2,672
Write-off of deferred offering costs	-	415	-	415
Total operating expenses	10,554	7,257	22,927	21,370
Operating income (loss)	(12,301)	4,004	(11,179)	10,372
Other income (expense):				
Interest income	61	130	171	384
Interest expense	(13)	-	(23)	(30)
Other	69	52	330	91
Total other income (expense)	117	182	478	445
Earnings (loss) before income taxes	(12,184)	4,186	(10,701)	10,817
Income tax expense (benefit)	(2,360)	1,552	(1,699)	4,911
Net earnings (loss)	$(9,824)	$ 2,634	$(9,002)	$ 5,906
Net earnings (loss) per common share - basic	$(1.19)	$0.32	$(1.09)	$0.72
Weighted average common shares outstanding-basic	8,289,634	8,232,030	8,269,372	8,186,625
Net earnings (loss) per common share - diluted	$(1.19)	$0.31	$(1.09)	$0.70
Weighted average common and common share equivalents outstanding-diluted	8,289,634	8,475,730	8,269,372	8,485,023

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2001	2000	2001	2000

Net earnings (loss)	$(9,824)	$2,634	$(9,002)	$5,906
Foreign currency translation adjustments	250	(92)	(28)	(236)
Comprehensive earnings (loss)	$(9,574)	$2,542	$(9,030)	$5,670

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited except Balance, December 31, 2000)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Note Receivable from Equity Participation Plan	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2000	8,658,511	$ 87	$22,328	$19,456	$(300)	$ (98)	$(3,075)	$ -	$38,398
Net earnings	-	-	-	(9,002)	-	-	-	-	(9,002)
Foreign currency translation adjustment	-	-	-	-	(28)	-	-	-	(28)
Amortization of deferred compensation	-	-	-	-	-	49	-	-	49
Elimination of deferred compensation related to stock options forfeited	-	-	(24)	-	-	24	-	-	-
Stock options exercised	29,124	-	100	-	-	-	-	-	100
Principal payments by Equity Participation Plan	-	-	-	-	-	-	147	-	147

Termination of Equity Participation Plan and acquisition of treasury stock	-	-	(604)	-	-	-	2,928	(2,324)	-
Acquisition of treasury stock	-	-	-	-	-	-	-	(41)	(41)
Retirement of treasury stock	(4,226)	-	(41)	-	-	-	-	41	-
Cancellation of escrow shares	(3,754)	-	-	-	-	-	-	-	-
Balance, September 30, 2001	8,679,655	$ 87	$21,759	$10,454	$(328)	$ (25)	$ -	$(2,324)	$29,623

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended Sept. 30, 2001	Nine Months Ended Sept. 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	$(9,002)	$ 5,906
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,345	1,062
Amortization of goodwill	360	359
Impairment of goodwill	4,612	-
Deferred taxes	(1,353)	-
Foreign exchange (gain) loss	25	(18)
Deferred compensation relating to stock options	49	41
Loss on disposal of fixed assets	16	16
Changes in assets and liabilities:		
Trade accounts and notes receivable	8,907	(8,192)
Inventories	3,449	(3,023)
Proceeds from sale of demonstration equipment, net of gain	89	7
Refundable domestic and foreign income taxes	(1,068)	-
Other current assets	(357)	208
Accounts payable	(2,564)	234
Domestic and foreign income taxes payable	-	1,586
Accrued expenses	(1,323)	820
Net cash provided by (used in) operating activities	3,185	(994)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of machinery and equipment	(2,254)	(3,438)
Other long-term assets	(10)	933
Net cash used in investing activities	(2,264)	(2,505)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of revolving debt	-	(1,241)
Repayment of long-term debt	-	(256)
Proceeds from financing of machinery and equipment	216	-
Repayments of capital lease obligations	(47)	-
Note receivable repayments from Equity Participation Plan	147	113
Acquisition of treasury stock	(41)	-
Proceeds from stock options exercised	100	227

Net cash provided by (used in) financing activities	375	(1,157)
Effects of exchange rates on cash	(2)	(146)
Net cash provided by (used in) all activities	1,294	(4,802)
Cash and cash equivalents at beginning of period	5,680	12,047
Cash and cash equivalents at end of period	$ 6,974	$ 7,245
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Capital lease additions	$ 226	$ -
Treasury stock acquired as repayment of Equity Participation Plan note receivable (see Note 5)	$ 2,324	$ -
Cash payments made for:		
Domestic and foreign income taxes	$ 754	$ 3,325
Interest	16	32

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of September 30, 2001 and for the nine months ended September 30, 2001 and 2000 is unaudited)
(In thousands, except for share and per share data)

(1) NATURE OF OPERATIONS

inTEST Corporation (the "Company") is a leading independent designer, manufacturer and marketer of manipulator and docking hardware products, temperature management systems and tester interface products that are used by semiconductor manufacturers in conjunction with automatic test equipment, or ATE, in the testing of integrated circuits, or ICs.

The consolidated entity is comprised of inTEST Corporation (New Jersey) and its nine 100% owned subsidiaries: inTEST Limited (U.K.), inTEST Kabushiki Kaisha (Japan), inTEST PTE, Limited (Singapore), inTEST Sunnyvale Corp. (California), Temptronic Corporation (Massachusetts), inTEST GmbH (Germany) (operations commenced during August 2000), 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., U.K. and Singapore. Marketing and support activities are conducted worldwide from the Company's facilities in the U.S., U.K., Germany, Japan and Singapore.

On March 9, 2000, the Company completed a merger with Temptronic Corporation ("Temptronic") whereby Temptronic was merged into a wholly-owned subsidiary of the Company. The Company exchanged 2,046,793 shares of its common stock for all of the Temptronic common stock. Each share of Temptronic common stock was exchanged for 0.925 shares of the Company's common stock. In addition, outstanding Temptronic stock options were converted at the same exchange ratio into options to acquire 175,686 shares of the Company's common stock. The merger was accounted for under the pooling-of-interests method of accounting. At the closing of the merger, an escrow consisting of 204,654 shares was established to satisfy any indemnity claims made between closing and March 9, 2001. During the quarter ended March 31, 2001, the Company made a claim against the escrow for 3,754 shares, which were returned to the Company and subsequently cancelled. The balance of the escrow shares were distributed to the holders of record shortly there after. Temptronic also has a 100% owned foreign subsidiary, which is consolidated with Temptronic for reporting purposes.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying 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 accounting principles generally accepted in the U. S. 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.

Risks and Uncertainties

The Company's historic results of operations as presented in these consolidated financial statements may not be indicative of future results, as these future results involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from historical results include, but are not limited to, the highly cyclical nature of the semiconductor industry; dependence upon capital expenditures of semiconductor manufacturers; developments and trends in the IC and ATE industries; changes in general economic, business and financial market conditions; future acquisitions and the Company's ability to successfully integrate its operations with those of the acquired entity; costs associated with future acquisitions and integration of operations; the impairment of goodwill related to prior or future acquisitions; the ability to effectively control operating costs; competitive pricing pressures; delays in shipments of products; the mix of prod ucts sold; the mix of customers and geographic regions where products are sold; the loss of, or reduction in orders from, a major customer; the development of new products and technologies by the Company or its competitors; the Company's ability to obtain patent protection and to enforce its patent rights for existing and developing proprietary technologies; the technological obsolescence of the Company's inventory; the availability of qualified personnel; net revenues generated by foreign subsidiaries; exchange rate fluctuations and the use of forward exchange rate contracts; the anticipated market for the Company's products; and the sufficiency of cash balances, lines of credit and net cash from operations.

Interim Financial Reporting

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normally recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented.

Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K filed on March 30, 2001.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Earnings (Loss) Per Common Share

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

Weighted average common shares outstanding exclude unallocated shares of common stock held by the Company's Equity Participation Plan (see Note 5).

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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, as amended by SFAS Nos. 137 and 138, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 in the first quarter of 2001, as required. The adoption of SFAS No. 133, as amended, did not have a material effect on the results of operations, financial condition or long-term liquidity of the Company.

In July 2001, the FASB issued SFAS No. 141, *Business Combinations*. SFAS No. 141 requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method.

In July 2001, the FASB also issued SFAS No. 142*, Goodwill and Other Intangible Assets*, which will be effective for the Company on January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test within six months from the date of adoption. As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $933 which will be subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill was $360 for the nine months ended September 30, 2001 and 2000. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as a cumulative effect of a change in accounting principle.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes both SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establish es criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142. The Company is required to adopt SFAS No. 144 no later than the year beginning after December 15, 2001, and plans to adopt its provisions for the quarter ending March 31, 2002. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of SFAS No. 14 4 for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Company's financial statements.

(3) SEGMENT INFORMATION

The various products the Company designs, manufactures and markets are considered by management to form three reportable segments: manipulator/docking hardware products, temperature management systems and tester interface products. The manipulator/docking hardware segment includes the operations of the Company's Cherry Hill, New Jersey manufacturing facility as well as the operations of three of the Company's foreign subsidiaries: inTEST Limited, inTEST Kabushiki Kaisha, and inTEST PTE, Limited. Sales of this segment consist primarily of manipulator and docking hardware products which the Company designs, manufactures and markets, as well as certain other related products which the Company designs and markets, but which are manufactured by third parties. The temperature management segment includes the operations of Temptronic in Newton, Massachusetts as well as inTEST GmbH. Sales of this segment consist primarily of temperature management systems which the Company designs, manufactures and markets und er its Temptronic product line. In addition, this segment provides after sale service and support, which is paid for by its customers. The tester interface segment includes the operations of inTEST Sunnyvale in Sunnyvale, California. Sales of this segment consist primarily of tester interface products which the Company designs, manufactures and markets under its TestDesign product line.

The Company operates its business worldwide and all three segments sell their products both domestically and internationally. All three segments sell to semiconductor manufacturers and ATE manufacturers.

Intercompany pricing between segments is either a multiple of cost for component parts or a percentage discount from list price for finished goods.

	Three Months Ended Sept. 30,	Nine Months Ended Sept. 30,

	2001	2000	2001	2000
Revenues from unaffiliated customers:				
Manipulator/Docking	$ 2,124	$10,586	$17,303	$30,648
Temperature Management	4,924	8,757	21,445	23,759
Interface	380	5,148	5,460	11,654
	$ 7,428	$24,491	$44,208	$66,061
Affiliate sales or transfers from:				
Manipulator/Docking	$ 131	$ 563	$ 736	$ 1,612
Temperature Management	325	85	779	419
Interface	56	697	755	1,126
	$ 512	$ 1,345	$ 2,270	$ 3,157
Operating income (loss):				
Manipulator/Docking	$ (3,971)	$ 1,606	$ (4,103)	$ 7,524
Temperature Management	(1,291)	1,100	125	600
Interface	(7,039)	1,298	(7,201)	2,248
	$(12,301)	$ 4,004	$(11,179)	$10,372
Earnings (loss) before income taxes:				
Manipulator/Docking	$ (3,865)	$ 1,789	$ (3,736)	$ 8,021
Temperature Management	(1,280)	1,099	236	548
Interface	(7,039)	1,298	(7,201)	2,248
	$(12,184)	$ 4,186	$(10,701)	$10,817
Income tax expense (benefit):				
Manipulator/Docking	$ (974)	$ 622	$(1,112)	$ 2,772
Temperature Management	(729)	428	159	1,263
Interface	(657)	502	(746)	876
	$(2,360)	$ 1,552	$(1,699)	$ 4,911
Net earnings (loss):				
Manipulator/Docking	$(2,891)	$ 1,167	$(2,624)	$ 5,249
Temperature Management	(551)	671	77	(715)
Interface	(6,382)	796	(6,455)	1,372
	$(9,824)	$ 2,634	$(9,002)	$ 5,906

(3) SEGMENT INFORMATION (Continued)

The Company does not currently allocate corporate overhead to its subsidiaries. All costs associated with the Company's executive management team are charged to the Cherry Hill, New Jersey operation which is included in the manipulator/docking hardware segment. The $4,612 charge for impairment of goodwill in 2001 was incurred by the tester interface segment, the $2,672 of merger-related costs in 2000 were incurred by the temperature management segment, and the $415 write-off of deferred offering costs in 2000 was incurred by the manipulator/docking hardware segment. Substantially all interest income is generated by the Company's three Delaware holding companies, whose results are also included in the manipulator/docking hardware segment.

(4) IMPAIRMENT OF GOODWILL

Goodwill resulting from the acquisition of the minority interest in three of the Company's foreign subsidiaries and the acquisition of TestDesign is amortized on a straight-line basis over 15 years. 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. The amount of the impairment charge, if any, would be calculated by comparing the anticipated future discounted cash flows to the carrying value of the long-lived asset.

The Company believes that the significant decline in its operations due to the current industry downturn warranted an assessment of its goodwill for impairment as of September 30, 2001. As a result of this assessment, no impairment was indicated for the goodwill associated with its foreign subsidiaries; however, a $4,612 impairment charge was recorded for the goodwill associated with the acquisition of TestDesign, which was the net book value of this goodwill as of that date.

(5) TERMINATION OF EQUITY PARTICIPATION PLAN

Temptronic established the Temptronic Corporation Equity Participation Plan ("EPP") covering substantially all employees in 1982. On November 6, 1996, in exchange for a note receivable, Temptronic loaned the EPP $3,668 to purchase 565,483 shares of stock from certain former stockholders of Temptronic. The Company agreed to make an annual contribution to the EPP in the amount of the principal plus interest due on the note receivable. This note receivable bore interest at 10% and matured on September 30, 2011. A portion of the total shares acquired with the proceeds of the note were allocated to participant accounts on September 30 of each plan year as the note receivable was repaid. The original amount of the note from the EPP was recorded as a reduction of stockholders' equity. The reduction in stockholders' equity was offset when the annual contributions were made.

On July 2, 2001, the EPP was terminated. Upon termination, the 375,982 remaining unallocated shares were returned to the Company in satisfaction of the remaining unpaid principal amount of the note at that time. These shares have been recorded as treasury stock in the accompanying financial statements. Based on a fair market value of $6.18 on July 2, 2001, the value of the unallocated shares returned to the Company was approximately $604 less then the remaining principal of the note receivable as of that date. This difference was recorded as a reduction of additional paid in capital. The Company has filed an application for a favorable determination with respect to the termination of the EPP with the Internal Revenue Service. This determination, when received, will have no impact on the accounting for the termination of the EPP.

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

Overview

Our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. The semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have a severe impact on the semiconductor industry's demand for ATE, including the products we manufacture. This cyclicality has been clearly demonstrated during the past five years, with downward cycles in 1996 and 1998, and up cycles in 1997, 1999 and 2000. During the fourth quarter of 2000, demand for ATE entered another cyclical downturn, which now appears to be one of the most severe downturns the ATE industry has experienced. We cannot be sure as to the length and depth of this current downturn or when the next cyclical growth phase will occur.

In response to this downturn, we reduced our worldwide workforce by 20%, or 77 people, in late March 2001. In addition, we implemented a worldwide salary freeze, put a hold on new hires and implemented additional cost controls on other expenditures with the goal of reducing our overall operating expenditures by 10%. These strategies were successful in reducing our fixed costs to a level that allowed us to achieve a breakeven result for the quarter ended June 30, 2001, although revenues declined 17%, or $3.4 million, from the first quarter of the year. Throughout the second and third quarters of 2001, we have seen further evidence of the significant slowdown in the industry with the continued decline in orders for our products, which fell 55% during the second quarter of the year and an additional 35% during the third quarter of 2001 to $6.1 million for the quarter ended September 30, 2001. In addition to the decline in our bookings, many of our customers have also delayed the scheduled shipment dates for ord ers which we had received in previous quarters and which were originally scheduled to ship during the third or fourth quarter of 2001. These delays have pushed scheduled shipment dates out to the fourth quarter of 2001, and, in many cases, into 2002. As a result, our revenues fell 55% from the second quarter of 2001 to $7.4 million for the quarter ended September 30, 2001. Our backlog decreased from $14.4 million at June 30, 2001 to $13.1 million at September 30, 2001. In order to address this continued decline in orders and delay in scheduled shipment dates, we implemented additional cost containment strategies in early August 2001, including further reducing our workforce by approximately 10%, or 30 people, along with a 10% reduction in compensation for all remaining employees. Although we experienced a slight increase in our quote and order activity during August 2001, the events of September 11 appear to have reversed this positive trend and further delayed the overall industry recovery. The current indu stry consensus is that the recovery will not occur until the second half of 2002, and we see nothing in our business to contradict this assessment. Therefore, in anticipation that the current reduced level of business will continue through the next three quarters, we have implemented further cost containment strategies, including a reduction in our workforce of approximately 6% or 22 people along with further reductions in compensation for certain employees. These actions were taken in early October 2001. The goal of these actions is to reduce fixed operating costs to a level which, based on current revenue projections, would allow us to maintain our present level of cash while still continuing our research and development programs and positioning ourselves such that, when the market improves, we are able to be a prime supplier for both new and existing technologies developed by our customers. However, given the uncertainty of the continued severity of the industry downturn, we cannot be certain that the act ions we have taken to date will be sufficient for us to accomplish this goal.

We sell our products to both semiconductor manufacturers (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. Historically, the majority of our manipulator, docking hardware and tester interface product sales have been directly to semiconductor manufacturers, with our end user sales typically in the range of 65% to 75% of our net revenues. However, since the beginning of 2000, many semiconductor manufacturers have begun to show a preference for purchasing the various components of the ATE (excluding temperature management systems) they need from a single source. Typically, this source is the tester manufacturer, who manufacturers the largest and most expensive components of the ATE system. As evidence of this trend, our OEM sales as a percentage of net revenues for the years ended December 31, 1999 and 2000 increased from 33% to 41%, respectively, for manipulator/docking hardware products and from 21% to 42%, respectively, for tester interface products. This trend continued during 2001, with OEM sales as a percentage of net revenues for the nine months ended September 30, 2000 and 2001 increasing from 41% to 55%, respectively, for manipulator/docking hardware products and from 40% to 69%, respectively, for tester interface products. These increases in OEM sales as a percentage of net revenues in these two segments have been offset by a decrease in OEM sales in our temperature management segment, which decreased for the nine months ended September 30, 2000 and 2001 from 46% to 32%, respectively. We anticipate that OEM sales as a percentage of net revenues may continue to increase in the future for our manipulator/docking hardware and tester interface product segments. The impact of this increase in OEM sales as a percentage of net revenues is a reduction in our gross margin, as OEM sales have a more significant discount than end user sales. Our current net operating margins on most OEM sales for these product segments, however, are only slightly less than margins on end user sales because of the payment of third party sales commissions on most end user sales. We also expect to continue to experience demands from our OEM customers' supply line management groups to reduce our sales prices to them. This continued price pressure may have the ultimate effect of reducing our gross and operating margins if we cannot reduce our manufacturing and operating costs.

We believe that purchases of most of our products are typically made from the semiconductor manufacturers' capital expenditure budgets. Certain portions of our business, however, are generally less dependent upon the capital expenditure budgets of the end users. For example, purchases of certain related ATE interface products, such as sockets and interface boards, which must be replaced periodically, are typically made from the end users' operating budgets. In addition, purchases of our products, such as docking hardware, for the purpose of upgrading, or to improve the utilization, performance and efficiency of, existing ATE tend to be counter cyclical to sales of new ATE. Moreover, we believe a portion of our sales of temperature management products results from the increasing need for temperature testing of circuit boards and specialized components that do not have the design or quantity to be tested in a handler. We believe that this business is less cyclical than new ATE sales. However, during the curren t downward cycle we have seen our customers' orders for these types of products decline as much, or in some cases, more than the other products we offer as compared with prior periods of reduced capital spending for ATE. We attribute this in part to reductions in our customers'

operating budgets combined with significant excess capacity that we believe exists throughout the industry. We believe that much of this excess capacity is the result of capital equipment purchases made during the recent, prolonged expansion experienced by the industry, and therefore, this newer equipment does not need to be upgraded or improved.

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

Significant Events

On March 9, 2000, we acquired 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. Temptronic designs, manufactures, sells and services high-performance temperature management systems used in the testing of ICs and other electronic products. These temperature management systems are complementary to our manipulator, docking hardware and tester interface products and expanded our line of product offerings to our customer base.

Results of Operations

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

Three Months Ended September 30, 2001 Compared to Three Months September 30, 2000

Net Revenues. Consolidated net revenues were $7.4 million for the quarter ended September 30, 2001 compared to $24.5 million for the same period in 2000, a decrease of $17.1 million or 70%. While the manipulator/docking hardware and tester interface segments' net revenues decreased $8.5 million, or 80%, and $4.8 million, or 93%, respectively, for the third quarter of 2001 as compared to the third quarter of 2000, the net revenues for the temperature management segment decreased by only $3.8 million, or 44%, in 2001 as compared to 2000. We believe that the decrease in net revenues for all of our product segments reflects the cyclical downturn in demand for ATE in 2001 as compared to 2000. However, we attribute the smaller percentage decrease in the net revenues of our temperature management segment to continued demand for our Thermostream(R) products which has partially offset the effects of the current downturn on this product segment to date.

Gross Margin. Gross margin was a negative 24% for the quarter ended September 30, 2001 compared to 46% for the same period in 2000. The negative gross margin is the result of recording incremental additions to the obsolescence reserves totaling $3.0 million during the quarter. These additions to the obsolescence reserves were made as a result of the continued downturn in our industry which has caused items in our inventory to become obsolete. Excluding this incremental charge, gross margin for the quarter was 17%. For our manipulator/docking hardware and tester interface products, the decline in gross margin is primarily the result of a reduction in the absorption of fixed operating costs due to the significantly lower levels of revenue in 2001 compared to 2000 and an increase in component material costs as a percentage of net revenues. The increase in component material costs as a percentage of net revenues is primarily the result of an increase in OEM sales as a percentage of total sales, as previou sly discussed, as well as increases in the cost of aluminum which is a significant raw material component used in these products. In addition, for our manipulator/docking hardware segment, the decline in gross margin is also the result of increases in fixed operating costs due to facility expansions in the U.S., the U.K. and Singapore. We believe this increased capacity adequately addressed the capacity constraints that impacted product shipments during most of 2000. For temperature management products, the decline in gross margin was primarily the result of higher component material costs and increases in fixed operating costs. The higher fixed operating costs are due to a facility expansion in early 2001, and were partially offset by a decrease in salaries due to headcount reductions in the operations area.

Selling Expense. Selling expense was $1.9 million for the quarter ended September 30, 2001 compared to $3.3 million for the same period in 2000, a decrease of $1.4 million or 43%. We attribute the decrease primarily to decreased commission expense due to the lower sales levels. In addition both salaries and travel expenditures decreased in 2001 as compared to 2000, primarily as a result of the implementation of our cost containment program. These reductions were partially offset by an increase in warranty expense in our temperature management segment.

Engineering and Product Development Expense. Engineering and product development expense remained relatively unchanged at $1.6 million for each of the quarters ended September 30, 2001 and 2000. Our expenditures for research and development materials were higher in the quarter ended September 30, 2001 than in the comparable prior period, however, this increase was partially offset by lower payroll costs for engineering staff resulting primarily from the implementation of our cost containment program.

General and Administrative Expense. General and administrative expense was $2.5 million for the quarter ended September 30, 2001 compared to $2.0 million for the same period in 2000, an increase of $476,000 or 24%. We attribute the increase primarily to an increase in salary expense resulting from the accrual of separation payments to be made based on a prior contractual arrangement with a former executive of a subsidiary. In addition, incremental increases to the allowance for doubtful accounts of approximately $105,000 were recorded during the quarter related primarily to amounts due from a Taiwanese customer of our tester interface product segment. These increases were partially offset by decreases in accruals for profit-related bonuses and reductions in salaries for remaining employees as a result of the implementation of our cost containment program.

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

Impairment of Goodwill. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, when events or circumstances so indicate, we assess the potential impairment of our 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. The amount of the impairment charge, if any, would be calculated by comparing the anticipated discounted future cash flows to the carrying value of the long-lived asset.

We believe that the significant decline in our operations due to the current industry downturn warranted an assessment of our goodwill for impairment as of September 30, 2001. As a result of this assessment, we concluded that no impairment was indicated for the goodwill associated with our foreign subsidiaries; however, a $4,612 impairment charge was recorded for the goodwill associated with the acquisition of TestDesign, which was the net book value of this goodwill as of that date.

Write-off of Deferred Offering Costs. During September 2000, we withdrew our registration statement for the offering of 2.0 million shares of our common stock, 1.0 million of which were to be offered by us and 1.0 million by certain of our stockholders. Approximately $415,000 of costs related to the withdrawn offering, which consisted primarily of professional fees, printing costs and roadshow costs, were expensed during the third quarter of 2000.

Other Income. Other income was $117,000 for the quarter ended September 30, 2001 as compared to $182,000 for the same period in 2000, a decrease of $65,000 or 36%. The decrease is primarily attributable a decrease in interest income due to lower average cash balances during 2001 as compared to 2000.

Income Tax Expense (Benefit). Income tax benefit was $2.4 million for the quarter ended September 30, 2001 compared with income tax expense of $1.6 million for the comparable period in 2000. Our effective tax rate for the third quarter of 2001 was 19%, primarily due to the recording of a $4.6 million charge for impairment of goodwill which is not deductible for tax purposes. In addition, a valuation allowance was established for certain state income tax benefits where we believe it is more likely than not that we will not have sufficient future taxable income during the various states' carry-forward periods to fully utilize these benefits.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Net Revenues. Consolidated net revenues were $44.2 million for the nine months ended September 30, 2001 compared to $66.1 million for the same period in 2000, a decrease of $21.9 million or 33%. While the manipulator/docking hardware and tester interface segments' net revenues decreased $13.3 million or 44% and $6.2 million or 53%, respectively, for the first nine months of 2001 as compared to 2000, the net revenues for the temperature management segment decreased by only $2.3 million or 10% in 2001 as compared to 2000. We believe that the decrease in net revenues for all of our product segments reflects the cyclical downturn in demand for ATE in 2001 as compared to 2000. However, we attribute the smaller percentage decrease in the net revenues of our temperature management segment to continued demand for our Thermostream(R) products which partially offset the effects of the current downturn on this product segment, particularly during the first half of the year.

Gross Margin. Gross margin decreased to 27% for the nine months ended September 30, 2001 from 48% for the comparable period in 2000. We attribute the decrease in gross margin to several factors including the recording of incremental additions to the obsolescence reserves during the nine months totaling $3.5 million. These additions to the obsolescence reserves were made as a result of the continued downturn in our industry which has caused items in our inventory to become obsolete. Excluding these incremental charges, gross margin for the nine months was 34%. For our manipulator, docking hardware and tester interface products, the decline is primarily the result of a reduction in the absorption of fixed operating costs due to the significantly lower levels of revenue in 2001 compared to 2000 and an increase in component material costs as a percentage of net revenues. The increase in component material costs as a percentage of net revenues is primarily the result of an increase in OEM sales as a percen tage of total sales, as previously discussed, as well as increases in the cost of aluminum which is a significant raw material component used in these products. In addition, for our manipulator/docking hardware segment, the decline in gross margin is also the result of increases in fixed operating costs due to facility expansions in the U.S., the U.K. and Singapore. We believe this increased capacity adequately addressed the capacity constraints that impacted product shipments during most of 2000. For temperature management products, the decline in gross margin was the result of higher component material costs and increases in fixed operating costs. The higher fixed operating costs are due to a facility expansion in early 2001, and were partially offset by a decrease in salaries due to headcount reductions in the operations area.

Selling Expense. Selling expense was $7.0 million for the nine months ended September 30, 2001 compared to $8.3 million for the same period in 2000, a decrease of $1.3 million or 15%. We attribute the decrease primarily to decreased commission expense due to the lower sales levels. In addition salaries, travel and advertising expenditures decreased in 2001 as compared to 2000, primarily as a result of the implementation of our cost containment program.

Engineering and Product Development Expense. Engineering and product development expense was $4.8 million for the nine months ended September 30, 2001 compared to $4.7 million for the same period in 2000, an increase of $175,000 or 4%. We attribute the increase primarily to higher payroll costs for engineering staff, resulting primarily from salary increases for existing staff in the fourth quarter of 2000, combined with higher fees from increased use of third party consultants early in the year. These increases were partially offset by lower levels of expenditures on research and development materials resulting from the completion late in 2000 of several significant development efforts that were on-going throughout that year.

General and Administrative Expense. General and administrative expense was $6.5 million for the nine months ended September 30, 2001 compared to $5.3 million for the same period in 2000, an increase of $1.1 million or 21%. We attribute the increase primarily to an increase in salary expense both as a result of salary increases in the fourth quarter of 2000 for existing staff as well as the accrual in July of separation payments for a former executive of a subsidiary, as previously discussed. In addition, incremental increases to the allowance for doubtful accounts of approximately $105,000 were recorded during the third quarter of 2001 related primarily to amounts due from a Taiwanese customer of our tester interface product segment. These increases were partially offset by decreases in accruals for profit-related bonuses and reductions in salaries in early August for remaining employees as a result of the implementation of our cost containment program.

Impairment of Goodwill. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, when events or circumstances so indicate, we assess the potential impairment of our 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. The amount of the impairment charge, if any, would be calculated by comparing the anticipated discounted future cash flows to the carrying value of the long-lived asset.

We believe that the significant decline in our operations due to the current industry downturn warranted an assessment of our goodwill for impairment as of September 30, 2001. As a result of this assessment, we concluded that no impairment was indicated for the goodwill associated with our foreign subsidiaries; however, a $4,612 impairment charge was recorded for the goodwill associated with the acquisition of TestDesign, which was the net book value of this goodwill as of that date.

Merger-related Costs. Merger-related costs totaling $2.7 million were recorded during the nine months ended September 30, 2000 as a result of our merger with Temptronic Corporation. There were no merger-related costs for the nine months ended September 30, 2001.

Write-off of Deferred Offering Costs. During September 2000, we withdrew our registration statement for the offering of 2.0 million shares of our common stock, 1.0 million of which were to be offered by us and 1.0 million by certain of our stockholders. Approximately $415,000 of costs related to the withdrawn offering, which consisted primarily of professional fees, printing costs and roadshow costs, were expensed during the third quarter of 2000.

Other Income. Other income was $478,000 for the nine months ended September 30, 2001 compared to $445,000 for the same period in 2000, an increase of $33,000 or 7%. The increase is primarily attributable to commissions received by our Japanese subsidiary related to the sale of certain third party products as well as foreign currency transaction gains and third party royalty income. This increase was partially offset by a decrease in interest income due to lower average cash balances during 2001 as compared to 2000.

Income Tax Expense (Benefit). Income tax benefit was $1.7 million for the nine months ended September 30, 2001 compared with income tax expense of $4.9 million for the comparable period in 2000. Our effective tax rate for the first nine months of 2001 was 16% primarily due to the recording of a $4.6 million charge for impairment of goodwill which is not deductible for tax purposes. In addition, a valuation allowance was established for certain state income tax benefits where we believe it is more likely than not that we will not have sufficient future taxable income during the various states' carry-forward periods to fully utilize these benefits. The effective tax rate for the first nine months of 2000 was 45%, primarily as a result of the recording of $2.7 million of merger-related costs, the majority of which were not tax-deductible.

Liquidity and Capital Resources

Net cash provided by operations for the nine months ended September 30, 2001 was $3.2 million. Accounts receivable decreased $8.9 million from December 31, 2000 to September 30, 2001 due to cash collections in excess of the net sales recorded during the first nine months of 2001. Inventories decreased $3.4 million primarily as a result of the recording of

$3.5 million of incremental additions to the obsolescence reserves in 2001. This decrease was partially offset by purchases made during the first half of the year for shipments that were expected to occur in this same time period but which have now been delayed until the fourth quarter of 2001 or 2002. Refundable domestic and foreign income taxes increased $1.1 million as the result of estimated tax payments made in excess of actual taxable income. As a result, we expect to receive a tax refund of approximately $1.5 million during the fourth quarter of 2001. Accounts payable decreased $2.6 million due to lower production levels during the first nine months of 2001. Accrued expenses decreased $1.3 million as a result of the payment of previously accrued expenses including sales commissions, incentive compensation and merger-related costs.

Purchases of machinery and equipment were $2.3 million for the nine months ended September 30, 2001, which consisted primarily of improvements to our facilities in the U.K., Singapore and Massachusetts. We also acquired an additional coordinate measuring machine for our Cherry Hill, New Jersey facility under a capital lease. During the first half of 2001, we relocated our U.K. manufacturing operation to a new facility and converted the previous facility to a machine shop. We relocated our Singapore subsidiary during April 2001 and spent approximately $119,000 on leasehold improvements and purchases of furniture and equipment for this facility. During May 2001, we relocated our Temptronic subsidiary and spent approximately $1.2 million on leasehold improvements and purchases of furniture and equipment for this facility. Our lease on this facility entitles us to a reimbursement of approximately $280,000, which we expect to receive during 2002.

Net cash provided by financing activities for the nine months ended September 30, 2001 was $375,000, including approximately $216,000 for equipment that was refinanced under a capital lease and approximately $100,000 of proceeds from the exercise of stock options granted to employees.

As of September 30, 2001, we had a $5.0 million committed, unsecured line of credit, due to expire September 30, 2002.

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

International Operations

Net revenues generated by our foreign subsidiaries were 14% and 16% of consolidated net revenues for the nine months ended September 30, 2001 and 2000, respectively. We anticipate that net revenues generated by our foreign subsidiaries will continue to account for a significant portion of consolidated net revenues in the foreseeable future. The net revenues generated by our foreign subsidiaries will continue to be subject to certain risks, including political and economic instability of foreign countries, the imposition of financial and operational controls or regulatory restrictions by foreign governments, the need to comply with a variety of U.S. and foreign export and import laws, trade restrictions, changes in tariffs and taxes, longer payment cycles, fluctuations in foreign currency exchange rates, and the greater difficulty of administering business abroad. We cannot predict whether quotas, duties, taxes or other charges or restrictions will be implemented by the U.S. or any other country upon the importation or exportation of our products in the future. Any of these factors or the adoption of restrictive policies could have a material adverse effect on our business, financial condition or results of operations.

Net revenues denominated in foreign currencies were 11% of consolidated net revenues for each of the nine months ended September 30, 2001 and 2000, respectively. 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, we may be adversely affected in the future due to our exposure to foreign operations. Moreover, net revenues denominated in currencies other than U.S. dollars expose us to currency fluctuations, which can adversely affect results of operations.

The portion of our consolidated net revenues that were derived from sales to the Asia-Pacific region were 6% and 9% for the nine months ended September 30, 2001 and 2000, respectively. Countries in the Asia-Pacific region, including Japan, have experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Continued economic instability could have a material adverse effect on demand for our products and our consolidated results of operations.

Impact of Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations*. SFAS No. 141 requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method.

In July 2001, the FASB also issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which will be effective for the Company on January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test within six months from the date of adoption. As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $933,000 which will be subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill was $360,000 for the nine months ended September 30, 2001 and 2000. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as a cumulative eff ect of a change in accounting principle.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes both SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establish es criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142. The Company is required to adopt SFAS No. 144 no later than the year beginning after December 15, 2001, and plans to adopt its provisions for the quarter ending March 31, 2002. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of SFAS No. 14 4 for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Company's financial statements.

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

Risks That Could Affect Future Results

A number of the matters and subject areas discussed in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report that are not historical or current facts deal with potential future circumstances and developments. These forward-looking statements typically can be identified by the use of terminology such as "believes," expects," "may," "will," "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Investors and prospective investors are cautioned that such statements are only projections and that actual events or results may differ materially from those expressed in any such forward-looking statements. In addition to other factors described elsewhere in this report, our actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by factors, including, without limitation: changes in business conditions and the economy, generally; further declines in the demand for ICs; our ability to obtain patent protection, and enforce our patent rights, for existing and developing proprietary technologies; our ability to successfully integrate businesses, technologies or products which we may acquire; the impairment of goodwill related to prior or future acquisitions; the effect of the loss of, or reduction in orders from, a major customer; cancellation, or delays in shipment, of orders in our backlog; competition from other manufacturers of docking hardware, manipulators, tester interfaces and related ATE interface products and temperature management products; progress of product development programs; technological obsolescence of our inventory; unanticipated exchange rate fluctuations; capital requirements relating to future acquisitions; the availability of qualified personnel; and the sufficiency of cash balances, lines of credit and net cash from operations. Addit ional information regarding these risks and uncertainties may be found elsewhere in this report or in our other periodic reports filed with the Securities and Exchange Commission.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to currency exchange rate risk in the normal course of our business. In Japan, this exposure results from the fact that the sales of our subsidiary are in Japanese yen and inventory purchases are in U.S. dollars. We have the same exposure in our German operations (which commenced in August 2000) as a portion of total sales are in German deutsche marks while inventory purchases are in U.S. dollars. We also have a similar exposure in our Singapore operations because our sales are in U.S. dollars but our manufacturing costs are in U.S. dollars, British pounds and Singapore dollars. We employ risk management strategies, including the use of forward exchange rate contracts, to manage our exposure to exchange rate risks involving the yen, and may, in the future, use forward exchange rate contracts to manage our exposure to exchange rate risks involving the Singapore dollar and German deutsche mark.

Our objective in managing currency exchange risk is to minimize the impact of significant currency exchange rate fluctuations. We use forward exchange rate contracts to establish a fixed conversion rate between the Japanese yen and the U.S. dollar so that the level of our gross margin from sales in Japan is not negatively affected by significant movements in the Japanese yen to U.S. dollar exchange rate. We purchase forward exchange rate contracts on a monthly basis in the amounts management deems appropriate in light of the amount of the U.S. dollar denominated obligations of our Japanese subsidiary that are due within the month. We do not purchase forward contracts with settlement dates beyond 30 days. As of September 30, 2001, there were no forward exchange rate contracts outstanding.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may identify products manufactured and sold by others that we believe infringe our patents. If we are unable to negotiate satisfactory license arrangements with the parties engaged in such activities or otherwise prevent the manufacture and sale of such products, we may initiate legal proceedings against the parties engaged in such activities. Management does not believe the prosecution of any such pending litigation or the results of such pending litigation will be material to our results of operations or financial condition.

Item 2. Changes in Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

None

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

Not applicable

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits:*

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

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

10 Letter dated September 28, 2001, renewing the Loan Agreement dated November 16, 2000 and Note dated November 1, 2000 previously filed as Exhibits 10.1 and 10.2 in Form 10-K for the year ended December 31, 2000.

* Indicates document previously filed

(b) *Reports on Form 8-K*

On July 26, 2001, the Company filed a report on Form 8-K providing information responsive to the requirements of Item 5 and 7 of that form regarding its financial results for the three month and six month periods ended June 30, 2001.

On September 27, 2001, the Company filed a report on Form 8-K providing information responsive to the requirements of Item 5 and 7 of that form regarding revised guidance for its financial results for the third quarter ended September 30, 2001.

Signatures

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

inTEST Corporation

Date: November 14, 2001

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

Date: November 14, 2001

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

Index to Exhibits

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

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

10 Letter dated September 28, 2001, renewing the Loan Agreement dated November 16, 2000 and Note dated November 1, 2000 previously filed as Exhibits 10.1 and 10.2 in Form 10-K for the year ended December 31, 2000.

* Indicates document previously filed

Exhibit 10

[PNC Bank Letterhead]

September 28, 2001

inTEST Corporation et al.
7 Esterbrook Lane
Cherry Hill, NJ 08003
Attention: Hugh T. Regan, Jr.

Re: <u>Renewal of Expiration Date for Committed Line of Credit</u>

Dear Mr. Regan:

We are writing to inform you that your committed line of credit has been renewed. The Expiration Date, as set forth in that certain Letter Agreement dated November 16, 2000, and in the Second Amended and Restated Committed Line of Credit Note executed and delivered pursuant to that Letter Agreement, has been extended from September 30, 2001 to September 30, 2002, effective on October 1, 2001. All other terms and conditions of the Second Amended and Restated Committed Line of Credit Note and the Letter 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: <u>/s/ Gary R. Martz</u>
Gary R. Martz
Assistant Vice President