

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004 or

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

For the transition period from _____ to _____

Commission File Number 0-22529

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

22-2370659

(I.R.S. Employer Identification Number)

7 Esterbrook Lane

Cherry Hill, New Jersey 08003

(Address of principal executive offices, including zip code)

(856) 424-6886

(Registrant's Telephone Number, including Area Code)

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

YES NO

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

YES NO

Number of shares of Common Stock, \$.01 par value, outstanding as of July 31, 2004:

8,571,607

inTEST CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Page

Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003	1
Consolidated Statements of Operations for the three months and six months ended June 30, 2004 and 2003	2
Consolidated Statements of Comprehensive Earnings (Loss) for the three months and six months ended June 30, 2004 and 2003	3
Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2004	4

Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2004	7
Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2003	5
Notes to Consolidated Financial Statements	6 - 9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10 - 16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	17
Item 4. Controls and Procedures	17 - 19
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	19
Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities	19
Item 3. Defaults Upon Senior Securities	19
Item 4. Submission of Matters to a Vote of Securities Holders	19
Item 5. Other Information	19
Item 6. Exhibits and Reports on Form 8-K	19 - 20
Signatures	21
Index to Exhibits	22

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

	June 30, 2004	Dec. 31, 2003
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 5,659	\$ 5,116
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$125 and \$125, respectively	14,882	9,183
Inventories	9,774	7,332
Refundable domestic income taxes	729	751
Other current assets	<u>439</u>	<u>557</u>
Total current assets	<u>31,483</u>	<u>22,939</u>
Property and equipment:		
Machinery and equipment	11,214	10,572
Leasehold improvements	<u>2,565</u>	<u>2,527</u>
	13,779	13,099
Less: accumulated depreciation	<u>(9,510)</u>	<u>(8,560)</u>
Net property and equipment	<u>4,269</u>	<u>4,539</u>
Other assets		
Goodwill	712	680
Intangible assets, net	1,376	1,384
	<u>397</u>	<u>435</u>
Total assets	<u>\$38,237</u>	<u>\$29,977</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,417	\$ 3,507
Accrued expenses	4,682	3,391
Income taxes payable	964	278
Capital lease obligations	<u>93</u>	<u>93</u>
Total current liabilities	<u>12,156</u>	<u>7,269</u>

Capital lease obligations, net of current portion	<u>69</u>	<u>117</u>
Total liabilities	<u>12,225</u>	<u>7,386</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 8,738,505 and 8,737,505 shares issued, respectively	87	87
Additional paid-in capital	21,959	21,955
Retained earnings	5,896	2,393
Accumulated other comprehensive income	392	478
Treasury stock, at cost; 375,648 shares	<u>(2,322)</u>	<u>(2,322)</u>
Total stockholders' equity	<u>26,012</u>	<u>22,591</u>
Total liabilities and stockholders' equity	<u>\$38,237</u>	<u>\$29,977</u>
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

-- 1 -

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, excepts share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net revenues	\$22,714	\$11,269	\$39,722	\$20,458
Cost of revenues	12,298	6,800	22,095	13,000
Gross margin	10,416	4,469	17,627	7,458
Operating expenses:				
Selling expense	3,358	2,280	6,063	4,258
Engineering and product development expense	1,841	1,468	3,494	2,948
General and administrative expense	2,080	1,528	3,816	2,848
Total operating expenses	7,279	5,276	13,373	10,054
Operating income (loss)	3,137	(807)	4,254	(2,596)
Other income (expense):				
Interest income	25	19	49	39
Interest expense	(2)	(5)	(5)	(10)
Other	25	48	10	68
Total other income	48	62	54	97
Earnings (loss) before income taxes	3,185	(745)	4,308	(2,499)
Income tax expense (benefit)	680	(102)	805	(713)
Net earnings (loss)	\$ 2,505	\$ (643)	\$ 3,503	\$(1,786)
	=====	=====	=====	=====
Net earnings (loss) per common share - basic	\$0.30	\$(0.08)	\$0.42	\$(0.22)
Weighted average common shares outstanding-basic	8,362,857	8,324,645	8,362,791	8,324,502
Net earnings (loss) per common share - diluted	\$0.29	\$(0.08)	\$0.40	\$(0.22)
Weighted average common and common share equivalents outstanding-diluted	8,703,903	8,324,645	8,713,671	8,324,502

See accompanying Notes to Consolidated Financial Statements.

-- 2 -

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net earnings (loss)	\$2,505	\$ (643)	\$3,503	\$(1,786)
Foreign currency translation adjustments	(140)	122	(86)	81
Comprehensive earnings (loss)	<u>\$2,365</u>	<u>\$ (521)</u>	<u>\$3,417</u>	<u>\$(1,705)</u>

See accompanying Notes to Consolidated Financial Statements.

-- 3 -

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2003	8,737,505	\$ 87	\$21,955	\$ 2,393	\$ 478	\$(2,322)	\$22,591
Net earnings	-	-	-	3,503	-	-	3,503
Other comprehensive loss	-	-	-	-	(86)	-	(86)
Stock options exercised	1,000	-	4	-	-	-	4
Balance, June 30, 2004	<u>8,738,505</u>	<u>\$ 87</u>	<u>\$21,959</u>	<u>\$ 5,896</u>	<u>\$ 392</u>	<u>\$(2,322)</u>	<u>\$26,012</u>

See accompanying Notes to Consolidated Financial Statements.

-- 4 -

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

	Six Months Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	\$ 3,503	\$(1,786)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,028	991
Deferred taxes	-	(807)
Foreign exchange loss	51	6
Loss on disposal of machinery and equipment	120	-
Changes in assets and liabilities:		

Trade accounts receivable	(5,749)	266
Inventories	(2,443)	893
Refundable domestic income taxes	22	25
Other current assets	122	97
Other assets	(36)	(4)
Accounts payable	2,893	339
Accrued expenses	1,300	29
Income taxes payable	689	47
	-----	-----
Net cash provided by operating activities	1,500	96
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(892)	(723)
Proceeds from sale of demonstration equipment, net of gain	40	43
	-----	-----
Net cash used in investing activities	(852)	(680)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(48)	(43)
Proceeds from stock options exercised	4	4
	-----	-----
Net cash used in financing activities	(44)	(39)
	-----	-----
Effects of exchange rates on cash	(61)	38
	-----	-----
Net cash provided by (used in) all activities	543	(585)
Cash and cash equivalents at beginning of period	5,116	8,145
	-----	-----
Cash and cash equivalents at end of period	\$ 5,659	\$ 7,560
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash payments for:		
Domestic and foreign income taxes	\$ 91	\$ 7
Interest	5	10

See accompanying Notes to Consolidated Financial Statements.

-- 5 -

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information as of June 30, 2004 and for the three and six months ended
June 30, 2004 and 2003 is unaudited)
(In thousands, except for share and per share data)

(1) NATURE OF OPERATIONS

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements

should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2003.

Concentration of Other Risks

The semiconductor industry in which we operate is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. This industry is subject to significant economic downturns at various times. Our financial results are affected by a wide variety of factors, including general economic conditions worldwide or in the markets in which we operate, economic conditions specific to the semiconductor industry, our ability to safeguard patents and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the industry. We are also exposed to the risk of significant product warranty expense related to product retrofits and other product replacements driven by the prototype nature of much of our business. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

Intangibles

As of June 30, 2004 definite life intangibles totaled \$397, net of amortization of \$84. Amortization expense for the six months ended June 30, 2004 was \$24. Estimated amortization expense for each of the next five years is \$48.

- - 6 -

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Income tax expense was \$805,000 for the six months ended June 30, 2004 compared to an income tax benefit of \$713,000 for the same period in 2003. Our effective tax rate for the first half of 2004 was 19% compared to 29% for the same period in 2003. During 2003, we recorded a 100% valuation allowance against our net deferred tax assets due to the uncertainty surrounding whether we would be able to generate sufficient taxable income to fully utilize these deferred tax assets before they expire. A significant portion of these deferred tax assets relate to net operating loss carryforwards for certain domestic and foreign subsidiaries. During the first half of 2004, these subsidiaries generated taxable income and recorded tax expense. A portion of this tax expense was offset by recording a reduction in our valuation allowance related to those net operating loss carryforwards which we now expect to fully utilize during 2004. In addition, based on our current projections of our taxable income for the year ended December 31, 2004, we expect to have sufficient taxable income to be able to fully utilize the remaining domestic Federal net operating loss carryforwards during 2004. Our current estimate is that our consolidated effective income tax rate for 2004 will be approximately 19%.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share is computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings Per 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 by dividing net earnings (loss) by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent stock options and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive. For the six months ended June 30, 2004 and 2003, an average of 98,508 and 914,666 employee stock options with weighted average exercise prices of \$6.17 and \$3.90, respectively, were excluded from the calculation because their effect was anti-dilutive.

Product Warranties

We generally provide product warranties and record estimated warranty expense at the time of sale based upon historical claims experience. In addition, from time to time we make adjustments to our warranty reserve for specifically identified warranty exposures. Warranty expense for the six months ended June 30, 2004 and 2003 was \$884 and \$521, respectively.

The following table sets forth the changes in the liability for product warranties for the six months ended June 30, 2004:

Balance as of December 31, 2003	\$1,102
Payments made under product warranty	(1,206)
Accruals for product warranties issued	<u>884</u>
Balance as of June 30, 2004	<u>\$ 780</u>

Stock-Based Compensation

At June 30, 2004, we have certain stock-based employee compensation plans. We account for these plans under the recognition and measurement principles of Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in the statement of operations when options granted under these plans have an exercise price equal to the

market value of the underlying common stock on the date of grant.

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

- 7 -

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net earnings (loss), as reported	\$2,505	\$(643)	\$3,503	\$(1,786)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>__(89)</u>	<u>__(120)</u>	<u>__(180)</u>	<u>__(565)</u>
Pro forma net earnings (loss)	<u>\$2,416</u>	<u>\$(763)</u>	<u>\$3,323</u>	<u>\$(2,351)</u>
Net earnings (loss) per share:				
Basic - as reported	\$0.30	\$(0.08)	\$0.42	\$(0.22)
Basic - pro forma	\$0.29	\$(0.09)	\$0.40	\$(0.28)
Diluted - as reported	\$0.29	\$(0.08)	\$0.40	\$(0.22)
Diluted - pro forma	\$0.28	\$(0.09)	\$0.38	\$(0.28)

(3) SEGMENT INFORMATION

We have three reportable segments: positioner/docking hardware products, temperature management systems and tester interface products. The positioner/docking hardware segment includes the operations of our Cherry Hill, New Jersey manufacturing facility as well as the operations of four of our foreign subsidiaries: inTEST Limited (U.K.), inTEST Kabushiki Kaisha (Japan), inTEST PTE, Limited (Singapore) and Intestlogic GmbH (Germany). Sales of this segment consist primarily of positioner and docking hardware products which we design, manufacture and market, as well as certain other related products which we design and market, but which are manufactured by third parties. The temperature management segment includes the operations of Temptronic Corporation in Sharon, Massachusetts as well as inTEST GmbH (Germany). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our 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 Corp. in Sunnyvale, California. Sales of this segment consist primarily of tester interface products which we design, manufacture and market under our TestDesign product line.

We operate our business worldwide, and all three segments sell their products both domestically and internationally. All three segments sell to semiconductor manufacturers and ATE manufacturers.

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

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<i>Net revenues from unaffiliated customers:</i>				
Positioner/Docking Hardware	\$12,243	\$ 5,588	\$22,204	\$10,154
Temperature Management	5,910	4,568	11,056	8,019
Tester Interface	5,505	1,982	8,600	4,172
Intersegment sales	<u>__(944)</u>	<u>__(869)</u>	<u>__(2,138)</u>	<u>__(1,887)</u>
	<u>\$22,714</u>	<u>\$11,269</u>	<u>\$39,722</u>	<u>\$20,458</u>
<i>Intersegment sales:</i>				
Positioner/Docking Hardware	\$ 44	\$ 4	\$ 59	\$ 5

Temperature Management	468	395	787	718
Tester Interface	<u>432</u>	<u>470</u>	<u>1,292</u>	<u>1,164</u>
	<u>\$944</u>	<u>\$869</u>	<u>\$2,138</u>	<u>\$1,887</u>

- 8 -

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

(3) SEGMENT INFORMATION (Continued)

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<i>Earnings (loss) before income taxes:</i>				
Positioner/Docking Hardware	\$ 982	\$(778)	\$1,425	\$(2,087)
Temperature Management	271	100	454	(394)
Tester Interface	<u>1,932</u>	<u>(67)</u>	<u>2,429</u>	<u>(18)</u>
	<u>\$3,185</u>	<u>\$(745)</u>	<u>\$4,308</u>	<u>\$(2,499)</u>
<i>Net earnings (loss):</i>				
Positioner/Docking Hardware	\$ 823	\$(625)	\$1,194	\$(1,462)
Temperature Management	183	29	313	(308)
Tester Interface	<u>1,499</u>	<u>(47)</u>	<u>1,996</u>	<u>(16)</u>
	<u>\$2,505</u>	<u>\$(643)</u>	<u>\$3,503</u>	<u>\$(1,786)</u>
<i>Identifiable assets:</i>				
			<u>June 30,</u>	<u>Dec. 31,</u>
			<u>2004</u>	<u>2003</u>
Positioner/Docking Hardware			\$21,960	\$16,568
Temperature Management			8,571	9,056
Tester Interface			<u>7,706</u>	<u>4,353</u>
			<u>\$38,237</u>	<u>\$29,977</u>

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

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<i>Net revenues from unaffiliated customers:</i>				
U.S.	\$17,823	\$ 8,663	\$31,029	\$15,211
Europe	1,877	1,203	3,985	2,019
Asia-Pacific	<u>3,014</u>	<u>1,403</u>	<u>4,708</u>	<u>3,228</u>
	<u>\$22,714</u>	<u>\$11,269</u>	<u>\$39,722</u>	<u>\$20,458</u>
<i>Long-lived assets:</i>				
			<u>June 30,</u>	<u>Dec. 31,</u>
			<u>2004</u>	<u>2003</u>
U.S.			\$3,406	\$3,914
Europe			773	523

inTEST CORPORATION

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

Overview

As discussed more fully in our Annual Report on Form 10-K for the year ended December 31, 2003 (our "2003 Form 10-K"), our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. Historically, 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 can cause wide fluctuations in both our bookings and net revenues and can significantly impact our results of operations, depending on our ability to react quickly to these shifts in demand. Typically, these industry cycles last 18 to 24 months and are generally characterized by sequential quarterly growth or declines in bookings and net revenues throughout the cycle. Therefore, year over year comparisons of operating results may not always be as meaningful as comparisons of periods at similar points in either up or down cycles. At present, the industry is entering the second year of an expansion with the current industry consensus being that this upturn will last into 2005. There can be no assurance, however, that the current expansion will continue as presently expected.

Net Revenues and Bookings

The cyclical nature of the demand in our industry can be seen in a comparison of the peak to trough differences we have experienced in our consolidated quarterly net revenues and bookings during the most recent downturn and to date in the current upturn. For example, during the most recent downward cycle, which began late in 2000 and ended in early 2003, our consolidated quarterly net revenues declined approximately 72% from their peak of \$24.5 million for the quarter ended September 30, 2000 to \$7.0 million for the quarter ended March 31, 2002. In comparison, our consolidated quarterly net revenues for our most recent quarter ended June 30, 2004 were \$22.7 million, a 102% increase from the level achieved in the second quarter of 2003, when both bookings and net revenues began to increase sequentially again and when we believe the current up-cycle began. The increase in our net revenues for the second quarter of 2004 as compared to the first quarter of the year was \$5.7 million or 34%. Similar fluctuations have occurred in our bookings throughout this same time period. During our most recent quarter ended June 30, 2004, our bookings increased to \$25.2 million, a 46% increase compared to the first quarter of 2004 when our bookings were \$17.3 million.

During both downward and upward cycles in our industry, while the general trend over several quarters tends to be one of either growth or decline, in any given quarter the trend in both our bookings and net revenues can be erratic. This can occur, for example, when orders are pulled in or pushed out by a significant customer or when customer forecasts and general business conditions fluctuate causing one particular quarter to have either stronger or weaker than anticipated growth or decline. This appears to have been the case in the second quarter of 2004 where the growth rate we experienced in our bookings and net revenues was significantly stronger than what we had internally forecast at the end of the first quarter.

Inventory Obsolescence Charges

We review our inventories and record inventory obsolescence charges based upon our established obsolescence criteria, that identifies material that has not been used in a work order during the prior 12 months and the excess quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In addition, in certain cases, additional inventory obsolescence charges are recorded based upon facts which would not give rise to an obsolescence charge under the normal obsolescence criteria or, if in management's opinion, additional amounts are felt to be necessary based upon the current industry conditions. See also "Critical Accounting Policies".

The level of inventory obsolescence charges can fluctuate significantly from period to period and are based upon a variety of factors including changes in demand for our products and new product designs. For the six months ended June 30, 2004 and 2003, our inventory obsolescence charges were \$676,000 and \$184,000, respectively. The increase in inventory obsolescence charges was primarily the result of a \$272,000 increase in our reserves for excess quantities on hand related to one particular product we sell to an ATE manufacturer where we believe that our current inventory on hand is significantly greater than the demand we will experience over the next year. We cannot determine if this trend will continue or if these charges will increase or decrease throughout the balance of 2004.

inTEST CORPORATION

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

Product Warranty Charges

We accrue product warranty charges on a quarterly basis based upon our historical product warranty expense. In addition, we accrue additional amounts based upon known product warranty issues, such as product retrofits. During the six months ended June 30, 2004 and 2003 our product warranty charges were \$884,000 and \$521,000, or 2.2% and 2.5% of net revenues, respectively. The level of our product warranty charges both in absolute dollars and as a percentage of net revenues is affected by a number of factors including the cyclicity of net revenues in the ATE industry, the prototype nature of much of

our business, the complex nature of many of our products and, at our discretion, providing warranty repairs or replacements to customers after the warranty has expired in order to promote strong customer relations.

Product/Customer Mix

Our three product segments each have multiple products that we design, manufacture and sell to our customers. The gross margin on each product we offer is impacted by a number of factors, including the amount of intellectual property (such as patents) utilized in the product, the number of units ordered by the customer at one time, or the amount of inTEST designed and fabricated material included in our product compared with the amount of third-party designed and fabricated material included in our product. The weight of each of these factors, as well as the current market conditions, determines the ultimate sales price we can obtain for our products and the resulting gross margin.

The mix of products we sell in any period is ultimately determined by our customers' needs. Therefore, the mix of products sold in any given period can change significantly from the prior period. As a result, our consolidated gross margin can be significantly impacted in any given period by a change in the mix of products sold in that period.

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. For the six months ended June 30, 2004 and 2003, our OEM sales as a percentage of net revenues were 43% and 37%, respectively. We anticipate that OEM sales as a percentage of net revenues will generally range from 35% to 55% in future periods.

The impact of an increase in OEM sales as a percentage of net revenues is generally a reduction in our gross margin, as OEM sales historically have had 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 further reduce our manufacturing and operating costs.

We believe that purchases of most of our products are typically made from 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 certain 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 systems 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 an electronic device handler. We believe that this business usually is less cyclical than new ATE sales.

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.

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 inTEST as a whole and includes discussion of factors unique to each product segment where significant to an understanding of each such business.

- 11 -

inTEST CORPORATION

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

The following table sets forth for the periods indicated the principal items included in the Consolidated Statements of Operations as a percentage of total net revenues.

	<u>Percentage of Net Revenues</u>			
	<u>Quarters Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	<u>54.1</u>	<u>60.3</u>	<u>55.6</u>	<u>63.5</u>
Gross margin	<u>45.9</u>	<u>39.7</u>	<u>44.4</u>	<u>36.5</u>
Selling expense	14.8	20.2	15.3	20.8
Engineering and product development expense	8.1	13.0	8.8	14.4
General and administrative expense	<u>9.2</u>	<u>13.6</u>	<u>9.6</u>	<u>13.9</u>
Operating income (loss)	13.8	(7.1)	10.7	(12.6)
Other income	<u>0.2</u>	<u>0.6</u>	<u>0.1</u>	<u>0.5</u>
Earnings (loss) before income taxes	14.0	(6.5)	10.8	(12.1)
Income tax expense (benefit)	<u>3.0</u>	<u>(0.9)</u>	<u>2.0</u>	<u>(3.5)</u>
Net earnings (loss)	<u>11.0%</u>	<u>(5.6)%</u>	<u>8.8%</u>	<u>(8.6)%</u>

Quarter Ended June 30, 2004 Compared to Quarter Ended June 30, 2003

Net Revenues. Net revenues were \$22.7 million for the quarter ended June 30, 2004 compared to \$11.3 million for the same period in 2003, an increase of \$11.4 million or 102%. We believe the increase reflects the aforementioned upturn in demand in our industry.

Net revenues in our positioner/docking hardware segment, temperature management segment and tester interface segment increased 118%, 30% and 236%, respectively, for the quarter ended June 30, 2004 compared to the comparable prior period. The larger increases in the net revenues of both our

positioner/docking hardware and tester interface segments reflects the significantly increased demand for these products caused by the increased production requirements of our customers. The temperature management segment of our business is less cyclical than our other segments. Thus, the smaller increase in the net revenues of our temperature management segment reflect the slower growth rates in research and development requirements of our customers in that segment. During the quarter ended June 30, 2004, our net revenues from customers in the U.S., Europe, and Asia-Pacific increased 106%, 56% and 115%, respectively, over the comparable prior period. The higher growth rates in net revenues in the U.S. and Asia-Pacific regions reflect the greater demand from customers in those regions during the quarter ended June 30, 2004.

Gross Margin. Gross margin was 46% for the quarter ended June 30, 2004 as compared to 40% for the same period in 2003. The increase in gross margin in 2004 is primarily the result of our fixed operating costs being more fully absorbed over the significantly higher net revenue levels in 2004. While the absolute dollar amount of our fixed operating costs increased \$541,000 for the second quarter of 2004 as compared to the same period in 2003, the percentage of net revenues which these costs represent decreased from 21% in 2003 to 13% in 2004. This improvement in gross margin was partially offset by an increase in inventory obsolescence charges and an increase in component material costs as a percentage of net revenues during the second quarter of 2004 as compared to the same period in 2003. The increase in inventory obsolescence charges was primarily the result of an increase in our reserves for excess quantities on hand related to one particular product we sell to an OEM customer where we believe that our current inventory on hand is significantly greater than the demand we will experience over the next year. We attribute the increase in component material costs primarily to the mix of products sold.

Selling Expense. Selling expense was \$3.4 million for the quarter ended June 30, 2004 compared to \$2.3 million for the same period in 2003, an increase of \$1.1 million or 47%. We attribute the increase primarily to increased commission expense as well as the aforementioned increase in product warranty costs in our positioner/docking hardware segment. The increase in commission expense of \$376,000 was primarily due to the significantly higher net revenue levels. To a lesser extent, there were increases in salary and benefits expense, travel expenses and advertising. The increase in salary and benefits expense reflects the fact that as industry conditions improved during 2004 we began to reinstate certain previously eliminated employee benefits such as our 401(k) match for domestic employees and our program of annual reviews and merit based salary increases. The increases in freight, travel and advertising were all driven by the increased level of business activity as demand continued to improve in the second quarter of 2004. .

- 12 -

inTEST CORPORATION

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

Engineering and Product Development Expense. Engineering and product development expense was \$1.8 million for the quarter ended June 30, 2004 compared to \$1.5 million for the same period in 2003, an increase of \$373,000 or 25%. We attribute the increase primarily to a \$244,000 increase in salary and benefits expense due largely to hiring additional staff and the reinstatement of certain employee benefits as previously discussed. Also contributing to the increase, but to a lesser extent, were higher levels of spending on product development materials, primarily in our positioner/docking hardware and temperature management product segments, in the second quarter of 2004 as compared to the same period in 2003.

General and Administrative Expense. General and administrative expense was \$2.1 million for the quarter ended June 30, 2004 compared to \$1.5 million for the same period in 2003, an increase of \$552,000 or 36%. We attribute the increase primarily to increased accruals for bonuses and, to a lesser extent, increases in travel costs, legal fees, and salary and benefits expense. The \$201,000 increase in bonus accruals is primarily a result of accruing profit-based bonuses on our earnings for the second quarter of 2004. The increase in travel reflects additional travel by administrative personnel related to general business matters including the implementation of our new company-wide ERP system and compliance with new securities regulations. The increase in legal fees is primarily related to a higher level of patent filings in 2004 as compared to 2003. The increase in salary and benefits expense is primarily a result of the reinstatement of employee benefits, as previously mentioned.

Other Income. Other income was \$48,000 for the quarter ended June 30, 2004 compared to \$62,000 for the same period in 2003, a decrease of \$14,000 or 23%. The decrease in other income was primarily due to a higher level of foreign exchange transaction losses in the second quarter of 2004 as compared to the same period in 2003.

Income Tax Expense (Benefit). Income tax expense was \$680,000 for the quarter ended June 30, 2004 compared to an income tax benefit of \$102,000 for the same period in 2003. Our effective tax rate for the second quarter of 2004 was 21% compared to 14% for the same period in 2003. During 2003, we recorded a 100% valuation allowance against our net deferred tax assets due to the uncertainty surrounding whether we would be able to generate sufficient taxable income to fully utilize these deferred tax assets before they expire. A significant portion of these deferred tax assets relate to net operating loss carryforwards for certain domestic and foreign subsidiaries. During the first half of 2004, these subsidiaries generated taxable income and recorded tax expense. A portion of this tax expense was offset by recording a reduction in our valuation allowance related to those net operating loss carryforwards which we now expect to fully utilize during 2004. In addition, based on our current projections of our taxable income for the year ended December 31, 2004, we expect to have sufficient taxable income to be able to fully utilize the remaining domestic Federal net operating loss carryforwards during 2004. Our current estimate is that our consolidated effective income tax rate for 2004 will be approximately 19%.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Net Revenues. Net revenues were \$39.7 million for the six months ended June 30, 2004 compared to \$20.5 million for the same period in 2003, an increase of \$19.2 million or 94%. We believe the increase reflects the aforementioned upturn in demand in our industry.

Net revenues in our positioner/docking hardware segment, temperature management segment and tester interface segment increased 118%, 41% and 143%, respectively, for the six months ended June 30, 2004 compared to the comparable prior period. The larger increases in the net revenues of both our positioner/docking hardware and tester interface segments reflects the significantly increased demand for these products caused by the increased production requirements of our customers. The temperature management segment of our business is less cyclical than our other segments. Thus, the smaller increase in the net revenues of our temperature management segment reflect the slower growth rates in research and development requirements of our customers in that segment. During the six months ended June 30, 2004, our net revenues from customers in the U.S., Europe, and Asia-Pacific increased 104%, 97% and 46%, respectively, over the comparable prior period. The higher growth rates in net revenues in the U.S. and Europe regions reflect the greater demand from customers in those regions during the six months ended June 30, 2004.

Gross Margin. Gross margin was 44% for the six months ended June 30, 2004 as compared to 37% for the same period in 2003. The increase in gross margin in 2004 is primarily the result of our fixed operating costs being more fully absorbed over the significantly higher net revenue levels in 2004. While the absolute dollar amount of our fixed operating costs increased \$814,000 for the first half of 2004 as compared to the same period in 2003, the

percentage of net revenues which these costs represent decreased from 23% in 2003 to 14% in 2004. This improvement in gross margin was partially offset by an increase in inventory obsolescence charges and an increase in component material costs as a percentage of net revenues during the first

- 13 -

inTEST CORPORATION

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

half of 2004 as compared to the same period in 2003. The increase in inventory obsolescence charges was primarily the result of an increase in our reserves for excess quantities on hand related to one particular product we sell to an OEM customer where we believe that our current inventory on hand is significantly greater than the demand we will experience over the next year. We attribute the increase in component material costs primarily to the mix of products sold.

Selling Expense. Selling expense was \$6.1 million for the six months ended June 30, 2004 compared to \$4.3 million for the same period in 2003, an increase of \$1.8 million or 42%. We attribute the increase primarily to increased commission expense as well as the aforementioned increase in product warranty costs in our positioner/docking hardware segment. The increase in commission expense of \$640,000 was primarily due to the significantly higher net revenue levels. To a lesser extent, there were increases in salary and benefits expense, travel expenses and advertising. The increase in salary and benefits expense reflects the reinstatement of employee benefits, as previously mentioned. The increases in freight, travel and advertising were all driven by the increased level of business activity as demand continued to improve throughout the first half of 2004.

Engineering and Product Development Expense. Engineering and product development expense was \$3.5 million for the six months ended June 30, 2004 compared to \$2.9 million for the same period in 2003, an increase of \$546,000 or 19%. We attribute the increase primarily to a \$409,000 increase in salary and benefits expense due largely to hiring additional staff and reinstatement of employee benefits, as previously mentioned. Also contributing to the increase, but to a lesser extent, were higher levels of spending on product development materials and travel, primarily in our positioner/docking hardware and temperature management product segments, in the first half of 2004 as compared to the same period in 2003.

General and Administrative Expense. General and administrative expense was \$3.8 million for the six months ended June 30, 2004 compared to \$2.8 million for the same period in 2003, an increase of \$968,000 or 34%. We attribute the increase primarily to increased accruals for bonuses and, to a lesser extent, increases in legal fees, travel costs, and salary and benefits expense. The increase in bonus accruals is primarily a result of accruing profit-based bonuses on our earnings for the first half of 2004. The increase in legal fees of \$273,000 is primarily the result of having received a settlement of patent infringement litigation during the first quarter of 2003 that was recorded as a reduction of legal expense in that quarter, and, to a lesser extent, due to a higher level of patent filings in 2004 as compared to 2003. The increase in travel reflects additional travel by administrative personnel related to general business matters including implementation of our new company-wide ERP system and compliance with new securities regulations. The increase in salary and benefits expense is primarily a result of the fact that, as previously mentioned, we reinstated certain employee benefits.

Other Income. Other income was \$54,000 for the six months ended June 30, 2004 compared to \$97,000 for the same period in 2003, a decrease of \$43,000 or 44%. The decrease in other income was primarily due to a higher level of foreign exchange transaction losses in the second quarter of 2004 as compared to the same period in 2003.

Income Tax Expense (Benefit). Income tax expense was \$805,000 for the six months ended June 30, 2004 compared to an income tax benefit of \$713,000 for the same period in 2003. Our effective tax rate for the first half of 2004 was 19% compared to 29% for the same period in 2003. During 2003, we recorded a 100% valuation allowance against our net deferred tax assets due to the uncertainty surrounding whether we would be able to generate sufficient taxable income to fully utilize these deferred tax assets before they expire. A significant portion of these deferred tax assets relate to net operating loss carryforwards for certain domestic and foreign subsidiaries. During the first half of 2004, these subsidiaries generated taxable income and recorded tax expense. A portion of this tax expense was offset by recording a reduction in our valuation allowance related to those net operating loss carryforwards which we now expect to fully utilize during 2004. In addition, based on our current projections of our taxable income for the year ended December 31, 2004, we expect to have sufficient taxable income to be able to fully utilize the remaining domestic Federal net operating loss carryforwards during 2004. Our current estimate is that our consolidated effective income tax rate for 2004 will be approximately 19%.

Liquidity and Capital Resources

Net cash provided by operations for the six months ended June 30, 2004 was \$1.5 million compared to \$96,000 for the same period in 2003. The increase in cash provided by operations was primarily the result of our generating operating income for the first half of 2004 compared with an operating loss for the same period in 2003. Increases in accounts receivable and inventories during the first half of 2004 were partially offset by increases in accounts payable and accrued expenses during this same period. Accounts receivable increased \$5.7 million from December 31, 2003 to June 30, 2004 due to higher net revenue levels, particularly in the second quarter of 2004, and inventories increased \$2.4 million during this same period, primarily due

- 14 -

inTEST CORPORATION

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

to the purchasing of materials to fulfill current and future orders. Accounts payable increased \$2.9 million from December 31, 2003 to June 30, 2004 due to increased purchases to support higher production levels during the first half of 2004. Accrued expenses increased \$1.3 million during this same period primarily as a result of an increase in accrued wages due to the timing of payroll dates and an increase in accrued commissions due to the significantly higher sales levels in 2004. In addition, during the first quarter of 2004 we received \$152,000 from our landlord in Cherry Hill, New Jersey as a settlement of certain claims related to repairs needed to the floor of this facility. We recorded this amount as a reserve for these repairs since any unused portion of these funds must be returned to the property owner at the termination of our lease. Domestic and foreign income taxes payable increased \$689,000 from December 31, 2003 to June 30, 2004 primarily as a result of the accrual of taxes on our earnings for the first half of 2004.

Purchases of property and equipment were \$892,000 for the six months ended June 30, 2004, which consisted of \$274,000 primarily for additional machine shop equipment for our subsidiary in the UK, \$198,000 primarily for demonstration equipment and computer hardware and software for our Tempron facility, \$157,000 primarily for computer hardware and software for our Cherry Hill facility, and \$131,000 primarily for a combination of

quality assurance and inspection equipment and engineering software and testing equipment for our Sunnyvale facility. The balance of purchases was for equipment for our other foreign subsidiaries. We currently estimate that we will spend up to \$1.0 million during the balance of 2004 to purchase additional property and equipment, including approximately \$250,000 for improvements to our existing facility in New Jersey, approximately \$360,000 for tenant improvements to our new facility in California that we expect to occupy in late 2004, and approximately \$100,000 for equipment for one of our German operations.

Net cash used in financing activities for the six months ended June 30, 2004 was \$44,000, which consisted of \$48,000 in payments made under capital lease obligations offset by \$4,000 in proceeds received from the exercise of employee stock options.

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

We believe that our existing cash balances plus the anticipated cash provided from operations will be sufficient to satisfy our cash requirements for the foreseeable future. The current industry consensus is that the upturn which began in mid-2003 will continue at a moderate pace through 2004 and into 2005. However, if the upturn were to be more rapid than we expect, or if the upturn should falter and the industry should enter another downturn, we may require additional debt or equity financing to meet working capital or capital expenditure needs. We cannot be certain that, if needed, we would be able to raise such additional financing or upon what terms such financing would be available.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, identifiable intangibles, long-lived assets and related goodwill, deferred income tax valuation allowances and warranty reserves. We base our estimates on historical experience and on appropriate and customary assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Some of these accounting estimates and assumptions are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ markedly from what had been assumed when the financial statements were prepared. As of June 30, 2004, there have been no significant changes to the accounting policies that we have deemed critical. Our critical accounting policies are more fully described in our 2003 Form 10-K.

- - 15 -

inTEST CORPORATION

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 22% and 26% of consolidated net revenues for the six months ended June 30, 2004 and 2003, 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 10% of consolidated net revenues for each of the six months ended June 30, 2004 and 2003, respectively. Although we seek to operate our business such that a significant portion of our product costs are denominated in the same currency as the associated sales, we may be adversely affected in the future due to our exposure to foreign operations. Moreover, net revenues denominated in currencies other than U.S. dollars expose us to currency fluctuations, which can adversely affect our results of operations.

Net revenues derived from sales to the Asia-Pacific region were 12% and 16% of consolidated net revenues for the six months ended June 30, 2004 and 2003, respectively. Countries in the Asia-Pacific region, including Japan, have experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Continued economic instability could have a material adverse effect on demand for our products and our consolidated results of operations.

Risks That Could Affect Future Results

A number of the matters and subject areas discussed in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report that are not historical or current facts deal with potential future circumstances and developments. These forward-looking statements typically can be identified by the use of terminology such as "believes," "expects," "may," "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Investors and prospective investors are cautioned that such statements are only projections and that actual events or results may differ materially from those expressed in any such forward-looking statements. In addition to other factors described elsewhere in this report, our actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by factors, including, without limitation: the highly cyclical nature of the semiconductor industry; dependence upon capital expenditures of semiconductor manufacturers; developments and trends in the semiconductor and ATE industries;

changes in general economic, business and financial market conditions; future acquisitions and our ability to successfully integrate the businesses, technologies or products that we may acquire; costs and capital requirements associated with future acquisitions and integration of operations; the impairment of goodwill related to prior or future acquisitions; increased competition and potential loss of market share due to the expiration of patent rights; the loss of, or reduction in orders from, one or more major customers; cancellation or delays in shipment of orders in our backlog; competition from other manufacturers of docking hardware, positioners, tester interfaces and temperature management products; progress of product development programs; technological obsolescence of our inventory; unanticipated exchange rate fluctuations; the availability of qualified personnel; the ability to effectively control operating costs; competitive pricing pressures; the mix of products sold; the mix of customers and geographic regions where products are sold; the development of new products and technologies by our competitors; our ability to obtain patent protection and to enforce patent rights for existing and developing proprietary technologies; the utilization of management time and the expenses of various professionals retained to assist us with compliance with new securities regulations; and the sufficiency of cash balances, lines of credit and net cash from operations. Additional information regarding these risks and uncertainties may be found elsewhere in this report or in our other periodic reports filed with the SEC, including our 2003 Form 10-K.

- 16 -

inTEST CORPORATION

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate Risk Management

We are exposed to currency exchange rate risk in the normal course of our business, primarily in our foreign operations. Our exposure results from the fact that some or all of the product sales at these operations are in one currency and inventory purchases are in another currency. In our UK operation, approximately 60% to 70% of our sales are in U.S. dollars or Euros and the corresponding inventory purchases to support these sales are in British pounds. In our Singapore operation, 100% of our sales are in U.S. dollars but some of our manufacturing costs are in British pounds and Singapore dollars. In our Japanese operation, 100% of our sales are in Japanese yen and inventory purchases are in U.S. dollars. In one of our German operations, our sales are in Euros while inventory purchases are in U.S. dollars. In our other German operation, a portion of our sales are occasionally in U.S. dollars but all of our manufacturing costs are in Euros. From time to time we employ risk management strategies, including the use of forward exchange rate contracts, to manage our exposure to exchange rate risks involving the yen, and may, in the future, use forward exchange rate contracts to manage our exposure to exchange rate risks involving the British pound, the Singapore dollar or the Euro.

Our objective in managing currency exchange risk is to minimize the impact of significant currency exchange rate fluctuations. 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 June 30, 2004, there were no forward exchange rate contracts outstanding.

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

Interest Rate Risk Management

As of June 30, 2004, we had cash and cash equivalents of \$5.7 million. We generally place our investments in U.S. Treasury obligations or money market funds backed by such investments. We have not held and do not hold any derivatives related to our interest rate exposure. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that had the average yield of our investments decreased by 100 basis points, our interest income for the six months ended June 30, 2004 would have decreased by less than \$28,000. This estimate assumes that the decrease occurred on the first day of the period and reduced the yield of each investment by 100 basis points. The impact on our future interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents and short-term investments. See "Liquidity and Capital Resources" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. CONTROLS AND PROCEDURES

CEO and CFO Certifications. Included with this Quarterly Report as Exhibits 31.1 and 31.2 are two certifications, one by each of our Chief Executive Officer and our Chief Financial Officer (the "Section 302 Certifications"). This Item 4 of our Quarterly Report contains information concerning the evaluations of our disclosure controls and procedures and internal control over financial reporting that are referred to in the Section 302 Certifications. This information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Evaluation of Our Disclosure Controls and Procedures. The Securities and Exchange Commission (the "SEC") requires that as of the end of the quarter covered by this Quarterly Report, our CEO and CFO must evaluate the effectiveness of the design and operation of our disclosure controls and procedures and report on the effectiveness of the design and operation of our disclosure controls and procedures.

- 17 -

inTEST CORPORATION

Item 4. CONTROLS AND PROCEDURES (Continued)

"Disclosure controls and procedures" mean the controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the "Exchange Act"), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the SEC. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

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

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

Limitations on the Effectiveness of Controls. Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within an entity have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a system of controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO/CFO Conclusions about the Effectiveness of the Disclosure Controls and Procedures. As required by Rule 13a-15(b), inTEST management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the our disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, subject to the limitations noted above, our disclosure controls and procedures are effective to provide reasonable assurance that the disclosure controls and procedures will meet their objectives.

- 18 -

inTEST CORPORATION

Item 4. CONTROLS AND PROCEDURES (Continued)

Changes in Internal Control Over Financial Reporting. As required by Rule 13a-15(d), inTEST management, including the CEO and CFO, conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any such change during the quarter covered by this report. As discussed elsewhere in this report, we are in the process of implementing a new order-entry and accounting information system at four of our operations. As of the date of this report, we have completed the implementation in three of these locations and plan to complete the final implementation before year end. The implementation of the new ERP system necessarily involves changes to our procedures for internal control over financial reporting. The CEO and CFO believe, however, that our existing procedures provide, and our new procedures will continue to provide, appropriate internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be a party to legal proceedings occurring in the ordinary course of business. We are not currently involved in any material legal proceedings.

Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits:*

- 3.1* Articles of Incorporation: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, and incorporated herein by reference.
- 3.2* By-Laws: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, and incorporated herein by reference.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates document previously filed

- 19 -

inTEST CORPORATION

(b) *Reports on Form 8-K*

On April 2, 2004, we filed a Current Report on Form 8-K providing information responsive to the requirements of Item 5 of that form regarding our 2004 annual meeting of stockholders to be held on July 28, 2004.

On May 3, 2004, we filed a Current Report on Form 8-K (i) providing information responsive to the requirements of Items 5 and 7 of that form announcing changes to our Board of Directors and the adoption of new corporate governance guidelines and (ii) furnishing information responsive to the requirements of Items 7 and 12 regarding our financial results and conference call for the quarter ended March 31, 2004.

- 20 -

Signatures

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

inTEST Corporation

Date: August 13, 2004 /s/ Robert E. Matthiessen
Robert E. Matthiessen
President and Chief Executive Officer

Date: August 13, 2004 /s/ Hugh T. Regan, Jr.
Hugh T. Regan, Jr.
Treasurer and Chief Financial Officer

- 21 -

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.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates document previously filed

CERTIFICATION

I, Robert E. Matthiessen, certify that:

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

Date: August 13, 2004

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

CERTIFICATION

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

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

Date: August 13, 2004

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

inTEST CORPORATION

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

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert E. Matthiessen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 13, 2004

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

inTEST CORPORATION

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

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh T. Regan, Jr., Secretary, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 13, 2004

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