

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998 or
- Transaction report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number: 0-22529

inTEST Corporation

(Exact name of Registrant as specified in its charter)

Delaware

22-2370659

(State or other jurisdiction (I.R.S. Employer Identification No.)
or incorporation or organization)

2 Pin Oak Lane, Cherry Hill, NJ

08003

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code: 609-424-6886

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the closing price of such stock on March 22, 1999 or \$45,752,238 as quoted on the Nasdaq National Market system.

The number of shares outstanding of the Registrant's Common Stock, as of March 22, 1999 is 6,536,034.

Documents incorporated by reference. Portions of the Registrant's 1999 Definitive Proxy Statement to be filed pursuant to Regulation 14A in connection with the 1999 annual meeting of stockholders of the Registrant are incorporated by reference into Part III of this Annual Report on Form 10-K.

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

inTEST Corporation
Annual Report on Form 10-K

INDEX

Part I: -----	Page -----
Item 1: Business	3
Item 2: Properties	11
Item 3: Legal Proceedings	11
Item 4: Submission of Matters to a Vote of Security Holders	12
Part II: -----	
Item 5: Market for Registrant's Common Equity and Related Stockholder Matters	12
Item 6: Selected Financial Data	14
Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A: Quantitative and Qualitative Disclosures About Market Risk	20
Item 8: Financial Statements and Supplementary Data	21
Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	21
Part III: (Incorporated by reference to Proxy Statement) -----	
Item 10: Directors and Executive Officers	21
Item 11: Executive Compensation	21
Item 12: Security Ownership of Certain Beneficial Owners and Management	21
Item 13: Certain Relationships and Related Transactions	21
Part IV: -----	
Item 14: Exhibits, Financial Statement Schedules, and Reports on Form 8-K	21
Signatures	23
Index to Exhibits	24
Index to Consolidated Financial Statements and Consolidated Financial Statement Schedule	25

PART I:
- - - - -

Item 1: BUSINESS

INTRODUCTION AND GENERAL DEVELOPMENT OF BUSINESS

inTEST Corporation (the "Company") is a leading independent designer, manufacturer and marketer of interface solutions products which are used with automatic test equipment ("ATE") by semiconductor manufacturers during the testing of wafers and packaged devices. Its proprietary products include test head manipulators, docking hardware and tester interfaces. The Company also designs and markets related ATE interface products including high performance sockets, interface boards and probing assemblies. The Company's products are designed to improve the utilization and cost-effectiveness of ATE during the testing of linear, digital and mixed signal integrated circuits ("ICs"). Since its organization in 1981, the Company has developed and continues to support over 4,600 products and has been granted over 13 U.S. patents for its technology.

The Company has grown its business and expanded its product lines primarily through internal product development. The development of the Company's manipulator technology in early 1982, with its innovative floating head design and six degrees of motion freedom, served as the foundation for the growth of the Company's manipulator business. The subsequent development of the Company's docking hardware technology later in 1982, which provides plug-compatibility for test heads with multiple brands of probers and handlers, established what management believes has become the de facto standard for docking hardware in the industry today. The Company has also grown through the strategic acquisition of TestDesign Corporation ("TestDesign")(now, inTEST Sunnyvale Corp.) in August 1998, which enabled the Company to expand its product line to include tester interfaces.

The Company maintains design, manufacturing and service facilities in New Jersey and California, as well as service and technical support offices in Texas, Arizona and Oregon to serve U.S. markets for its products. The Company also maintains a design, manufacturing and service facility in the U.K. to serve the European market and design, service and technical support offices in Singapore and Japan to serve the Asia-Pacific market. Most of the Company's facilities are located in proximity to major semiconductor manufacturing centers. The Company's focus on high quality products and innovative proprietary technologies has enabled it to establish strong relationships with leading worldwide semiconductor manufacturers. In 1998, the Company's top ten customers included Hewlett Packard, Lucent Technologies, Motorola, NEC, SGS Thomson and Texas Instruments.

The Company believes it is a leader in providing high quality semiconductor testing interface products. The Company's goal is to enhance its leadership position and increase its domestic and international market share. The Company's strategies to achieve its goal include (i) developing technologically superior products for semiconductor interface solutions, (ii) maintaining strong customer relationships, (iii) expanding its global presence, and (iv) pursuing acquisitions of businesses, technologies or products that are complementary to the Company's current product offerings.

INDUSTRY OVERVIEW

The IC market is a high volume, high growth market characterized by rapid technological change. The testing of wafers and packaged devices is an integral and necessary step during their design and manufacture. Each IC is tested at least twice during the manufacturing process to ensure the functional and electrical performance of the ICs prior to shipment. The increasing complexity of wafers and packaged devices, as manifested by larger wafers, higher speeds, growing pin counts, smaller packaged devices and greater levels of integration has changed the design, architecture and complexity of ATE used during the testing of such devices. The combination of the long-term growth in demand for ICs coupled with the rapid technological changes in their designs and the required production capacity to meet this demand drives the market for ATE and the Company's products.

After wafer fabrication, each IC on a wafer is automatically positioned under a probing assembly by a prober where the individual ICs on the wafer are tested (the "front-end test"). During front-end testing, the tester transmits electrical signals to the wafer and analyzes the signals upon their return. The testing of ICs in wafer form is important to avoid incurring the significant expense of assembling and packaging ICs that do not meet the manufacturers' specifications. After device packaging, devices are individually fed by the handler to an environmentally controlled test socket where the IC is again tested (the "back-end test"). After back-end testing, the handler sorts the devices according to test performance. Manipulators facilitate the movement of a test head to a prober or handler, and "docking" describes the function of connecting a test head to a prober or handler with mechanically engineered hardware.

Until the early 1970s, testers were designed with the interface circuits (also referred to as the pin electronics) mounted inside the tester's mainframe cabinet. The pin electronics were connected to the prober's probing assembly or to the handler's test socket via an electrical cable, typically five to ten feet long. As devices became faster, more complex and more precise, signal distortion inherent with the use of such cables resulted in degraded test results. Although certain devices are still tested in this manner, such devices tend to be used in older, less technologically advanced applications.

During the 1970s, tester manufacturers responded by moving the pin electronics from the tester's mainframe cabinet to an independent test head, which could be directly mated with a prober or handler, thereby eliminating the problems associated with using cables as the connection between the tester's pin electronics and the prober or handler. Direct mating of the test head pin electronics to the prober's probing assembly or to the handler's test socket was accomplished by mounting the test head directly to the prober or handler with a pivot-mechanism manipulator resembling a waffle iron. Such a combination resulted in the test head being "dedicated" to only one prober or one handler.

Dedicated manipulators are of greatest value in ATE systems in which the test head is infrequently disconnected and re-connected to and from one prober or handler to another prober or handler. Consequently, dedicated manipulators are used (i) primarily at front-end test, where large, homogeneous lots of wafers are tested for long, uninterrupted periods of time, and (ii) at back-end test, where high volume, commodity devices such as DRAMs, are tested in large lots. However, back-end non-commodity devices, such as microcontrollers and telecommunications devices, generally are tested in smaller lots due to varying package types and test specifications, thereby requiring frequent handler changes.

In 1980, free-standing manipulators were introduced to minimize ATE downtime and increase device testing throughput. Such manipulators used hand-ranked lead screws to position a test head to a prober or handler. These early manipulators were only marginally better than the waffle-iron design and did not significantly improve ATE utilization due to the lack of motion freedom necessary for successful docking.

Users of these early manipulators attempted to precisely align fragile pin electronics to test sockets and probing assemblies without docking hardware. Lack of proper docking hardware often causes deterioration and damage to the interface boards, test sockets or probing assemblies. Such damage can lead to compromised or inaccurate test results and the rejection of good wafers or devices (yield loss), or, more costly, the acceptance of unsatisfactory wafers or devices (quality error). In addition, successfully connecting a test head held by a free-standing manipulator to a prober or handler without docking hardware is difficult and time-consuming. The Company's docking hardware and free-standing universal manipulators are designed to improve the utilization of ATE, particularly ATE employed in back-end non-commodity flexible testing environments, by facilitating the quick, easy and safe changeover of test heads to probers and handlers.

The Company's docking hardware products mechanically control the intimate interface between the test head's interface board and the prober's probing assembly or handler's test socket. As a result, fragile interface boards, test sockets or probing assemblies are protected from damage during docking. The Company's docking hardware allows semiconductor manufacturers to achieve cost savings by (i) improving ATE utilization, (ii) improving the accuracy and integrity of test results and (iii) reducing the need to repair or replace expensive ATE interface products. The Company's docking hardware can be designed for use with substantially all makes and models of test heads, probes and handlers, and can usually be designed to allow all the ATE on a test floor to be mechanically plug-compatible. Plug-compatibility simplifies the docking procedures, allowing for increased flexibility and utilization of test heads, probes and handlers on a test floor.

The Company's free-standing universal manipulators are designed to be used in either a dedicated or a flexible test environment. In addition, the Company's manipulators have been engineered to hold test heads in what seeks to replicate a "zero gravity" free space. As a result, an operator using no more than 22 pounds of force can reposition the test head by grasping it in his or her hands and gently moving the test head into position to dock with a prober or handler. Test heads currently in use weigh up to approximately 900 pounds and measure up to a cubic yard in volume. A test head held in the Company's free-standing universal manipulator and equipped with the Company's docking hardware can be easily, quickly and safely docked to any handler. After testing a particular production lot of devices, the test head can quickly and easily be disconnected and docked to another handler for testing either a subsequent lot of the same packaged device or to test a different device.

PRODUCTS

Substantially all of the Company's products are customized for use with particular ATE and, in the case of docking hardware, also to achieve plug-compatibility among particular combinations of ATE. The Company's docking hardware, manipulators, tester interfaces and related ATE interface products are designed for use with more than 175 test heads, 30 probes and 300 handlers, all of which are mechanically unique makes and models. The Company has designed and continues to support more than 4,600 products, any of which can be manufactured upon request.

Manipulator Products

in2 Test Head Positioner: The in2 Test Head Positioner ("in2") is a universal manipulator which can be designed to hold any test head. A universal manipulator enables the test head to be repositioned for alternate use with any one of several probes or handlers on a test floor. The in2 is distinguished from universal manipulators manufactured by competitors by its innovative, floating-head design. The design of the in2 allows a test head to be held in an effectively weightless state, moved up or down, right or left, forward or backward and rotated around each axis (six degrees of motion freedom) by an operator using no more than 22 pounds of force. Consequently, an operator can manually reposition the test head by grasping it in his or her hands and gently moving the test head into position to dock with the prober or handler. This same design feature allows the operator to dock the test interface board (which is used to connect the test head's pin electronics to the probing assembly on a prober or to the test socket on a handler) with near zero electrical length between the pin electronics and the probing assembly or the test socket, while protecting the fragile electrical contacts from inadvertent damage during the docking action.

The Company manufactures six styles of the in2, all of which are available in eight different load-rated sizes. The styles include one tumble mode style and five cable pivot style manipulators. Each style provides a distinct combination of performance characteristics suited to different customer applications. A tumble mode positioner might be specified for various reasons including test head form factor, compatibility with in-line automation, cable support simplicity or cost minimization. Reasons for specifying a cable

pivot positioner could include providing improved handling characteristics necessary for larger test heads, the ability to handle test heads with short mainframe-to-test head cables or the necessity to position the test head close to the floor. In addition, the Company designs telescopic cable supports to be used with its cable pivot manipulators; these cable supports minimize bending and twisting stress to mainframe-to-test head cables, which can be delicate yet weigh several hundred pounds. The in2 ranges in price from approximately \$12,000 to \$100,000 depending upon load capacity, manipulator style and the type of cable management.

Test Head Hoist: In July 1996, the Company introduced a new, fully-automatic, electrically-powered and microprocessor-controlled dedicated manipulator called the Test Head Hoist ("THH"). The patented, overhead design of the THH series manipulator uses a powered scissor mechanism to raise and lower a test head to a prober or a top docking handler. This design enables a THH to dock very large test heads (weight tested to 1,000 pounds) within .005". Although the Company has had no sales of the THH series manipulator to date, the Company believes that the THH series of manipulators will be attractive to semiconductor manufacturers for testing 300 mm wafers and packaged memory devices. The Company's THH is the only fully-automatic manipulator which enables a test head to be automatically docked to a prober or handler with the push of one button. The Company believes that the THH enables semiconductor manufacturers to increase floor space utilization of their ATE test systems by 25% to 40% over that achieved by waffle-iron style dedicated manipulators or universal manipulators because a THH series manipulator has a virtually zero "footprint." During 1998, the Company completed a redesign of the THH which included a simplification of its internal electronics which reduced its manufacture cost. The Company does not expect significant sales of the THH manipulators until demand for 300mm wafers reach levels warranting significant investment in new testing equipment by semiconductor manufacturers. All costs associated with the development of the THH have been expensed.

Docking Hardware and ATE Interface Products

The Company's docking hardware is designed for use with floating-head universal manipulators, which are used when maximum mobility and interchangeability of handlers between test heads is required. The Company's docking hardware provides the mechanical control to safely connect, with near zero electrical length, the test interface board with either the probing assembly on a prober or the test socket on a handler. A simple cam action docks and locks the test head to the prober or handler so that the two become a single mechanism which prohibits motion of the test head relative to the prober or handler. This minimizes deterioration of the interface boards, test sockets and probing assemblies caused by the constant vibration characteristic of the operation of all probers and handlers. The Company's docking hardware allows an operator to manually align the probing assembly or test socket to within .005" with respect to the interface board on the test head.

The Company offers six standard four-cam families and three standard three-cam families with load ratings of 200, 400 and 600 pounds. The Company's docking families are primarily distinguished from one another by the number of docking cams and guide pins, the load rating and the size of test head interface boards that can be used with each particular family of docking hardware. The Company's docking hardware products range in price from approximately \$2,000 to \$12,000.

The Company's docking hardware products are distinguished from those offered by ATE manufacturer competitors by the ability of the Company's products to make multiple competing brands of test heads plug-compatible with multiple brands of probers and handlers used by a semiconductor manufacturer by only changing interface boards. Creating such plug-compatibility requires detailed information about competing ATE that would generally not be available to a competing ATE manufacturer. Plug-compatibility permits non-commodity semiconductor manufacturers to reduce the changeover time required to undock a test head from one handler and dock it to another handler between production lots or when changing the device type being tested.

In addition, the Company designs and sells a variety of related ATE interface products including high performance test sockets, interface boards, probing assemblies and other products. The Company custom designs all docking hardware and related ATE interface products for the specific combinations of test heads and probers or handlers used by its customers.

Tester Interface Products

The Company entered the tester interface business through the acquisition of TestDesign in August 1998, a company engaged primarily in the design, manufacture and sale of tester interface equipment. A tester interface securely connects the tester to the wafer prober or device handler and is used to carry signals from the tester to the device under test. A tester interface typically consists of custom mechanical docking hardware such as a lock ring and insert ring, as well as two intricate multi-layer printed circuit boards connected by either a system of cables or spring loaded pogo contact pins. Tester interfaces range from small, single board, cable type interfaces for less complex systems to high speed, high frequency, digital or mixed signal interfaces used in testing more complex IC's. One end of the tester interface connects to the tester and the other to either a probe card fixture mounted on a prober or a test socket mounted to a handler for packaged device testing. In each case, the reliability of the test is highly dependent on maintaining the integrity of the signal between the tester and the device being tested.

Every tester interface is custom designed for its application. The Company's tester interface products carry signals from the tester to the probe card or test socket and return signals to the tester from the device. The Company's tester interface products are designed to optimize the integrity of the transmitted signal data through the reduction of channel cross-talk, and the matching of delay times and impedance, thereby increasing the accuracy of the test data. Because the Company's tester interfaces enable the tester to provide reliable yield data by allowing for clear signal transmission, its interfaces can also be cost saving devices. The Company's tester interface products also feature ease of mechanical installation and ready access to the probe card or test socket during device testing. The Company offers over 200 different types of overhead and cable tester interfaces that range in price from \$6,000 to \$46,000 depending upon the type of application and the complexity of the device to be tested.

MARKETS AND CUSTOMERS

The Company markets its products globally to semiconductor manufacturers and, to a lesser extent, ATE manufacturers on an OEM basis. The Company believes that it sells to most major semiconductor manufacturers in the world. The Company's universal manipulators and docking hardware are primarily used during back-end testing of non-commodity packaged devices. The Company's tester interfaces are used in either front-end or back-end testing of non-commodity packaged devices. Such devices include linear, digital and mixed signal ICs (such as microprocessors, digital signal processing chips, ASICs and non-commodity memory devices) and primarily have applications in the automotive, computer, consumer products and telecommunications industries.

The Company believes its sales of manipulators, docking hardware and tester interfaces are a function of the general level of capital expenditures by semiconductor manufacturers. In addition, the Company's sales of docking hardware generally are driven by changes in device designs or test methods, industry-wide volume of device testing, sales of new handlers and, to a lesser extent, sales of new test heads. In the past, sales of the Company's docking hardware generally have been strong when spending for test heads was low. During such times, the Company believes that semiconductor manufacturers seek to improve the utilization, performance and efficiency of existing ATE by purchasing docking hardware. The Company's sales of manipulators generally follow purchases of test heads by the Company's semiconductor manufacturer customers. The Company's sales of tester interfaces are driven both by new tester sales and by upgrades of existing test fixturing to accommodate the increased performance demands of new IC devices. The Company believes its sales of related ATE interface products primarily depend upon operating expenditures of the Company's semiconductor manufacturer customers.

Both North American and European semiconductor manufacturers have located most of their back-end factories in Southeast Asia. The front-end wafer fabrication plants of U.S. semiconductor manufacturers are primarily in the U.S. Likewise, European, Taiwanese, South Korean and Japanese semiconductor manufacturers primarily have located their wafer fabs in their respective countries. The Company's sales to Japanese semiconductor manufacturers primarily consist of tester interfaces, test sockets and interface boards. Sales of docking hardware and universal manipulators have been limited in Japan and South Korea because manufacturers in these countries emphasize mass-produced products such as memory devices and other commodity devices. Commodity devices are typically tested using dedicated manipulators rather than universal manipulators with docking hardware.

As part of the Company's strategy to be domiciled in its major markets, the Company established inTEST LTD in the U.K. in 1985, inTEST KK in Japan in 1987 and inTEST PTE in Singapore in 1990. inTEST LTD designs, manufactures and markets the Company's products principally in the European market. inTEST KK was established to be a liaison office with Japanese ATE manufacturers and to market inTEST products in Japan. In addition, inTEST KK initiated the Company's business of designing and marketing related ATE interface products. inTEST PTE designs, markets and provides technical support to customers in Southeast Asia, and it intends to commence manufacturing operations in Singapore in the future.

The Company has maintained long term relationships with substantially all ATE manufacturers. The Company believes its relations with such manufacturers are good and have been additionally strengthened due to the fact that the Company does not compete with such manufacturers for testers, probers and handlers. The Company believes that maintaining such relationships is essential to its ability to provide plug-compatible ATE interface solutions.

The Company's largest customers include Hewlett Packard, Lucent Technologies, Motorola, NEC, SGS Thomson, and Texas Instruments among semiconductor manufacturers, and Analog Devices, Credence Systems, LTX, and Teradyne among ATE manufacturers. Sales to the Company's top ten customers accounted for 76%, 72% and 70% of the Company's revenues in 1998, 1997 and 1996, respectively. Sales to Lucent Technologies accounted for 16%, 11% and 16%; sales to Motorola accounted for 13%, 5% and 7%; sales to Texas Instruments accounted for 11%, 7% and 5% and sales to Analog Devices accounted for 7%, 11% and 6% of the Company's revenues in 1998, 1997 and 1996, respectively.

MANUFACTURING AND SUPPLY

The Company's principal manufacturing operations consist of assembly and testing at its facilities in New Jersey, California and in the U.K. By maintaining manufacturing facilities and technical support in geographic markets where its semiconductor manufacturer customers are located, the Company believes that it is able to respond more quickly and accurately to its customers needs.

The Company assembles its manipulator products, docking hardware and tester interfaces and certain of its probing assemblies from a combination of standard components and fabricated custom parts which have been manufactured to the Company's specifications by either third party manufacturers or the Company's fabrication operation in California. The Company's related ATE interface products, such as test sockets, interface boards and other of its probing assemblies, are also manufactured to the Company's specifications by third party manufacturers. The Company's policy is to use the highest quality raw materials and components in its products. The primary raw materials used in fabricated parts are various grades of aluminum and steel, in interface boards are fiberglass and copper, in tester interfaces are pogo pins and in test sockets are plastic and copper, all of which are widely available. Substantially all components are purchased from multiple suppliers. Certain raw materials and components are purchased from single suppliers, however, the Company believes that all materials and components are available in adequate amounts from other sources.

In New Jersey and California, the Company controls the quality of raw materials, fabricated parts and components by conducting incoming inspections using sophisticated measurement equipment, including a coordinate measuring machine in New Jersey, to ensure that products with critical dimensions meet the Company's specifications. In the U.K., the Company relies on its suppliers for inspecting the quality of fabricated parts. The Company intends to buy a coordinate measuring machine for inTEST LTD by the second quarter of 1999. The Company's policy is to inspect all products at various stages prior to shipment. The Company's inspection standards have been designed to comply with applicable MIL specifications and ANSI standards. The Company is preparing a quality manual to comply with such specifications and standards in anticipation of applying for ISO 9001 certification.

SALES AND DISTRIBUTION

In North America, the Company sells to semiconductor manufacturers principally through independent, commissioned sales representatives and to ATE manufacturers through Company account managers. North American sales representatives also coordinate product installation and support with the Company's technical staff and participate in trade shows. Technical support is provided to the Company's North American customers and independent sales representatives by Company employees based in Cherry Hill, New Jersey, Sunnyvale, California, Austin, Texas, Chandler, Arizona and Beaverton, Oregon.

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

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

COMPETITION

The Company's competitors include independent manufacturers of manipulators, docking hardware, tester interfaces and related ATE interface products, designers and manufacturers of ATE and, to a lesser extent, semiconductor manufacturers' in-house ATE interface groups. The Company principally competes on the basis of product performance and functionality, product reliability, customer service, applications support, price and timely product delivery.

The independent manufacturers of docking hardware and manipulators which compete with the Company include Reid-Ashman Manufacturing of the U.S., Microhandling of Germany and Shang Sheng of Taiwan, each of which manufactures docking hardware and manipulators. The manufacturers of ATE which compete with the Company in the sale of docking hardware and universal manipulators include Credence Systems, LTX, Schlumberger and Teradyne. Such manufacturers of ATE may be both competitors and customers of the Company. The independent manufacturers of tester interfaces which compete with the Company include Cerprobe Corporation, Synergetix, a division of IDI, and Xandex Corporation. The manufacturers of ATE which compete with the Company in the sale of tester interfaces include Credence Systems, Electroglas, LTX and Teradyne. In addition, in the sale of related ATE interface products there are approximately 20 manufacturers of interface boards, four manufacturers of high performance test sockets and eight manufacturers of probing assemblies.

PATENTS AND OTHER PROPRIETARY RIGHTS

The Company currently holds 13 U.S. patents and 66 foreign patents and has pending four U.S. patent applications and more than 34 foreign applications that cover various aspects of its technology. The Company's policy is to protect its technology by filing patent applications for the technologies that the Company considers important to its business. The Company first filed for patent protection in the U.S. for its docking hardware and the

in2 test head manipulator in 1982, less than one year after the formation of the Company. The Company's U.S. issued patents will expire at various times beginning in 2002 and extending through 2015. There can be no assurance that additional patents will be issued on the Company's pending and future applications, or that any patents now or hereafter owned by the Company will afford protection against competitors that develop similar technology or products. There are no pending lawsuits or claims against the Company regarding infringement of any existing patents or other intellectual property rights of others.

The Company also relies on trade secrets and unpatentable know-how to protect its proprietary rights. It is the Company's policy to require, as a condition of permanent employment, that all employees of the Company agree to assign to the Company all rights to inventions or other discoveries relating to the Company business made while employed by the Company. In addition, all employees agree not to disclose any information regarding the Company which is private or confidential.

On November 18, 1998, the Company and its subsidiary inTEST IP Corp. (which holds title to all Company intellectual property) filed suit against a competitor for infringement of a United States patent held by the Company (the "815 Patent"). The invention disclosed and claimed in the 815 Patent is directed to a system for positioning and docking a heavy electronic test head of a test system with respect to an electronic device handler. The system is used in the automatic testing of ICs and other electronic devices. The Company sells products covered by the 815 Patent worldwide.

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

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

BACKLOG

At December 31, 1998, the Company's backlog of unfilled orders for all products was approximately \$3.4 million compared with approximately \$6.2 million at December 31, 1997. The Company's backlog includes customer purchase orders which have been accepted by the Company, substantially all of which the Company expects to deliver in the current fiscal year. While backlog is calculated on the basis of firm purchase orders, no assurance can be given that customers will purchase the Company's products subject to such orders or that customers will not accelerate or postpone currently scheduled delivery dates. As a result, the Company's backlog at a particular date is not necessarily indicative of sales for any future period.

SEASONALITY

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

Note 16 of Notes to Consolidated Financial Statements for a presentation of the Company's quarterly results for each of the last two years.

EMPLOYEES

At December 31, 1998, the Company had 111 employees, including 48 in customer operations, 46 in manufacturing operations and 17 in administration. Substantially all of the Company's key employees are highly skilled and trained technical personnel, and new technical employees are required to attend an in-house training program. None of the Company's employees are represented by a labor union, and the Company has never experienced a work stoppage. The Company believes that its employee relations are excellent.

ADDITIONAL FACTORS

The Company's operating results are substantially dependent on the level of activity and capital expenditures of semiconductor manufacturers. The semiconductor industry is highly cyclical and, from time to time, has experienced periods of excess capacity which have had severely detrimental effects on the industry's demand for ATE. There can be no assurance that the Company's business and results of operations will not be materially adversely affected by downturns in the semiconductor industry generally, or by downturns or reductions in capital equipment investment in any one or more particular market segments of the semiconductor industry in which the Company participates.

In addition to the factors described in this Report, the Company's operating results could be affected in the future, by other factors, including, without limitation: changes in business conditions and the economy, generally; the ability of the Company to obtain patent protection and enforce its patent rights for existing and developing proprietary technologies; the ability of the Company to integrate successfully businesses, technologies or products which it may acquire; the effect of the loss of, or reduction in orders from, a major customer; and competition from other manufacturers of test head manipulators, docking hardware, tester interfaces and related ATE interface products.

Item 2: Properties

The Company's headquarters are located in Cherry Hill, New Jersey in 28,630 square feet of office and manufacturing space leased pursuant to a seven-year lease which expires in 2003. In August 1997, the Company leased an additional 11,082 square feet of warehouse and manufacturing space near its headquarters in Cherry Hill pursuant to a lease which is coterminous with that of its headquarters. The Company's has three facilities in Sunnyvale, California: the manufacturing and office space occupies approximately 8,000 square feet pursuant to a 17 month lease which expires in 1999; the machine shop occupies 1,109 square feet pursuant to a two year lease which expires in 1999; and additional office and warehouse space which occupies 1,900 square feet leased pursuant to a five year lease which expires in 2001. The Company has sublet 1,200 square feet of the additional office and warehouse space pursuant to a lease which is coterminous with the Company's lease. The Company's facility in the U.K. is located in Thame in 4,600 square feet of office and manufacturing space leased pursuant to an 8-year lease which expires in December 2005. In Singapore, the Company occupies 3,077 square feet of office and manufacturing space leased pursuant to a four-year lease which expires in 2000 subject to a two-year renewal option. In Kichijoji, Japan, the Company occupies approximately 1,200 square feet of office space pursuant to an agreement which is cancelable on reasonable notice by either party. The Company believes that its headquarters and other existing facilities are adequate to meet its current and foreseeable future needs.

Item 3: Legal Proceedings

On November 18, 1998, the Company and its subsidiary inTEST IP Corp. (which holds title to all Company intellectual property) filed suit in the Federal District Court in Washington, D.C. against Reid-Ashman Manufacturing, Inc. and its President and CEO, Mr. Steven J. Reid (the "Defendant") for infringement of a United States patent held by the Company (the "815 Patent"). The invention disclosed and claimed in the 815 Patent is directed to a system for positioning and docking a heavy electronic test head

of a test system with respect to an electronic device handler. The system is used in the automatic testing of IC's and other electronic devices. The Company sells products covered by the 815 Patent worldwide.

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

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

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

Not Applicable

Part II:
- - - - -

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

(a) The Company's common stock trades on the Nasdaq National Market system ("NNMS") under the symbol "INTT". The common stock was first traded on the NNMS on June 17, 1997, concurrent with the initial public offering, (the "Offering") of the Company's common stock.

The table below sets forth the high and low closing prices of the Company's common stock during the fiscal periods indicated:

	High -----	Low -----
Fiscal Year Ended December 31, 1998:		
First Quarter	\$10.25	\$6.25
Second Quarter	8.94	6.00
Third Quarter	6.00	4.00
Fourth Quarter	9.44	4.00
Fiscal Year Ended December 31, 1997:		
First Quarter	Not Listed	
Second Quarter	9.63	7.50
Third Quarter	18.75	8.00
Fourth Quarter	18.25	5.00

As of March 22, 1999, there were approximately 1,000 holders of record of the Company's common stock.

The Company has not paid any dividends on its common stock subsequent to the Offering, other than amounts representing the Company's

previously taxed but undistributed S corporation earnings through the date of termination of the S corporation election in connection with the Offering.

The Company does not anticipate paying cash dividends in the foreseeable future, but intends to retain any future earnings for reinvestment in the operation and expansion of the Company's business. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

(b) Use of Proceeds from Offering:

On June 17, 1997, the Company's Registration Statement on Form S-1 covering the Offering of 2,275,000 shares of the Company's Common Stock, Commission file number 333-26457, was declared effective. The Offering closed on June 20, 1997, managed by Janney Montgomery Scott Inc. and Needham & Company, Inc. as representatives of the several underwriters named in the Registration Statement (the "Underwriters").

Of the 2,275,000 shares sold pursuant to the Offering, 1,820,000 shares were sold by the Company and 455,000 were sold by certain selling stockholders (the "Selling Stockholders"). In addition, the Underwriters exercised an over-allotment option to purchase an additional 341,250 shares of the Company's Common Stock from the Selling Shareholders. The total purchase price to the public for the shares offered and sold by the Company and the Selling Shareholders was \$13,650,000 and \$5,971,875, respectively.

The amount of expenses incurred for the Company's account in connection with the Offering are as follows:

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

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

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

The net proceeds of the Offering to the Company (after deducting the foregoing expenses) was \$11,654,842. From the effective date of the Registration Statement, the net proceeds have been used for the following purposes:

Construction of plant, building and facilities	\$	-
Purchase and installation of machinery and equipment		298,346
Purchase of real estate		-
Acquisition of businesses		4,825,000
Repayment of indebtedness		388,098
Working capital		599,725
Temporary investments, including cash & cash equivalents		4,942,908
Other purposes (for which at least \$100,000 has been used) including:		
Payment of final S corporation distribution		600,765

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

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

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

Item 6: Selected Financial Data

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

	Years Ended December 31,				
	1998	1997	1996	1995	1994
	(in thousands, except share data)				
Consolidated Statement of Earnings Data:					
Net revenues	\$19,075	\$20,746	\$18,582	\$14,442	\$9,287
Gross margin	10,673	12,938	11,827	9,251	5,150
Operating income	2,518	6,187	5,616	4,037	1,289
Net earnings	1,927	4,332	4,646	3,252	817
Earnings per share (1997 and 1996 information is pro forma):					
Basic31	.74	.83		
Diluted31	.73	.83		
Weighted average shares outstanding (1997 and 1996 information is pro forma):					
Basic	6,170	5,068	4,091		
Diluted	6,186	5,092	4,091		

	As of December 31,				
	1998	1997	1996	1995	1994
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 8,468	\$12,035	\$ 3,692	\$ 1,919	\$1,336
Working capital	13,312	14,655	4,377	4,201	2,944
Total assets	23,218	19,945	7,716	6,352	4,624
Long term debt	-	-	155	-	-
Total stockholders' equity	21,226	16,557	4,587	4,048	2,765

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

Results of Operations

- - - - -

Overview

- - - - -

The Company designs, manufactures and markets docking hardware, test head manipulators and tester interfaces, which are used with automatic test equipment ("ATE") by semiconductor manufacturers during the testing of wafers and packaged devices. The Company also designs and markets related ATE interface products including high performance test sockets, interface boards and probing assemblies. The Company's products are designed to improve the utilization and cost-effectiveness of ATE (including testers, wafer probers and device handlers) during the testing of linear, digital and mixed signal integrated circuits ("ICs").

The Company's revenues are substantially dependent upon the demand for ATE by semiconductor manufacturers and, therefore, fluctuate generally as a result of the cyclicity in the semiconductor manufacturing industry. The Company believes that purchases of the Company's docking hardware, manipulators and tester interfaces are typically made from its customers' capital expenditure budgets, while related ATE interface products, which must be replaced periodically, are typically made from its customers' operating budgets.

During the last three years, the demand for ATE by the semiconductor industry has exhibited a high degree of cyclicity. 1996 represented a year of sequential quarterly declines in orders for and sales of the Company's products due to a reduced level of semiconductor manufacturing activity which caused cutbacks in semiconductor manufacturers' capital expenditure budgets. 1997 marked a turnaround in the semiconductor industry which was evidenced by a renewal in demand for ATE and related equipment which resulted in sequential quarterly increases in orders for and sales of the Company's products.

1998, like 1996, represented a year of sequential quarterly declines in orders for and sales of the Company's products, however, to a more significant degree. In early 1998 worldwide demand for ICs fell dramatically due to excess inventory of older IC designs, and slower transition to new IC designs resulting generally from softening worldwide demand for end user products. In addition, the economic downturns in many world economies, especially those in Southeast Asia and Japan, exacerbated the semiconductor industry downturn. The combination of these conditions contributed to a reduced demand for products manufactured by semiconductor manufacturers, which in turn significantly reduced their need for new or additional ATE equipment. The Company's financial performance was negatively impacted by these industry conditions. Net sales fell from \$6.0 million in the fourth quarter of 1997 to \$3.8 million in the fourth quarter of 1998. The reduced demand for ATE is reflected in the Company's backlog, which was \$3.4 million at December 31, 1998 compared to \$6.2 million at December 31, 1997. In early 1999, the Company has seen a significant increase in the level of orders for its products over the last quarter of 1998, however, the Company is cautious about the level of revenues and net income for the first two quarters of 1999 due to the continued uncertainty in the semiconductor industry.

On June 20, 1997, the Company completed an initial public offering of 2.275 million common shares through which the Company issued 1.82 million new shares of common stock (the "Offering"). Prior to the Offering the Company was an S corporation, and the net earnings of the Company were taxed as income to the Company's stockholders for Federal and certain New Jersey state income tax purposes. The Company terminated its status as an S corporation prior to the closing of the Offering and is subject to Federal and additional state income taxes for periods after such termination.

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

1998 Compared to 1997

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

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

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

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

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

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

1997 Compared to 1996

Revenues. Revenues were a record \$20.7 million for 1997 compared to \$18.6 million for 1996, an increase of \$2.1 million or 11%. The year-to-year increase was primarily due to higher levels of shipments of the Company's products during the fourth quarter of 1997 compared to the same period in 1996, which reflects the higher level of manufacturing activity in the semiconductor industry in 1997 as compared to 1996. The Company did not increase sales prices significantly in 1997. The Company believes that the increase in revenues was from the sales of products used in the testing of mixed signal

devices and digital devices (such as microprocessors and microcontrollers) and numerous other devices used in the automotive, computer, telecommunications and other industries.

Gross Margin. Gross margin declined to 62% for 1997 from 64% in 1996. The reduction in gross margin was primarily attributable to a significant increase in the level of sales to ATE manufacturers, which increased from approximately 21% of sales in 1996 to approximately 34% in 1997. In addition, the Company experienced an increase in its fixed operations costs in 1997, due to higher occupancy costs associated with the larger New Jersey manufacturing facility which was leased in August 1996. The decline in gross margin was partially offset by reduced incremental material costs due to volume discounts received in the last two quarters of 1997.

Selling Expense. Selling expense was \$2.8 million for 1997 compared to \$2.5 million for 1996, an increase of \$318,000 or 13%. The increase was primarily attributable to higher salary and benefit expenses resulting from the allocation of additional personnel costs to selling expense and, to a lesser extent, salary increases for existing personnel. The increase in selling expense also reflects an increase in advertising and promotional expenses over the comparable prior period. In addition, commission expense increased in 1997 over the level incurred in 1996 due to an increase in the level of commissioned sales to semiconductor manufacturers. These increases were offset by a reduction in travel and other expenses.

Research and Development Expense. Research and development expense was \$1.7 million for 1997 compared to \$1.9 million for 1996, a decrease of \$191,000 or 10%. The decline was primarily attributable to reduced levels of spending on research and development materials in 1997 compared to 1996, and, to a lesser extent, to the aforementioned allocation of certain personnel costs to selling expense.

General and Administrative Expense. General and administrative expense was \$2.2 million for 1997 compared to \$1.8 million for 1996, an increase of \$413,000 or 23%. The increase was primarily attributable to the additional costs associated with shareholder and investor relations and increased expenditures for outside directors' fees and professional fees incurred as a public company. Other factors contributing to the increase in 1997 were the amortization of goodwill resulting from the acquisition of the minority interests in the Company's three foreign subsidiaries in connection with the offering and salary increases of administrative staff.

Income Tax Expense. Income tax expense increased to \$2.1 million from \$858,000 for 1996, an increase of \$1.2 million or 144%. The Company's effective tax rate was 32% for 1997 compared to 15% in 1996. The increase in the effective tax rate was caused by the accrual of Federal income tax on the Company's earnings due to the change of tax status from S corporation to C corporation in June 1997 and, to a lesser extent, a greater percentage of earnings before income taxes and minority interest attributable to the Company's Japanese subsidiary.

Liquidity and Capital Resources

Net cash provided by operations for 1998 was \$1.6 million. The following discussion of changes in working capital is exclusive of changes in working capital resulting from the TestDesign acquisition. Accounts receivable decreased \$1.7 million from December 31, 1997 to December 31, 1998 due to the sequential quarterly reductions in sales levels during 1998. Inventories remained relatively constant during the year. Refundable domestic and foreign income taxes increased \$658,000 as a result of lower levels of earnings than were originally forecasted at the time estimated tax payments were made. Other current assets decreased by \$32,000 because of the amortization of prepaid expenses. Accounts payable decreased \$315,000 due to lower production levels resulting from the industry slowdown. Accrued expenses decreased \$244,000 primarily as a result of the timing of payments of previously accrued expenses. Domestic and foreign income taxes payable decreased \$1.3 million as a result of the payment of previously accrued Federal, state and foreign income taxes on earnings.

Purchases of machinery, equipment and leasehold improvements were \$261,000 for 1998. The Company plans to spend approximately \$300,000 during the second quarter of 1999 to renovate and expand its UK manufacturing facility and purchase a coordinate measuring machine for this facility.

At December 31, 1998, the Company had no outstanding long or short-term debt. During 1998, the Company repaid \$215,000 on a non-interest bearing note related to the acquisition of TestDesign.

The Company realized net cash proceeds of \$11.7 million (after payment of direct expenses of the Offering) from the sale of 1.82 million newly issued shares in the Offering in June 1997. The proceeds from the Offering are being used for working capital, general corporate purposes and possible acquisitions of businesses, technologies or products complementary to the Company's business.

On August 3, 1998, the Company acquired all of the outstanding capital stock of TestDesign Corporation ("TestDesign"), a privately held California corporation (the "Acquisition"). The purchase price was \$4.4 million in cash and 625,000 shares of the Company's common stock (subject to certain adjustments). The acquisition of TestDesign, which was accounted for using the purchase method, resulted in goodwill of \$5.8 million, which is being amortized over a period of 15 years. In addition, the Company incurred transactions costs of approximately \$425,000 in connection with the Acquisition. The Company funded the cash portion of the purchase price from its cash on hand. At December 31, 1998, the Company's cash and cash equivalents included \$4.9 million of temporary investments attributable to the Offering.

The Company believes that existing cash and cash equivalents, its \$1.5 million unused line of credit and the anticipated net cash provided from operations in 1999 will be sufficient to satisfy the Company's cash requirements including those of its new subsidiary for the foreseeable future. However, additional acquisitions may require additional equity or debt financing to meet working capital requirements or capital expenditure needs. Although the Company, as an S corporation, historically paid cash dividends to its stockholders, the Company does not anticipate that it will pay dividends in the foreseeable future.

Year 2000
- - - - -

The Year 2000 issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, a temporary inability to process transactions, send invoices, or engage in normal business activities.

Currently, the Company has a program in process to analyze potentially affected business and process systems and replace or correct all non-compliant critical business and process systems that it will require in the new millennium. Prior to the acquisition of TestDesign, the Company had completed its review and testing of its then existing systems and determined that they were Year 2000 compliant. The Company has identified those systems of TestDesign that are not yet Year 2000 compliant and has begun converting them to systems which are Year 2000 compliant. The Company has substantially completed the system modifications at TestDesign and anticipates that all of its systems will be Year 2000 compliant by mid-1999.

The products that the Company has sold and currently sells are not date-sensitive, and therefore the Company believes its product related Year 2000 exposures are low.

In conjunction with the Company's Year 2000 effort, all suppliers that are critical to the function of the Company are being surveyed to insure readiness and non-disruption to the Company's supply chain. The Company relies on subcontractors for fabrication and certain other processes performed on its

products and utilizes third-party network equipment and software products which may or may not be Year 2000 compliant. In addition, the Company relies on utility and telecommunications suppliers to operate its businesses worldwide. The Company has sent questionnaires to these critical suppliers to determine the extent to which the Company's operations are exposed to failure from Year 2000 issues. The Company has received responses from over 85% of its domestic suppliers and is still awaiting responses from most of its foreign suppliers. The Company intends to replace any critical raw materials and fabrication suppliers which cannot demonstrate Year 2000 compliance before the end of the third quarter of 1999. There can be no assurance that the Company will be successful in its efforts to identify and resolve any Year 2000 issues involving its suppliers or to continue receiving products and services from these suppliers if Year 2000 problems were to materialize. The failure to resolve these issues could result in the shut-down of some or all of the Company's operations, which would have a material adverse effect on the Company.

The total expense of the Company's Year 2000 effort is currently estimated at less than \$100,000, for the identification and remediation of any Year 2000 problems related to the Company's internal systems. If required modifications to existing software and hardware are not made, or are not completed in a timely manner, the Year 2000 could have a material impact on the operations of the Company. There can be no assurance that the costs to remediate any Year 2000 problems which may be identified in the future will not exceed the Company's current estimate or that the Company will be able to resolve these issues in a timely manner. The expenses of the Year 2000 project are being funded through operating cash flows.

The Company does not currently have any information concerning Year 2000 compliance of its customers. If any of the Company's significant customers and suppliers do not successfully and in a timely manner achieve Year 2000 compliance, and as a result of such non-compliance such customers operations are disrupted, shut-down or otherwise impacted, the Company's business or operations could be adversely affected. There can be no assurance that another company's failure to ensure Year 2000 capability would not have an adverse effect on the Company.

The Company has not developed a comprehensive contingency plan to address situations which it believes to be beyond its control (i.e. such as utilities and telecommunications). There can be no assurance that the Company will be able to develop a contingency plan that will adequately address such issues that may arise in the Year 2000. The failure of the Company to successfully resolve such issues could result in a shut-down of some or all of the Company's operations, which could have a material adverse effect on the Company.

Exposure to International Operations

Revenues generated by the Company's foreign subsidiaries were 34%, 34% and 43% of consolidated revenues for the years ended December 31, 1998, 1997 and 1996, respectively. The Company anticipates that revenues generated by the Company's foreign subsidiaries will continue to account for a significant portion of consolidated revenues in the foreseeable future. These revenues generated by the Company's foreign subsidiaries will continue to be subject to certain risks, including changes in regulatory requirements, tariffs and other barriers, political and economic instability, an outbreak of hostilities, foreign currency exchange rate fluctuations, potentially adverse tax consequences and the possibility of difficulty in accounts receivable collection. The Company cannot predict whether quotas, duties, taxes or other charges or restrictions will be implemented by the United States or any other country upon the importation or exportation of the Company's products in the future. Any of these factors or the adoption of restrictive policies could have a material adverse effect on the Company business, financial condition or results of operations.

Revenues denominated in foreign currencies were 24%, 27% and 35% of consolidated revenues for the years ended December 31, 1998, 1997 and 1996, respectively. Although the Company operates its business such that a significant portion of its product costs are denominated in the same currency

that the associated sales are made in, there can be no assurance that the Company will not be adversely impacted in the future due to its exposure to foreign operations. Revenues denominated in currencies other than U.S. dollars expose the Company to currency fluctuations, which can adversely affect results of operations. During the year ended December 31, 1998, the Company experienced foreign currency transaction gains of \$47,000 while during the years ended December 31, 1997 and 1996, the Company experienced foreign exchange transaction losses of \$63,000 and \$31,000, respectively. The currency exchange translation gain in 1998 is primarily the result of the strengthening of the Japanese Yen against the U.S. dollar during 1998.

The portion of the Company's consolidated revenues derived from sales to the Asia Pacific region were 25%, 28% and 26% for the years ended December 31, 1998, 1997 and 1996, respectively. Countries in the Asia Pacific region, including Japan, have experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Although the current economic instability in the Asia Pacific region has not materially adversely affected the Company's order backlog, balance sheet, or results of operations to date, there can be no assurance that continued economic instability will not in the future have a material adverse affect on demand for the Company's products and its consolidated results of operations.

Cautionary Statement Regarding Forward Looking Statements

This Report contains certain statements of a forward-looking nature relating to future events, such as statements regarding the Company's plans and strategies or future financial performance. Such statements can be identified by the use of forward-looking 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 the factors described in this Report, the Company's actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by additional factors, including, without limitation: changes in business conditions and the economy, generally; the ability of the Company to obtain patent protection, and enforce its patent rights, for existing and developing proprietary technologies; the ability of the Company to integrate successfully businesses, technologies or products which it may acquire; the effect of the loss of, or reduction in orders from, a major customer; and competition from other manufacturers of docking hardware, test head manipulators, tester interfaces and related ATE interface products.

Item 7A: Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to currency exchange rate risk in the normal course of its business. The Company employs risk management strategies including the use of forward exchange rate contracts to manage this exposure. The Company's objective in managing currency exchange risk is to minimize the impact of significant currency exchange rate fluctuations primarily in the Japanese Yen. The Company's Japanese operations expose its earnings to change in currency exchange rates because it's Japanese subsidiary makes its sales in Japanese Yen and purchases its sales inventory in U.S. dollars. Forward exchange rate contracts are used to establish a fixed conversion rate between the Japanese Yen and the U.S. dollar so that the level of the Company's gross margin from sales in Japan is not negatively impacted from significant movements in the Japanese Yen to U.S. dollar exchange rate. The Company purchases forward exchange rate contracts on a monthly basis in the amounts necessary to pay the U.S. dollar denominated obligations of its Japanese subsidiary. As of December 31, 1998, there were no forward exchange rate contracts outstanding.

It is the Company's policy to enter into forward exchange rate contracts only to the extent necessary to achieve the desired objectives of management in limiting the Company's exposure to significant fluctuations in currency exchange rates. The Company does not hedge all of its currency exchange rate risk exposures in a manner that would completely eliminate the impact of

changes in currency exchange rates on its net income. The Company does not expect that its results of operations or liquidity will be materially affected by these risk management activities.

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

Item 8: Financial Statements and Supplementary Data

Financial Statements are set forth in this report beginning at page F-1

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

None

Part III:

- - - - -

Item 10: Directors and Executive Officers

The information called for by this item is incorporated by reference to the Company's Proxy Statement for its 1999 annual meeting of stockholders which will be filed prior to April 30, 1999.

Item 11: Executive Compensation

The information called for by this item is incorporated by reference to the Company's Proxy Statement for its 1999 annual meeting of stockholders which will be filed prior to April 30, 1999.

Item 12: Security Ownership of Certain Beneficial Owners and Management

The information called for by this item is incorporated by reference to the Company's Proxy Statement for its 1999 annual meeting of stockholders which will be filed prior to April 30, 1999.

Item 13: Certain Relationships and Related Transactions

The information called for by this item is incorporated by reference to the Company's Proxy Statement for its 1999 annual meeting of stockholders which will be filed prior to April 30, 1999.

Item 14: Exhibits, Financial Statement Schedules

(a) The documents filed as part of this Annual Report on Form 10-K are:

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

Schedule II - Valuation and Qualifying Accounts

(iii) The exhibits required by Item 601 of Regulation S-K are included under Item 14(c) of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

On October 2, 1998, the Company filed an amendment to its Form 8-K filed on August 5, 1998. The Amended Form 8-K contained the financial statements required by Item 7 of Form 8-K relating to the Company's acquisition of TestDesign Corporation.

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

Exhibit Number	Description of Exhibit
3.1	Certificate of Incorporation.
3.2	Bylaws of the Company
10.1	Amended and Restated Loan Agreement, dated June 30, 1996, between inTEST Corporation and PNC Bank, National Association. (Amended effective as of June 30, 1998 pursuant to an Amendment to Loan Documents dated October 5, 1998 which is filed as Exhibit 10.11 to this Report)
10.2	Lease Agreement, dated February 11, 1996, between First Industrial L.P. (formerly Cherry Hill Industrial Sites, Inc.) and the Company.
10.3	Lease, dated August 5, 1996, between KIP Properties and the Company.
10.4	Tenancy Agreement, dated April 18, 1996, between Alambon Tools Private Limited and inTEST PTE.
10.5	1997 Stock Plan.
10.6	Consulting Agreement, dated April 1, 1997, between the Company and Stuart F. Daniels, Ph.D.
10.7	Lease Agreement, dated August 22, 1997, between First Industrial L.P (formerly Cherry Hill Industrial Sites, Inc.) and the Company.
10.8	Lease Agreement between inTEST Limited and Alan Breck Robertson and Mavis Robertson dated March 3, 1998.
10.9	Lease, dated January 16, 1998 between Tasman Associates and inTEST Sunnyvale (as successor by merger with TestDesign Corporation) and First Amendment signed February 24, 1999.
10.10	Lease, dated June 12, 1998, between A. Bogomilsky and inTEST Sunnyvale (as successor by merger with TestDesign Corporation).
10.11	Amendment to Loan Documents dated October 5, 1998, amending the loan agreement filed as Exhibit 10.1 to this Report.
21	Subsidiaries of the Company.
23	Consent of KPMG LLP.
24	Financial Data Schedule.

Signatures:

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

inTEST Corporation

By: /s/ Robert E. Matthiessen

Robert E. Matthiessen
President and Chief Executive Officer

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

/s/ Alyn R. Holt March 26, 1999

Alyn R. Holt, Chairman

/s/ Robert E. Matthiessen March 26, 1999

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

/s/ Douglas W. Smith March 26, 1999

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

/s/ Daniel J. Graham March 26, 1999

Daniel J. Graham, Vice Chairman, Senior
Vice President

/s/ Hugh T. Regan, Jr. March 26, 1999

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

/s/ Hugh T. Regan, Sr. March 26, 1999

Hugh T. Regan, Sr., Secretary

/s/ Richard O. Endres March 26, 1999

Richard O. Endres, Director

/s/ Stuart F. Daniels March 26, 1999

Stuart F. Daniels, Ph.D., Director

/s/ Gregory W. Slayton March 26, 1999

Gregory W. Slayton, Director

Index to Exhibits

- 3.1 Certificate of Incorporation.*
- 3.2 Bylaws of the Company.*
- 10.1 Amended and Restated Loan Agreement, dated June 30, 1996, between inTEST Corporation and PNC Bank, National Association. (Amended effective June 30, 1998 pursuant to an Amendment to Loan Documents dated October 5, 1998 which is filed as Exhibit 10.11 to this Report)*
- 10.2 Lease, dated February 11, 1996, between First Industrial L.P. (formerly Cherry Hill Industrial Sites, Inc.) and the Company.*
- 10.3 Lease, dated August 5, 1996, between KIP Properties and the Company.*
- 10.4 Tenancy Agreement, dated April 18, 1996, between Alambon Tools Private Limited and inTEST PTE.*
- 10.5 1997 Stock Plan.**
- 10.6 Consulting Agreement, dated April 1, 1997, between the Company and Stuart F. Daniels, Ph.D.*
- 10.7 Lease Agreement dated August 22, 1997, between First Industrial L.P. (formerly Cherry Hill Industrial Sites, Inc.) and the Company.***
- 10.8 Lease Agreement between inTEST Limited and Alan Breck Robertson and Mavis Robertson dated March 3, 1998.****
- 10.9 Lease, dated January 16, 1998, between Tasman Associates and inTEST Sunnyvale (as successor by merger with TestDesign Corporation) and First Amendment signed February 24, 1999.
- 10.10 Lease, dated June 12, 1998, between A. Bogomilsky and inTEST Sunnyvale (as successor by merger with TestDesign Corporation).
- 10.11 Amendment to Loan Documents dated October 5, 1998, amending the loan agreement filed as Exhibit 10.1 to this Report.
- 21 Subsidiaries of the Company.
- 23 Consent of KPMG LLP.
- 27 Financial Data Schedule.

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

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

*** Previously filed by the Company as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

**** Previously filed by the Company as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

inTEST CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULE

	Page
CONSOLIDATED FINANCIAL STATEMENTS:	
Independent Auditors' Report	F- 1
Consolidated Balance Sheets as of December 31, 1998 and 1997	F- 2
Consolidated Statements of Earnings for the years ended December 31, 1998, 1997 and 1996	F- 3
Consolidated Statements of Comprehensive Earnings for the years ended December 31, 1998, 1997 and 1996	F- 4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996	F- 5
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996	F- 6
Notes to Consolidated Financial Statements	F- 7
CONSOLIDATED FINANCIAL STATEMENT SCHEDULE:	
Schedule II - Valuation and Qualifying Accounts	F-27

Independent Auditors' Report

The Board of Directors and Stockholders
inTEST Corporation

We have audited the accompanying consolidated balance sheets of inTEST Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule of valuation and qualifying accounts as of and for the three years ended December 31, 1998. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of inTEST Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Philadelphia, Pennsylvania
February 19, 1999

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

	December 31,	
	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,468	\$ 12,035
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$168 and \$144, respectively	3,275	4,058
Inventories	2,521	1,649
Deferred tax asset	245	165
Refundable domestic and foreign income taxes	658	-
Other current assets	137	136
Total current assets	15,304	18,043
Machinery and equipment:		
Machinery and equipment	1,690	1,129
Leasehold improvements	223	179
	1,913	1,308
Less: accumulated depreciation	(1,078)	(831)
Net machinery and equipment	835	477
Other assets		
Goodwill	195	136
	6,884	1,289
Total assets	\$ 23,218	\$ 19,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 969	\$ 1,142
Accrued expenses	1,023	955
Domestic and foreign income taxes payable	-	1,291
Total current liabilities	1,992	3,388
Commitments		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 6,536,034 and 5,911,034 shares issued and outstanding, respectively	65	59
Additional paid-in capital	16,647	13,981
Retained earnings	4,570	2,643
Accumulated other comprehensive expense	(56)	(126)
Total stockholders' equity	21,226	16,557
Total liabilities and stockholders' equity	\$ 23,218	\$ 19,945

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	1998	1997	1996
Net revenues	\$19,075	\$20,746	\$18,582
Cost of revenues	8,402	7,808	6,755
	-----	-----	-----
Gross margin	10,673	12,938	11,827
	-----	-----	-----
Operating expenses:			
Selling expense	3,346	2,789	2,471
Research and development expense	1,934	1,737	1,928
General and administrative expense	2,875	2,225	1,812
	-----	-----	-----
Total operating expenses	8,155	6,751	6,211
	-----	-----	-----
Operating income	2,518	6,187	5,616
	-----	-----	-----
Other income (expense):			
Interest income	455	349	147
Interest expense	(3)	(15)	(11)
Other	56	(74)	(35)
	-----	-----	-----
Total other income	508	260	101
	-----	-----	-----
Earnings before income taxes and minority interest	3,026	6,447	5,717
	-----	-----	-----
Income tax expense	1,099	2,090	858
	-----	-----	-----
Earnings before minority interest	1,927	4,357	4,859
Minority interest	-	(25)	(213)
	-----	-----	-----
Net earnings	\$ 1,927	\$ 4,332	\$ 4,646
	=====	=====	=====
Pro forma information (unaudited)(Note 3)			
Pro forma earnings before income taxes		\$ 6,407	\$ 5,627
Pro forma income taxes		2,680	2,251
Pro forma net earnings		3,726	3,376
Earnings per share (1997 and 1996 information is pro forma):			
Basic	\$ 0.31	\$ 0.74	\$ 0.83
Diluted	0.31	0.73	0.83
Weighted average shares outstanding (1997 and 1996 information is pro forma):			
Basic	6,169,596	5,068,349	4,091,034
Diluted	6,186,460	5,092,490	4,091,034

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION AND SUBSIDIARIES

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

	Years Ended December 31,		
	1998	1997	1996
Net earnings	\$ 1,927	\$ 4,332	\$ 4,646
Foreign currency translation adjustments	70	(153)	(21)
Comprehensive earnings	\$ 1,997	\$ 4,179	\$ 4,625

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings(Expense)	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 1996	3,790,591	\$ 38	\$ 689	\$ 3,273	\$ 48	\$ 4,048
Dividends-\$1.08 per share	-	-	-	(4,086)	-	(4,086)
Net earnings	-	-	-	4,646	-	4,646
Other comprehensive expense	-	-	-	-	(21)	(21)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996	3,790,591	38	689	3,833	27	4,587
Dividends-\$1.46 per share	-	-	-	(5,522)	-	(5,522)
Net earnings	-	-	-	4,332	-	4,332
Acquisition of minority interest	300,443	3	1,655	-	-	1,658
Issuance of common stock in connection with Offering, net	1,820,000	18	11,637	-	-	11,655
Other comprehensive expense	-	-	-	-	(153)	(153)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997	5,911,034	59	13,981	2,643	(126)	16,557
Net earnings	-	-	-	1,927	-	1,927
Issuance of common stock in connection with Acquisition	625,000	6	2,666	-	-	2,672
Other comprehensive earnings	-	-	-	-	70	70
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998	<u>6,536,034</u>	<u>\$ 65</u>	<u>\$ 16,647</u>	<u>\$ 4,570</u>	<u>\$ (56)</u>	<u>\$ 21,226</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	\$ 1,927	\$ 4,332	\$ 4,646
Adjustments to reconcile net earnings to net cash:			
Depreciation and amortization	491	217	109
Deferred taxes	(79)	(165)	-
Foreign exchange (gain) loss	17	(62)	31
Allowance for bad debts	(32)	49	51
Minority interest	-	25	213
Changes in assets and liabilities, net of effects of Acquisition:			
Trade accounts and notes receivable, net	1,747	(2,226)	925
Inventories	10	(352)	(66)
Refundable domestic and state income taxes	(658)	-	-
Other current assets	32	(71)	(61)
Accounts payable	(315)	659	(235)
Domestic and foreign income tax payable	(1,333)	845	(118)
Dividends payable	-	(973)	-
Accrued expenses	(244)	331	50
Net cash provided by operating activities	1,563	2,609	5,535
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of business, net of cash acquired	(4,629)	-	-
Purchase of machinery and equipment	(261)	(70)	(554)
Other long-term asset	(42)	(54)	(65)
Net cash used in investing activities	(4,932)	(124)	(619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	-	(5,541)	(3,339)
Net principal debt borrowings (repayments)	(215)	(189)	189
Net proceeds from public offering	-	11,655	-
Net cash provided by (used in) financing activities	(215)	5,925	(3,150)
Effects of exchange rates on cash	17	(67)	7
Net cash provided by (used in) all activities	(3,567)	8,343	1,773
Cash and cash equivalents at beginning of period	12,035	3,692	1,919
Cash and cash equivalents at end of period	\$ 8,468	\$12,035	\$ 3,692
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES			
Details of Acquisition:			
Fair value of assets acquired net of cash acquired	\$ 2,003		
Liabilities assumed	(549)		
Common stock issued	(2,672)		
Goodwill resulting from Acquisition	5,847		
Net cash paid for Acquisition	\$ 4,629		
Cash payments made for:			
Domestic and foreign income taxes	\$ 3,210	\$ 1,366	\$ 977
Interest	3	14	11

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION AND SUBSIDIARIES

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

(1) NATURE OF OPERATIONS

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

The consolidated entity is comprised of inTEST Corporation (parent) and seven 100% owned subsidiaries: inTEST Limited (Thame, UK), inTEST Kabushiki Kaisha (Kichijoji, Japan), inTEST PTE, Limited (Singapore), inTEST Sunnyvale Corp. (Delaware) (acquired in the third quarter of 1998 - see Note 4), 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. and the U.K. Marketing and support activities are conducted worldwide from the Company's facilities in the U.S., U.K., Japan and Singapore.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Reclassification

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

Cash and Cash Equivalents

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

inTEST CORPORATION AND SUBSIDIARIES

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes Receivable

Notes receivable are due from trade customers in Japan, and have original maturities of less than four months. The notes are non-interest bearing. Notes receivable were \$524 and \$784 at December 31, 1998 and 1997, respectively.

Bad Debts

The Company grants credit to customers and generally requires no collateral. To minimize its risk, the Company performs ongoing credit evaluations of its customers financial condition. Bad debt expense (recoveries) was \$(5), \$61 and \$52 for the years ended December 31, 1998, 1997 and 1996, respectively.

Inventories

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

Machinery and Equipment

Machinery and equipment are stated at cost. Depreciation is based upon the estimated useful life of the assets using the straight line method. The estimated useful lives range from three to seven years. Leasehold improvements are recorded at cost and amortized over the shorter of the lease term or the estimated useful life of the asset. Total depreciation expense was \$238, \$175 and \$112 for the years ended December 31, 1998, 1997 and 1996, respectively. Expenditures for maintenance and repairs are charged to operations as incurred.

Intangibles

Goodwill resulting from the acquisition of the minority interests in the Company's three foreign subsidiaries and the acquisition of TestDesign is amortized on a straight line basis over 15 years. Total amortization expense for the years ended December 31, 1998, 1997 and 1996 was \$252, \$49 and \$-0-, respectively. The Company assesses the potential impairment of its intangible assets based on anticipated undiscounted cash flows from operations. At December 31, 1998, no impairment was indicated.

inTEST CORPORATION AND SUBSIDIARIES

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

Net Earnings Per Common Share

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

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

	Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Weighted average shares outstanding-basic	6,169,596	5,068,349	4,091,034
Potentially dilutive securities:			
Employee stock options	16,864	24,141	-
	-----	-----	-----
Weighted average shares outstanding-diluted	<u>6,186,460</u>	<u>5,092,490</u>	<u>4,091,034</u>
	=====	=====	=====

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

inTEST CORPORATION AND SUBSIDIARIES

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

Research and Development

Research and development costs are expensed as incurred.

Product Warranties

The Company generally provides product warranties and records estimated warranty expense at the time of sale based upon historical claims experience.

Stock Based Compensation

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

Foreign Currency

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

Financial Instruments

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

inTEST CORPORATION AND SUBSIDIARIES

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. This Statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company adopted this Statement for the year ended December 31, 1998, as required (see Note 5).

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

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

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

Accordingly, for informational purposes, the following pro forma information for the years ended December 31, 1997 and 1996, respectively, is presented to show pro forma earnings on an after-tax basis, assuming the Company had been taxed as a C corporation since January 1, 1996. The difference between the Federal statutory income tax rate and the pro forma income tax rate is as follows:

	Years Ended December 31,	
	----- 1997	1996 -----
Federal statutory tax rate	34%	34%
State income taxes, net of Federal benefit	4	3
Foreign income taxes	4	3
Non-deductible goodwill amortization	1	1
Research credits	(1)	(1)
	--	--
Pro forma income tax rate	42%	40%
	==	==

inTEST CORPORATION AND SUBSIDIARIES

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

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

Set forth below are pro forma results of the Company's operations for the years ended December 31, 1997 and 1996. These pro forma results reflect adjustments for:

- (i) the aforementioned change in method of computing taxes; and
- (ii) the amortization of goodwill resulting from the acquisition of minority interests in the Company's three foreign subsidiaries, net of the elimination of the minority interests charge reflected in the historical financial statements, as if the Exchange (as described in Note 1) had occurred on January 1, 1996. The goodwill resulting from the Exchange, which totaled \$1.3 million, is being amortized over 15 years.

	Years Ended December 31,	
	----- 1997 -----	----- 1996 -----
Pro forma earnings before income taxes	\$ 6,407	\$ 5,627
Pro forma income taxes	2,680	2,251
Pro forma net earnings	3,726	3,376
Pro forma net earnings per common share - basic	\$ 0.74	\$ 0.83
Pro forma weighted average common shares outstanding - basic	5,068,349	4,091,034
Pro forma net earnings per common share - diluted	\$ 0.73	\$ 0.83
Pro forma weighted average common and common share equivalents outstanding - diluted	5,092,490	4,091,034

Pro forma net earnings per common share - basic was calculated by dividing pro forma net earnings by the pro forma weighted average number of common shares outstanding during the period calculated as if the Exchange had occurred on January 1, 1996.

Pro forma net earnings per common share - diluted was calculated by dividing pro forma net earnings by the pro forma weighted average number of shares of common and common share equivalents outstanding during the period calculated as if the Exchange had occurred on January 1, 1996.

inTEST CORPORATION AND SUBSIDIARIES

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

(4) ACQUISITION

On August 3, 1998, the Company acquired all of the outstanding capital stock of TestDesign Corporation ("TestDesign"), a privately held California corporation (the "Acquisition"). Subsequent to the Acquisition, the Company changed the name of TestDesign to inTEST Sunnyvale Corp. TestDesign is engaged in the design and manufacture of tester interfaces used by the semiconductor industry. The purchase price was \$4.4 million in cash and 625,000 shares of the Company's Common Stock (subject to certain adjustments). An escrow held by a third party escrow agent of \$1.0 million of the cash portion of the purchase price was established at closing. If the Company is entitled to indemnification pursuant to the terms of its agreement with the Seller, such claims will be paid first from any funds held in escrow. The escrowed funds will remain in escrow until July 31, 2000, unless any indemnity claims are then pending, in which case an amount equal to the amount of such pending claims will be retained in escrow until resolution of the claims. Although the Company's Common Stock had a market price of \$4.75 per share on the closing date of the transaction, all of the 625,000 shares issued in connection with the Acquisition are subject to legal restrictions on transfer and have been valued at a 10% discount to the market price of the shares. In addition, the Company incurred transaction costs of approximately \$425,000 in completing the Acquisition. The following is an allocation of the purchase price:

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

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

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

The Acquisition has been accounted for as a purchase and the results of operations of the acquired business have been included in the Company's consolidated financial statements since the date of the Acquisition. The following unaudited pro forma information presents

inTEST CORPORATION AND SUBSIDIARIES

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

(4) ACQUISITION (Continued)

a summary of consolidated results of operations for the Company and TestDesign as if the Acquisition had occurred on January 1, 1997 (the 1997 amounts also reflect the pro forma adjustments described in Note 3):

	Years Ended December 31,	
	----- 1998 -----	1997 -----
Pro forma net revenues	\$ 23,335	\$ 29,689
Pro forma earnings before income taxes	2,892	6,440
Pro forma income taxes	1,081	2,698
Pro forma net earnings	1,811	3,742
Pro forma net earnings per common share - basic	\$ 0.28	\$ 0.66
Pro forma weighted average common shares outstanding - basic	6,536,034	5,693,349
Pro forma net earnings per common share - diluted	\$ 0.28	\$ 0.65
Pro forma weighted average common and common share equivalents outstanding - diluted	6,548,519	5,717,490

(5) SEGMENT INFORMATION

The various products the Company designs, manufactures and markets, which include docking hardware, test head manipulators and tester interfaces, are considered by management to be a single product segment. Included in this segment are products the Company designs and markets that are manufactured by third parties, which include high performance test sockets, interface boards and probing assemblies. The Company operates its business worldwide and divides the world into three geographic segments: North America, Asia-Pacific and Europe. The North America segment includes the Company's manufacturing, design and service facilities in New Jersey, and California; the Asia-Pacific segment includes the Company's design and service facilities in Singapore and Japan; and the Europe segment includes the Company's manufacturing,

inTEST CORPORATION AND SUBSIDIARIES

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

(5) SEGMENT INFORMATION (Continued)

design and service facility in the UK. Each segment sells Company designed and manufactured products, while products produced by third party manufacturers are primarily distributed by the Company's Asia-Pacific segment. All three segments sell to semiconductor manufacturers and automatic test equipment manufacturers. The North America segment sells through company account managers and independent sales representatives; the Asia-Pacific segment sells through company account managers and independent sales representatives; and the Europe segment sells through company account managers.

Intercompany pricing between segments is either a multiple of cost for component parts used in manufacturing or a percentage discount from list price for finished goods sold to non-manufacturing segments. The Company acquired TestDesign in August 1998 and has included it in the North America segment.

	Years Ended December 31,		
	1998	1997	1996
Revenues from unaffiliated customers:			
North America	\$12,637	\$13,608	\$10,614
Asia - Pacific	4,727	5,743	4,860
Europe	1,711	1,395	3,108
	-----	-----	-----
	\$19,075	\$20,746	\$18,582
	=====	=====	=====
Affiliate sales or transfer from:			
North America	\$ 943	\$ 768	\$ 1,321
Asia - Pacific	-	-	-
Europe	378	500	54
	-----	-----	-----
	\$ 1,321	\$ 1,268	\$ 1,375
	=====	=====	=====
Depreciation/amortization:			
North America	\$ 413	\$ 127	\$ 22
Asia - Pacific	53	69	63
Europe	24	28	27
	-----	-----	-----
	\$ 490	\$ 224	\$ 112
	=====	=====	=====
Operating income:			
North America	\$ 1,705	\$ 5,067	\$ 3,815
Asia - Pacific	299	651	432
Europe	514	469	1,369
	-----	-----	-----
	\$ 2,518	\$ 6,187	\$ 5,616
	=====	=====	=====

inTEST CORPORATION AND SUBSIDIARIES

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

(5) SEGMENT INFORMATION (Continued)

	Years Ended December 31,		
	1998	1997	1996
Earnings before income taxes:			
North America	\$ 2,100	\$ 5,356	\$ 3,916
Asia - Pacific	379	606	415
Europe	547	485	1,386
	-----	-----	-----
	\$ 3,026	\$ 6,447	\$ 5,717
	=====	=====	=====
Income tax expense:			
North America	\$ 747	\$ 1,517	\$ 134
Asia - Pacific	263	463	343
Europe	89	110	381
	-----	-----	-----
	\$ 1,099	\$ 2,090	\$ 858
	=====	=====	=====
Net earnings:			
North America	\$ 1,353	\$ 3,839	\$ 3,781
Asia - Pacific	116	131	20
Europe	458	362	845
	-----	-----	-----
	\$ 1,927	\$ 4,332	\$ 4,646
	=====	=====	=====
Identifiable assets:			
North America	\$20,226	\$16,177	\$ 5,408
Asia - Pacific	1,706	2,679	1,409
Europe	1,286	1,089	899
	-----	-----	-----
	\$23,218	\$19,945	\$ 7,716
	=====	=====	=====

Substantially all interest income is generated by the North America segment. Export sales from the Company's domestic manufacturing facilities (New Jersey and California) totaled \$4,380, \$2,042 and \$3,486 during the years ended December 31, 1998, 1997 and 1996, respectively. During the years ended December 31, 1998, 1997 and 1996 the Company had sales to Japan of \$2,932, \$4,277 and \$3,376, respectively.

(6) MAJOR CUSTOMERS

The Company's customers are in the semiconductor industry. During 1998, 1997 and 1996 the Company had sales to certain customers which exceeded 10% of the Company's consolidated revenues. Those sales were as follows:

inTEST CORPORATION AND SUBSIDIARIES

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

(6) MAJOR CUSTOMERS (Continued)

Customer	1998	1997	1996
A (North America, Asia-Pacific)	16%	11%	16%
B (North America, Asia-Pacific)	13	5	7
C (North America, Asia-Pacific, Europe)	11	7	5
D (North America, Asia-Pacific, Europe)	7	11	6
	--	--	--
Total	47%	34%	34%
	==	==	==

Additionally, at December 31, 1998, these four customers accounted for 36% of trade receivables.

(7) INVENTORIES

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

	1998	1997
	-----	-----
Raw materials	\$1,097	\$ 364
Work in process	1,305	1,044
Finished goods	339	360
Reserve for obsolete inventory	(220)	(119)
	-----	-----
	\$2,521	\$1,649
	=====	=====

(8) LINE OF CREDIT

The Company has a \$1.5 million line of credit. Borrowings under this line of credit are principally used for working capital purposes. Borrowings on the line of credit bear interest at prime rate, which is payable monthly on any outstanding balance. The Company is required to maintain a \$50 compensating balance at the bank which granted the line of credit. The credit line expires on June 29, 1999. At December 31, 1998, there were no borrowings outstanding.

(9) STOCK OPTION PLAN

The 1997 Stock Plan (the "Plan") provides for the granting of either incentive stock options or non-qualified stock options to purchase shares of the Company's common stock and for other stock-based awards to key employees and directors responsible for the direction and management of the Company and to non-employee consultants. The Plan consists of two parts: the Non-Qualified Plan (administered by the Board of Directors

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(9) STOCK OPTION PLAN (Continued)

of the Company) and the Key Employee Plan (administered by the Compensation Committee of the Board of Directors of the Company). The Company has reserved 500,000 shares of common stock for issuance upon exercise of options or stock awards under the Plan.

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

Had compensation costs for the Company's stock-based compensation plans been determined consistent with FAS 123, the Company's net earnings and net earnings per share for the years ended December 31, 1998 and 1997, would have been reduced to the unaudited pro forma amounts indicated below:

	1998 -----	1997 -----
Net earnings:		
As reported (pro forma for 1997)	\$ 1,927	\$ 3,726
Pro forma	\$ 1,790	\$ 3,643
Net earnings per share - basic:		
As reported (pro forma for 1997)	\$ 0.31	\$ 0.74
Pro forma	\$ 0.29	\$ 0.72

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

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

The per share weighted average fair value of stock options issued by the Company in 1998 and 1997 was \$3.92 and \$4.61, respectively.

inTEST CORPORATION AND SUBSIDIARIES

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

(9) STOCK OPTION PLAN (Continued)

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

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

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

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

On June 30, 1998, the Company modified 131,000 options originally exercisable at \$7.50 per share and 10,000 options originally exercisable at \$11.00 per share to reduce the exercise price of such options to \$6.00 per share.

inTEST CORPORATION AND SUBSIDIARIES

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

(9) STOCK OPTION PLAN (Continued)

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Number Outstanding at 12/31/98	Maximum Life	Weighted Average Remaining Life	Weighted Average Exercise Price of Outstanding Options	Number Exercisable at 12/31/98	Weighted Average Exercise Price of Exercisable Options
\$ 6.00	141,000	10 years	8.5 years	\$ 6.00	28,200	\$ 6.00
\$ 4.25	150,000	10 years	9.6 years	\$ 4.25	-	N/A

(10) COMMITMENTS

The Company leases its offices, warehouse facilities, automobiles and certain equipment under noncancellable operating leases which expire at various dates through 2005. Total rental expense for the years ended December 31, 1998, 1997 and 1996 was \$536, \$442 and \$422, respectively. The aggregate minimum rental commitments under the noncancellable operating leases in effect at December 31, 1998, are as follows:

1999	\$ 541
2000	\$ 318
2001	\$ 281
2002	\$ 262
2003	\$ 153
Thereafter	\$ 70

(11) INCOME TAXES

As discussed in Notes 2 and 3, prior to the Offering the Company had elected S corporation status for Federal and state of New Jersey tax purposes, and therefore, was not directly subject to Federal and certain New Jersey income taxes. Immediately prior to the Offering, the Company terminated its status as an S corporation and is now subject to Federal and additional state income taxes. In addition, the Company is taxed in foreign countries and for activity in certain states. For Federal, state and foreign jurisdictions in which the Company is subject to taxation, the temporary differences that give rise to deferred tax assets and liabilities were not significant at December 31, 1996. The cumulative amount of undistributed earnings of foreign subsidiaries for which U.S. income taxes have not been provided was approximately \$1.9 million at December 31, 1998. Management intends to repatriate a portion of the earnings of its foreign subsidiaries during 1999. The estimated tax effect of distributing such earnings is expected to be offset by available foreign tax credits.

inTEST CORPORATION AND SUBSIDIARIES

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

(11) INCOME TAXES (Continued)

Earnings before income taxes were as follows:

	Years Ended December 31,		
	1998	1997	1996
Domestic	\$2,100	\$5,356	\$3,916
Foreign	926	1,091	1,801
	-----	-----	-----
	\$3,026	\$6,447	\$5,717
	=====	=====	=====

Income tax expense was as follows:

	Years Ended December 31,		
	1998	1997	1996
Current:			
Domestic - Federal	\$ 772	\$1,379	\$ -
Domestic - state	54	303	134
Foreign	352	573	724
	-----	-----	-----
	1,178	2,255	858
	-----	-----	-----
Deferred:			
Domestic - Federal	(54)	(147)	-
Domestic - state	(25)	(18)	-
	-----	-----	-----
	(79)	(165)	-
	-----	-----	-----
Income tax expense	\$1,099	\$2,090	\$ 858
	=====	=====	=====

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31, 1998 and 1997:

inTEST CORPORATION AND SUBSIDIARIES

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

(11) INCOME TAXES (Continued)

	1998	1997
	-----	-----
Deferred Tax Assets:		
Accrued vacation pay	\$ 91	\$ 69
Allowance for doubtful accounts	60	47
Inventories (principally due to obsolescence reserve)	107	42
Accrued warranty	17	9
Excess foreign tax credit carryforward	-	17
Capital loss carryforward	90	-
Other	(5)	5
	-----	-----
	360	189
Valuation allowance	(90)	(17)
	-----	-----
Deferred tax assets	270	172
	-----	-----
Deferred Tax Liabilities:		
Accrued royalty income	(25)	(7)
	-----	-----
Net deferred tax asset	\$ 245	\$ 165
	=====	=====

Based on the Company's history of prior operating earnings, and its expectation of the future, management believes that taxable income will more likely than not be sufficient to realize the net deferred tax assets of \$245 at December 31, 1998. A valuation allowance of \$90 was established in 1998 to offset the domestic capital loss carryforward. A valuation allowance of \$17 was established in 1997 to offset the foreign tax credit carryforward, which was realized in 1998.

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

	Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Expected income tax provision at U.S. Statutory rate	\$1,029	\$2,192	\$ 1,944
State taxes, net of Federal benefit	19	188	134
Increase (decrease) in tax from:			
Non-deductible goodwill	86	17	-
Foreign income tax rate differences	12	219	133
Tax exempt interest	(80)	-	-
S corporation earnings not subject to Federal taxation	-	(549)	(1,353)
Other	33	23	-
	-----	-----	-----
Income tax expense	\$1,099	\$2,090	\$ 858
	=====	=====	=====

inTEST CORPORATION AND SUBSIDIARIES

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

(12) EMPLOYEE BENEFIT PLANS

In 1996, the Company instituted a defined contribution 401(k) plan for its employees who work in the U.S. All permanent employees of inTEST Corporation and inTEST Sunnyvale Corp. who are at least 18 years of age and have completed six months of service with the Company are eligible to participate in the plan. Under the plan, the Company matches employee contributions dollar for dollar up to 10% of the employee's annual compensation up to \$5. In addition, the Company may match employee contributions dollar for dollar for amounts exceeding 10% up to 15% of the employee's annual compensation to a maximum of \$5. Employer contributions vest over a six-year period. The Company contributed \$157, \$129 and \$71 to the plan for the years ended December 31, 1998, 1997 and 1996, respectively.

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

The Company sponsored a noncontributory pension plan for an employee of its U.K. subsidiary until July 1998, when that employee retired from the Company. The Company has no other defined contribution or defined benefit plans.

inTEST CORPORATION AND SUBSIDIARIES

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

(13) ACCRUED EXPENSES

Accrued expenses consists of the following:

	December 31,	
	----- 1998	1997 -----
Accrued vacation	\$ 236	\$ 181
Accrued commissions	206	285
Accrued directors fees	109	-
Accrued wages	106	81
Customer deposits	100	200
Accrued professional fees	78	68
Accrued warranty	45	25
Accrued shareholder relations	42	50
Accrued other	101	65
	-----	-----
	\$1,023	\$ 955
	=====	=====

(14) RELATED PARTY TRANSACTIONS

The Company paid consulting fees to one individual who is a member of the Board of Directors of the parent company which totaled \$56 and \$17 during the years ended December 31, 1998 and 1997, respectively. There were no consulting fees paid to related parties during the year ended December 31, 1996.

During 1998, in connection with the Acquisition of TestDesign, the Company repaid \$215 on a note due to a firm ("PRIM") controlled by Douglas W. Smith, Executive Vice President and Chief Operating Officer of the Company. This note, which did not bear interest or have a maturity date, evidenced borrowings that TestDesign had made from PRIM prior to the Acquisition. In addition, subject to the terms of a consulting agreement between TestDesign and Gregory W. Slayton, a current board member of the Company, the Company paid directly to Mr. Slayton, on behalf of TestDesign, \$170,000 in cash and 31,250 shares of the Company's common stock. These payments are included in the merger consideration and are accounted for as described in Note 4.

The Company's foreign subsidiaries paid directors' fees to several individuals who are members of management of the parent company which totaled \$104, \$177 and \$192 during the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998 and 1997 there were \$49 and \$75 of foreign directors' fees payable to members of management of the parent company. There were no amounts outstanding in prior years.

inTEST CORPORATION AND SUBSIDIARIES

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

(15) LEGAL PROCEEDINGS

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

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

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

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

All legal fees incurred in connection with this matter have been expensed. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

(16) QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

The following tables present certain unaudited consolidated quarterly financial information for each of the eight quarters ended December 31, 1998. In the opinion of the Company's management, this quarterly information has been prepared on the same basis as the Consolidated Financial Statements and includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information for the periods presented. The results of operations for any quarter are not necessarily indicative of results for the full year or for any future period.

inTEST CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share data)

(16) QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

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

	Quarters Ended				Total
	3/31/98	6/30/98	9/30/98	12/31/98	
Net revenues	\$ 5,626	\$ 5,163	\$ 4,449	\$ 3,837	\$ 19,075
Gross margin	3,426	3,029	2,331	1,887	10,673
Earnings (loss) before income tax expense	1,822	1,458	360	(614)	3,026
Income tax expense	668	550	133	(252)	1,099
Net earnings (loss)	1,154	908	227	(362)	1,927
Net earnings (loss) per share - basic	\$ 0.20	\$ 0.15	\$ 0.04	\$(0.06)	\$ 0.31
Weighted average shares outstanding - basic	5,911,034	5,911,034	6,311,849	6,536,034	6,169,596
Net earnings (loss) per share - diluted	\$ 0.19	\$ 0.15	\$ 0.04	\$(0.06)	\$ 0.31
Weighted average common and common share equivalents outstanding - diluted	5,924,949	5,918,809	6,317,578	6,575,910	6,186,460
Other comprehensive earnings (expense)	\$ (42)	\$ (19)	\$ 19	\$ 112	\$ 70

	Quarters Ended				Total
	3/31/97	6/30/97	9/30/97	12/31/97	
Net revenues	\$ 3,887	\$ 4,619	\$ 6,212	\$ 6,028	\$ 20,746
Gross margin	2,285	2,784	3,893	3,976	12,938
Pro forma earnings before income tax expense	1,000	1,321	2,190	1,896	6,407
Pro forma income tax expense	462	578	924	716	2,680
Pro forma net earnings	538	743	1,266	1,180	3,726
Pro forma net earnings per share-basic	\$ 0.13	\$ 0.18	\$ 0.21	\$ 0.20	\$ 0.74
Pro forma weighted average shares outstanding - basic	4,091,034	4,331,034	5,911,034	5,911,034	5,068,349
Pro forma net earnings per share-diluted	\$ 0.13	\$ 0.17	\$ 0.21	\$ 0.20	\$ 0.73
Pro forma weighted average common and common share equivalents outstanding-diluted	4,091,034	4,332,242	5,966,413	5,950,235	5,092,490
Other comprehensive earnings (expense)	\$ (61)	\$ 51	\$ (65)	\$ (78)	\$ (153)

inTEST CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period -----	Acquisition of TestDesign -----	Additions		Balance at End of Period -----
			----- Expense	Other Deductions -----	
Year Ended December 31, 1996					
Bad debt reserve	\$ 45	\$ -	\$ 52	\$ 1	\$ 96
Inventory obsolescence reserve	-	-	56	56	-
Warranty reserve	-	-	196	171	25
Year Ended December 31, 1997					
Bad debt reserve	96	-	61	13	144
Inventory obsolescence reserve	-	-	178	59	119
Warranty reserve	25	-	147	147	25
Year Ended December 31, 1998					
Bad debt reserve	144	54	(5)	25	168
Inventory obsolescence reserve	119	38	193	130	220
Warranty reserve	25	20	202	202	45

STANDARD LEASE AGREEMENT
Industrial Gross - Multi-Tenant

For and in consideration of the rental and of the covenants and agreements hereinafter set forth to be kept and performed by the Tenant, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises described below in Section 1.2 for the term, at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

1. Basic Lease Provisions.

1.1 Parties: This Lease, dated for reference purposes only, January 16, 1998 is made by and between Tasman Associates (hereinafter "Landlord") and Test Design Corporation, a California corporation (hereinafter "Tenant").

1.2 Premises: Those premises commonly known as 1157 Tasman Drive, Sunnyvale, California deemed to be approximately 1109 square feet, more or less, as defined in Paragraph 2 and as shown in Exhibit "A" attached hereto and made a part hereof (hereinafter the "Premises").

1.3 Building: Commonly described as being located at 1157-1191 in the City of Sunnyvale, County of Santa Clara, State of California, as more particularly shown in Exhibit "A" attached hereto and made a part hereof. Tenant acknowledges that the sole purpose of any floor plan provided herein is to identify the location of the Premises in the Building. Landlord makes no representation or warranty in the attached floor plan as to the usable or rentable square footage of the Premises.

1.4 Use: Machine shop and related legal uses subject to Paragraph 7.

1.5 Term: 2 Years, commencing on January 1, 1998 (hereinafter "Commencement Date") and ending December 31, 1999.

1.6 Base Rent: One Thousand One Hundred Sixty Four and 45/100ths Dollars (\$1,164.45) per month, payable on the first (1st) day of each month subject to Paragraph 4 below.

1.7 Base Rent Increase: On January 1, 1999 the monthly Base Rent payable under Paragraph 1.6 above shall be adjusted to One Thousand Two Hundred Nineteen and 90/100ths Dollars (\$1,219.90).

1.8 Rent Paid Upon Execution: Upon execution of this Lease, Tenant shall pay the sum of \$1,164.45 for the first month's rent.

1.9 Security Deposit: Upon execution of this Lease, Tenant shall pay to Landlord the sum of Two Hundred Twenty One and 90/100ths Dollars (\$221.90) as an increase to the existing security deposit to total One Thousand Two Hundred Nineteen and 90/100ths Dollars (\$1,219.90), as defined in Paragraph 5 below.

1.10 Tenant's Share of Operating Expenses: Eleven and fourteen hundredths percent (11.14%) of the Building and Two and eighteen hundredths percent (2.18%) of the Project, as defined in Paragraphs 2.2 and 4.2 below.

1.11 Property Tax Base Year: The Real Property Taxes levied against the Project, as further defined in Paragraph 6.1 below, for the fiscal year of 1993 - 1994 shall be considered the "Property Tax Base Year" for calculations defined in Paragraph 6.1 below.

1.12 Property Insurance Base Year: The property insurance, as further defined in Paragraph 13.2 below, paid for the period January 4, 1995 - January 3, 1996 shall be considered the "Property Insurance Base Year" for calculations defined in Paragraph 13.2 below.

1.13 Parking: Tenant shall have the non-exclusive use of Four (4) parking spaces.

1.14 Additional Lease Provisions: None

1.15 Work of Improvement. Any obligations of Landlord and Tenant to perform work and supply material and labor to prepare the Premises for occupancy shall be set forth in detail in Exhibit B. Landlord and Tenant shall expend all funds and do all acts required of them in Exhibit B and shall have the work performed promptly and diligently in a first-class workmanlike manner.

2. Premises, Parking, Common Areas, Work of Improvement:

2.1 Premises. The Premises are a portion of a building, herein sometimes referred to as the "Building" identified in Paragraph 1.3. "Building" shall include adjacent parking structures used in connection therewith. The Premises, the Building, the Common Areas (as defined below) and the land upon which the same are located, along with all other buildings and improvements thereon or thereunder, are herein collectively referred to as the "Project".

2.2 Vehicle Parking. Tenant shall be entitled to the non-exclusive use of unreserved and unassigned parking spaces the number of which is specified in Paragraph 1.13 above, on those portions of the Common Area designed by Landlord for parking. Tenant shall not use more parking spaces than the number specified. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles". Vehicles other than Permitted Size Vehicles are

herein referred to as "Oversized Vehicles". Tenant shall not at any time park or permit the parking of Tenant's vehicles or trucks, or the vehicles or trucks of Tenant, its employees, invitees, suppliers or others, in any portion of the Common Area not designated by Landlord for such use by Tenant. Tenant shall not abandon any inoperative vehicles or equipment on any portion of the Common Area, nor shall Tenant, its employees, invitees, suppliers or others park or store any vehicle (Permitted Size or otherwise) on any portion of the Common Area, including designated parking areas, unattended for any period longer than twenty-four (24) hours. If Tenant commits, permits or allows any of the prohibited activities described in the Lease or the rules then in effect, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately paid by Tenant to Landlord upon demand from Landlord.

2.3 Common Areas - Definition. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project that are provided and designated by Landlord from time to time for the general non-exclusive use of Landlord, Tenant, and the other tenant and other authorized users of the Project and their respective employees, suppliers, shippers, customers and invitees. including, but not limited to common entrances, lobbies, corridors, stairways and stairwells, public restrooms, elevators, escalators, parking areas to the extent not otherwise prohibited by this Lease, loading and unloading areas, trash areas, roadways, sidewalk, walkways, parkways, ramps, driveways, landscaped areas and decorative walls.

2.4 Common Areas - Tenant's Rights. Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Area be deemed to include the right to store any property, temporarily or permanently, in the Common Areas or to construct or install any improvements in the Common Area. Any such storage shall be permitted only by the prior written consent of Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, the Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable by Tenant to Landlord upon demand by Landlord. Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable by Tenant to Landlord upon demand by Landlord.

2.5 Common Areas - Rules and Regulations/CC&R's. Landlord or such other person(s) as Landlord may appoint, shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Tenant agrees to abide by and conform to all such rules and regulations, as well as any private conditions, covenants, and restrictions of public record now or hereafter affecting the Premises and any amendment thereof, and to cause its employees, suppliers, shippers, customers and invitees to abide and conform. Landlord shall not be responsible to Tenant for the non-compliance with said rules and regulations by other tenants or authorized users of the Project. Any failure by Tenant or its agents, employees or representatives to observe and comply with the rules and regulations established by Landlord with respect to the Common Areas shall be a default by Tenant hereunder.

2.6 Common Areas - Changes. Landlord shall have the right at Landlord's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes, so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Project to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs

or alterations to the Project, or any portion thereof, (f) To close, at reasonable times, all or any portion of the parking areas for any reasonable purpose, including without limitation, the prevention of a dedication thereof, or the accrual of the rights of any person or public therein; and, (g) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and the Project as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

Notwithstanding the foregoing, Lessor shall at all times provide the parking spaces required by applicable law and except as provided immediately below, in no event shall the number of parking spaces that Tenant is entitled to under Paragraph 2.2 be reduced. The preceding sentence to the contrary notwithstanding, in the event by reason of any rule, regulation, order, law, statute or ordinance of any governmental or quasi-governmental authority relating to or affecting parking on the Project, or any other cause beyond Landlord's reasonable control, Landlord is required to have the right to proportionately reduce the number of Tenant's parking spaces and the non-exclusive parking spaces of the tenants of the Building.

3. Term

3.1 Term. The term (the "Lease Term") and Commencement Date of this Lease shall be as specified in Paragraph 1.5 of the Basic Lease Provisions, unless terminated earlier pursuant to this Lease.

3.2 Delay in Commencement. Tenant agrees that in the event of the inability of Landlord for any reason to deliver possession of the Premises to Tenant on said Commencement Date set forth in Paragraph 1.5 of the Basic Lease Provisions, Landlord shall not be liable for any damage thereby nor shall such inability affect the validity of this Lease or the obligations of Tenant hereunder, but in such case Tenant shall not be obligated to pay rent or other monetary sums until possession of the Premises is tendered to Tenant; provided that if the delay in delivery of possession exceeds thirty (30) days, then the expiration date of the term of the Lease shall be extended by the period of time computed from the scheduled commencement date to the date possession is tendered. If Tenant occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions hereof, such occupancy shall not advance the termination date, and Tenant shall pay rent for such period at the initial monthly rates as set forth below.

3.3 Commencement After Construction. If Landlord is obligated under Paragraph 1.15 of the Basic Lease Provisions and Exhibit B to perform construction or remodeling work, then possession shall not be deemed tendered and the term of this Lease shall not commence until the first to occur of the following:

(a) The date on which all improvements to be constructed by Landlord have been substantially completed except for punch list items which do not prevent Tenant from using the Premises for its intended use; such work as Landlord is required to perform but which is delayed because of fault or neglect of Tenant, acts of Tenant or Tenant's agents (including, without limitation, delays caused by work done on the Premises by Tenant or Tenant's agents or by acts of Tenant's contractors or subcontractors) or delays caused by change orders requested by Tenant or required because of errors or omissions in plans submitted by Tenant; and such work as Landlord is required to perform but cannot complete until Tenant performs necessary portions of construction work it has elected or is required to do; or,

(b) After a Certificate of Occupancy, or its equivalent, is granted by the proper governmental agency or, if no Certificate of Occupancy, or its equivalent, is issued by any local agency, then after notification by Landlord's architect or contractor that Landlord's construction work has been completed; or

(c) Upon the occupancy of the Premises by any of Tenant's operating personnel.

3.4 If the term commences on a date other than as set forth in Paragraph 1.5 of the Basic Lease Provisions above, then Landlord and Tenant shall execute a written acknowledgment stating the date of commencement.

4. Rent

4.1 Base Monthly Rent. Tenant shall pay to Landlord as base monthly rent for the Premises in advance on the first day of each calendar month of the term of this Lease without deduction, offset, prior notice or demand, in lawful money of the United States, the sum as defined in Paragraphs 1.6 and 1.7 of the Basic Lease Provisions (the "Base Rent"). If the Commencement Date is not the first day of a month, or if the Lease expiration or termination date is not the

last day of a month, a prorated monthly installment shall be paid at the then current rate for the fractional month during which the Lease commences and/or terminates.

Concurrently with Tenant's execution of this Lease, Tenant shall pay to Landlord in the form of a Cashier's Check or Certified Check the sum as defined in Paragraph 1.8 of the Basic Lease Provisions as Base Rent for the period defined in Paragraph 1.8 of the Basic Lease Provisions.

4.2 Additional Rent. Commencing on the date set forth in Section 1.5 of the Basic Lease Provisions above, and continuing throughout the Lease Term, Tenant shall pay, as additional rent, Tenant's Share (as defined in Section 4.5(a)) of (i) Operating Expenses as required by Section 4.5, 8.1 and 9.2 and as defined in Paragraph 4.5 below; (ii) Real Property Tax increases over and above the base year as required by Section 6.1; and, (iii) the cost of any increased premiums over and above the base year for property insurance, pursuant to Section 13.2. All Operating Expenses, real property tax increases, insurance cost increases, late charges, costs, expenses and other sums which Tenant is required to pay under this Lease, together with all interest and penalties that may accrue thereon in the event of Tenant's failure to pay such amounts, and all reasonable damages, costs and attorneys' fees and expenses which Landlord may incur by reason of any default of Tenant, or failure on Tenant's part to comply with the terms of this Lease, shall be deemed to be additional rent ("Additional Rent") and shall be paid in addition to the Base Rent, and, in the event of non-payment by Tenant, Landlord shall have all the rights and remedies with respect thereto as Landlord has for the non-payment of the Base Rent.

4.3 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of Base Monthly Rent, Additional Rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing, accounting charges and late payment fees which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of Base Monthly Rent, Additional Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within Four (4) days after such amount shall be due, Tenant shall pay to Landlord as Additional Rent a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payments by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any installment of Base Monthly Rent or Additional Rent or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to make such payment when due. In the event any payment of Base Monthly Rent or Additional Rent is not received by Landlord by the thirtieth (30th) day after the due date for such payment or installment, such payment or installment shall bear interest at the Permitted Rate, as defined in Paragraph 20.17 below, commencing on the thirty-first (31st) day after the due date for such payment or installment and continuing until the same is paid.

4.4 Returned Check Fee. A twenty-five dollar (\$25.00) charge will be paid by Tenant as Additional Rent to Landlord for each check returned unpaid by the bank and Tenant shall replace the payment with a Cashier's Check or Certified Check. If Tenant has two (2) or more checks returned for insufficient funds at any time during its tenancy, Landlord, at its option, may request all payments, current and future, be made by Cashier's Check or Certified Check.

4.5 Operating Expenses. Tenant shall pay to Landlord during the term hereof, in addition to the Base Rent, Tenant's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Tenant's Share" is defined, for purposes of this Lease, as the respective percentages set forth in Paragraph 1.10 of the Basic Lease Provisions, which percentages have been determined by dividing the approximate square footage of the Premises by the total approximate square footage of both the space contained within the Building and all buildings located in the Project. Tenant's Share used in calculating Tenant's Share of any Operating Expense shall be determined by the specific charge and its relationship to the Building versus the Project, which determination shall be made by Landlord in its reasonable discretion. It is understood and agreed that the square footage figures set forth in the Basic Lease Provisions are approximate, which Landlord

and Tenant agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises, or a change in the space available for lease in the Project.

(b) "Operating Expenses" as defined, for purposes of this Lease, shall include all costs and expenses incurred by Landlord in connection with the ownership and operating of the Project, including but not limited to the following:

(i) The operating, repair, maintenance, and replacement in neat, clean, good order and condition of the following:

(aa) the Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, electric rooms, elevators, fences and gates;

(bb) Common Area signage (i.e., address, directional, Project identity and tenant directories);

(cc) fire detection systems, including sprinkler systems; and,

(dd) security services, if provided.

(ii) The cost of water, gas, electricity and other utilities to serve the Common Areas or which are not separately metered to the Premises;

(iii) trash disposal services;

(iv) reserves set aside for maintenance, repair and/or replacement of the Common Areas;

(v) Real Property Tax increases as provided in Paragraph 6.1;

(vi) property insurance increases as provided in Paragraph 13.2;

(vii) the cost of liability insurance carried by Landlord with respect to the Common Areas;

(viii) any deductible portion of an insured loss concerning the Project or any portion thereto;

(ix) the cost of any capital improvements made to the Building or Project by Landlord that have the effect of reducing Operating Expenses or avoiding increases in Operating Expenses or, subject to the terms of Paragraph 9.3(b) below, the cost of any capital improvements that are required under any governmental law or regulation that was not applicable to the Building at the time it was constructed, which cost shall be amortized over such reasonable period of time as Landlord shall determine with interest on the unamortized balance at the rate often percent (10%) per annum or such higher rate as may have been paid by Landlord on funds borrowed for the purpose of constructing such capital improvements;

(x) fees for licenses and permits required for the operation of the Building, Common Areas and Project;

(xi) the reasonable cost of contesting the validity or applicability of any governmental enactment's or assessments, including without limitation property tax assessments, which may affect Operating Expenses;

(xii) the repair, maintenance or patching, but not replacement, of the roof membrane of the Building; and,

(xiii) any other services to be provided by Landlord that are stated elsewhere in this Lease to be an operating expense.

(c) The inclusion of the improvements, facilities and services set forth in Paragraph 4.5(b) shall not be deemed to impose an obligation by Landlord to either have said improvements or facilities or to provide those services. Without limiting the generality of the foregoing, nothing contained in Paragraph 4.5(b) or elsewhere in this Lease shall create or imply an obligation or duty on the part of Landlord to provide any security services or protection for the Premises, the Building, Common Area and/or the Project.

(d) Tenant's share of Operating Expenses shall be payable by Tenant within Thirty (30) days after a reasonably detailed statement of actual expenses is presented to Tenant by Landlord. At Landlord's option, however, an amount may be estimated by Landlord from time to time of Tenant's share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Landlord shall designate, during the Lease Term herein, on the same day as the Base Rent is due hereunder. In the event that Tenant pays Landlord's estimate of Tenant's Share of Operating Expenses as aforesaid, Landlord shall provide Tenant with a reasonably detailed statement reconciling Tenant's Share of the actual Operating Expenses. Said detailed statement shall be provided on an annual basis, or within thirty (30) days of the expiration of this Lease or Tenant's vacation of the Premises. If Tenant's payments under this Paragraph 4.5 (d) during the preceding year exceed Tenant's Share as indicated on said

statement, Tenant shall be entitled to credit the amount of such overpayment against Tenant's Share of Operating Expenses next falling due. If Tenant's payments under this Paragraph during said preceding year were less than Tenant's Share, as indicated on said statement, Tenant shall pay to Landlord the amount of the deficiency within thirty (30) days after delivery by Landlord to Tenant of said statement. Tenant has the right to audit the books regarding additional rent or operating expenses.

5. Security Deposit. Concurrently with Tenant's execution of this Lease, Tenant shall deposit with Landlord the sum, as defined in Paragraph 1.9 of the Basic Lease Provisions outlined above, in the form of a Cashier's Check or Certified Check payable to Landlord. Said sum shall be held by Landlord as a security deposit for the faithful performance by Tenant of all of the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the term hereof, including any extension or renewal of the term. If Tenant defaults with respect to any provisions of this Lease, including but not limited to the provisions relating to the payment of rent, additional rent and any of the monetary sums due herewith, Landlord may use, apply or retain all or any part of this security deposit for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefore, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount; Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep this security deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the security deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) at the expiration of the Lease Term and after Tenant has vacated the Premises. In the event of termination of Landlord's interest in the Lease, Landlord shall transfer said deposit to Landlord's successor in interest whereupon Landlord shall be automatically released of all liability for return of such deposit or the accounting therefore.

Tenant hereby agrees not to look to the mortgages, as mortgagee, mortgagee in possession, or successor in title to the property, for accountability for any security deposit required by the Landlord hereunder, unless said sums have actually been received by said mortgagee as security for the Tenant's performance of this Lease. If at any time the Base Rent is increased, the security deposit shall be increased by the same amount.

6. Taxation

6.1 Payment of Real Property Taxes as Additional Rent. Tenant shall pay, as Additional Rent, Tenant's Share (as defined in Paragraph 4.5(a)) of the amount, if any, by which Real Property Taxes levied against the Premises, the Building and/or the Project for any year of the Lease Term exceeds the Real Property Taxes levied against the Premises, the Building and/or the Project for the fiscal tax year ended immediately prior to the execution of this Lease (or if the Premises were not completely constructed as of the end of such fiscal tax year, then the first fiscal tax year in which the Premises were assessed as fully completed) (as further defined in Paragraph 1.11 of the Basic Lease Provisions). Such payment shall be made by Tenant to Landlord within ten (10) days after receipt of Landlord's written statement setting forth the amount of such increase and the reasonable computation thereof Tenant's liability for Real Property Tax Increases shall be prorated to reflect the commencement and termination dates of this Lease.

6.2 Definition of "Real Property Tax". For the purpose of this Lease, "Real Property Taxes" means and includes all taxes, assessments (including, but not limited to, assessments for public improvements or benefits), taxes based on vehicles utilizing parking areas, taxes based or measured by the rent paid, payable or received under this Lease, taxes on the value, use, or occupancy of the Premises, the Buildings and/or the Parcel, Environmental Surcharges, and all other governmental impositions, fees and charges of every kind and nature whatsoever, whether or not customary or within the contemplation of the parties hereto and regardless of whether the same shall be extraordinary or ordinary, general or special, unforeseen or foreseen, similar or dissimilar to any of the foregoing which, at any time during the Lease Term,

shall be applicable to the Premises, the Building and/or the Project, or assessed, levied or imposed upon the Premises, the Building and/or the Project, or become due and payable and a lien or charge upon the Premises, the Building and/or the Project, or become due and payable and a lien or charge upon the Premises, the Building and/or the Project, or any part thereof, under or by virtue of any present or future laws, statutes, ordinances, regulations or the term "Property Taxes" shall not include any federal, state or local net income, estate, or inheritance tax imposed on Landlord.

6.3 Personal Property Taxes.

(a) Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. When possible, Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Landlord.

(b) If any of Tenant's personal property shall be assessed with Landlord's real property, Tenant shall pay to Landlord the taxes attributable to Tenant within Thirty (30) days after receipt of a written statement setting forth the taxes applicable to Tenant's property. Tenant has the right to review the tax statement.

6.4 Other Taxes. Tenant shall, as Additional Rent, pay or reimburse Landlord for any tax based upon, allocable to, or measured by the area of the Premises; or by the rent paid, payable or received under this Lease; any tax upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, any privilege tax, excise tax, business and occupation tax, gross receipts tax, sales and/or use tax, water tax, sewer tax, employee tax, occupational license tax imposed upon Landlord or Tenant with respect to the Premises; any tax upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

7. Use

7.1 Use. The Premises shall be used and occupied by Tenant only for the purpose as set forth in Paragraph 1.4 of the Basic Lease Provisions above and for no other purpose whatsoever.

7.2 Suitability. If the Premises are completed as of the date of execution hereof, then Tenant, by execution of this Lease, shall be deemed to have accepted the Premises in the condition existing as of the date of execution and in any event this Lease shall be subject to all applicable zoning ordinances and to any municipal, county and state laws and regulations governing and regulating the use of the Premises, and further to have accepted tenant improvements to be constructed by Landlord, if any, as being completed in accordance with the plans and specifications for such improvements. Tenant acknowledges that neither Landlord nor Landlord's agent has made any representation, warranty, estimation or promise of any kind as to the suitability of the Premises for the conduct of Tenant's business, the condition of the Building or Premises or the use or occupancy which may be made thereof. Tenant hereby warrants to Landlord that Tenant (i) has made its own investigation and examination of all the relevant data relating to or affecting the Premises; (ii) is relying solely on its own judgment in entering into this Lease; and, (iii) is satisfied that the Premises are suitable for Tenant's intended use and that the Building and Premises meet all governmental requirements for such intended use.

7.3 Uses Prohibited.

(a) Tenant shall not do or permit anything to be done in or about the Premises which will increase the existing rate of insurance upon the Premises (unless Tenant shall pay any increased premium as a result of such use or acts) or cause the cancellation of any insurance policy covering said Premises or any building of which the Premises may be a part, nor shall Tenant sell or permit to be kept, used or sold in or about said Premises any articles which may be prohibited by a standard form policy of fire insurance.

(b) Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of any building of which the Premises may be a part or injure or annoy them or use or allow the Premises to be used for any unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises and Tenant shall keep the Premises in a clean, attractive condition, free of any objectionable noises, odors, dust or debris.

(c) Tenant shall not use the Premises or permit anything to be in or about the Premises which will in any way conflict with or violate any law, statute, zoning restriction, ordinance, governmental rule, regulation, requirements now in force or which may hereafter be enacted or promulgated. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises. Tenant shall also comply, at its sole cost, with the provisions of all recorded documents affecting the Premises insofar as the same relate to or affect the condition, use or occupancy of the Premises. Tenant shall obtain, prior to taking possession of the Premises, any permits, licenses or other authorizations required for the lawful operation of its business at the Premises. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any law, statute, ordinance or governmental rule, regulation, recorded document, or requirement, shall be conclusive of that fact as between Landlord and Tenant. Tenant shall indemnify and hold Landlord harmless from and against any and all loss, expense, cost, damage, reasonable attorney's fees, penalties or liability arising out of the failure of Tenant or Tenant's agents or employees to comply with any applicable law, statute, ordinance, rule, regulation, order, requirement or recorded document.

(d) Tenant shall not store, park or operate any vehicles inside the Building, other than those operated by electricity.

8. Utilities And Waste Disposal

8.1 Utilities. Tenant shall pay as Additional Rent prior to delinquency for all water, gas, heat, light, power, telephone, sewage, air conditioning and ventilating, scavenger, trash disposal, janitorial, landscaping and all other materials and utilities supplied to the Premises and all taxes and surcharges thereon. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable proportion of all charges which are jointly metered or maintained by Landlord as an Operating Expense, the determination to be made by Landlord, and payment shall be made by Tenant within ten (10) days of receipt of a statement for such charges. The lack or shortage of any utilities or services described above due to any cause whatsoever shall not affect any obligation of Tenant hereunder, and Tenant shall faithfully keep and observe all the terms, conditions and covenants of this Lease and pay all rentals due hereunder, all without diminution, credit or deduction.

8.2 Waste Disposal. Tenant shall store its waste either inside the Premises or in its own dumpsters located within outside trash enclosures. Tenant shall not store, place or maintain any garbage, trash, rubbish, other refuse or Tenant's personal property in any area of the Common Area or exterior of the Premises at any time. Tenant, at its sole expense, shall be responsible to maintain and keep the designated trash enclosures and Common Area free of garbage, trash, rubbish, other refuse or Tenant's personal property.

9. Maintenance and Repairs, Alterations and Additions

9.1 Landlord's Obligations. Subject to the provisions of Section 14 and except for damage caused by a negligent or intentional act or omission of Tenant and Tenant's agents, employees or invitees, Landlord, at Landlord's expense, shall keep in good order, condition and repair the foundations, exterior walls and the exterior roof of the Premises. Landlord shall not, however, be obligated to paint such exterior, nor shall Landlord be required to maintain the interior surface of exterior walls, ceiling or doors, nor shall Landlord be required to maintain, repair or replace windows, doors, skylights or plate glass. Landlord shall have no obligation to make repairs under this Paragraph 9.1 until a reasonable time after receipt of written notice of the need for such repairs. Landlord shall maintain, repair or patch the roof membrane (as an Operating Expense), and Tenant shall pay Tenant's Share of the cost thereof, pursuant to Paragraph 4.5 above. Tenant expressly waives the benefits of any statute (including, without limitation, the provisions of subsection I of Section 1932, Section 1941 and Section 1942 of the California Civil Code and any similar law, statute or ordinance now or hereafter in effect) which would otherwise afford Tenant the right to make repairs at Landlord's expense (or to deduct the cost of such repairs from rent due hereunder) or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

9.2 Tenant's Obligations.

(a) Subject to the provisions of Sections 9.1 and 14, Tenant, at Tenant's expense, shall maintain in good order, condition and repair the Premises and every part thereof, regardless of whether the damaged portion of the Premises or the means of repairing the same are accessible to Tenant, including, but not limited to floors, ceilings, windows, doors, skylights, interior walls, and the interior surfaces of the exterior walls, plumbing, heating, air conditioning and ventilating equipment, telecommunications equipment and intrabuilding network cabling, electrical and lighting facilities and equipment including circuit breakers and exterior lighting attached to the Premises. In addition, Landlord shall, at Tenant's expense, maintain in good order, condition and repair any sidewalks, landscaping (including but not limited to irrigation systems and backflow prevention devices), driveways, parking lots, fences and signs located in the areas which are adjacent to and included with the Premises, unless such items are to be maintained by Landlord as an Operating Expense, pursuant to Paragraphs 4.5, 8.1 and 9.1 above. Where there is any rooftop mounted heating and/or air conditioning equipment, said maintenance shall include, without limitation, a periodic agreement with a reputable and licensed heating and air conditioning service company. If Tenant's use of the Premises is limited to normal business hours (8:00 am to 6:00 pm), such agreement shall provide for service at least as often as every ninety (90) days. If Tenant's use extends beyond normal business hours, this service shall be as often as may be required by Landlord. If Tenant does not provide Landlord with a copy of said maintenance contract within sixty (60) days from commencement date set forth in Paragraph 1.5 of the Basic Lease Provisions and Section 3.1 above, Landlord may elect, at its option, to keep and maintain the heating and air conditioning systems of the Premises and in such event, Tenant shall pay to Landlord upon demand the full cost of such maintenance and repairs to such systems.

(b) All glass in or around the building, both interior and exterior, is at the sole risk of Tenant, and any broken glass shall promptly be replaced by Tenant at Tenant's expense with glass of the same kind, size and quality according to the current local code.

(c) In the event the Premises is damaged due to an attempted burglary or forcible entry into Premises, Tenant shall be responsible for any ensuing damage to the Premises or that larger building of which Premises is part thereof.

(d) In the event Tenant fails to perform Tenant's obligations under this Section 9, Landlord shall give Tenant notice to do such acts as are reasonably required to so maintain the Premises. If Tenant, within ten (10) days after notice from Landlord, fails to commence to do the work and diligently prosecute it to completion, then Landlord shall have the right (but not the obligation) to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest at the Permitted Rate from the date of such work until paid. Landlord shall have no liability to Tenant for any damage, inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work.

(e) Upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises in the same condition as received, broom clean, ordinary wear and tear and damage by fire, earthquake, act of God or the elements alone excepted. On the last day of the Lease Term or upon the sooner termination of the Lease, Tenant shall, to the reasonable satisfaction of Landlord surrender the Premises in good condition (and free of all Hazardous Materials used, generated or stored by Tenant and its agents, employees and contractors) the HVAC equipment inspected and in good working order, Tenant further agrees to remove all Tenant's personal property and trade fixtures from the Premises and repair any damage to the Premises caused by or in connection with the removal of any articles of personal property, business or trade fixtures, machinery, equipment or furniture, including without limitation thereto, repairing the floor and patching and painting the walls where required by Landlord to Landlord's reasonable satisfaction. Tenant agrees that all Tenant's personal property and trade fixtures not removed shall be deemed to be abandoned by Tenant and may be removed by Landlord at Tenant's expense. Tenant shall continue to pay rent at the rate paid by Tenant prior to the termination of the Lease until such time that the Premises are returned in a condition as required above; however, said payment of rent does not constitute an extension or renewal of lease nor does it constitute a month-to-month tenancy, it shall

constitute immediate compensation for Tenant's detention of the Premises and does not preclude Landlord from obtaining additional monetary damages for Tenant's delay in surrendering the Premises, as set forth below. Tenant shall indemnify the Landlord against any loss or liability resulting from delay by Tenant in so surrendering the Premises, including without limitation, any claims made by any succeeding tenant founded on such delay.

9.3 Alterations.

(a) Tenant shall not construct any improvements or additions or otherwise alter, change or improve the Premises without Landlord's prior written approval, and not until Landlord shall have first approved the plans and specifications therefor, which approvals shall not be unreasonably withheld. Landlord's approval of the plans, specifications and working drawings for Tenant's alterations shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities. All such approved alterations, or improvements shall be installed by Tenant at Tenant's expense using a licensed contractor first approved by Landlord in compliance with the approved plans and specifications therefor and in strict accordance with all laws. All such construction shall be done in a good and workmanlike manner using new materials of good quality. As a condition to consenting to any leasehold improvement or alteration or change requested by Tenant, the cost of which may exceed Twenty-five Thousand Dollars (\$25,000), Landlord shall have the right to require Tenant to post a completion bond in an amount and in a form satisfactory to Landlord. In no event shall Tenant make any structural changes to the Premises or make any changes to the Premises which would weaken or impair the structural integrity of the Building or the roof membrane integrity of the Building. Tenant shall not commence construction of any alterations, additions, or improvements until (i) all required governmental approvals and permits shall have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, and (iii) Tenant shall have given Landlord at least five (5) days prior written notice of its intention to commence such construction. All alterations, additions and improvements constructed by Tenant shall remain the property of Tenant during the Lease Term but shall not be damaged, altered, or removed from the Premises. At the expiration or sooner termination of the Lease Term, all alterations, additions, or improvements shall be surrendered to Landlord as a part of the realty and shall then become Landlord's property, and Landlord shall have no obligation to reimburse Tenant for all or any portion of the value or cost thereof, however, Landlord may, at its option, require Tenant to remove any alterations, additions, or improvements in which case Tenant shall so remove such alterations, additions or improvements prior to the expiration or sooner termination of the Lease Term.

(b) Alterations Required by Law. If during the term of this Lease, any alteration, addition or change of any sort, whether structural or otherwise to all or any portion of the Premises is required by law (including, but not limited to, alterations required by the Americans with Disabilities Act of 1990 or any amendments thereto or any regulations prorogated thereunder (collectively the "ADA") because of (i) Tenant's use or occupancy of the Premises or change of use or occupancy of the Premises, (ii) Tenant's application for any permit or governmental approval, (iii) Tenant's construction or installation of any leasehold improvements or trade fixtures, (iv) any violation by Tenant of any Law (including any requirement of the ADA), (v) any special use of the Premises or any part thereof by Tenant or any subtenant or assignee of Tenant (including, but not limited to any use for a facility which constitutes, or if open to the public would generally constitute a "place of public accommodation" under the ADA requirements), or (vi) any special needs of the employees of Tenant or any assignee or subtenant of Tenant, then Tenant shall promptly make the same at its sole cost and expense. Within ten (10) days after receipt, Tenant shall notify Landlord in writing and provide Landlord with copies of (i) any notices alleging any violation of any Law relating to the Premises or Tenant's occupancy or use of the Premises, including any notices alleging violation of the relating ADA to any portion of the Project or the Premises; (ii) any claims made or threatened in writing regarding non-compliance with the ADA or any Law relating to the Project or the Premises; or (iii) any governmental or regulatory actions or investigations instituted or threatened regarding non-compliance with the ADA or any Law relating to any portion of the Project or the Premises.

10. Entry by Landlord

Landlord and Landlord's agents shall have the right at reasonable times to enter the Premises to inspect the same or to maintain or repair, make alterations or additions to the Premises or any portion thereof or to show the Premises to prospective purchasers, tenants or lenders. Landlord may, at any time, place on or about the Premises any ordinary "for sale" signs; Landlord may at any time during the last one hundred eighty (180) days of the term of the Lease place on or about the Premises any ordinary "for lease" signs. Tenant hereby waives claim for abatement of rent or for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby.

11. Liens

Tenant shall keep the Premises and any building of which the Premises are a part free from any liens arising out of work performed, materials furnished or obligations incurred by Tenant and shall indemnify, hold harmless and defend Landlord from any liens and encumbrances arising out of any work performed or materials furnished to or at the direction of Tenant. In the event that Tenant shall not, within twenty (20) days following the imposition of any such liens, cause such lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith including attorneys' fees and costs shall be payable to Landlord by Tenant on demand with interest at the Permitted Rate (as defined in Paragraph 20.17 below). Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord and the Premises, and any other party having an interest therein, from mechanics' and material person's liens and Tenant shall give to Landlord at least ten (10) business days prior written notice of the expected date of commencement of any work relating to alterations, improvements or additions to the Premises.

12. Indemnity

12.1 Indemnity. Tenant agrees to indemnify, protect and defend Landlord and Landlord's Agents and Lenders against and hold Landlord and Landlord's Agents and Lenders harmless from any and all claims, causes of action, judgments, obligations or liabilities and all reasonable expenses incurred in investigating or resisting the same (including reasonable attorneys' fees), on account of, or arising out of (i) the operation, condition, maintenance, use or occupancy of the Premises, (ii) any bodily injury, death or property damage occurring in or about the Premises, (iii) any act, omission or neglect of Tenant or its Agents, or (iv) any breach or default in the performance in a timely manner of any obligation on Tenant's part to be performed under this Lease. In the event any action or proceeding is brought against Landlord by reason of any such claim, Tenant upon notice from Landlord shall defend same at Tenant's expense by counsel satisfactory to Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons, in, upon or about the Premises arising from any cause and Tenant hereby waives all claims in respect thereof against Landlord. The provisions of this Paragraph 12.1. shall survive termination of the Lease with respect to any damage, injury or death occurring or accruing prior to such termination.

12.2 Exemption of Landlord from Liability. Landlord shall not be liable for injury and Tenant waives all claims against Landlord to Tenant's business or loss of income therefrom or for damage which may be sustained by the person, goods, wares, merchandise or property of Tenant, its employees, invitees, customers, agents or contractors or any other person in or about the Premises, caused by or resulting from fire, steam, electricity, gas, water or rain, which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures of the same, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Tenant. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the Building in which the Premises are located, or of the Project.

13. Insurance

13.1 Tenant's Insurance. Tenant shall, at its own expense, maintain in full force and effect during the Lease Term the following insurance:

(a) Tenant shall maintain a policy or policies of comprehensive general liability insurance, including fire and property damage carried with a company or companies satisfactory to Landlord, which will insure Tenant and Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death, and damage to property (including but not limited to, Tenant's personal property, inventory, trade fixtures and improvements constructed by Tenant within the Premises with coverage for the full actual replacement cost thereof), occurring in or about, or resulting from any occurrence in or about, the Premises or use or occupancy of the Premises (and Tenant's operations on the Premises) or arising out of Tenant's or its agents', employees', or representatives' use of the building, Common Areas or Project with combined single limit coverage of not less than one million dollars (\$1,000,000.00). Such comprehensive general liability insurance shall be extended to include a "blanket contractual liability" endorsement insuring Tenant's performance of Tenant's obligation to indemnify Landlord contained in Section 12.1 and all of the other broadened liability features normally contained in an extended liability endorsement. If Landlord's lender, insurance advisor or counsel reasonably determines at any time that the amount of such coverage is not adequate, Tenant shall increase such coverage to such amount as Landlord's lender, insurance advisor or counsel reasonably deems adequate. The limits of such insurance shall not limit the liability of Tenant. Tenant shall deliver to Landlord, prior to possession, and at least thirty (30) days prior to the expiration of any policy, a certificate of insurance evidencing the existence of the policy required hereunder and such certificate shall certify that the policy (i) names Landlord as additional insured, (ii) shall not be canceled or reduced in coverage without thirty (30) days prior written notice to Landlord, (iii) insures performance in the indemnity set forth in Paragraphs 12.1 and 19.5 above (including, provided Tenant uses Hazardous Materials pursuant to Paragraph 19 above, without limitation, "Pollution Liability"); (iv) provides coverage which is primary and not contributing with and not in excess of coverage which Landlord may carry; and (v) contains a cross-liability endorsement. In the event Tenant fails to procure and maintain such insurance, Landlord may (but shall not be required to) procure same at Tenant's expense after ten (10) days prior written notice. No such policy shall be cancelable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Landlord by the insurer. All such policies shall be written as primary policies, not contributing with and not in excess of coverage which Landlord may carry. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Tenant provided such blanket policies expressly afford coverage to the Premises and to Tenant as required by this Lease.

(b) Tenant, at its sole cost, shall procure and maintain in force during the Lease term, "all-risk" property insurance, including vandalism, boiler and machinery, sprinkler damage, and malicious mischief on all leasehold improvements installed in the Premises by Tenant at its expense and all equipment, trade fixtures, inventory fixtures and personal property located on, in or about the Premises. Such insurance shall be an amount equal to the full replacement cost of the aggregate of the foregoing.

(c) The policies required to be maintained by Tenant pursuant to subparagraphs (a) and (b) above shall be with companies, on forms, with deductible amounts (if any) and loss payable clauses satisfactory to Landlord and shall include Landlord and the beneficiary of any deed of trust encumbering the Premises as additional insureds, and shall provide that such parties may, although additional insureds, recover for any loss suffered by Tenant's neglect.

13.2 Property Insurance. Landlord shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Premises, the Building and all other buildings located in the Project, in the amount of full replacement cost thereof, including protection against those perils included within the classification of "all risk" insurance plus a policy of rental income insurance in the amount of 100% of 12 months rent (including, without limitation, sums payable as Additional Rent) plus, at Landlord's option, flood insurance and earthquake insurance and any other coverages which may be required from time to time by Landlord's Lender. Tenant shall have no interest in nor any right to the proceeds of any insurance procured by Landlord on the Premises, the Building or the project. Landlord shall not be required to cause such insurance to cover any of Tenant's personal

property, inventory, trade fixtures or any modifications, alterations or improvements made or constructed by Tenant to or within the Premises. During the term of this Lease, Tenant shall pay to Landlord, as Additional Rent, Tenant's Share (as defined in Paragraph 4.5(a) above) of the amount of any increase in premium for the insurance maintained by Landlord under this Paragraph 13.2 over and above the premium paid for such insurance by Landlord during the first full year of the term of this Lease ("Property Insurance Base Year", as further defined in Paragraph 1.12 of the Basic Lease Provisions) including, without limitation, any increase in premium due to Lender's requirements or increase in insured value. Tenant shall pay such increases to Landlord within ten (10) days after receipt by Tenant of a copy of the premium statement or other reasonably satisfactory evidence of the amount due, which shall include the method of calculation of Tenant's share thereof if the insurance covers other improvements than the Premises. If the term of this Lease does not expire concurrently with the expiration of the period covered by the insurance, Tenant's liability for premium increases shall be prorated on an annual basis.

13.3 Mutual Waiver of Subrogation. Tenant and Landlord hereby mutually waive their respective rights of recovery against each other of any loss of or damage to the property of either party, to the extent such loss or damage is covered by any insurance policy required to be maintained by this Lease or otherwise in force at the time of such loss or damage. Each party shall obtain any special endorsements, if required by the insurer, whereby the insurer waives its right of subrogation against the other party hereto. The provisions of this Subparagraph 13.3 shall not apply in those instances in which the waiver of subrogation would cause either party's insurance coverage to be voided or otherwise made uncollectible; or, if any such insurance policy cannot be obtained with such a waiver of subrogation, then the party obtaining such insurance shall notify the other party of that fact and thereon shall be relieved of the obligation to obtain such a waiver of subrogation rights from the insurer with respect to the particular insurance involved.

14. Damage or Destruction

14.1 Partial Damage-Insured. Subject to the provisions of Paragraphs 12 and 13 above, and if at any time during the term of this Lease there is partial damage to the Premises that is not caused by the fault, omission, or negligence of Tenant, its agents, employees, contractors, or invitees, which is covered under an insurance policy required to be maintained pursuant to Section 13.2, then Landlord shall repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If there is a monetary deductible applicable to the aforementioned insurance policy coverage which is required to be paid prior to coverage of such casualty or damage, it shall be the sole responsibility for Tenant to reimburse Landlord for said monetary deductible. Tenant shall reimburse Landlord within thirty (30) days of receipt by Tenant of a copy of the monetary deductible statement. In the event of damage to the Premises or the Building by fire or other causes resulting from fault, omission or negligence of Tenant, its agents, employees, contractors, or invitees, such damage shall be promptly reported to Landlord and shall be repaired by and at expense of Tenant under direction and supervision of Landlord and there shall be no abatement of rent during the period of repair. Tenant shall indemnify and hold harmless Landlord from and against any damages, injuries, losses, claims, liabilities or causes of action arising out of or relating to the repair or restoration of the Premises or Building.

14.2 Partial Damage--Uninsured. In the event the improvements on the Premises are damaged, except by a negligent or willful act or omission of Tenant or from an attempted burglary or forcible entry pursuant to Section 9.2 (c), by any casualty not covered under an insurance policy required to be maintained pursuant to Section 13.2, then Landlord may, at Landlord's option, either (a) repair such damage as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect or (b) give written notice to Tenant within thirty (30) days after the date of occurrence of such damage of Landlord's intention to cancel and terminate this Lease as of the date of the occurrence of the damage. In the event Landlord elects to terminate this Lease pursuant to this Section 14.2, Tenant shall have the right within ten (10) days of receipt of the required notice to notify Landlord, in which event this Lease shall continue in full force and effect, and Tenant shall proceed to make such repairs as soon as reasonably possible (or Landlord may elect, in its sole discretion, to require Tenant to pay to Landlord within ten (10) days following written request therefor, or furnish

evidence reasonably satisfactory to Landlord of Tenant's ability to fund that portion of the cost of such repair or restoration which is not covered by insurance proceeds, in which event Landlord shall proceed to make such repairs). If Tenant does not give such notice within the ten (10) day period, this Lease shall be canceled and terminated as of the date of the occurrence of such damage. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to Section 13.2 shall be paid to and become the property of Landlord. If this Lease is not so terminated, then upon receipt of the insurance proceeds (if the loss is covered by insurance) and the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the leased Premises, to the extent then allowed by law, to substantially the same condition in which the leased Premises was immediately prior to such damage. Landlord's obligation to restore shall be limited to the building and interior improvements constructed by Landlord as they existed as of the commencement date. Landlord's obligation to repair or restore the Premises shall not include restoration of Tenant's trade fixtures, equipment, merchandise, or any improvements alterations or additions made by Tenant to the Premises.

14.3 Total Destruction. If the Premises are totally destroyed during the term of this Lease from any cause whether or not covered by the insurance required under Section 13.2 (including any destruction required by any authorized public authority), this Lease, at Landlord's option, may automatically terminate as of the date of such total destruction. If Lease is not terminated pursuant to this Section, Landlord shall immediately begin the process of reconstructing the Premises and all rent for the Premises shall be abated during the period of reconstruction.

14.4 Damage Near End of the Term. If the Premises are partially destroyed or damaged during the last six (6) months of the term of this Lease, Landlord may at Landlord's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Tenant of Landlord's election to do so within thirty (30) days after the date of occurrence of such damage. Tenant's obligation to pay rent shall cease on effective cancellation date.

14.5 Landlord's Obligations. The Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any restoration or replacement of any paneling, decorations, office fixtures, partitions, railings, ceilings, floor covering, equipment, machinery or fixtures or any other improvements or property installed in the Premises by Tenant or at the direct or indirect expense of Tenant. Tenant shall be required to restore or replace same in the event of damage.

14.6 Abatement of Rent; Tenant's Remedies.

(a) If the Premises are partially destroyed or damaged and Landlord or Tenant repairs them pursuant to this Lease, the rent payable hereunder for the period during which such damage and repair continues shall be abated in proportion to the extent to which Tenant's use of the Premises is impaired; provided, however there shall be no abatement of rent if the damage or destruction was caused by the fault, omission, negligence or willful misconduct of Tenant or any of its agents, employees or representatives. Except for abatement of rent, if any, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction or restoration.

(b) If Landlord shall be obligated to repair or restore the Premises under this Section 14 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Tenant, at Tenant's option, may cancel and terminate this Lease by written notice to Landlord at any time prior to the commencement of such repair or restoration. In such event, the Lease shall terminate as of the date of such notice.

14.7 Termination--Advance Payments. Upon termination of this Lease pursuant to Section 14, an equitable adjustment shall be made concerning advance rent and any advance payments made by Tenant to Landlord. Landlord shall, in addition, return to Tenant so much of Tenant's security deposit as has not therefore been applied by Landlord.

15. Condemnation

15.1 Definition of Terms. For the purposes of this Lease, the term (1) "Taking" means a taking of the Premises or damage to the Premises related to the exercise of the power to eminent domain and includes a voluntary conveyance in lieu of court proceedings, to any agency, authority, public utility, person or corporate entity empowered to condemn property; (2) "Total Taking" means the taking of the entire Premises or so much of the Premises as to prevent or substantially impair the use thereof by Tenant for the uses herein specified;

(3) "Partial Taking" means the taking of only a portion of the Premises which does not constitute a Total Taking; (4) "Date of Taking" means the date upon which the title to the Premises, or a portion thereof, passes to and vests in the condemnor or the effective date of any order for possession if issued prior to the date title vests in the condemnor, and (5) "Award" means the amount of any award made, consideration paid, or damages ordered as a result of a Taking.

15.2 Rights. The parties agree that in the event of a Taking all rights between them or in and to an Award shall be as set forth herein and Tenant shall have no right to any Award except as set forth herein.

15.3 Total Taking. In the event of a Total Taking during the term hereof; (1) the rights of Tenant under the Lease and the leasehold estate of Tenant in and to the Premises shall cease and be terminated as of the date of Taking; (2) Landlord shall refund to Tenant any prepaid rent; (3) Tenant shall pay to Landlord any rent or charges due Landlord under the Lease, each prorated as of the Date of Taking; (4) To the extent the Award is not payable to the beneficiary of any mortgage affecting the Premises, Tenant shall receive from the Award those portions of the Award attributable to trade fixtures of Tenant; and (5) the remainder of the Award shall be paid to and be the property of Landlord.

15.4 Partial Taking. In the event of a Partial Taking during the term hereof, (1) the rights of Tenant under the Lease and the leasehold estate of Tenant in and to the portion of the Premises taken shall cease and terminate as of the Date of Taking; (2) from and after the Date of Taking the monthly installment of rent shall be an amount equal to the product obtained by multiplying the monthly installment of rent immediately prior to the Taking by the quotient obtained by dividing the number of square feet of floor area contained in the Premises after the Taking by the number of square feet of floor area contained in the Premises prior to the Taking; (3) To the extent the Award is not payable to the beneficiary of any mortgage affecting the Premises, Tenant shall receive from the Award the portions of the Award attributable to trade fixtures of Tenant, and (4) the remainder of the Award shall be paid to and be the property of Landlord. Each party waives the provisions of California Code of Civil Procedure Section 1265.130 allowing either party to petition the Superior Court to terminate this Lease in the event of a Partial Taking.

16. Assignment & Subletting

16.1 Landlord's Consent Required. Tenant's interest in this Lease is not assignable, by operation of law or otherwise, nor shall Tenant have the right to sublet the Premises, transfer any interest of Tenant therein or permit any use of the Premises by another party, without the prior written consent of Landlord to each such assignment, subletting, transfer or use, which consent Landlord agrees not to withhold unreasonably subject to the provisions of Subparagraph 16.3 below. A consent to one assignment, subletting, occupancy or use by another party shall not be deemed to be a consent to any subsequent assignment, subletting, occupancy or use by another party. Any assignment or subletting without such consent shall be void and shall, at the option of Landlord, terminate this Lease.

Landlord's waiver or consent to any assignment or subletting hereunder shall not relieve Tenant from any obligation under this Lease unless the consent shall so provide.

16.2 Transferee Information Required. If Tenant desires to assign its interest in this Lease or sublet the Premises, or transfer any interest of Tenant therein, or permit the use of the Premises by another party (hereinafter collectively referred to as a "Transfer"), Tenant shall give Landlord at least fifteen (15) business days prior written notice of the proposed Transfer and of the name and legal composition of the proposed transferee, a financial statement of the proposed transferee, the nature of the (including a list of the type and quantities of all Hazardous Materials to be used by the transferee on the Premises), the payment to be made or other consideration to be given to Tenant on account of the Transfer, and such other pertinent information as may be requested by Landlord, all in sufficient detail to enable Landlord to evaluate the proposed Transfer and the prospective transferee.

16.3 Landlord's Rights. It is the intent of the parties hereto that this Lease shall confer upon Tenant only the right to use and occupy the Premises, and to exercise such other rights as are conferred upon Tenant by this Lease. The parties agree that this Lease is not intended to have a bonus value nor to serve as a vehicle whereby Tenant may profit by a future Transfer of this Lease or the right to use or occupy the Premises as a result of any favorable terms contained herein, or future changes in the market for leased space. It is the intent of the parties that any such bonus value that may attach to this Lease

shall be and remain the exclusive property of Landlord, except as provided in Paragraph 16.3(b) below. In the event Tenant seeks to Transfer its interest in this Lease or the Premises, Landlord shall have the following options, which may be exercised at its sole choice without limiting Landlord in the exercise of any other right or remedy which Landlord may have by reason of such proposed Transfer.

(a) In the event of a Transfer constituting either an assignment of the entire Lease or a sublease of substantially all of the Premises for the balance of the Lease Term, Landlord may elect to terminate this Lease effective as of the proposed effective date of the proposed Transfer and release Tenant from any further liability hereunder accruing after such termination date by giving Tenant written notice of such termination within fifteen (15) days after receipt by Landlord of Tenant's notice of intent to Transfer as provided above. If Landlord makes such election to terminate this Lease, Tenant shall surrender the Premises, in accordance with Paragraph 9.2(e), on or before the effective termination date; or

(b) Landlord may consent to the proposed Transfer on the condition that Tenant agrees to pay to Landlord, as additional rent, seventy-five percent (75%) of any and all rents or other consideration (including key money) received by Tenant from the transferee by reason of such Transfer in excess of the rent payable by Tenant to Landlord under this Lease (less any brokerage commissions, attorneys' fees and advertising expenses incurred by Tenant in connection with the Transfer). Tenant expressly agrees that the foregoing is a reasonable condition for obtaining Landlord consent to any Transfer: or

(c) Landlord may reasonably withhold its consent to the proposed transfer.

16.4 Attorneys' Fees. In the event Landlord shall consent to a sublease or assignment under this Section 16, Tenant shall pay Landlord's reasonable attorneys' fees not to exceed \$500.00 incurred in connection with giving such consent.

17. Subordination. The following provisions shall govern the relationship of this Lease to any underlying lease, mortgage or deed of trust which now or hereafter affects the Premises or Landlord's interest or estate therein and any renewal, modification, consolidation, replacement, or extension thereof (a "Security Instrument").

17.1 Priority. This Lease is subject and subordinate to all Security Instruments existing as of the Commencement Date. However, if any Lender so requires, this Lease shall become prior and superior to any such Security Instrument.

17.2 Subsequent Security Instruments. At Landlord's election, this Lease shall become subject and subordinate to any Security Instrument created after the Commencement Date. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed so long as Tenant is not in default and performs all of its obligations under this Lease, unless this Lease is otherwise terminated pursuant to its terms.

17.3 Documents. Tenant shall execute any reasonable document or instrument required by Landlord or any Lender to make this Lease either prior or subordinate to a Security Instrument, which may include such other matters as the Lender customarily requires in connection with such agreements, including provisions that the Lender, if it succeeds to the interest of Landlord under this Lease, shall not be (i) liable for any act or omission of any prior landlord (including Landlord), (ii) subject to any offsets or difference which Tenant may have against any prior landlord (including Landlord), (iii) bound by any rent or additional rent paid more than one (1) month in advance of the date due under this Lease, (iv) liable for any defaults on the part of Landlord occurring prior to the time that Lender takes possession of the Premises in connection with enforcement of its Security Instrument, (v) liable for the return of any security deposit unless such deposit has been delivered to Lender, and (vi) bound by any agreement or modification of the Lease made without the prior written consent of the Lender.

17.4 Tenant's Attornment. Tenant shall attorn (1) to any purchase of the Premises at any foreclosure sale or private sale conducted pursuant to any Security Instrument encumbering the Premises; (2) to any grantee or transferee designated in any deed given in lieu of foreclosure; or (3) to the lessor under any underlying ground lease should such ground lease be terminated.

18. Default; Remedies

18.1 Default. The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(a) Default in payment when due of any installment of rent or other payment required to be made by Tenant hereunder, where such default shall not have been cured within ten (10) days after written notice of such default is given to Tenant;

(b) The abandonment or vacation of the Premises by Tenant;

(c) A failure by Tenant to observe and perform any other provision of the Lease to be observed or performed by Tenant, where such failure shall have continued for thirty (30) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion;

(d) Tenant or any guarantor of Tenant's obligations hereunder shall commence any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors, or seek appointment of a receiver, trustee, custodian, or other similar official for it or for all or any substantial part of its property;

(e) Tenant or any such guarantor shall take any corporate action to authorize any of the actions set forth in Clause (d) above; or,

(f) Any case, proceeding or other action against Tenant or any guarantor of Tenant's obligations hereunder shall be commenced seeking to have an order for relief entered against it as debtor, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property, and such case, proceeding or other action (i) results in the entry of an order for relief against it which is not fully stayed within seven (7) business days after the entry thereof or (ii) is not dismissed within forty-five (45) days of filing such case, action or proceeding.

(g) Levy of a writ of attachment or execution of Tenant's interest under this Lease where such writ continues for a period often (10) days;

(h) an assignment, sublease or other transfer of this Lease or Tenant's interest in the Premises or portion thereof contrary to the provisions of Section 16; or

(i) execution of an assignment for the benefit of creditors of substantially all assets of Tenant available by law for the satisfaction of judgment creditor.

18.2 Remedies. In the event of any such material default or breach by Tenant, Landlord may at any time thereafter, with or without notice and demand and without limiting Landlord in the exercise of any right or remedy at law or in equity which Landlord may have by reason of such default or breach:

(a) Maintain this Lease in full force and effect and recover the rent and other monetary charges as they become due, without terminating Tenant's right to possession, irrespective of whether Tenant shall have abandoned the Premises. In the event Landlord elects to not terminate the Lease, Landlord shall have the right to attempt to re-let the Premises at such rent and upon such conditions and for such a term, and to do all acts necessary to maintain or preserve the Premises as Landlord deems reasonable and necessary without being deemed to have elected to terminate the Lease including removal of all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. In the event any such re-letting occurs, this Lease shall terminate automatically upon the new tenant taking possession of the Premises. Notwithstanding that Landlord fails to elect to terminate the Lease initially, Landlord at any time during the Term of this Lease may elect to terminate this Lease by virtue of such previous default of Tenant.

(b) Terminate this Lease by giving Tenant written notice of termination or other lawful means. On the giving of the notice all of tenant's rights in the Premises and the Building and Project shall terminate. Upon the giving of the notice of termination, Tenant shall surrender and vacate the Premises in the condition required by Paragraph 9.2(e), and Landlord may re-enter and take possession of the Premises and all the remaining improvement or property and eject Tenant or any of Tenant's subtenants, assignees or the person or persons claiming any right under or through Tenant or eject some and not others or eject none. This Lease may also be terminated by a judgment specifically providing for termination. Any termination under this paragraph shall not

release Tenant from the payment of any sum then due Landlord or from any claim for damages or rent previously accrued or then accruing against Tenant. In no event shall any one or more of the following actions by Landlord constitute a termination of this Lease:

- (i) maintenance and preservation of the Premises;
- (ii) efforts to relet the Premises;
- (iii) appointment of a receiver in order to protect Landlord's

interest hereunder;

(iv) consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to provisions hereof concerning subletting and assignment or otherwise; or

(v) any other action by Landlord or Landlord's agents intended to mitigate the adverse effects from any breach of this Lease by Tenant.

(c) In the event this Lease terminated pursuant to Subparagraph 18.2(b) above, or otherwise, Landlord shall be entitled to damages in the following sums:

(i) the worth at the time of award of the unpaid rent which has been earned at the time of termination; plus

(ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and

(iv) any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under the Lease, or which in ordinary course of things would be likely to result therefrom including, without limitation, the following: (A) expenses for cleaning, repairing or restoring the Premises; (B) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting, including installation of leasehold improvements (whether such installation be funded by a reduction of rent, direct payment or allowance to the succeeding lessee, or otherwise); (C) real estate broker's fees, advertising costs and other expenses of reletting the Premises; (D) costs of carrying the Premises such as taxes and insurance premiums thereon, utilities and security precautions; (E) expenses in retaking possession of the Premises; (F) attorneys' fees and court costs; and (G) any unamortized real estate brokerage commission paid in connection with this Lease.

(v) The "worth at the time of award" of the amounts referred to in Subparagraphs (i) and (ii) of this paragraph 18.2(c) is computed by allowing interest at the Permitted Rate. The "worth at the time of award" of the amounts referred to in Subparagraph (iii) of this Paragraph 18.2(c) is computed by discounting such amount at the discount rate of the Federal Reserve Board of San Francisco at the time of award plus one percent (1%). The term "rent" as used in this Paragraph 18 shall include all sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease, including, without limitation, Base Rent, Additional Rent and Operating Expenses.

18.3 Default by Landlord. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord hereunder within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligation, provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty-day period and thereafter diligently prosecutes the same to completion. Any money judgment obtained by Tenant based upon Landlord's breach of this Lease shall be satisfied only out of the proceeds of the sale or disposition of Landlord's interest in the Premises (whether by Landlord or by execution of judgment).

19. Hazardous Materials.

19.1 Definitions. As used herein, the term "Hazardous Material" shall mean any substance: (i) the presence of which requires investigation or remediation under any federal, state or local statute, regulation, ordinance, order, action, policy or waste, "hazardous substance", pollutant or contaminant under any federal, state or local statute, regulation, rule or ordinance or amendments thereto including, without limitation, the

Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601 et seq.) and/or the Resource Conservation and Recover Act (42 U.S.C. Section 6901 et seq.); (iii) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous and is or becomes regulated by any governmental authority, agency, department, commission, board, agency or instrumentality of the United States, the State of California or any political subdivision thereof; (iv) the presence of which on the Premises causes or threatens to cause a nuisance upon the Premises or to the adjacent properties or poses or threatens to pose a hazard to the health or safety of persons on or about the Premises; (v) the presence of which on adjacent properties could constitute a trespass by Landlord or Tenant; (vi) without limitation which contains gasoline, diesel fuel or other petroleum hydrocarbons; (vii) without limitation which contains polychlorinated biphenyl's (PCBs), asbestos or urea formaldehyde foam insulation; or (viii) without limitation radon gas.

19.2 Permitted Use. Subject to the compliance by Tenant with the provisions of Paragraphs 19.3, 19.4, 19.5, 19.6, 19.7, 19.8 and 19.9 below, Tenant shall be permitted to use and store on the Premises those Hazardous Materials listed in Paragraph 19.11 attached hereto, in the quantities set forth in Paragraph 19.11.

19.3 Hazardous Materials Management Plan.

(a) Prior to Tenant using, handling, transporting or storing any Hazardous Material at or about the Premises (including, without limitation, those listed in Paragraph 19.11), Tenant shall submit to Landlord a Hazardous Materials Management Plan ("HMMP") for Landlord's review and approval, which approval shall not be unreasonably withheld. The HMMP shall describe: (aa) the quantities of each material to be used, (bb) the purpose for which each material is to be used, (cc) the method of storage of each material, (dd) the method of transporting each material to and from the Premises and within the Premises (ee) the methods Tenant will employ to monitor the use of the material and to detect any leaks or potential hazards, and (ff) any other information any department of any governmental entity (city, state or federal) requires prior to the issuance of any required permit for the Premises or during Tenant's occupancy of the Premises. Landlord may, but shall have no obligation to review and approve the foregoing information and HMMP, and such review and approval or failure to review and approve shall not act as an estoppel or otherwise waive Landlord's rights under this Lease or relieve Tenant of its obligations under this Lease. If Landlord determines in good faith by inspection of the Premises or review of the HMMP that the methods in use or described by Tenant are not adequate in Landlord's good faith judgment to prevent or eliminate the existence of environmental hazards, then Tenant shall not use, handle, transport, or store such Hazardous Materials at or about the Premises unless and until such methods are approved by Landlord in good faith and added to an approved HMMP. Once approved by Landlord, Tenant shall strictly comply with the HMMP and shall not change its use, operations or procedures with respect to Hazardous Materials without submitting an amended HMMP for Landlord's review and approval as provided above.

(b) Tenant shall pay to Landlord when Tenant submits an HMMP (or amended HMMP) the amount reasonably determined by Landlord to cover all Landlord's costs and expenses reasonably incurred in connection with Landlord's review of the HMMP which costs and expenses shall include, among other things, all reasonable out-of-pocket fees of attorneys, architects, or other consultants incurred by Landlord in connection with Landlord's review of the HMMP. Landlord shall have no obligation to consider a request for consent to a proposed HMMP unless and until Tenant has paid all such costs and expenses to Landlord, irrespective of whether Landlord consents to such proposed HMMP. Tenant shall pay to Landlord on demand the excess, if any, of such costs and expenses actually incurred by Landlord over the amount of such costs and expenses actually paid by Tenant, and Landlord shall promptly refund to Tenant the excess, if any, of such costs and expenses actually paid by Tenant over the amount of such costs and expenses actually incurred by Landlord.

19.4 Use Restriction. Except as specifically allowed in Paragraph 19.2 above, Tenant shall not cause or permit any Hazardous Material to be used, stored, generated, discharged, transported to or from, or disposed of in or about the Premises, or any other land or improvements in the vicinity of the Premises. Without limiting the generality of the foregoing, Tenant, at its sole cost, shall comply with all Laws relating to the storage, use, generation, transport, discharge and disposal by Tenant or its Agents of any Hazardous Material. If the presence of any Hazardous Agents results in contamination of the Premises or any soil, air, ground or surface waters under, through, over,

on, in or about the Premises, Tenant, at its expense, shall promptly take all actions necessary to return the Premises and/or the surrounding real property to the condition existing prior to the appearance of such Hazardous Material. In the event there is a release, discharge or disposal of or contamination of the Premises by a Hazardous Material which is of the type that has been stored, handled, transported or otherwise used or permitted by Tenant or its Agents on or about the Premises, Tenant shall have the burden of proving that such release, discharge, disposal of contamination is not the result of the acts or omissions of Tenant or its Agents.

19.5 Tenant Indemnity. Tenant shall defend, protect, hold harmless and indemnify Landlord and its Agents and Lenders with respect to all actions, claims, losses (including, diminution in value of the Premises), fines, penalties, fees (including, but not limited to, attorneys' and consultants' fees) costs, damages, liabilities, remediation costs, investigation costs, response costs and other expenses arising out of resulting from, or caused by any Hazardous Material used, generated, discharged, transported to or from, stored, or disposed of by Tenant or its Agents in, on, under, over through or about the Premises and/or the surrounding real property. Tenant shall not suffer any lien to be recorded against the Premises as a consequence of the disposal of any Hazardous Material on the Premises by Tenant or its Agents, including any so called state, federal or local "super fund" lien related to the "clean up" of any Hazardous Material in, over, on, under, through or about the Premises.

19.6 Compliance. Tenant shall immediately notify Landlord of any inquiry, test, investigation, enforcement proceeding by or against Tenant or the Premises concerning any Hazardous Material. Any remediation plan prepared by or on behalf of Tenant must be submitted to Landlord prior to conducting any work pursuant to such plan and prior to submittal to any applicable government authority and shall be subject to Landlord's consent. Tenant acknowledges that Landlord, as the owner of the Property, at its election, shall have the sole right to negotiate, defend, approve and appeal any action taken or order issued with regard to any Hazardous Material by any applicable governmental authority.

19.7 Assignment and Subletting. It shall not be unreasonable for Landlord to withhold its consent to any proposed assignment or subletting if (i) the proposed assignee's or subtenant's anticipated use of the Premises involves the storage, generation, discharge, transport, use or disposal of any Hazardous Material; (ii) if the proposed assignee or subtenant has been required by any prior landlord, lender or governmental authority to "clean up" or remediate any Hazardous Material; (iii) if the proposed assignee or subtenant is subject to investigation or enforcement order or proceeding by any governmental authority in connection with the use, generation, discharge, transport, disposal of storage of any Hazardous Material.

19.8 Surrender. Upon the expiration or earlier termination of the Lease, Tenant, at its sole cost, shall remove all Hazardous Materials from the Premises that Tenant or its Agents introduced to the Premises. If Tenant fails to so surrender the Premises, Tenant shall indemnify, protect, defend and hold Landlord harmless from and against all damages resulting from Tenant's failure to surrender the Premises as required by this Paragraph, including without limitation, any actions, claims, losses, liabilities, fees, (including but not limited to attorneys' and consultants' fees), fines costs, penalties, or damages in connection with the condition of the Premises including, without limitation, damages occasioned by the inability to relet the Premises or a reduction in the fair market and/or rental value of the Premises by reason of the existence of any Hazardous Material in, on, over, under, through or around the Premises.

19.9 Right to Appoint Consultant. Landlord shall have the right to appoint a consultant to conduct an investigation to determine whether any Hazardous Material is being used, generated, discharged, transported to or from, stored or disposed of in, on, over, through, or about the Premises, in an appropriate and lawful manner and in compliance with the requirements of this Lease. If Tenant has violated any Law or covenant in this Lease regarding the use, storage or disposal of Hazardous Materials on or about the Premises, Tenant shall reimburse Landlord for the cost of such investigation. Tenant, at its expense, shall comply with all reasonable recommendations of the consultant required to conform Tenant's use, storage or disposal of Hazardous Materials to the requirements of applicable Law or to fulfill the obligations of Tenant hereunder.

Tenant shall defend, protect, hold harmless and indemnify Landlord and its agents and employees with respect to all actions, claims, losses, fines, penalties, fees, costs, damages and liabilities (including but not limited to attorneys' and consultants' fees) arising out of or in connection with any Hazardous Material used, generated, discharged, transported to or from, stored, or disposed of in, on, under, through or about the Premises and/or the surrounding real and personal property. Tenant shall not suffer any lien to be recorded against the Premises as a consequence of a Hazardous Material, including any so called state, federal or local "super fund" lien related to the "clean up" of a Hazardous Material in, over, on, under, through, or about the Premises.

19.10 Holding Over. If any action of any kind is required or requested to be taken by any governmental authority to clean-up, remove, remediate or monitor any Hazardous Materials (the presence of which is the result of the acts or omissions of Tenant or its Agents) and such action is not completed prior to the expiration or earlier termination of the Lease, Tenant shall be deemed to have impermissibly held over until such time as such required action is completed, and Landlord shall be entitled to all damages directly or indirectly incurred in connection with such holding over, including, without limitation, damages occasioned by the inability to re-let the Premises or a reduction of the fair market and/or rental value of the Premises.

19.11 Materials. Tenant shall provide the list of its Hazardous Chemicals to be legally used during its tenancy in the following section provided below in this Paragraph 19.11, or attach a separate list and so indicate below or indicate "NONE" and initial below to indicate if no Hazardous Materials will be used:

Materials:	Quantities:	Location	and	Method of Storage:
Cleaning Solvent	10 gallons	Shop		Sealed Steel Drum
Way Oil	20 gallons	Shop		Sealed Steel Drum
Hydraulic Oil	15 gallons	Shop		Sealed Steel Drum
Spindle Oil	15 gallons	Shop		Sealed Steel Drum
Water Immersable Oil	20 gallons	Shop		Sealed Plastic Pail

19.12 Provisions Survive Termination. The provisions of this Paragraph 19.0 shall survive the expiration or termination of this Lease.

19.13 Controlling Provisions. The provisions of this Paragraph 19.0 are intended to govern the rights and liabilities of the Landlord and Tenant hereunder respecting Hazardous Materials to the exclusion of any other provisions in this Lease that might otherwise be deemed applicable. The provisions of this Paragraph 19.0 shall be controlling with respect to any provisions in this Lease that are inconsistent with this Paragraph 19.0.

20. Miscellaneous

20.1 Estoppel Certificate.

(a) Tenant shall at any time, upon not less than ten (10) days prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed; (iii) evidence the status of this Lease as may be required by a lender making a loan to Landlord to be secured by a deed of trust covering the Premises, Building or Project or a purchaser of the same from Landlord, (iv) certify that all improvements to be constructed on or in the Premises by Landlord have been substantially completed except for punch list items which do not prevent Tenant from using the Premises for its intended use; and (v) certify such other matters relating to the Lease and/or the Premises as may be requested by a lender making a loan to Landlord or a purchaser of the Premises, Building or Project from Landlord. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant (i) that this Lease is in full force and effect without modification except as may be represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that not more than one month's rent has been paid in advance; and, (iv) the improvements to be constructed on the Premises by Landlord have been substantially completed except for punch list items which do not prevent Tenant from using the Premises for its intended use.

(c) If Landlord desires to finance, refinance or sell said Premises, or any part hereof, Tenant hereby agrees to deliver to Landlord, its agent or any prospective purchaser or lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender or prospective purchaser. Such statements shall include the past three years financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth. Tenant's financial statements shall be held strictly confidential.

20.2 Transfer of Landlord's Interest. In the event of a sale or conveyance by Landlord of Landlord's interest in the Premises other than a transfer for security purposes only, Landlord shall be relieved from and alter the date specified in such notice of transfer of all obligations and liabilities accruing thereafter on the part of the Landlord, provided that any funds in the hands of Landlord at the time of transfer in which Tenant has an interest, shall be delivered to the successor of Landlord. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee provided all Landlord's obligations hereunder are assumed in writing by the transferee.

20.3 Captions; Attachments; Defined Terms.

(a) The captions of the paragraphs of this Lease are for convenience only and shall not be deemed to be relevant in resolving any question of interpretation or construction of any section of this Lease.

(b) Exhibits attached hereto, and addendums and schedules initialed by the parties, are deemed by attachment to constitute part of this Lease and are incorporated herein.

(c) The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. Words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. If there be more than one Landlord or Tenant, the obligations hereunder imposed upon Landlord or Tenant shall be joint and several. If the Tenants are husband and wife, the obligations shall extend individually to their sole and separate property as well as to their community property. The term "Landlord" shall mean only the owner or owners at the time in question of the fee title or a tenant's interest in a ground lease of the Premises. The obligations contained in this Lease to be performed by Landlord shall be binding on Landlord's successors and assigns only during their respective periods of ownership.

(d) Law. As used in this Lease, the term "Law" or "Laws" shall mean any judicial decision, statute, constitution, ordinance, resolution, regulation, rule, administrative order, or other requirement of any government agency or authority having jurisdiction over the parties to this Lease or the Premises or both, in effect at the Commencement Date of this Lease or any time during the Lease Term, including, without limitation, any regulation, order, or policy of any quasi-official entity or body (e.g. board of fire examiners, public utility or special district).

(e) Agent. As used in this Lease, the term "Agent" shall mean, with respect to either Landlord or Tenant, its respective agents, employees, contractors (and their subcontractors), and invitees (and in the case of Tenant, its subtenants).

(f) Lender. As used in this Lease, the term "Lender" shall mean any beneficiary, mortgagee, secured party or other holder of any deed of trust, mortgage or other written security device or agreement affecting Landlord's interest in the Premises.

20.4 Entire Agreement. This instrument along with any exhibits and attachments hereto constitutes the entire agreement between Landlord and Tenant relative to the Premises and this Agreement and the exhibits and attachments may be altered, amended or revoked only by an instrument in writing signed by both Landlord and Tenant. Landlord and Tenant agree hereby that all prior or contemporaneous oral agreements between and among themselves and their agents or representatives relative to the leasing of the Premises are merged in or revoked by this Agreement.

20.5 Severability. If any term or provision of this Lease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby, and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

20.6 Costs of Suit.

(a) If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the

losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have accrued on the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.

The attorney's fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse attorneys' fees reasonably incurred in good faith.

20.7 Landlord as Party Defendant.. Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding under or using the Premises by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including reasonable attorneys fees, incurred by Landlord in or in connection with such litigation. Such indemnity obligation shall survive termination of this Lease.

20.8 Waiver of Jury Trial. Landlord and Tenant hereby waive their respective right to trial by jury of any cause of action, claim, counterclaim, cross-complaint in any action, proceeding and/or hearing brought by either Landlord against Tenant or Tenant against Landlord on any matter whatsoever arising out of, or in any way connected with, this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises, or any claim or injury or damage, or the enforcement of any remedy under any law, statute or regulation, emergency or otherwise, now or hereafter in effect.

20.9 Time; Joint and Several Liability. Time is of the essence of this Lease and each and every provision hereof, except as to the conditions relating to the delivery of possession of the Premises to Tenant. All the terms, covenants and conditions contained in this Lease to be performed by either party, if such party shall consist of more than one person or organization, shall be deemed to be joint and several, and all rights and remedies of the parties shall be cumulative and non-exclusive of any other remedy at law or in equity.

20.10 Binding Effect: Choice of Law. Each provision of this Lease to be performed by Tenant shall be construed as both a covenant and condition. Subject to any provisions hereof restricting assignment or subletting any Tenant and subject to Section 18.2, all of the provisions hereof shall bind and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Lease shall be governed by the laws of the State of California

20.11 Waiver. No covenant term or condition or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, and any waiver or the breach of any covenant, term or condition shall not be deemed to be a waiver of any preceding or succeeding breach of the same of any other covenant, term or condition. Acceptance by Landlord of the performance by Tenant after the time the same shall have become due shall not constitute a waiver by Landlord of the breach or default of any covenant, term or condition unless otherwise expressly agreed to by Landlord in writing.

Landlord's failure to enforce against Tenant or any other tenant of the Building or the Project any of the rules or regulations made by Landlord shall not be deemed a waiver of such rules or regulations. No act or thing done by Landlord, its agents or employees during this Lease Term shall be deemed an acceptance of a surrender of the Premises and no agreement to accept a surrender of the Premises shall be valid unless it is in writing and is signed by Landlord. The delivery of keys to any of Landlord's agents or employees shall not serve to terminate this Lease or surrender the Premises. No payment by Tenant, or receipt and acceptance by Landlord, of a lesser amount than the rent due shall be deemed to be other than on account of the earliest stipulated rent or additional rent, nor shall any endorsement or statement on any check or any letter accompanying a payment as rent be deemed an accord and satisfaction. The receipt and acceptance by Landlord of any delinquent rent shall not constitute a waiver of any other default; it shall only be a waiver of timely payment for the particular rent payment involved. Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy available to Landlord.

20.12 Surrender of Premises. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of the Landlord, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it or any or all such subleases or subtenancies.

20.13 Holding Over.

(a) Surrender of Possession. Tenant shall surrender possession of the Premises immediately upon the expiration or earlier termination of the Lease. If Tenant shall continue to occupy or possess the Premises after such expiration or termination without the consent of Landlord, then Tenant shall be a tenant at will. If Landlord has consented to such holdover in writing, Tenant shall be a tenant from month-to-month. All the terms, provisions and conditions of the Lease shall apply to the month-to-month tenancy except those terms, provisions and conditions pertaining to the Lease Term, and except that the rental shall be immediately adjusted upward upon the expiration or earlier termination of the Lease to equal the greater of (i) one hundred fifty percent (150%) of the then prevailing monthly rental rate for similar commercial space, as determined by Landlord; or (ii) one hundred fifty percent (150%) of the Rental for the Premises in effect under this Lease on the day immediately prior to the date of the expiration or earlier termination of the Lease.

The month-to-month tenancy may be terminated by Landlord or Tenant upon thirty (30) days prior notice to the non-terminating party. In the event that Tenant fails to surrender the Premises upon such expiration or earlier termination, then Tenant shall indemnify and hold Landlord harmless against all losses or liability resulting from or arising out of Tenant's failure to surrender the Premises. This includes, but is not limited to any amounts required to be paid or damages incurred due to the loss of any tenant or prospective tenant who was to have occupied the Premises after said termination or expiration and any related attorneys' fees and brokerage commissions.

20.14 Payment of Money After Termination. No payment of money by Tenant to Landlord after the termination of the Lease by Landlord or after the giving of any notice of termination to Tenant by Landlord, which Landlord is entitled to give Tenant under the Lease, shall reinstate, continue or extend the Term of the Lease or shall affect any such notice given to Tenant prior to the payment of such money. It is agreed that after the service of such notice or the commencement of any suit by Landlord to obtain possession of the Premises, Landlord may receive and collect when due any and all payments owed by Tenant under the Lease and otherwise exercise its rights and remedies. The making of any such payments by Tenant shall not waive such notice or in any manner affect any pending suit or judgment obtained.

20.15 Signs and Auctions.

(a) Tenant shall not place any sign upon the Premises or conduct any auction thereon without Landlord's prior written consent. All such signs placed on the Premises by Tenant and consented to by Landlord shall comply with all recorded documents affecting the Premises and applicable statutes, ordinances, rules and regulations of governmental agencies having jurisdiction thereof. At Landlord's option, Tenant shall, at the expiration or earlier termination of the Lease, remove any sign which it has placed on the Premises and shall at its sole cost, repair any damage caused by the installation or removal of such sign.

(b) Obtaining permits for Tenant signs as may be required by any governmental agency shall be the responsibility of Tenant.

20.16 Reasonable Consent. Except as limited elsewhere in this Lease, wherever in this Lease Landlord or Tenant is required to give consent or approval to any action on the part of the other, such consent or approval shall not be unreasonably withheld. In the event of failure to give any such consent, the other party shall be entitled to specific performance at law and shall have such other remedies to it under this Lease, but in no event shall Landlord or Tenant be responsible in monetary damages for failure to give consent unless said failure is withheld maliciously or in bad faith.

20.17 Interest on Past Due Obligations. Any installment of Base Rent or Additional Rent due from Tenant, or any other sum due under this Lease from Tenant, which is not received by Landlord when due, shall bear interest from said due date until paid, at an annual rate equal to the lower of (the "Permitted Rate"): (a) twelve percent (12%); or (b) five percent (5%) plus the rate established by the Federal Reserve Bank of San Francisco, as of the twenty-fifth (25th) day of the month immediately preceding the due date, on advances to member banks under Sections 13 and 13(a) of the Federal Reserve Act, as now in effect or hereafter from time to time amended. Payment of such interest shall not excuse or cure any default by Tenant. In addition, Tenant shall pay all costs and attorneys' fees incurred by Landlord in collection of such amounts.

20.18 Recording. Tenant shall not record this Lease without Landlord's prior written consent (which may be given or withheld in Landlord's sole and absolute discretion), and such recordation shall, at the option of Landlord, constitute a non-curable default of Tenant hereunder.

20.19 Notices. All notices or demands of any kind required or desired to be given by Landlord or Tenant hereunder shall be in writing and shall be deemed delivered on the date received if personally delivered to Landlord or Tenant, as the case may be, or if mailed, then forty-eight (48) hours after depositing the notice or demand in the United States mail, certified or registered, postage prepaid, addressed to the Landlord or Tenant respectively at the addresses set forth after their signatures at the end of this Lease.

20.20 Corporate Authority. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the Bylaws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms. If Tenant is a corporation Tenant shall, within thirty (30) days after execution of this Lease, deliver to Landlord a certified copy of a resolution of the Board of Directors of said corporation authorizing or ratifying the execution of this Lease.

20.21 Limitation on Landlord's Liability. Tenant, for itself and its successors and assigns (to the extent this Lease is assignable), hereby agrees that in the event of any actual or alleged, breach or default by Landlord under this Lease that:

(a) Tenant's sole and exclusive remedy and recourse against Landlord shall be as against Landlord's interest in the Project;

(b) No partner or Landlord shall be sued or named as a party in a suit or action (except as may be necessary to secure jurisdiction of the partnership);

(c) No service of process shall be made against any partner of Landlord (except as may be necessary to secure jurisdiction of the partnership);

(d) No partner of Landlord shall be required to answer or otherwise plead to any service of process;

(e) No judgment will be taken against any partner of Landlord;

(f) Any judgment taken against any partner of Landlord may be vacated and set aside at any time nunc pro tunc;

(g) No writ of execution will ever be levied against the assets of any partner of Landlord; and,

(h) The covenants and agreements of Tenant set forth in this Paragraph 20.21 shall be enforceable by Landlord and any partner of Landlord.

20.22 Construction of Lease Provisions. Although printed provisions of this Lease were prepared by Landlord, the doctrine or rule that ambiguities in an agreement or document are to be construed against the drafting party, shall not be utilized in interpreting this Lease and this Lease shall instead be construed or interpreted in accordance with the general tenor of the language to reach a fair and equitable result.

20.23 Confidentiality. Tenant hereby agrees not to disclose the terms of this lease (specifically including, without limitation, the rent or rental rate to be paid by Tenant hereunder and/or any tenant improvement allowance to be furnished by Landlord to Tenant) to any existing or prospective tenant of the Building or other third party; provided, however, Tenant may disclose the terms of this Lease to its accountant, bookkeeper or tax advisor or any employee of Tenant who has a need to know such information for a legitimate business purpose, or if Tenant is otherwise required to disclose such confidential information as permitted hereunder of the requirements of this Paragraph and shall require each such person to comply with such confidentiality requirements. In the event Tenant or any person to whom it discloses such confidential information fails in any respect to comply with its obligations under this Paragraph, Tenant shall be liable to Landlord for breach of this Paragraph 20.23 and Landlord may bring an action against Tenant for damages as a result of such breach. In addition, nothing stated herein shall preclude or prohibit Landlord from seeking an injunction to prevent disclosure of such confidential information or an order compelling specific protection of such confidential information. The provisions of this Paragraph 20.23 shall survive the termination of this Lease.

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

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR SUBMISSION TO LEGAL COUNSEL FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY LANDLORD OR BY SOUTH BAY DEVELOPMENT COMPANY, ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR THE CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO. THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

In Witness Whereof, Landlord and Tenant have executed this Lease the date and year first above written.

LANDLORD:

TASMAN ASSOCIATES,
a California general partnership

By: /s/ James D. Mair

James D. Mair
Its: General Partner

Dated: 2/2/98

Address: 511 Division Street
Campbell, CA 95008

TENANT:

TESTDESIGN CORPORATION,
a California corporation

By: /s/ Douglas W. Smith

Douglas W. Smith
Its: President

Dated: 1/26/98

Address: 1157 Tasman Drive
Sunnyvale, CA 94089

FIRST ADDENDUM

This First Addendum ("First Addendum") is made by and between Test Design Corporation, a California corporation ("Tenant") and Tasman Associates, a California general partnership ("Landlord"), for the property located at 1157 Tasman Drive, Sunnyvale, California (the "Lease") as of the date set forth below with reference to the following facts:

A. By Lease Agreement dated January 16, 1998 (the "Lease"), Landlord has leased to Tenant certain property commonly known as 1157 Tasman Drive, Sunnyvale, California (the "Premises").

NOW THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. The tenant shall lease 1159 Tasman Drive, Sunnyvale, California on a month to month tenancy. However, Tenant may terminate the Lease of 1159 Tasman Drive only, by providing Landlord with written notice that Tenant desires to cancel the Lease, with such cancellation date being not less than 30 days from the date said written notice is received by Landlord from Tenant. Landlord may terminate the lease by providing Tenant with notice that the Landlord desires to cancel the Lease, with such cancellation date being not less than 15 days from the date said notice is received by Tenant from Landlord.

2. Tenant's monthly rent at 1159 Tasman Drive shall be One Thousand One Hundred Sixty Four and 45/100ths Dollars (\$1,164.45) commencing February 1, 1998.

3. Concurrently with Tenant's execution hereof, Tenant shall increase the existing Security Deposit by \$1,164.45 , for a total of \$2,384.35.

4. Landlord will actively market the above referenced premises for lease to a third party and Tenant shall cooperate with Landlord in allowing access to the premises for showing to third parties without prior notification.

All other terms and conditions of the Lease shall remain the same in full force and effect.

As entered into this 26th day of January, 1998.

LANDLORD:

TASMAN ASSOCIATES,
A California general partnership

By: /s/ James D. Mair

James D. Mair
Its: General Partner

Dated: 2/2/98

TENANT:

TESTDESIGN CORPORATION,
a California corporation

By: /s/ Douglas W. Smith

Douglas W. Smith
Its: President

Dated: 1/26/98

FIRST AMENDMENT

This First Amendment to Lease ("First Amendment") is made by and between TestDesign Corporation, a California corporation ("Tenant") and Tasman Associates, a California general partnership ("Landlord"), as of the date set forth below with reference to the following facts:

A. By Lease Agreement dated January 16, 1998 (the "Lease"), Landlord has leased to Tenant certain property commonly known as 1157 Taxman Drive, Sunnyvale, California.

B. Landlord and Tenant desire to amend the Lease to acknowledge their mutual understanding of the Lease as provided below.

NOW THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Landlord and Tenant mutually agree that the name of Tenant, as defined in the first paragraph of the Lease, shall be changed to inTEST Sunnyvale, a Delaware corporation.

All other terms and conditions of the Lease shall remain the same and in full force and effect.

LANDLORD:

Tasman Associates,
a California general partnership

By: /s/ James D. Mair

Printed: James D. Mair

Its: General Partner

Dated: 2/24/99

TENANT:

inTEST Sunnyvale Corporation,
a Delaware corporation

By: /s/ Douglas W. Smith

Printed: Douglas W. Smith

Its: Executive Vice President,
Chief Operating Officer

Dated: 2/11/99

By: /s/ Hugh T. Regan, Jr.

Printed: Hugh T. Regan, Jr.

Its: Chief Financial Officer

Dated: 2/16/99

LEASE

(NONRESIDENTIAL - SHORT FORM)
CALIFORNIA REAL ESTATE ASSOCIATION STANDARD FORM
THIS IS INTENDED TO BE A LEGALLY BINDING AGREEMENT
- READ IT CAREFULLY -

Sunnyvale, California
June 12, 1998

A. Bogomilsky Lessor, and TestDesign Corporation Lessee, agree as follows:

1. Lessor leases to lessee and lessee hires from Lessor those premises described as: 542 Lakeside Drive, Suites #1,2c,4,5,6,7,8 and 550 Lakeside Drive, Suite #7 together with the following furniture and fixtures: None.
2. It is by mutual agreement between Lessor and Lessee that the above referenced lease shall be for a period of seventeen (17) months, to commence August 1, 1998 and expire December 31, 1999.
3. Lessee is to pay rent as follows: \$11,958.00 per month. (Eleven Thousand Nine Hundred And Fifty-Eight Dollars.) The rent shall be paid at 542 Lakeside Drive, #2A, Sunnyvale, or at any address designated by the lessor in writing.
4. Lessor shall retain Lessee's existing security deposit of \$1,008.00. Said deposit will be returned to to Lessee by Lessor or his successors upon full performance of the terms of this lease.
5. Lessee agrees to pay for all utilities except for water and garbage removal which shall be paid by Lessor.
6. Lessee and Lessor shall provide each other with at least ninety (90) days written notice prior to the end of the lease term of its intention to vacate the above described premises or not renew the lease beyond the end of the lease extension, as the case may be.
7. Lessee has examined the premises and all furniture and fixtures contained therein, and accepts the same as being clean and in good order, condition and repair.
8. The premises are rented for use only as minor electronic parts assembly and offices.
9. Lessee shall not disturb, annoy, endanger or inconvenience other tenants of the building or neighbors, nor use the premises for any immoral or unlawful purposes, nor violate any law or ordinance, nor commit waste or nuisance upon or about the premises.
10. Lessee shall keep the premises rented for his exclusive use in good order and condition and pay for any repairs caused by his negligence or misuse or that of his invitees. Lessor shall maintain any other parts of the property and pay for repairs not caused by negligence or misuse by Lessee or Lessee's invitees.

11. Lessee intends to install an exhaust system in the premises, which will require alterations to the roof membrane to install an exhaust vent. Lessee shall submit plans and the name of its proposed contractor to lessor for approval prior to commencement of the installation and roof alterations. Lessee shall be responsible for any damages caused by making such alterations to the roof. At the end of the lease term, at Lessor's request, Lessee shall, at Lessee's expense, remove the exhaust system from the premises and repair and return the roof to its condition when the alterations were made, reasonable wear and tear since then excepted.

12. Lessee shall not paint or make alterations of the premises without Lessor's prior written consent, except suites 1,2c,4,5,6 may be painted and carpeted at Lessee's expense at any time during Lessee's occupancy.

13. This lease will terminate if the premises become uninhabitable because of dilapidation, condemnation, fire or other casualty for more than 30 days. Rent will be reduced proportionately if the premises are uninhabitable for any shorter period.

14. With Lessee's permission, which shall not be unreasonably withheld, Lessor or his agent shall be permitted to enter to inspect, to make repairs, and to show the premises to prospective tenants or purchasers. In an emergency, Landlord or his agent may enter the premises without securing prior permission from Tenant, but shall give Tenant notice of such entry immediately thereafter.

15. Lessee shall not let or sublet all or any part of the premises nor assign this lease or any interest in it without the prior written consent of Lessor. Lessor's consent thereto shall not be unreasonably withheld.

16. If Lessee abandons or vacates the premises, Lessor may at his option terminate this lease, re-enter the premises and remove all property.

17. The prevailing party may recover from the other party his costs and attorney fees of any action brought by either party to enforce any terms of this lease or recover possession of the premises.

18. Either party may terminate this lease in the event of a violation of any provision of this lease by the other party.

19. Time is of the essence. The waiver by either party of any breach shall be construed to be a continuing waiver of any subsequent breach.

Lessor:

Lessee:

A. BOGOMILSKY
BY:

TESTDESIGN CORPORATION
BY:

/s/ A. Bogomilsky

/s/ Douglas Smith

A. Bogomilsky, Owner

Douglas Smith, President

AMENDMENT TO LOAN DOCUMENTS

THIS AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is made as of October 5, 1998 (but is to be made effective as of June 30, 1998), by and between INTEST CORPORATION, a Delaware corporation (the "Borrower"), and PNC BANK, NATIONAL ASSOCIATION (the "Bank").

WITNESSETH:

WHEREAS, the Borrower has executed and delivered to the Bank a promissory note, loan agreement, security agreements and other agreements, instruments, certificates and documents more fully described on Exhibit A attached hereto and made a part hereof (collectively, the "Loan Documents") which evidence or secure some or all of the Borrower's obligations to the Bank for one or more loans or other extension of credit (the "Obligations"); and

WHEREAS, the Borrower and the Bank desire to (i) extend the maturity date of the Obligations, (ii) amend the financial covenants contained in the Loan Documents, (iii) release the collateral which secures the Obligations, and (iv) make certain other amendments to the Loan Documents, all as provided for below;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Each of the Loan Documents is amended as set forth in Exhibit A attached hereto and made a part hereof. Any and all references to any Loan Document in any other Loan Document shall be deemed to refer to such Loan Document as amended hereby. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the applicable Loan Documents.

2. This Amendment is deemed incorporated into each of the Loan Documents. To the extent that any term or provision of this Amendment is or may be deemed expressly inconsistent with any term or provision in any Loan Document, the terms and provisions hereof shall control.

3. The Borrower hereby represents and warrants that (a) all of its representations and warranties in the Loan Documents, as amended hereby, are true and correct as of the date of this Amendment, (b) no default or Event of Default exists under any Loan Document as of the date of this Amendment, and (c) this Amendment has been duly authorized, executed and delivered by the Borrower and constitutes its legal, valid and binding obligation, enforceable against Borrower in accordance with its respective terms.

4. The Bank hereby confirms that the collateral for the Obligations, is hereby released.

5. This Amendment may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument.

6. This Amendment will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns.

7. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged and in full force and effect and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default or Event of Default thereunder, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). The Borrower expressly ratifies and confirms the confession of judgment and waiver of jury trial provisions contained in the Loan Documents.

WITNESS the due execution hereof as a document under seal, as of the date first written above.

[CORPORATE SEAL]

INTEST CORPORATION

Attest: /s/ Hugh T. Regan, Sr.

By: /s/ Hugh T. Regan, Jr.

Print Name: Hugh T. Regan, Sr.

Print Name: Hugh T. Regan, Jr.

Title: Secretary

Title: Treasurer & CFO

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Denise Viola Monahan

Denise Viola Monahan

EXHIBIT A

AMENDMENT TO LOAN DOCUMENTS

- A. The "Loan Documents" that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):
1. Amended and Restated Loan Agreement dated as of June 30, 1996 (the "Agreement")
 2. Extension Letter dated May 31, 1997
 3. Amended and Restated Committed Line of Credit Note dated June 30, 1996 (the "Note")
 4. Amended and Restated Security Agreement dated as of June 30, 1996 (the "Security Agreement")
 5. Equipment Security Agreement dated August 15, 1996 (the "Equipment Security Agreement")
 6. Assumption Agreement dated as of April 30, 1997.
- B. The Loan Documents are hereby amended as follows:
1. The Expiration Date, as set forth in the Note, is hereby extended from June 30, 1998 to June 29, 1999, or such later date as may be designated by the Bank by written notice from the Bank to the Borrower, effective on July 1, 1998.
 2. A new Section 3.15 is added to the Agreement to read as follows:

"Section 3.15. Year 2000. The Borrower has reviewed the areas within its business and operations which could be adversely affected by, and has developed or is developing a program to address on a timely basis the risk that certain computer applications used by the Borrower may be unable to recognize and perform properly date-sensitive functions involving dates prior to and after December 31, 1999 (the "Year 2000 Problem"). The Year 2000 Problem will not result, and is not reasonably expected to result, in any material adverse effect on the business, properties, assets, financial condition, results of operations or prospects of the Borrower, or the ability of the Borrower to duly and punctually pay or perform its obligations hereunder and under the other Loan Documents."
 3. The financial and other covenants contained in the Addendum to the Agreement are hereby amended and restated in their entirety as set forth in Schedule I attached hereto and made a part hereof.
 4. The Security Agreement and the Equipment Security Agreement are hereby cancelled and of no further force or effect. The Bank agrees to deliver to the Borrower (for filing by the Borrower), UCC-3 termination statements for all security interests filed by the Bank against the assets of the Borrower as security for the Obligations.

Exhibit 21

Subsidiaries of the Registrant

Name of Subsidiaries and Names
Under Which Subsidiaries Do Business

Jurisdiction of Incorporation

inTEST Limited
inTEST Kabushiki Kaisha
inTEST PTE, Ltd.
inTEST Investments, Inc.
inTEST IP Corp.
inTEST Licensing Corp.
inTEST Sunnyvale Corp.

England
Japan
Singapore
Delaware
Delaware
Delaware
Delaware

Consent of Independent Auditors

The Board of Directors and Stockholders
inTEST Corporation

We consent to incorporation by reference in the registration statement (No. 333-44059) on Form S-8 of inTEST Corporation of our report dated February 19, 1999, relating to the consolidated balance sheets of inTEST Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, and the related schedule, which report appears in the December 31, 1998, annual report on Form 10-K of inTEST Corporation.

KPMG LLP

Philadelphia, Pennsylvania
March 25, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE 1997 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

0001036262
INTEST CORPORATION

1,000
USD

12-MOS

	DEC-31-1998	
	JAN-01-1998	
	DEC-31-1998	
	1	8,468
	0	
	3,275	
	168	
	2,521	
	15,304	1,913
	1,078	
	23,218	
1,992		0
0		0
		65
	21,161	
23,218		19,075
	19,075	8,402
	8,155	
	3	
	(5)	
	3	
	3,026	
	1,099	
1,927		0
	0	
		0
	1,927	
	.31	
	.31	