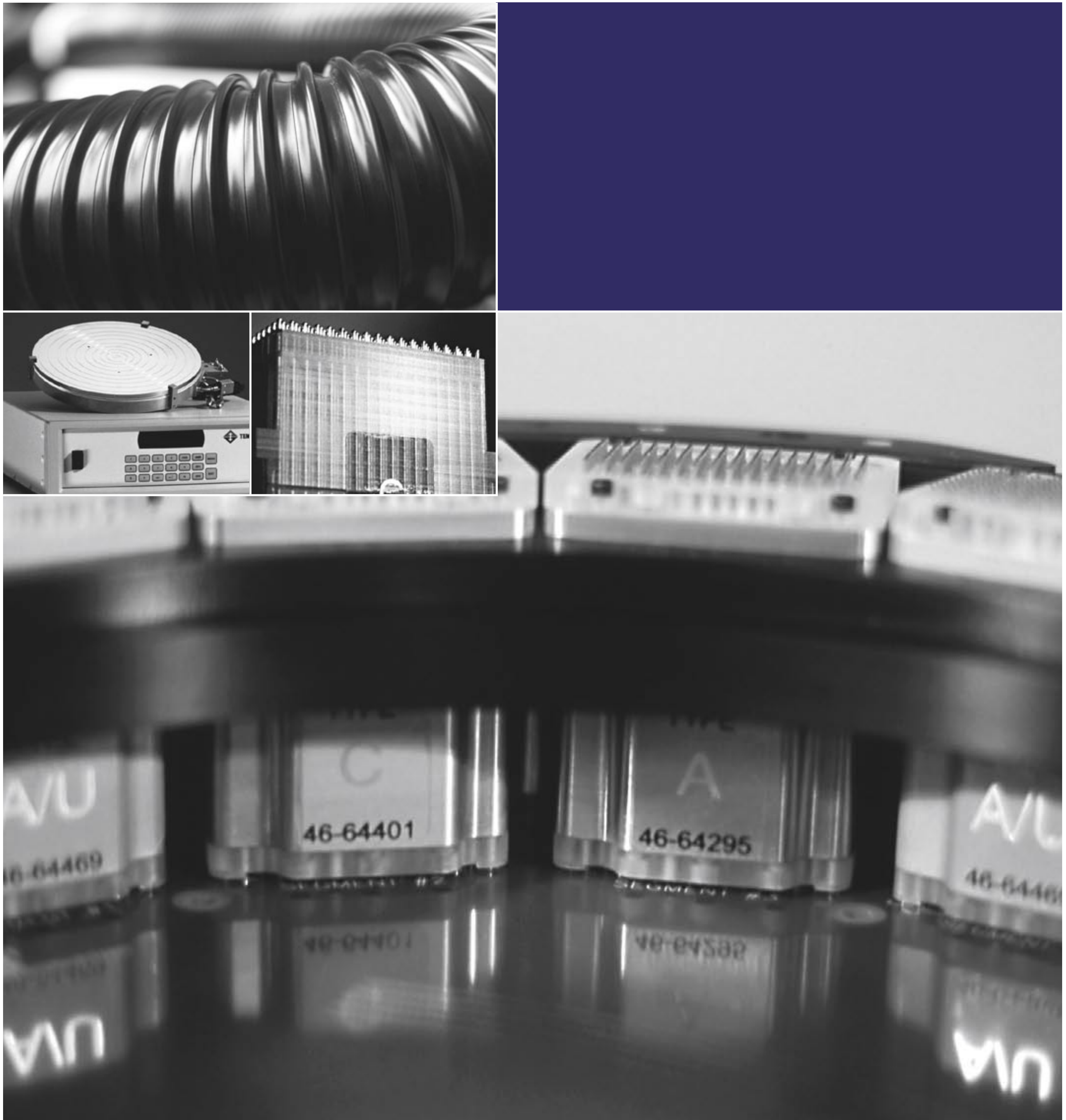
BUILDING ON A SOLID FOUNDATION

25 Years of Innovation & Service

2006 Annual Report

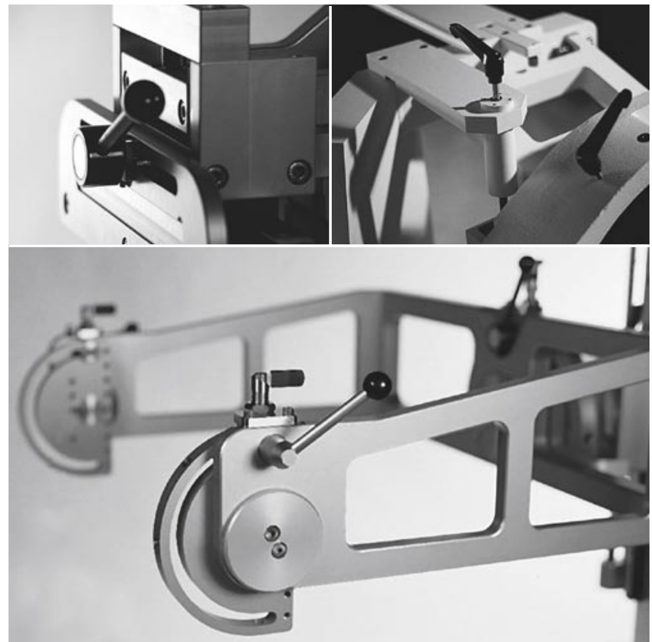


inTEST Corporation

COMPANY PROFILE

inTEST Corporation (Nasdaq: INTT) is an independent designer, manufacturer and marketer of ATE (Automatic Test Equipment) interface solutions and temperature management products used by semiconductor manufacturers to perform final testing of integrated circuits (ICs) and electronic assemblies. Our high-performance products are designed to enable semiconductor manufacturers to improve the speed, reliability, efficiency and profitability of IC test processes. Specific products include test head manipulators and docking hardware products, temperature management systems and customized interface solutions. We have established strong relationships with semiconductor manufacturers and ATE manufacturers globally, which we support through a network of local offices. Our largest customers include Analog Devices, Inc., Cascade Microtech Inc., Credence Systems Corporation, Finisar Corporation, Hakuto Co., Ltd., LTX Corporation, Sony Corporation, STMicroelectronics N.V., Teradyne, Inc., and Texas Instruments Incorporated.

Headquartered in Cherry Hill, New Jersey, inTEST has approximately 230 highly skilled and trained technical personnel. We have manufacturing facilities in New Jersey, Massachusetts, California, Germany and Singapore. We also have sales, service and support offices in Japan, the U.K. and Germany, with additional support personnel in other key semiconductor manufacturing areas around the world.

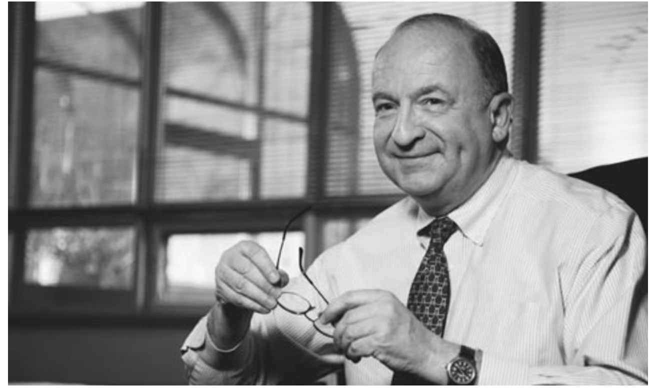


SELECTED FINANCIAL DATA

The following table contains certain selected consolidated financial data of inTEST and is qualified by the more detailed Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report to Stockholders 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 to Stockholders.

Years Ended December 31, (in thousands, except per share data)	**2006**	2005	2004	2003	2002
Condensed Consolidated Statement of Operations Data:					
Net revenues	**$62,346**	$53,359	$71,211	$48,028	$47,127
Gross margin	**26,394**	19,780	28,869	18,892	18,291
Operating income (loss)	**3,520**	(3,580)	1,745	(3,791)	(1,754)
Net earnings (loss)	**2,871**	(3,620)	1,270	(5,451)	(283)
Net earnings (loss) per common share:					
Basic	**$ 0.32**	$ (0.41)	$ 0.15	$ (0.65)	$ (0.03)
Diluted	**$ 0.31**	$ (0.41)	$ 0.14	$ (0.65)	$ (0.03)
Weighted average common shares outstanding:					
Basic	**9,047**	8,807	8,480	8,332	8,317
Diluted	**9,188**	8,807	8,804	8,332	8,317

As of December 31, (in thousands)	**2006**	2005	2004	2003	2002
Condensed Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$13,174**	$ 7,295	$ 7,686	$ 5,116	$ 8,145
Working capital	**20,393**	16,195	18,428	15,670	19,765
Total assets	**35,759**	30,869	33,167	29,977	32,582
Long-term debt, net of current portion	**16**	23	47	117	210
Total stockholders' equity	**26,822**	22,806	26,118	22,591	27,357



ROBERT E. MATTHIESSEN *President & CEO*

DEAR STOCKHOLDERS

This is inTEST's 25th anniversary, and I think it is worth looking back over those years.

BRIEF REVIEW OF FIRST 25 YEARS

inTEST Corporation was founded by Alyn Holt, Daniel Graham and Stuart Daniels in 1981. Initially, the company operated out of Mr. Holt's home. In short order, the company moved to an industrial park in Cherry Hill, NJ, in which the parent corporation still operates.

The founders' vision was to create a semiconductor equipment company that was on the forefront of technology. This has been the case as we have, in the intervening years, been granted 54 patents. And the pace continues with another 19 patents pending in the U.S. and abroad at this time.

The founders also recognized that to be truly effective in the semiconductor business, the company would need facilities in key parts of the world. Thus, our international growth commenced.

We established inTEST Ltd in the UK in 1985. This was a full sales, applications, service and manufacturing facility in Thame, England, when originally founded. These capabilities have since been moved to Amerang, Germany, as part of our INTESTLOGIC operation.

We established inTEST KK in Japan in 1987. This is a sales, applications and service office that in addition to supporting inTEST products, also sells complementary products of other manufacturers into the Japanese market.

We established inTEST Pte in Singapore in 1990. This is a full sales, applications, service and light manufacturing facility serving Southeast Asia.

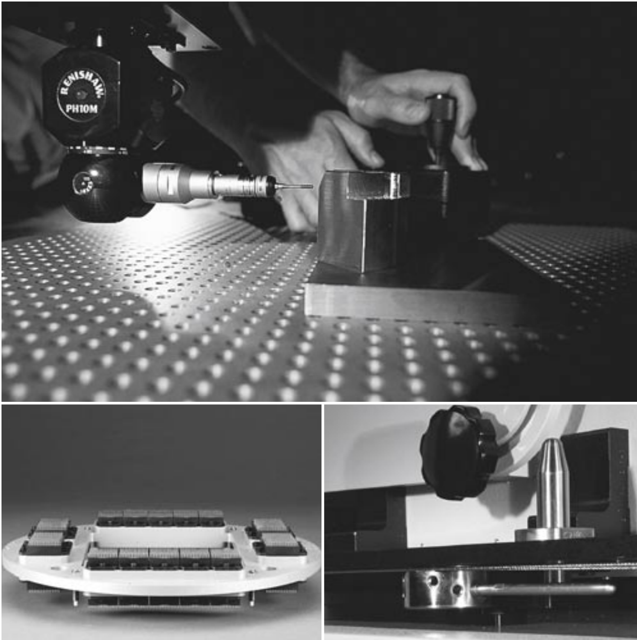
In late 1996, it was decided that the best way to continue the company's growth was to become a public corporation. In June of 1997, we completed our IPO and began trading on the NASDAQ.

Approximately one year after going public, we acquired TestDesign Corporation in 1998, which is now our inTEST Silicon Valley group in San Jose, CA, responsible for our tester interface business.

We next acquired Temptronic Corporation in 2000, adding thermal products to our product offerings. They are located in Sharon, MA, and have an additional sales, service and distribution facility in Muellrose, Germany.

Our most recent acquisition was in 2002 when we acquired Intelogic Technologies GmbH in Rosenheim, Germany, since renamed INTESTLOGIC GmbH. They brought us expertise in pneumatics as applied to test head manipulators, as well as a manufacturing and design foothold on the European continent. This is a full sales, service, applications and manufacturing facility. In late 2006, we relocated INTESTLOGIC to larger and more modern facilities in Amerang, Germany.

2004 and 2005 were very bumpy years in the semiconductor equipment business which led to significant restructuring at inTEST to enable us to become more competitive. The restructuring included reduction of workforce, reorganization of business units, and the closing of our UK manufacturing facilities in England in order to concentrate all European manufacturing at INTESTLOGIC. These economies lowered our costs of operation and made us a leaner and more responsive organization.



2006 IN REVIEW

We entered 2006 on a business upswing that plateaued at mid-year, and then turned to a gradual downswing during the last two quarters. Even so, December 31, 2006, marked the culmination of the sixth consecutive profitable quarter for inTEST Corporation, thus validating our restructuring efforts of the previous two years. We are realists and expect that the up-down cycles associated with the semiconductor equipment business will endure for the foreseeable future. That being the case, we are committed to continuing the optimization of our business model in order to grow while generating profits.

OUR OPERATING SEGMENTS

The Manipulator and Docking Hardware segment continued its legacy of designing and introducing leading-edge test head manipulators. The Cherry Hill group developed a "prober-only-manipulator." It provides a very attractive low-cost, small-footprint, pneumatically-powered solution for wafer test. INTESTLOGIC designed and developed the Aero 650, a pneumatically-powered universal manipulator for larger test heads weighing up to 1,400 pounds. Initial feedback shows enthusiastic interest in this product.

Although our Tester Interface segment did not turn a profit for the year, they made some significant progress on projects that should bear fruit in 2007. inTEST Silicon Valley designed, developed and shipped the highest pin-count interface in their history, in excess of 2,000 pins, for the Verigy 93000 SOC tester. They also landed a project with a major customer for interfaces for testing LCD drivers. Another milestone was their first major contract with a customer in China.

Temptronic, our Temperature Management segment, continued their evolutionary enhancements to the product line. They introduced Mobile Temperature Systems combining a family of portable temperature chambers with their ThermoStream products to increase penetration outside of the semiconductor market. They also upgraded some of the ThermoStream products for higher reliability and improved performance, as well as extending the range of the product line with the introduction of a -90 degree Centigrade ThermoStream. Additionally, Temptronic strengthened their sales management by restructuring into three regions, North America, Asia and Europe, each managed by an experienced sales executive.

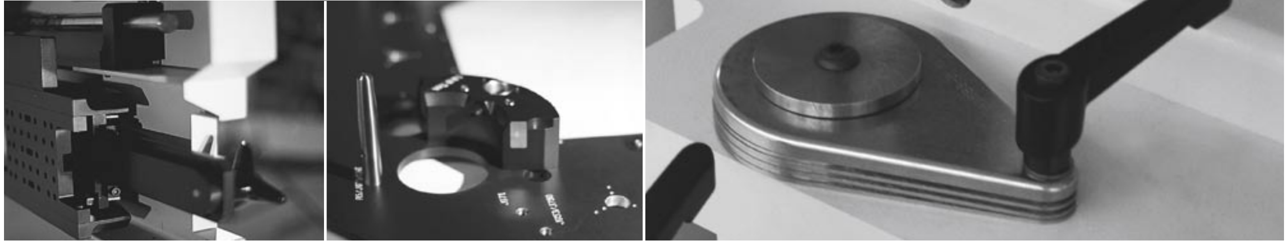
THE FUTURE

We will continue our efforts to grow the business internally as well as through merger or acquisition with the ultimate goal of improving shareholder value. As always, we will maintain the highest ethical standards in our relationships with employees, customers, shareholders and the public at large. And we will strive to exceed both customer and shareholder expectations.

All of us at inTEST thank you for your support.

Sincerely,

ROBERT E. MATTHIESSEN
President & Chief Executive Officer
April 30, 2007



CELEBRATING 25 YEARS OF ACHIEVEMENT

1981 inTEST Corporation was founded by Alyn Holt, Daniel Graham and Stuart Daniels to create a semiconductor equipment company that was on the forefront of technology.

1982 First patent filed for with the U.S. Patent and Trademark Office on the in2 test head manipulator and docking hardware apparatus.

1985 Established inTEST Ltd, located in Thame, England. This operation was a full sales, applications, manufacturing and service facility serving the European market, whose capabilities have since been moved to Amerang Germany as part of our INTESTLOGIC operation.

1987 Established inTEST KK, located in Tokyo, Japan. This operation is a sales, applications and service office that supports inTEST products as well as complimentary products of other ATE manufacturers in the Japanese market.

1990 Established inTEST Pte, located in Singapore. This operation is a full sales, applications, manufacturing and service facility serving the Southeast Asian market.

1997 Completed the Initial Public Offering of inTEST Corporation on the NASDAQ with the sale of 1.82 million shares which raised approximately $11.7 million.

1998 Acquired TestDesign Corporation, located in San Jose, California. This operation, which was renamed inTEST Silicon Valley, manufactures and markets tester interface products.

2000 Acquired Temptronic Corporation, which manufactures and markets temperature management products. This operation, which is located in Sharon, Massachusetts, has a sales, service and distribution facility located in Muellrose, Germany.

2002 Acquired Intelogic Technologies GmbH, a manufacturer of manipulators and docking hardware. This operation, since renamed INTESTLOGIC GmbH and located in Amerang Germany, brought inTEST Corporation expertise in pneumatics as applied to manipulator products.

OVERVIEW

Our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. In the past, the semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have a severe impact on the semiconductor industry's demand for ATE, including the products we manufacture. This can cause wide fluctuations in both our orders and net revenues and, depending on our ability to react quickly to these shifts in demand, can significantly impact our results of operations. These industry cycles are difficult to predict. Because the industry cycles are generally characterized by sequential quarterly growth or declines in orders and net revenues throughout the cycle, year over year comparisons of operating results may not always be as meaningful as comparisons of periods at similar points in either up or down cycles. In addition, during both downward and upward cycles in our industry, while the general trend over several quarters tends to be one of either growth or decline, in any given quarter, the trend in both our orders and net revenues can be erratic. This can occur, for example, when orders are canceled or currently scheduled delivery dates are accelerated or postponed by a significant customer or when customer forecasts and general business conditions fluctuate during a quarter.

We believe that purchases of most of our products are typically made from semiconductor manufacturers' capital expenditure budgets. Certain portions of our business; however, are generally less dependent upon the capital expenditure budgets of the end users. For example, purchases of certain related ATE interface products, such as sockets and interface boards, which must be replaced periodically, are typically made from the end users' operating budgets. In addition, purchases of certain of our products, such as docking hardware, for the purpose of upgrading or improving the utilization, performance and efficiency of existing ATE, tend to be counter cyclical to sales of new ATE. Moreover, we believe a portion of our sales of temperature management systems results from the increasing need for temperature testing of circuit boards and specialized components that do not have the design or quantity to be tested in an electronic device handler. In addition, in recent years we have begun to market our temperature management systems in industries outside semiconductor test, such as the automotive, aerospace, medical and telecommunications industries. We believe that these industries usually are less cyclical than the ATE industry.

NET REVENUES AND ORDERS

The following table sets forth, for the periods indicated, a breakdown of the net revenues from unaffiliated customers both by product segment and geographic area (based on the location of the selling entity).

	Years Ended December 31,		
	2006	2005	2004
Net revenues from unaffiliated customers:			
Manipulator/Docking Hardware	**$ 35,244**	$28,838	$38,414
Temperature Management	**22,794**	19,967	22,581
Tester Interface	**7,328**	6,778	13,516
Intersegment sales	**(3,020)**	(2,224)	(3,300)
	$ 62,346	$53,359	$71,211
Intersegment sales:			
Manipulator/Docking Hardware	**$ 4**	$ 1	$ 53
Temperature Management	**2,475**	1,863	1,599
Tester Interface	**541**	360	1,648
	$ 3,020	$ 2,224	$ 3,300
U.S.	**$ 42,559**	$36,894	$54,123
Europe	**5,742**	6,050	7,343
Asia-Pacific	**14,045**	10,415	9,745
	$ 62,346	$53,359	$71,211

Our consolidated net revenues for the year ended December 31, 2006 increased $9.0 million or 17% as compared to 2005. During 2006, our consolidated net revenues peaked during the second quarter of the year when they totaled $18.9 million. During both the third and fourth quarters of 2006, our quarterly consolidated net revenues declined with net revenues during the third quarter totaling $16.6 million, and net revenues in the fourth quarter totaling $13.2 million. We attribute the strength in the second quarter of 2006 in part to the fact that we had several customers place large orders which were booked and shipped during the second quarter. In addition, we believe the industry up cycle peaked during the second quarter of 2006. The subsequent declines we experienced during the balance of the year in the levels of both our orders and net revenues were more significant in our manipulator/docking hardware and tester interface product segments than for our temperature management segment where we have continued to experience increased success in selling these products in markets which we believe to be less cyclical than the semiconductor test industry. Partially offsetting the decline in net revenues within our manipulator/docking hardware product segment during the

second half of 2006 was continued strong demand for certain third-party products we distribute through our operation in Japan, which is included in this segment.

Total orders for the year ended December 31, 2006 increased to $61.2 million on a consolidated basis as compared to $53.6 million for 2005. For our manipulator/docking hardware, temperature management and tester interface product segments, total orders for 2006 were $33.9 million, $20.7 million and $6.6 million, respectively, compared to $29.0 million, $17.9 million and $6.7 million, respectively, for 2005. Similar to the trend in our net revenues, the second quarter of 2006 represented the peak for our orders during the year with total orders of $20.4 million on a consolidated basis. For the third and fourth quarters of 2006, our orders declined to $13.0 million and $12.2 million, respectively. We believe the decline in our orders during the second half of 2006 indicates that we are in the down portion of this business cycle. We cannot be certain what the level of our orders or net revenues will be in any future period.

BACKLOG

At December 31, 2006, our backlog of unfilled orders for all products was approximately $4.8 million compared with approximately $6.0 million at December 31, 2005. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2007. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

COST CONTAINMENT AND ORGANIZATIONAL CHANGES

In response to the cyclical nature of the ATE market in which we operate, we have taken various actions to restructure our operations in recent years. The goal of these actions was to significantly reduce our fixed operating costs and position ourselves to more effectively meet the needs and expectations of the cyclical ATE market. The most recent actions (during late 2004 and 2005) included organizational changes which allowed us to eliminate certain central corporate staff as well as workforce reductions and facility closures which allowed us to eliminate excess manufacturing capacity at certain of our locations.

In addition, during periods of significant weakened demand, such as in late 2004, we also implemented headcount reductions and salary and benefit adjustments as temporary cost-saving measures which we have reinstated as warranted by increases in our sales levels and profitability. This includes the restoration on April 1, 2006 of the salaries for certain staff in our manipulator/docking hardware product segment which had been reduced in late 2004. In addition, on July 1, 2006, we reinstated our employer 401(k) matching contribution and increased salaries for most of our domestic staff, the majority of whom had not had salary increases in two years. Total 401(k) employer match expense incurred in 2006 was $242,000. Additional information regarding the various restructuring plans implemented in recent years, including the costs incurred, is set forth in Note 10 to the consolidated financial statements.

As of December 31, 2005, the only restructuring plan which was not completed was the closure of our U.K. manufacturing operation. We announced the closure of this operation in mid-March 2005 and ceased manufacturing operations at this facility during the second quarter of 2005. In November 2006, we entered into an agreement to sub-lease the facility where this operation had been located. During the fourth quarter of 2006, we finalized this sub-leasing arrangement. As of December 31, 2006, there are no accruals remaining related to the closure of this operation as all aspects of the closure are now complete. As a part of the sub-lease agreement; however, we remain obligated for the lease payments in the event the sub-lessee defaults. This guaranty obligation is more fully discussed below in the Liquidity and Capital Resources section. Our U.K. operation is included in our manipulator/docking hardware segment.

We believe the actions taken in recent years to reorganize and decentralize our operations have made us a more competitive company and have positioned us to adapt more quickly to new market challenges and opportunities through continued research and development as well as strategic merger and acquisition activities. As part of our continuing focus to determine methods to increase our profitability worldwide while operating in the cyclical ATE market, we intend to continue reviewing and evaluating actions that could better match our operating costs against our anticipated future revenue and product demand as we pursue additional growth opportunities.

EXCESS AND OBSOLETE INVENTORY CHARGES

On a quarterly basis, we review our inventories and record charges for excess and obsolete inventory based upon our established objective excess and obsolete inventory criteria.

These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current industry conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The excess and obsolete inventory charges we record establish a new cost basis for the related inventory. See also the section entitled "Critical Accounting Policies."

We incurred charges for excess and obsolete inventory of $431,000, $1.0 million and $1.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The level of these charges was based upon a variety of factors, including changes in demand for our products and new product designs. The downward trend in our excess and obsolete inventory charges has been driven by a number of factors, including the stronger demand for our products during the recent up cycle as well as more efficient inventory management. The charges for 2005 included approximately $173,000 related to the remaining inventory located at our U.K. manufacturing operation which was closed as of June 30, 2005, as previously discussed. The higher level of inventory obsolescence charges during 2004 was primarily the result of customer order cancellations after we had already purchased inventory to fulfill the orders and where that inventory could not be used in other products we manufacture due to its highly customized nature. In addition during 2004, we had increases in our reserves for excess quantities related to materials that were purchased based upon forecasted orders which did not materialize. During the fourth quarter of 2004, management made the determination to curtail the practice of purchasing significant amounts of inventory against forecasted orders due to the increased level of uncertainty in our current business outlook. However, in the future, we may determine that it is appropriate to increase the level of such purchases based on a variety of factors, including, but not limited to, general market conditions and the specific delivery requirements of our customers. See also the section entitled "Critical Accounting Policies."

During the years ended December 31, 2006, 2005 and 2004, we utilized $335,000, $239,000 and $173,000, respectively, of material in production that had been written off as obsolete in prior periods. When previously written off inventory material is used in production, it has a zero cost basis and as a result, has the impact of improving our gross margin in the period used. For the years ended December 31, 2006, 2005 and 2004, the use of previously obsolete inventory materials did not materially change our gross margin.

PRODUCT WARRANTY CHARGES

We accrue product warranty charges quarterly, based upon our historical claims experience. In addition, from time to time, we accrue additional amounts based upon known product warranty issues, such as product retrofits. For the years ended December 31, 2006, 2005 and 2004, our product warranty charges were $378,000, $549,000 and $2.0 million, or 0.6%, 1.0% and 2.8% of net revenues, respectively. The downward trend in our product warranty charges has been driven by a number of factors including recent improvements in product quality as well as the fact that there were no introductions of new product families in 2006 and 2005 in our manipulator/docking hardware segment. The higher levels of product warranty charges in 2004 were the result of specific product retrofits and other costs associated with several products we sold to certain ATE manufacturers. There were no similar known product retrofit warranty issues for which we needed to record additional specific product warranty accruals in 2006 or 2005. The level of our product warranty charges both in absolute dollars and as a percentage of net revenues is affected by a number of factors including the cyclicality of demand in the ATE industry, the prototype nature of much of our business, the complex nature of many of our products, the introduction of new product families which typically have higher levels of warranty claims than existing product families, and, at our discretion, providing warranty repairs or replacements to customers after the contracted warranty period has expired in order to promote strong customer relations. See also "Critical Accounting Policies."

PRODUCT/CUSTOMER MIX

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

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

We sell our products to both semiconductor manufacturers (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. For the years ended December 31, 2006, 2005 and 2004, our OEM sales as a percentage of net revenues were 23%, 22% and 39%, respectively.

The impact of an increase in OEM sales as a percentage of net revenues is generally a reduction in our gross margin, as OEM sales historically have had a more significant discount than end user sales. Our current net operating margins on most OEM sales for these product segments; however, are only slightly less than margins on end user sales because of the payment of third-party sales commissions on most end user sales. We also expect to continue to experience demands from our OEM customers' supply line managers to reduce our sales prices to them. This continued price pressure may have the ultimate effect of reducing our gross and operating margins if we cannot further reduce our manufacturing and operating costs.

RISK FACTORS

Please see Item 1A "Risk Factors" in our 2006 Annual Report on Form 10-K for a discussion of other important factors that could cause our results to differ materially from our prior results or those expressed or implied by our forward-looking statements.

RESULTS OF OPERATIONS

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

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

	Percentage of Net Revenues Years Ended December 31,		
	2006	2005	2004
Net revenues	**100.0%**	100.0%	100.0%
Cost of revenues	**57.7**	62.9	59.5
Gross margin	**42.3**	37.1	40.5
Selling expense	**14.4**	16.8	17.1
Engineering and product development expense	**8.7**	11.1	9.1
General and administrative expense	**13.6**	14.7	11.0
Restructuring and other charges	**0.0**	1.1	0.9
Operating income (loss)	**5.6**	(6.6)	2.4
Other income (loss)	**0.8**	0.3	(0.1)
Earnings (loss) before income taxes	**6.4**	(6.3)	2.3
Income tax expense	**1.8**	0.5	0.5
Net earnings (loss)	**4.6%**	(6.8)%	1.8%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Revenues. Net revenues were $62.3 million for 2006 compared to $53.4 million for 2005, an increase of $9.0 million or 17%. We believe the increase in our net revenues reflects the aforementioned higher level of demand experienced in 2006, particularly in the second quarter of the year, compared to weaker cyclical demand during most of 2005. During 2006, the net revenues (net of intersegment sales) of our manipulator/docking hardware, temperature management and tester interface product segments increased 22%, 12% and 6%, respectively, as compared to 2005. We attribute the larger percentage increase in our manipulator/docking hardware product segment to the aforementioned strong demand for certain third-party products in Japan. We attribute the lower percentage increase in the net revenues of our tester interface segment to continued strong competition within this market as well as a more significant slowdown in the business of several of the major customers of this segment.

During 2006, our net revenues from customers in the U.S. and Asia increased 15% and 35%, respectively, while our net revenues from customers in Europe declined 5% over the comparable period in 2005. As previously mentioned, during 2005, we closed our U.K. manufacturing operation. When adjusted to exclude the sales of our U.K. operation in 2005, net revenues from customers in Europe increased 7% during 2006 as compared to 2005. The smaller percentage increase for our European customers reflects the fact that sales of temperature management products represent a higher percentage of our total European sales than of our domestic sales, and, as previously discussed, sales of our temperature management products have not been as significantly impacted by the changes in demand in the semiconductor industry. In addition, the lower percentage increase in sales to European customers can also be attributed to the fact that the sales of our Intestlogic operation in southern Germany increased only 4% in 2006 as compared to 2005. Sales of this subsidiary have also been less impacted by the changes in demand within the industry, decreasing only 5% in 2005 as compared to 2004. We believe this reflects strong customer acceptance of the products manufactured by this subsidiary. The higher percentage increase for our customers in Asia primarily reflects an increase in sales of third-party products by our Japanese subsidiary as well as increases in sales of temperature management products by our subsidiary in Singapore. In addition, some of the sales which would have historically been generated by our U.K. manufacturing operation were shifted to the operation in Singapore during 2006.

Gross Margin. Gross margin was 42% for 2006 as compared to 37% for 2005. The increase in gross margin was primarily the result of a reduction in our fixed operating costs both in absolute dollar terms and as a percentage of net revenues. To a lesser extent, we also had a reduction in charges for excess and obsolete inventory in 2006 as compared to 2005. In absolute dollar terms, our fixed operating costs decreased $386,000 during 2006 as compared to 2005. This decrease was primarily due to lower depreciation expense as a result of our lower fixed asset base as of December 31, 2006 compared to December 31, 2005. In addition, there was also a decrease in our insurance premiums which was a result of several factors including the lower fixed asset base, lower total average headcount for certain operations and the closure of our U.K. manufacturing operation. The decrease in our fixed operating costs in absolute dollar terms combined with the higher net revenue levels in 2006 as compared to 2005 led to the overall decrease in fixed operating costs as a percentage of net revenues from 19% in 2005 to 16% in 2006. Our excess and obsolete inventory charges totaled $431,000, or less than 1% of net revenues, for 2006 as compared to $1.0 million, or 2% of net revenues, for 2005. We attribute the reduction in excess and obsolete inventory charges primarily to our continued efforts to more closely manage our inventory levels and purchasing policies to minimize our risk in this area.

Selling Expense. Selling expense was $9.0 million for 2006 compared to $8.9 million for 2005, an increase of $27,000 or less than 1%. During 2006, there were increases in travel costs, fees paid to third parties for installation of our products at customer sites, primarily in Asia, and sales commissions. The increase in travel costs primarily reflects more overseas trips to visit various customers in Asia and Europe. The increase in installation costs primarily represents instances where our internal sales people were not available to perform an installation at a customer site. In these situations, our practice is to hire a third-party to perform the installation for us. As our overseas business has grown, we have experienced more instances where we do not have internal sales personnel readily available to perform installations overseas. The increase in sales commissions reflects the increase in the level of sales during 2006 as compared to 2005. These increases were offset primarily by decreases in expenditures related to certain limited duration marketing programs that were in place in early 2005 in our temperature management product segment, lower levels of product warranty expense, and a reduction in expenditures for demonstration equipment in 2006 as compared to 2005.

Engineering and Product Development Expense. Engineering and product development expense was $5.4 million for 2006 compared to $5.9 million for 2005, a decrease of $502,000 or 8%. We attribute the decrease primarily to the receipt of reimbursement payments totaling $700,000 during the first half of 2006 for engineering services under a contract with one of the customers of our tester interface product segment. Under this contract we received payments based on achieving various milestones (as defined in the contract) related to specified product redesign activities. This contract ended during the second quarter of 2006, and no further payments will be received. In addition, expenditures for third-party consultants decreased during 2006 as compared to 2005. These third-party consultants had been retained to assist in new product development efforts during 2005 for our tester interface product segment. These decreases were offset primarily by higher salary and benefits expense and increased spending on research and development materials during 2006 as compared to 2005. The increase in salary and benefits expense was due to hiring additional staff at our tester interface and temperature management product segments as well as the restoration of certain salaries and benefits. The increase in staff at our tester interface product segment primarily related to the engineering services contract

previously discussed. When this contract ended, certain staff members were either terminated or, in some cases, re-assigned to other projects. The increase in spending on research and development materials was related to various new product development projects primarily in our temperature management and manipulator/docking hardware product segments.

General and Administrative Expense. General and administrative expense was $8.5 million for 2006 compared to $7.8 million for 2005, an increase of $610,000 or 8%. The increase was primarily driven by an increase in salary and benefits expense which reflects the restoration of certain salaries and benefits in April and July 2006, as previously mentioned, as well as the hiring of some additional staff. To a lesser extent, we incurred additional professional fees related to audit, tax and other compliance work where we utilize the assistance of third-party professionals. The increase in these fees primarily reflects the growing number and complexity of the various accounting and other compliance matters that we encounter in the normal course of running our business. Finally, the amount of performance-based bonuses we accrued in 2006 increased as compared to 2005 which reflects our positive results for 2006.

Restructuring and Other Charges. Restructuring and other charges were $23,000 for 2006 compared to $572,000 for 2005, a decrease of $549,000. The restructuring and other charges recorded during 2006 related to finalizing the sub-lease agreement for the facility where our U.K. manufacturing operation was located prior to its closure in mid-2005. The restructuring and other charges recorded during 2005 consisted of $234,000 in severance and related costs and $303,000 in lease termination costs resulting from the closure of this same operation. In addition, we incurred $35,000 in severance and related costs associated with a workforce reduction at our facility in San Jose, California, in 2005.

Other Income. Other income was $470,000 for 2006 compared to $124,000 for 2005, an increase of $346,000. The increase primarily reflects higher interest income, which was the result of both higher average cash balances and an increase in the rate of return earned on such balances, combined with a reduction in foreign exchange transaction losses. The reduction in foreign exchange transaction losses was primarily the result of a $167,000 foreign currency translation adjustment related to the final dissolution of our U.K. operation which was completed during the fourth quarter of 2006.

Income Tax Expense. For 2006, we recorded income tax expense of $1.1 million compared to $236,000 for 2005. Our effective tax rate was 28% for 2006 compared to (7)% for 2005. The increase in our effective tax rate during 2006 as compared to 2005 reflects that a higher proportion of our taxable income for 2006 was generated by certain of our foreign operations where we do not have a history of operating losses and therefore do not have net operating loss carryforwards to offset income tax expense on those earnings. In addition, during 2005 we recorded an income tax benefit related to a domestic income tax refund we received during the year. Due to our history of operating losses in our other operations, we have recorded a full valuation allowance against all domestic and certain foreign deferred tax assets, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Revenues. Net revenues were $53.4 million for 2005 compared to $71.2 million for 2004, a decrease of $17.9 million or 25%. Late in the third quarter of 2004, we began to see a decline in demand, and we believe the decrease in our net revenues for 2005 reflects the weaker cyclical demand during 2005 as compared to most of 2004. For 2005, the net revenues (net of intersegment sales) of our manipulator/docking hardware, temperature management and tester interface segments decreased $9.5 million or 25%, $2.9 million or 14% and $5.5 million or 46%, respectively, over the comparable period in 2004. We believe the larger percentage decreases in our manipulator/docking hardware and tester interface segments reflect the decreased production requirements of our customers during 2005, and that the smaller percentage decrease in the sales of our temperature management segment reflects the fact that these products are used in less cyclical non-production environments, such as research and development laboratories, as well as in industries outside of semiconductor test. The larger percentage decline in the net revenues of our tester interface segment also reflects increased competition during 2005. This led to significant downward pressure on pricing and, in some cases, we chose not to bid on business rather than sell at prices where we would not be assured of positive margins. Instead, this segment focused on new product development areas during 2005.

During 2005, our net revenues from customers in the U.S. and Europe decreased 32% and 18%, respectively, and our net revenues from customers in Asia increased 7% over the comparable period in 2004. The smaller percentage decline for our European customers reflects the fact that sales of temperature management products represent a higher percentage of our total European sales than they do of our domestic sales, and, as previously discussed, sales of our temperature management products have not been as significantly impacted by the weakened demand in the industry. In addition, the lower percentage

decline in sales to European customers can also be attributed to the fact that the sales of our Intestlogic operation in southern Germany decreased only 5% in 2005 as compared to 2004. We believe this reflects strong customer acceptance of the products manufactured by this subsidiary. The increase for our customers in Asia primarily reflects an increase in sales of third-party products by our Japanese subsidiary in 2005 as compared to 2004.

Gross Margin. Gross margin was 37% for 2005 as compared to 41% for 2004. The decline in gross margin was primarily the result of our fixed operating costs not being as fully absorbed in 2005 due to the significantly lower net revenue levels as compared to 2004. As a percentage of net revenues, our fixed operating costs were 19% and 16% for 2005 and 2004, respectively. In absolute dollar terms, our fixed operating costs decreased $1.5 million during 2005 as compared to 2004. This decrease was primarily due to lower salary and benefits expense as a result of the cost containment initiatives we put into place during late 2004 and early 2005. This decrease was partially offset by a reduction in the utilization rates of our internal machine shop operations in both our Cherry Hill, New Jersey and our San Jose, California facilities, as well as an increase in our insurance premiums. Our component material costs were 39% for 2005 as compared to 38% for the comparable period in 2004. We attribute the increase in component material costs primarily to product mix. Our excess and obsolete inventory charges totaled $1.0 million, or 2% of net revenues, for 2005 as compared to $1.4 million, or 2% of net revenues, for 2004. Finally, although the absolute dollar value of direct labor decreased by $485,000 for 2005 as compared to 2004, as a percentage of net revenues, direct labor remained consistent at 3% for both years due to the significantly lower net revenue levels in 2005 as compared to 2004. We attribute the decrease in the absolute dollar value of direct labor to the aforementioned cost containment initiatives.

Selling Expense. Selling expense was $8.9 million for 2005 compared to $12.2 million for 2004, a decrease of $3.3 million or 27%. We attribute the decrease primarily to a $1.4 million decrease in product warranty costs as well as lower levels of commission expense. The decrease in product warranty costs is due in part to the fact that our warranty costs in 2004 included $531,000 in charges related to product retrofits and other costs associated with several products we sold to three ATE manufacturers. In addition, during the third quarter of 2004, we recorded charges of approximately $200,000 as a result of negative trends in our historical claims experience. There were no similar charges in 2005. Commission expense decreased $717,000, primarily due to the significantly lower net revenue levels. To a lesser extent, decreases in salary and benefits expense, travel expenses, freight and advertising also contributed to the decreased selling expense. The decreases in these expense categories reflect both the aforementioned cost containment initiatives as well as decreased business activity. These decreases were offset somewhat by an increase in marketing costs for our temperature management product segment for a specific program we implemented in 2005 related to our 300mm technology.

Engineering and Product Development Expense. Engineering and product development expense was $5.9 million for 2005 compared to $6.5 million for 2004, a decrease of $520,000 or 8%. We attribute the decrease primarily to an $898,000 reduction in salary and benefits expense. This reduction was primarily the result of the aforementioned cost containment initiatives. To a lesser extent there were also decreases in spending on travel and supplies. These decreases were partially offset by a $459,000 increase in the use of third-party consultants, primarily by our tester interface product segment related to specific product development projects.

General and Administrative Expense. General and administrative expense was $7.8 million in each of 2005 and 2004. There were decreases in travel and information technology costs during 2005 as compared to the same period in 2004, which were offset by higher levels of incentive compensation expense related to grants of restricted stock. During 2004, we implemented a new company-wide enterprise resource planning system. The implementation process required significant additional travel and use of third-party consultants to complete. The system implementation was completed in 2004; therefore, no charges associated with this process were recorded in 2005. In 2004, we began granting restricted stock awards as a form of incentive compensation for certain members of management and directors. The value of the shares granted is expensed over the four-year vesting period. The level of expense in 2004 was significantly lower than in 2005 since the first grant of restricted stock was not made until the fourth quarter of 2004.

Restructuring and Other Charges. Restructuring and other charges were $572,000 for 2005 compared to $627,000 for 2004, a decrease of $55,000 or 9%. As previously discussed, the restructuring and other charges recorded during 2005 consisted of $234,000 in severance and related costs and $303,000 in lease termination costs resulting from the closure of our U.K. manufacturing operation. In addition, we incurred $35,000 in severance and related costs associated with a workforce reduction at our facility in San Jose, California. The restructuring and other charges in 2004 consisted of severance costs of approximately $527,000 related to the reorganization of our domestic operations and long-lived asset impairments of $100,000 related to our U.K. facility.

Other Income (Expense). Other income was $124,000 for 2005 compared to other expense of $77,000 for 2004, an increase of $201,000. The increase reflects higher interest income due primarily to the receipt of $79,000 in interest related to a domestic income tax refund we received during 2005 combined with an $89,000 decrease in foreign exchange transaction losses during 2005 as compared to 2004.

Income Tax Expense. Income tax expense was $236,000 for 2005 compared to $398,000 for 2004. Our effective tax rate for 2005 was (7)% compared to 24% in 2004. Our income tax expense recorded during 2005 included a $243,000 tax benefit related to domestic income tax refunds we received during the second and third quarters of the year. This amount was offset by foreign income tax expense we recorded on the earnings of certain of our foreign operations where we do not have net operating loss carryforwards to offset income tax expense on those earnings. The income tax expense recorded during 2004 represents foreign income tax expense on the earnings of these same operations. We increased our valuation allowance against our net deferred tax assets by $644,000 and $213,000 in 2005 and 2004, respectively, due to taxable losses experienced in our domestic and certain foreign operations and the uncertainty surrounding whether we would be able to generate sufficient taxable income to fully utilize these net operating loss carryforwards before they expire.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operations for the year ended December 31, 2006 was $6.4 million, compared to $398,000 in 2005, bringing our cash and cash equivalents to $13.2 million at December 31, 2006. The increase in cash provided by operations in 2006 was primarily the result of $2.9 million of net income generated in 2006 compared to a $3.6 million net loss in 2005. Although net revenues for 2006 increased $9.0 million or 17% for the year as compared to 2005, accounts receivable decreased $724,000 at December 31, 2006 compared to December 31, 2005. This reflects the aforementioned slowdown in business activity in the second half of 2006. We had no significant change in the level of inventory on hand at December 31, 2006 compared to December 31, 2005, which we attribute both to the slowdown in business activity in late 2006 as well as stronger inventory management practices. Accounts payable increased $609,000 from December 31, 2005 to December 31, 2006 primarily due to the timing of payments for purchases made during the fourth quarter of 2006 in our temperature management product segment and in our Japanese subsidiary. Accrued wages and benefits increased $387,000 as the result of increases in vacation accruals, performance-based bonus accruals and payroll withholdings related to the domestic 401(k) plan. Refundable domestic and foreign income taxes increased $512,000 from December 31, 2005 to December 31, 2006 as a result of accruing income taxes on the earnings of our foreign subsidiaries where we do not have net operating loss carryforwards to offset this expense, as previously discussed.

Purchases of machinery and equipment were $809,000 for the year ended December 31, 2006, consisting of $332,000 primarily for computer hardware, software and quality assurance equipment for our three domestic operations, $243,000 for demonstration equipment for our temperature management and tester interface divisions and $42,000 for additional leasehold improvements primarily for our tester interface facility in San Jose, California. The balance was primarily for machinery and equipment for our foreign locations.

We have no commitments for capital expenditures in 2007; however, depending upon changes in market demand, we will make such purchases as we deem necessary or appropriate.

Net cash provided by financing activities for the year ended December 31, 2006 was $145,000, which represented $169,000 of proceeds from stock options exercised and payments made under capital lease obligations of $24,000.

Our total committed contracts that will affect cash over the next five years and beyond are as follows:

	Expected Cash Payments By Year						
Contractual Commitments *($ in thousands)*	2007	2008	2009	2010	2011	2012 & Beyond	Total
Capital lease obligations	$ 8	$ 8	$ 8	$ 1	$ —	$—	$ 25
Operating lease obligations	1,734	1,554	1,537	1,262	327	74	6,488
Letters of credit	250	—	—	—	—	—	250
	$1,992	$1,562	$1,545	$1,263	$327	$74	$6,763

The amounts above do not include minimum purchase requirements related to an exclusive rights agreement to market and sell certain products which are the proprietary and confidential designs of one of the suppliers of our tester interface product segment. The total minimum purchase requirements per the terms of the agreement for the forty-eight month period beginning April 1, 2006 are approximately $1.5 million. During 2006, we did not meet the minimum annual purchase requirements and we do not expect to meet the minimum annual purchase requirements in the future. There is no financial liability for not meeting these purchase requirements; however, the supplier has the right to terminate our exclusive right to market and sell the products covered by the agreement. We are not currently using these products in any of the products we sell, although we are still exploring potential uses for them in new product designs. As of December 31, 2006, we have not been notified by the supplier of any intention to terminate the agreement.

In connection with the closure of our U.K. manufacturing operation, we have entered into a sub-leasing arrangement for the facility which was occupied by this operation prior to its closure. As a condition of the sub-lease, the landlord of this facility has required that we guarantee the performance of the sub-lessee with respect to the lease payments. We have performed a credit analysis of the sub-lessee and believe that a default by them with regard to their obligations under the sub-lease agreement is remote. However, as of December 31, 2006, there was approximately $431,000 of future payments that we would be obligated to make if the sub-lessee were to default and we were unable to enter into a new sub-lease agreement with another party. Our original lease on this facility extends through December 31, 2010. As of December 31, 2006 we have not recorded any amounts in our financial statements related to this guarantee.

We have a secured credit facility that provides for maximum borrowings of $250,000. We have not utilized this facility to borrow any funds. Our usage consists of the issuance of letters of credit in the face amount of $250,000. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. The terms of the loan agreement require that we maintain a minimum level of $200,000 of domestic cash. This credit facility expires on September 30, 2007.

We believe that our existing cash balances plus the anticipated cash to be provided from operations will be sufficient to satisfy our cash requirements for the foreseeable future. As previously discussed, we believe we have entered another cyclical downturn in our industry and have experienced a decline in our orders and sales activity in the second half of 2006. We cannot be certain how long this downturn will last or what the rate of increases or decreases in our quarterly net revenues and bookings will be in any future period. As a result, we may require additional debt or equity financing to meet working capital or capital expenditure needs. We cannot be certain that, if needed, we would be able to raise such additional financing or upon what terms such financing would be available.

NEW OR RECENTLY ADOPTED ACCOUNTING STANDARDS

See Note 2 to the consolidated financial statements for information concerning the implementation and impact of new or recently adopted accounting standards.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventories, long-lived assets, goodwill, identifiable intangibles, deferred income tax valuation allowances and product warranty reserves. We base our estimates on historical experience and on appropriate and customary assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Some of these accounting estimates and assumptions are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ markedly from what had been assumed when the financial statements were prepared.

Inventory Valuation

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional charges for excess and obsolete inventory are recorded based upon current industry conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The charges for excess and obsolete inventory that we record establish a new cost basis for the related inventory. In 2006, we recorded an inventory obsolescence charge for excess and obsolete inventory of $431,000.

Long-Lived Asset Valuation

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could indicate impairment include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the asset or the strategy for our overall business and significant negative industry or economic trends. When we determine that the carrying value of intangibles and/or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we prepare projections of operations for our product segments where these intangibles and/or long-lived assets are associated. If the carrying value of the intangible assets and/or long-lived assets exceeds the undiscounted cash flows per the projections, then we would record an impairment charge. We measure the impairment based upon the projected discounted cash flows using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. At December 31, 2006 long-lived assets were $3.3 million and no asset impairments were recorded during 2006.

Goodwill

At least annually, we review our goodwill for impairment by comparing the fair value of our reporting units to their carrying values. If the result of this analysis indicates that an impairment charge is required, the fair value of the reporting unit is allocated to its identifiable tangible and intangible assets, resulting in an implied valuation of goodwill associated with the reporting unit. We would measure the impairment based on the difference between the implied valuation of the goodwill and its actual carrying value. During 2006, we did not record any impairment charges for goodwill or identifiable intangibles. Goodwill and intangible assets totaled $2.9 million at December 31, 2006.

Income Taxes

Deferred tax assets are analyzed to determine if there will be sufficient taxable income in the future in order to realize such assets. We assess all of the positive and negative evidence concerning the realizability of the deferred tax assets, including our historical results of operations for the recent past and our projections of future results of operations, in which we make subjective determinations of future events. If, after assessing all of the evidence, both positive and negative, a determination is made that the realizability of the deferred tax assets is not more likely than not, we establish a deferred tax valuation allowance for all or a portion of the deferred tax assets depending upon the specific facts. If any of the significant assumptions were changed, materially different results could occur, which could significantly change the amount of the deferred tax valuation allowance established. As of December 31, 2006, due to our history of operating losses, we have a 100% valuation allowance against all deferred tax assets, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire.

Product Warranty Accrual

In connection with the accrual of warranty costs associated with our products, we make assumptions about the level of product failures that may occur in the future. These assumptions are primarily based upon historical claims experience. Should the rate of future product failures significantly differ from historical levels, our accrued warranty reserves would need to be adjusted, and the amount of the adjustment could be material. At December 31, 2006, accrued warranty was $857,000 and we incurred product warranty costs of $378,000 for the year then ended.

QUANTITATIVE AND QUALITATIVE DISCLOSURES
About Market Risk

FOREIGN CURRENCY RISK

We are subject to the risk of changes in foreign currency exchange rates due to our global operations. We manufacture and sell our products primarily in North America, Europe and Asia. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets in which we manufacture and sell our products. Our operating results are primarily exposed to changes in exchange rates between the U.S. dollar and the Euro, the Singapore dollar and/or the Japanese Yen.

As currency exchange rates change, translation of the statements of operations of our international businesses into U.S. dollars affects year-over-year comparability of operating results. We do not hedge operating translation risks because cash flows from international operations are generally reinvested locally. Changes in foreign currency exchange rates are generally reported as a component of stockholders' equity as all of our foreign subsidiaries report in their local currencies. Total other comprehensive income (loss) was $372,000, ($812,000) and $571,000 in 2006, 2005 and 2004, respectively, due to cumulative translation adjustments.

As of December 31, 2006 and 2005, our net current assets (defined as current assets less current liabilities) subject to foreign currency translation risk were $5.1 million and $3.4 million, respectively. The potential decrease in net current assets from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be $508,000 and $339,000, respectively. The sensitivity analysis presented assumes a parallel shift in foreign currency exchange rates. Exchange rates rarely move in the same direction. This assumption may overstate the impact of changing exchange rates on individual assets and liabilities denominated in a foreign currency.

INTEREST RATE RISK

As of December 31, 2006, we had cash and cash equivalents of $13.2 million. We generally place our investments in U.S. Treasury obligations or money market funds backed by such investments. We have not held and do not hold any derivatives related to our interest rate exposure. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that had the average yield of our investments decreased by 100 basis points, our interest income for year ended December 31, 2006 would have decreased by less than $103,000. This estimate assumes that the decrease occurred on the first day of 2006 and reduced the yield of each investment by 100 basis points. The impact on our future interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents and short-term investments. See "Liquidity and Capital Resources" as part of Management's Discussion and Analysis of Financial Condition and Results of Operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2006 and 2005, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 14 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment.

KPMG LLP

Philadelphia, Pennsylvania
March 30, 2007

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 13,174**	$ 7,295
Trade accounts and notes receivable, net of allowance for doubtful accounts of $133 and $199, respectively	**8,678**	9,443
Inventories	**6,193**	6,235
Refundable domestic income taxes	**15**	24
Prepaid expenses and other current assets	**743**	609
Total current assets	**28,803**	23,606
Property and equipment:		
Machinery and equipment	**7,976**	7,641
Leasehold improvements	**3,256**	3,214
	11,232	10,855
Less: accumulated depreciation	**(7,904)**	(6,904)
Net property and equipment	**3,328**	3,951
Other assets	**700**	594
Goodwill	**2,629**	2,403
Intangible assets, net	**299**	315
Total assets	**$ 35,759**	$ 30,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 3,145**	$ 2,527
Accrued wages and benefits	**1,894**	1,492
Accrued warranty	**857**	935
Accrued sales commissions	**418**	391
Accrued restructuring and other charges	**—**	205
Other accrued expenses	**1,000**	1,272
Domestic and foreign income taxes payable	**971**	447
Capital lease obligations	**7**	24
Deferred rent	**118**	118
Total current liabilities	**8,410**	7,411
Capital lease obligations, net of current portion	**16**	23
Deferred rent, net of current portion	**511**	629
Total liabilities	**8,937**	8,063
Commitments and Contingencies (Notes 8, 12 and 15)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	**—**	—
Common stock, $0.01 par value; 20,000,000 shares authorized; 9,510,755 and 9,460,255 shares issued, respectively	**95**	95
Additional paid-in capital	**24,515**	25,099
Retained earnings	**2,914**	43
Accumulated other comprehensive income	**609**	237
Deferred stock compensation	**—**	(909)
Treasury stock, at cost; 212,050 and 284,577 shares, respectively	**(1,311)**	(1,759)
Total stockholders' equity	**26,822**	22,806
Total liabilities and stockholders' equity	**$ 35,759**	$ 30,869

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	Years Ended December 31,		
	2006	2005	2004
Net revenues	**$62,346**	$53,359	$71,211
Cost of revenues	**35,952**	33,579	42,342
Gross margin	**26,394**	19,780	28,869
Operating expenses:			
Selling expense	**8,955**	8,928	12,213
Engineering and product development expense	**5,439**	5,941	6,461
General and administrative expense	**8,457**	7,847	7,823
Restructuring and other charges	**23**	572	627
Total operating expenses	**22,874**	23,288	27,124
Operating income (loss)	**3,520**	(3,508)	1,745
Other income (expense):			
Interest income	**355**	189	89
Interest expense	**(5)**	(15)	(13)
Other	**120**	(50)	(153)
Total other income (expense)	**470**	124	(77)
Earnings (loss) before income taxes	**3,990**	(3,384)	1,668
Income tax expense	**1,119**	236	398
Net earnings (loss)	**$ 2,871**	$ (3,620)	$ 1,270
Net earnings (loss) per common share:			
Basic	**$ 0.32**	$ (0.41)	$ 0.15
Diluted	**$ 0.31**	$ (0.41)	$ 0.14
Weighted average common shares outstanding:			
Basic	**9,046,680**	8,806,528	8,479,914
Diluted	**9,187,979**	8,806,528	8,804,479

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

(In thousands)

	Years Ended December 31,		
	2006	2005	2004
Net earnings (loss)	**$2,871**	$(3,620)	$1,270
Transfer of cumulative translation adjustment upon dissolution of foreign subsidiary	**(167)**	—	—
Foreign currency translation adjustments	**539**	(812)	571
Comprehensive earnings (loss)	**$3,243**	$(4,432)	$1,841

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Deferred	Treasury	Total Stockholders'
	Shares	Amount	Capital	Earnings	Earnings (Loss)	Compensation	Stock	Equity
Balance, January 1, 2004	8,737,505	$87	$21,955	$2,393	$ 478	$ —	$(2,322)	$22,591
Net earnings	—	—	—	1,270	—	—	—	1,270
Other comprehensive income	—	—	—	—	571	—	—	571
Stock options exercised	232,659	3	904	—	—	—	—	907
Issuance of shares in connection with acquisition of Intestlogic	100,000	1	755	—	—	—	—	756
Deferred stock compensation related to issuance of restricted stock	230,000	2	1,102	—	—	(1,104)	—	—
Amortization of deferred compensation related to restricted stock	—	—	—	—	—	23	—	23
Balance, December 31, 2004	9,300,164	93	24,716	3,663	1,049	(1,081)	(2,322)	26,118
Net loss	—	—	—	(3,620)	—	—	—	(3,620)
Other comprehensive loss	—	—	—	—	(812)	—	—	(812)
Deferred stock compensation related to issuance of restricted stock	35,000	—	129	—	—	(129)	—	—
Amortization of deferred compensation related to restricted stock	—	—	—	—	—	277	—	277
Elimination of deferred stock compensation related to restricted stock forfeited	(5,000)	—	(24)	—	—	24	—	—
Stock options exercised	30,091	1	93	—	—	—	—	94
Issuance of shares in connection with acquisition of Intestlogic	100,000	1	373	—	—	—	—	374
Issuance of 91,071 shares of treasury stock to satisfy profit sharing liability	—	—	(188)	—	—	—	563	375
Balance, December 31, 2005	9,460,255	95	25,099	43	237	(909)	(1,759)	22,806
Reclassification of deferred stock compensation upon adoption of SFAS No. 123R	—	—	(909)	—	—	909	—	—
Net earnings	—	—	—	2,871	—	—	—	2,871
Other comprehensive income	—	—	—	—	372	—	—	372
Stock options exercised	50,500	—	169	—	—	—	—	169
Amortization of deferred compensation related to restricted stock	—	—	317	—	—	—	—	317
Issuance of 72,527 shares of treasury stock to satisfy profit sharing liability	—	—	(161)	—	—	—	448	287
Balance, December 31, 2006	**9,510,755**	**$95**	**$24,515**	**$2,914**	**$ 609**	**$ —**	**$(1,311)**	**$26,822**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2006	2005	2004
Cash Flows from Operating Activities			
Net earnings (loss)	**$ 2,871**	$ (3,620)	$ 1,270
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	**1,481**	1,873	2,106
Impairment of long-lived assets	**—**	—	100
Foreign exchange (gain) loss	**(23)**	134	217
Amortization of deferred compensation related to restricted stock	**317**	277	23
Issuance of treasury stock to satisfy profit sharing liability	**287**	375	—
(Gain) loss on disposal of fixed assets	**(7)**	15	175
Proceeds from sale of demonstration equipment, net of gain	**2**	14	83
Changes in assets and liabilities:			
Trade accounts and notes receivable	**724**	(3,011)	2,505
Inventories	**113**	3,056	(1,979)
Refundable domestic income taxes	**9**	704	23
Prepaid expenses and other current assets	**(129)**	215	(275)
Other assets	**(102)**	(61)	248
Accounts payable	**609**	444	(1,582)
Accrued wages and benefits	**387**	85	584
Accrued warranty	**(86)**	(262)	97
Accrued sales commissions	**16**	(107)	10
Accrued restructuring and other charges	**(221)**	(45)	261
Other accrued expenses	**(286)**	403	(70)
Domestic and foreign income taxes payable	**512**	16	169
Deferred rent	**(118)**	(107)	—
Net cash provided by operating activities	**6,356**	398	3,965
Cash Flows from Investing Activities			
Purchase of property and equipment	**(809)**	(1,448)	(2,326)
Proceeds from sale of property and equipment	**41**	—	—
Net cash used in investing activities	**(768)**	(1,448)	(2,326)
Cash Flows from Financing Activities			
Deferred rent resulting from landlord provided tenant improvements	**—**	854	—
Repayments of capital lease obligations	**(24)**	(106)	(93)
Proceeds from stock options exercised	**169**	94	907
Net cash provided by financing activities	**145**	842	814
Effects of exchange rates on cash	**146**	(183)	117
Net cash provided by (used in) all activities	**5,879**	(391)	2,570
Cash and cash equivalents at beginning of period	**7,295**	7,686	5,116
Cash and cash equivalents at end of period	**$ 13,174**	$ 7,295	$ 7,686
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Details of acquisition:			
Common stock released from escrow	**$ —**	$ 374	$ 756
Goodwill resulting from acquisition	**—**	(374)	(756)
Restricted stock awards granted	**$ 28**	$ 129	$ 1,104
Capital lease additions	**$ —**	$ —	$ 36
Cash payments (refunds) for:			
Domestic and foreign income taxes	**$ 601**	$ (502)	$ 228
Interest	**5**	15	13

See accompanying Notes to Consolidated Financial Statements.

(1) NATURE OF OPERATIONS

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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

Reclassification

Certain prior year amounts have been reclassified to be comparable with the current year's presentation.

Cash and Cash Equivalents

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

Trade Accounts and Notes Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. We grant credit to customers and generally require no collateral. To minimize our risk, we perform ongoing credit evaluations of our customers' financial condition. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience and the aging of such receivables, among other factors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers. Bad debt (recovery) expense was $(16), $55 and $38 for the years ended December 31, 2006, 2005 and 2004, respectively.

Notes receivable are due from trade customers in Japan and have original maturities of less than six months. The notes are non-interest bearing. Notes receivable were $163 and $164 at December 31, 2006 and 2005, respectively. Cash flows from accounts and notes receivable are recorded in operating cash flows.

Fair Value of Financial Instruments

Our 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. The estimated fair values of our capital lease obligations approximate their carrying value based upon the rates offered to us for similar type arrangements.

Inventories

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventory are recorded in operating cash flows. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of

material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current industry conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The charges for excess and obsolete inventory we record establish a new cost basis for the related inventory. We incurred excess and obsolete inventory charges of $431, $1,044 and $1,397 for the years ended December 31, 2006, 2005 and 2004, respectively.

Property 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 two 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, including amortization of assets acquired under capital leases, was $1,431, $1,824 and $2,058 for the years ended December 31, 2006, 2005 and 2004, respectively. Expenditures for maintenance and repairs are charged to operations as incurred.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Goodwill and Intangibles

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and other indefinite life intangible assets are no longer subject to amortization. Instead, they are subject to at least an annual assessment for impairment by applying a fair value based test. During 2006 and 2005, we assessed our goodwill for impairment in accordance with the requirements of SFAS No. 142, and no impairments of goodwill were indicated based on these assessments.

Goodwill at both December 31, 2006 and 2005 relates to the manipulator/docking hardware segment. Changes in the amount of the carrying value of goodwill for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Balance—Beginning of period	**$2,403**	$2,318
Goodwill recorded during the year	**—**	374
Impact of foreign currency translation	**226**	(289)
Balance—End of period	**$2,629**	$2,403

During 2005, we issued 100,000 shares of common stock to the former owner of our Intestlogic subsidiary. These shares were issued pursuant to a provision contained in the amended agreement of sale that established revenue targets in 2005 that if met would require the issuance of up to 100,000 shares of common stock. During the third and fourth quarters of 2005, the revenue targets were achieved, and shares were issued. In connection with the issuance of these shares, we recorded goodwill of $374, which represented the fair market value of the shares issued.

As of December 31, 2006 and 2005, definite life intangibles totaled $299 and $315, net of accumulated amortization of $221 and $152, respectively. These definite life intangibles are the result of our acquisition of Intestlogic and are being amortized using the straight-line method over the remaining estimated useful life of six years. These definite life intangible assets are technology based, include patented technology and are allocated to the manipulator/docking hardware segment. The following table sets forth changes in the amount of the carrying value of definite life intangibles for the years ended December 31, 2006 and 2005, respectively:

	2006	2005
Balance—Beginning of period	**$315**	$414
Amortization	**(50)**	(49)
Impact of foreign currency translation	**34**	(50)
Balance—End of period	**$299**	$315

Estimated annual amortization expense for each of the next five years is $50.

Stock-Based Compensation

For the years ended December 31, 2005 and 2004, we followed the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. As permitted under SFAS No. 123, we elected to follow the provisions of Accounting Principles Board ("APB") Opinion No. 25 to account for stock-based awards to employees. Under APB Opinion No. 25, compensation expense with respect to such awards was not recognized, if on the date the awards were granted, the award price equaled the market value of the common shares.

On January 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, ("SFAS No. 123R"), which discontinues the accounting for share-based compensation using APB Opinion No. 25 and generally requires that such transactions be recognized in the income statement based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative. See Recently Adopted Accounting Standards below and Note 14 for further disclosures related to the impact of the adoption of SFAS No. 123R and our stock-based compensation plan.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin No. 104 ("SAB 104"), *Revenue Recognition*. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Sales of our products are made through our sales employees, third-party sales representatives and distributors. There are no differences in revenue recognition policies based on the sales channel. We do not provide our customers with rights of return or exchanges. Revenue is generally recognized upon product shipment. Our sales agreements do not typically contain any customer-specific acceptance criteria, other than that the product performs within the agreed upon specifications. We test all products manufactured as part of our quality assurance process to determine that they comply with specifications prior to shipment to a customer. To the extent that any sales agreements contain customer-specific acceptance criteria, revenue recognition is deferred until customer acceptance.

Product Warranties

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

Engineering and Product Development

Engineering and product development costs, which consist primarily of the salary and related benefits costs of our technical staff, as well as product development costs, are expensed as incurred.

Restructuring and Other Charges

We recognize a liability for restructuring costs at fair value only when the liability is incurred. The three main components of our restructuring plans are related to workforce reductions, the consolidation of excess facilities and asset impairments. Workforce-related charges are accrued when it is determined that a liability has been incurred, which is generally after individuals have been notified of their termination dates and expected severance benefits. Plans to consolidate excess facilities result in charges for lease termination fees and future commitments to pay lease charges, net of estimated future sub-lease income. We recognize charges for consolidation of excess facilities when we have vacated the premises. Assets that may be impaired consist of property, plant and equipment. Asset impairment charges are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of the asset. These estimates were derived using the guidance of SFAS No. 146, *Accounting for Exit or Disposal Activities*, and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Foreign Currency

The accounts of our foreign subsidiaries are translated in accordance with 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 included in accumulated other comprehensive income (loss) in stockholders' equity. Transaction gains or losses are included in net earnings (loss). For the years ended December 31, 2006, 2005 and 2004, foreign currency transaction gains (losses) were $23, $(134) and $(223). The amount recorded in 2006 includes a $167 foreign currency translation adjustment related to the final dissolution of our subsidiary located in the U.K. as more fully discussed in Note 10.

Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences

between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share is computed in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during each year. Diluted earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares and common share equivalents outstanding during each year. Common share equivalents represent stock options and unvested shares of restricted stock and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

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

	Years Ended December 31,		
	2006	2005	2004
Weighted average common shares outstanding—basic	**9,046,680**	8,806,528	8,479,914
Potentially dilutive securities:			
Employee stock options	**141,299**	—	324,565
Weighted average common shares outstanding—diluted	**9,187,979**	8,806,528	8,804,479

For the years ended December 31, 2006, 2005 and 2004, an average of 240,637, 912,850 and 84,291 employee stock options and unvested shares of restricted stock with weighted average exercise prices of $3.72, $2.90 and $6.13, respectively, were excluded from the calculation because their effect was anti-dilutive.

Recently Adopted Accounting Standards

On January 1, 2006, we adopted SFAS No. 151, *Inventory Costs—An Amendment of ARB No. 43, Chapter 4*, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under SFAS No. 151, such items are recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of manufacturing be based on normal capacity of the production facilities. The adoption of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

As previously mentioned, on January 1, 2006, we adopted SFAS No. 123R which amends SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123R requires employee share-based equity awards to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25 and previously allowed under the original provisions of SFAS No. 123. SFAS No. 123R requires the use of an option pricing model for estimating fair value, which is then amortized to expense over the service periods. We adopted SFAS No. 123R using the modified prospective method. Under this method, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The modified prospective approach does not allow for the restatement of prior period amounts. The adoption of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows. See further disclosures related to our stock-based compensation plan in Note 14.

In November 2005, the FASB issued FASB Staff Position ("FSP") FAS No. 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* ("FSP FAS 123R-3"). FSP FAS 123R-3 provides a practical exception when a company transitions to the accounting requirements in SFAS No. 123R. SFAS No. 123R requires a company to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to adopting SFAS No. 123R (the "APIC Pool"), assuming the company had been following the recognition provisions prescribed by FAS 123. We have elected to use the guidance in FSP FAS 123R-3 to calculate our APIC Pool. FSP FAS 123R-3 is effective immediately. The adoption of the FSP did not have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB 108 requires registrants to

quantify misstatements using both an income statement ("roll-over") and balance sheet ("iron curtain") approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the fiscal year of adoption. SAB 108 was effective for fiscal years ending on or after November 15, 2006. The adoption of SAB 108 did not have a material impact on our consolidated financial position, results of operations or cash flows.

New Accounting Standards

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109.* FIN 48 provides guidance for the recognition and measurement of uncertain tax positions in an enterprise's financial statements. Recognition involves a determination of whether it is more likely than not that a tax position will be sustained upon examination with the presumption that the tax position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue No. 06-3 ("EITF 06-3"), *How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. EITF 06-3 requires a company to disclose its accounting policy (i.e., gross vs. net basis) relating to the presentation of taxes within the scope of EITF 06-3. Furthermore, for taxes reported on a gross basis, an enterprise should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. The guidance is effective for all periods beginning after December 15, 2006. We do not expect the adoption of EITF 06-3 to have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently in the process of assessing the impact the adoption of SFAS 157 will have on our financial statements.

(3) MAJOR CUSTOMERS

Texas Instruments Incorporated accounted for 19%, 16% and 16% of our consolidated net revenues in 2006, 2005 and 2004, respectively. Teradyne, Inc. accounted for 11% of our net consolidated revenues in 2004. While all three of our operating segments sold to these customers, these revenues were primarily generated by our manipulator/docking hardware and tester interface segments. During the years ended December 31, 2006, 2005 and 2004, no other customer accounted for 10% or more of our consolidated net revenues.

(4) INVENTORIES

Inventories held at December 31 were comprised of the following:

	2006	2005
Raw materials	**$4,415**	$4,835
Work in process	**497**	418
Inventory consigned to others	**357**	205
Finished goods	**924**	777
	$6,193	$6,235

(5) OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	December 31,	
	2006	2005
Accrued rent	**$ 280**	$ 274
Accrued professional fees	**280**	249
Accrued repairs	**153**	153
Accrued customer obligations	**125**	247
Other	**162**	349
	$1,000	$1,272

(6) DEBT

Line of Credit

As of December 31, 2006, we had a secured credit facility which provided for maximum borrowings of $250. We have not utilized this facility to borrow any funds. Our only usage consists of the issuance of two letters of credit which are outstanding as of December 31, 2006 in the face amounts of $200 and $50, respectively. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. The terms of the credit facility require that we maintain a minimum level of $200 of cash with the bank. This credit facility expires on September 30, 2007.

Letters of Credit

As of December 31, 2006 and 2005, we had an outstanding letter of credit in the amount of $200. This letter of credit was originally issued in December 2000 as a security deposit under a lease that our Temptronic subsidiary entered into for its new facility in Sharon, Massachusetts. This letter of credit expires January 1, 2008; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year throughout the entire lease term, which ends February 28, 2011.

As of December 31, 2006 and 2005, we also had an outstanding letter of credit in the amount of $50. This letter of credit was issued in September 2004 as a portion of the security deposit under a lease that we entered into for a new facility for our tester interface operation based in northern California. We occupied this facility in late January 2005. This letter of credit expires September 13, 2007; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year until June 30, 2012, which is sixty days after the expiration of the lease term. If as of December 31, 2008, there have been no events of default or late payments of rent, we can request that the letter of credit be reduced to $0.

Capital Lease Obligations

Periodically we enter into capital lease agreements to finance equipment purchases. The minimum lease payments under the capital leases in effect at December 31, 2006 are as follows:

2007	$ 8
2008	8
2009	8
2010	1
Total minimum lease payments	25
Less: Amount representing interest	2
Present value of minimum lease payments	23
Less: Current portion of capital leases	7
Obligations under capital lease, excluding current portion	$16

(7) LEASEHOLD IMPROVEMENTS AND DEFERRED RENT

In accordance with FASB Technical Bulletin No. 88-1, *Issues Relating to Accounting for Leases*, we record tenant improvements made to our leased facilities based on the amount of the total cost to construct the improvements regardless of whether a portion of that cost was paid through an allowance provided by the facility's landlord. The amount of the allowance, if any, is recorded as deferred rent. We amortize deferred rent on a straight-line basis over the lease term and record the amortization as a reduction of rent expense.

In addition, certain of our operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. For these leases, we recognize the related rental expense on a straight-line basis over the life of the lease and record the difference between the amounts charged to operations and amounts paid as accrued rent which is included in other accrued expenses on our balance sheet.

During 2005, we recorded $854 of additions to our leasehold improvements which were paid for on our behalf by the landlord of our new facility in San Jose, California. We occupied this facility during the first quarter of 2005. We also recorded this amount as deferred rent. Amortization of deferred rent for the years ended December 31, 2006 and 2005 was $118 and $107, respectively.

(8) COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

We lease our offices, warehouse facilities, automobiles and certain equipment under noncancellable operating leases which expire at various dates through 2012. Total rental expense for the years ended December 31, 2006, 2005 and 2004 was $1,839, $1,855 and $2,131, respectively.

The aggregate minimum rental commitments under the noncancellable operating leases in effect at December 31, 2006 are as follows:

2007	$1,734
2008	$1,554
2009	$1,537
2010	$1,262
2011	$ 327
Thereafter	$ 74

Minimum Purchase Commitments

On June 1, 2004, we entered into an exclusive rights agreement to market and sell certain products which are the proprietary and confidential designs of one of the suppliers of our tester interface division. The terms of this agreement included payment of a $150 nonrefundable fee and certain minimum purchase requirements which are applicable to the forty-eight month period beginning April 1, 2006 and total $1,533. If we fail to satisfy the minimum purchase requirements, the supplier has the right to terminate our exclusive right to market and sell these products.

During 2006, we did not meet the minimum purchase requirements and we do not expect to meet the minimum purchase requirements in the future. There is no financial liability for not meeting these purchase requirements; however, the supplier has the right to terminate our exclusive right to market and sell the products covered by the agreement. We are not currently using these products in any of the products we sell, although we are still exploring potential uses for them in new product designs. As of December 31, 2006, we have not been notified by the supplier of any intention to terminate the agreement.

Contingencies

As part of a prior contractual arrangement with a former executive of a subsidiary, we had agreed to provide life insurance in the amount of $300 to this former executive until he reached the age of sixty-five. The provision of this life insurance benefit was self-insured by us. This individual reached the age of sixty-five in February 2007 and therefore we are no longer obligated under this arrangement.

(9) GUARANTEES

Product Warranties

Warranty expense for the years ended December 31, 2006, 2005 and 2004 was $378, $549 and $1,982, respectively. The following table sets forth the changes in the liability for product warranties for the years ended December 31, 2006 and 2005:

	2006	2005
Balance—Beginning of period	**$ 935**	$ 1,216
Payments made under warranty	**(456)**	(830)
Accruals for product warranty	**378**	549
Balance—End of period	**$ 857**	$ 935

U.K. Lease Guarantee

In connection with the closure of our U.K. manufacturing operation, as more fully discussed in Note 10, we have entered into a sub-leasing arrangement for the facility which was occupied by this operation prior to its closure. As a condition of the sublease, the landlord of this facility has required that we guarantee the performance of the sub-lessee with respect to the lease payments. We have performed a credit analysis of the sublessee and believe that a default by them with regard to their obligations under the sub-lease agreement is remote. However, as of December 31, 2006, there was approximately $431 of future payments that we would be obligated to make if the sublessee were to default and we were unable to enter into a new sub-lease agreement with another party. Our original lease on this facility extends through December 31, 2010. As of December 31, 2006 we have not recorded any amounts in our financial statements related to this guarantee.

(10) RESTRUCTURING AND OTHER COSTS

During the fourth quarter of 2004, we began the process of restructuring our operations with the goal of significantly reducing our fixed operating costs to position ourselves to more effectively meet the needs and expectations of the fluid ATE market. In mid-November 2004, we announced organization changes and cost structure adjustments (the "2004 Workforce Reduction"). In mid-March 2005, we announced our decision to close our U.K. manufacturing operation (the "U.K. Operation Closure"). In late July 2005, we made certain cost structure adjustments at our facility in San Jose, California (the "California Workforce Reduction").

2004 Workforce Reduction

In the quarter ended December 31, 2004, we accrued $527 for severance and related costs resulting from the termination of 43 domestic and 2 foreign employees. Of this amount, $266 was paid during the fourth quarter of 2004 and $261 remained accrued as of December 31, 2004. The severance and related costs were comprised of $383 in our manipulator/docking hardware segment, $100 in our temperature management segment and $44 in our tester interface segment.

U.K. Operation Closure

In the quarter ended December 31, 2004, due to the history of operating losses experienced by our U.K. operation, combined with our forecasts that indicated potential future losses for this operation, we performed an assessment of the recoverability of the carrying value of this operation's long-lived assets. These long-lived assets consisted of property and equipment. As a result of this analysis we determined that an impairment existed and, accordingly, we recorded a $100 impairment of long-lived assets during the fourth quarter of 2004.

In March 2005, we announced our intention to close our U.K. operation, and we ceased manufacturing operations at this facility during the second quarter of 2005. During 2005, we accrued $234 for severance and related costs and $303 for lease termination costs. The $205 accrual remaining at December 31, 2005 related primarily to estimated lease termination costs. In November 2006, we entered into an agreement to sub-lease this facility. During the fourth quarter of 2006, we recorded an additional $23 of lease termination costs as a result of finalizing this sub-leasing arrangement as well as a $167 foreign currency translation adjustment related to final dissolution of this operation. As of December 31, 2006, there are no accruals remaining related to the closure of our U.K. operation as all aspects of the closure are now complete. However, as a part of the sub-lease agreement we have made certain guarantees as more fully described in Note 9. Our U.K. operation was included in our manipulator/docking hardware segment.

California Workforce Reduction

In the quarter ended September 30, 2005, we accrued $35 for severance and related costs resulting from the termination of six employees at our facility in San Jose, California. This entire amount was paid out during the third quarter of 2005. Our facility in San Jose is the headquarters for our tester interface product segment.

Our restructuring and other costs for 2006 and 2005 are summarized as follows:

	2004 Workforce Reduction	U.K. Operation Closure	California Workforce Reduction	Total
Balance—January 1, 2005	$ 261	$ —	$ —	$ 261
Accruals in 2005	—	537	35	572
Severance and other cash payments	(261)	(332)	(35)	(628)
Balance—December 31, 2005	$ —	$ 205	$ —	$ 205
Accruals in 2006	—	23	—	23
Cash payments related to lease obligations	—	(228)	—	(228)
Balance—December 31, 2006	**$ —**	**$ —**	**$ —**	**$ —**

(11) INCOME TAXES

We are subject to Federal and certain state income taxes. In addition, we are taxed in certain foreign countries. The cumulative amount of undistributed earnings of our foreign subsidiaries which we consider to be permanently reinvested and, as a result, for which U.S. income taxes have not been provided was $2,001, $950 and $2,896 at December 31, 2006, 2005 and 2004, respectively.

Income (loss) before income taxes was as follows:

	Years Ended December 31, 2006	2005	2004
Domestic	**$ 1,127**	$(4,171)	$ 128
Foreign	**2,863**	787	1,540
	$ 3,990	$(3,384)	$1,668

Income tax expense was as follows:

	Years Ended December 31, 2006	2005	2004
Current			
Domestic—Federal	**$ —**	$(229)	$ —
Domestic—state	**10**	(9)	—
Foreign	**1,109**	474	398
	1,119	236	398
Deferred:			
Domestic—Federal	**—**	—	—
Domestic—state	**—**	—	—
	—	—	—
Income tax expense	**$1,119**	$ 236	$398

During the fourth quarter of 2006, we repatriated $1.0 million in foreign earnings. There was no tax effect of this distribution as it was offset by our net operating loss carryforwards.

Deferred income taxes reflect the net tax effect of net operating loss and credit carryforwards as well as 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 our deferred tax assets and liabilities as of December 31, 2006 and 2005:

	December 31,	
	2006	2005
Deferred tax assets:		
Net operating loss (Federal, state and foreign)	**$ 2,453**	$ 2,397
Foreign tax credit carryforward	**816**	547
Inventories	**340**	421
Depreciation of property and equipment	**301**	427
Accrued vacation pay	**201**	161
Accrued warranty	**194**	270
Allowance for doubtful accounts	**42**	64
Other	**15**	12
	4,362	4,299
Valuation allowance	**(4,086)**	(4,048)
Deferred tax assets	**276**	251
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	**(253)**	(207)
Accrued royalty income	**(23)**	(44)
Deferred tax liabilities	**(276)**	(251)
Net deferred tax asset	**$ —**	$ —

The valuation allowance for deferred tax assets as of the beginning of 2006 and 2005 was $4,048 and $3,404, respectively. The net change in the valuation allowance for the years ended December 31, 2006 and 2005 was an increase of $38 and $644, respectively. In assessing the ability to realize the deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. In order to fully realize the total deferred tax assets, we will need to generate future taxable income prior to the expiration of net operating loss and credit carryforwards which expire in various years through 2025. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible, we believe it is more likely than not that we will not realize the benefit of the deferred tax asset and, as a result, have recorded a full valuation allowance at December 31, 2006.

An analysis of the effective tax rate for the years ended December 31, 2006, 2005 and 2004 and a reconciliation from the expected statutory rate of 34% is as follows:

	Years Ended December 31,		
	2006	2005	2004
Expected income tax provision at U.S. statutory rate	**$ 1,357**	$(1,151)	$ 567
Increase (decrease) in tax from:			
Repatriation of international earnings	**425**	423	—
Foreign income tax rate differences	**134**	207	(126)
Nondeductible expenses	**48**	61	32
State credit	**7**	(6)	—
Federal credits	**—**	(229)	—
Extraterritorial income exclusion	**(104)**	(34)	(146)
Tax impact of liquidation of foreign subsidiary	**(185)**	—	—
Effects of NOL and tax credit carryforwards and changes in valuation allowance	**(563)**	965	71
Income tax expense	**$ 1,119**	$ 236	$ 398

(12) LEGAL PROCEEDINGS

From time to time we may be a party to legal proceedings occurring in the ordinary course of business. We are not currently involved in any legal proceedings the resolution of which we believe could have a material effect on our business, financial position, results of operations or long-term liquidity.

(13) RELATED PARTY TRANSACTIONS

On June 30, 2005, in connection with the closing of our U.K. manufacturing operation, we sold certain assets of this operation, including the machine shop assets, to the then managing director of our U.K. manufacturing operation for $132. In connection with this transaction, we took back a $132 note receivable with a five-year term with interest payable quarterly at the rate of 4.5%. During 2006, we advanced an additional $26 to this individual under this note receivable arrangement. At December 31, 2006 and 2005, the balance outstanding under this note receivable was $125 and $101, respectively, with interest receivable of $0 and $3, respectively. In addition, as of January 1, 2006, we have entered into a lease agreement for office space in a building which is owned by this individual. This office space is for our marketing and support personnel who are based in the U.K. The lease agreement is for a term of five years with rent payable at the rate of $23 per year.

We paid consulting fees which totaled $0, $0 and $33 during the years ended December 31, 2006, 2005 and 2004, respectively, to one individual who is a member of our Board of Directors.

Some of our foreign subsidiaries paid directors' fees to individuals who are our executive officers which totaled $0, $0 and $24 during the years ended December 31, 2006, 2005 and 2004, respectively.

(14) STOCK-BASED COMPENSATION PLAN

The Amended and Restated 1997 Stock Plan (the "Plan") provides for the granting of incentive stock options and non-qualified stock options to purchase shares of our common stock and for other stock-based awards to key employees and directors and to non-employee consultants. The Plan consists of two parts: the Non-Qualified Plan (administered by our Board of Directors) and the Key Employee Plan (administered by the Compensation Committee of our Board of Directors). No option may be granted with an exercise period in excess of ten years from the 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. We have reserved 1,250,000 shares of common stock for issuance upon exercise of options or stock awards under the Plan, of which 87,050 shares remain available for issuance as of December 31, 2006. No options or shares of restricted stock may be granted under the Plan after March 31, 2007.

As previously mentioned in Note 2, "Recently Adopted Accounting Standards," on January 1, 2006, we adopted SFAS No. 123R. The adoption of SFAS No. 123R did not have a material impact on our results of operations, financial condition or cash flows as we had no unvested stock options outstanding as of December 31, 2005. Our unvested restricted stock awards outstanding are accounted for based on their grant date fair value. As of December 31, 2006, total compensation expense to be recognized in future periods was $584. All of this expense is related to nonvested shares of restricted stock. The weighted average period over which this expense is expected to be recognized is 2.1 years. We have not granted any stock options during 2006.

Stock Options

Prior to the adoption of SFAS No. 123R, we used the intrinsic value method prescribed by APB Opinion No. 25 to account for stock options and provided pro forma disclosures, as required under SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosures*. Under the intrinsic value method, no stock-based employee compensation cost was reflected in the statement of operations when options granted under our stock-based employee compensation plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net earnings (loss) and net earnings (loss) per share for the years ended December 31, 2005 and 2004 if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	2005	2004
Net earnings (loss), as reported	$(3,620)	$1,270
Add: Stock-based employee compensation expense included in reported net earnings (loss), net of related tax effects	277	15
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(564)	(256)
Pro forma net earnings (loss)	$(3,907)	$1,029
Net earnings (loss) per share:		
Basic—as reported	$ (0.41)	$ 0.15
Basic—pro forma	$ (0.44)	$ 0.12
Diluted—as reported	$ (0.41)	$ 0.14
Diluted—pro forma	$ (0.44)	$ 0.12

The fair value for stock options granted in 2005 and 2004 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2005	2004
Risk-free interest rate	3.89%	3.77%
Dividend yield	0.00%	0.00%
Expected common stock market price volatility factor	.99	.98
Weighted average expected life of stock options	5 years	5 years

The per share weighted average fair value of stock options granted in 2005 and 2004 was $2.45 and $4.24, respectively.

On December 14, 2005, the Board of Directors approved the acceleration of the vesting of 42,200 outstanding options with exercise prices ranging from $2.99 to $6.75 per share. At the date of the acceleration of vesting, only 9,000 of these shares were in-the-money by $0.38 per share or a total of $3. These options had been issued to employees during 2001 and 2002 under the 1997 Stock Plan and would otherwise have vested during 2006 and 2007. No compensation expense was required to be recorded in our consolidated financial statements during 2005 related to this action. Upon adoption of SFAS No. 123R, on January 1, 2006, we would have recorded compensation expense of approximately $106 during 2006 and 2007 related to these options had we not accelerated their vesting. Of the total options for which we accelerated the vesting, 12,000 are held by two of our executive officers. None of the other accelerated options are held by our executive officers or directors. As a result of this action, as of December 31, 2005, all of our outstanding options are exercisable. The Board of Directors accelerated the vesting of these options due to their concern that future compensation expense to be recorded in our financial statements upon the vesting of these options would be significantly in excess of the monetary value that would be ultimately realized by the optionees upon exercise of the underlying stock options due to a number of factors, the most significant of which was the volatility of our common stock share price.

The following table summarizes the stock option activity for the three years ended December 31, 2006:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, January 1, 2004		
(597,725 exercisable)	967,875	$3.82
Granted	20,000	3.04
Exercised	(232,659)	3.70
Canceled	(54,750)	4.07
Options outstanding, December 31, 2004		
(522,166 exercisable)	700,466	3.82
Granted	10,000	3.25
Exercised	(30,091)	3.11
Canceled	(50,775)	4.26
Options outstanding, December 31, 2005		
(629,600 exercisable)	629,600	3.87
Granted	—	—
Exercised	(50,500)	3.35
Canceled	(17,550)	4.01
Options outstanding, December 31, 2006		
(561,550 exercisable)	**561,550**	**3.91**

The total intrinsic value of the options exercised during 2006, 2005 and 2004 was $122, $26 and $1,131, respectively.

The following table summarizes information about stock options outstanding at December 31, 2006. All options outstanding at December 31, 2006 are exercisable:

Range of Exercise Prices	**Number Outstanding and Exercisable at December 31, 2006**	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$2.99–$3.35	**351,500**	5.84 years	$3.11	$446
$3.61–$4.25	**85,000**	3.54 years	$4.02	30
$5.66–$6.75	**125,050**	2.68 years	$6.08	—
	561,550		$3.91	$476

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on a closing price for our stock of $4.38 at December 31, 2006, assuming all option holders exercised their stock options that were in-the-money as of that date. In general, it is our policy to issue new shares upon the exercise of stock options.

Restricted Stock Awards

We record compensation expense for restricted stock awards (nonvested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. The following table summarizes the compensation expense we recorded during 2006, 2005 and 2004, respectively, related to nonvested shares:

	Years Ended December 31,		
	2006	2005	2004
Cost of revenues	**$ 18**	$ 18	$—
Selling expense	**12**	12	—
Engineering and product development expense	**18**	18	—
General and administrative expense	**269**	229	23
	$317	$277	$ 23

There was no compensation expense capitalized in 2006, 2005 or 2004.

The following table summarizes the activity related to nonvested shares for the three years ended December 31, 2006:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares outstanding, January 1, 2004	—	—
Granted	230,000	$ 4.80
Vested	—	—
Forfeited	—	—
Nonvested shares outstanding, December 31, 2004	230,000	$ 4.80
Granted	35,000	$ 3.69
Vested	(56,250)	$ 4.80
Forfeited	(5,000)	$ 4.80
Nonvested shares outstanding, December 31, 2005	203,750	$ 4.61
Granted	7,500	$ 3.75
Vested	(70,000)	$ 4.55
Forfeited	(7,500)	$ 4.80
Nonvested shares outstanding, December 31, 2006	**133,750**	**$4.58**

The total fair value of the shares which vested during the years ended December 31, 2006, 2005 and 2004 was $348, $204 and $0, respectively.

On May 2, 2006, the Board of Directors approved the acceleration of the vesting of 7,500 nonvested shares of restricted stock previously granted to two of our directors. One of these directors terminated his service effective August 2, 2006 as he did not stand for re-election at our 2006 Annual Meeting of Stockholders. The other director retired effective November 1, 2006. The acceleration of vesting of these shares was effective on the last day of service of each of these directors. This action did not have a material impact on our consolidated financial position, results of operations or cash flows.

(15) EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan for our employees who work in the U.S. (the "inTEST 401(k) Plan"). All permanent employees of inTEST Corporation and inTEST Silicon Valley Corp. who are at least 18 years of age are eligible to participate in the plan. During the second and third quarters of 2004, we matched employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of $5. Matching contributions are discretionary. At various points in time in the past, these matching contributions have been temporarily suspended as a part of our cost containment efforts. The most recent suspension of the matching contribution was implemented at the beginning of the fourth quarter of 2004. We began matching employee contributions again during the third quarter of 2006. Effective January 1, 2006, the plan was amended to reduce the vesting period for employer contributions from six years to four years. We contributed $190, $0 and $231 to the plan for the years ended December 31, 2006, 2005 and 2004, respectively.

Temptronic adopted a defined contribution 401(k) plan for its domestic employees in 1988, that was merged into the inTEST 401(k) Plan effective September 1, 2002. The inTEST 401(k) Plan retains the matching provisions of the prior Temptronic plan for all Temptronic employees. The eligibility and vesting provisions of the prior Temptronic plan have been conformed to those for inTEST Corporation and inTEST Silicon Valley Corporation employees. Temptronic can make discretionary matching contributions determined annually by Temptronic of up to 6% of the employees' annual compensation. Effective October 1, 2001, we suspended the employer matching contributions due to our cost containment efforts. Matching contributions were reinstated in April 2004 but were suspended again at the end of November 2004. We began matching employee contributions again during the third quarter of 2006. Temptronic contributed $52, $0 and $52 to the plan for the years ended December 31, 2006, 2005 and 2004, respectively.

In addition to the employer matching for which Temptronic employees are eligible, upon the termination of the Temptronic Equity Participation Plan ("EPP"), we also acknowledged that it was our intention to contribute $3,000 in the aggregate to the inTEST 401(k) Plan as a form of profit sharing (not to exceed $300 per year) for the benefit of Temptronic employees. The amount of these contributions approximates the amount that we had been committed to contribute to the EPP as of its termination date. All such profit sharing contributions are at the discretion of management, and will be allocated to employees annually in the same manner in which the shares held by the EPP had been allocated. The vesting provisions for these contributions will be the same as those of the inTEST 401(k) Plan. Accruals for profit sharing contributions totaling $278, $300 and $150 were made during 2006, 2005 and 2004, respectively. Through December 31, 2006, we had made a total of $728 in profit sharing contributions. We have historically funded these obligations through the use of treasury shares during the quarter subsequent to the quarter in which we record the profit sharing liability.

(16) SEGMENT INFORMATION

We have three reportable segments: Manipulator/Docking Hardware Products, Temperature Management Systems and Tester Interface Products. The manipulator and docking hardware segment includes the operations of our Cherry Hill, New Jersey manufacturing facility as well as the operations of four of our foreign subsidiaries: inTEST Limited (U.K.), inTEST Kabushiki Kaisha (Japan), inTEST PTE, Limited (Singapore) and Intestlogic GmbH (Germany). We ceased manufacturing operations at our U.K. operation during the quarter ended June 30, 2005. Sales of this segment consist primarily of manipulator and docking hardware products which we design, manufacture and market, as well as certain other related products which we design and market, but which are manufactured by third parties. The temperature management segment includes the operations of Temptronic in Sharon, Massachusetts, as well as Temptronic GmbH (Germany). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic product line. In addition, this segment provides after sale service and support, which is paid for by its customers. The tester interface segment includes the operations of inTEST Silicon Valley Corporation. Sales of this segment consist primarily of tester interface products which we design, manufacture and market.

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

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

As of January 1, 2005, we implemented a new cost allocation structure, the effect of which is to better allocate operating expenses to the appropriate product segment. We have reclassified the amounts shown for the prior period to be consistent with our new cost allocation structure.

	Years Ended December 31,		
	2006	2005	2004
Net revenues from unaffiliated customers:			
Manipulator/Docking Hardware	**$ 35,244**	$ 28,838	$ 38,414
Temperature Management	**22,794**	19,967	22,581
Tester Interface	**7,328**	6,778	13,516
Intersegment sales	**(3,020)**	(2,224)	(3,300)
	$ 62,346	$ 53,359	$ 71,211
Intersegment sales:			
Manipulator/Docking Hardware	**$ 4**	$ 1	$ 53
Temperature Management	**2,475**	1,863	1,599
Tester Interface	**541**	360	1,648
	$ 3,020	$ 2,224	$ 3,300
Depreciation/amortization:			
Manipulator/Docking Hardware	**$ 778**	$ 1,020	$ 1,166
Temperature Management	**353**	459	508
Tester Interface	**350**	394	432
	$ 1,481	$ 1,873	$ 2,106
Operating income (loss):			
Manipulator/Docking Hardware	**$ 2,526**	$ (316)	$ 674
Temperature Management	**1,964**	450	211
Tester Interface	**(971)**	(3,251)	1,169
Corporate	**1**	(391)	(309)
	$ 3,520	$ (3,508)	$ 1,745
Earnings (loss) before income taxes:			
Manipulator/Docking Hardware	**$ 2,877**	$ (226)	$ 673
Temperature Management	**2,146**	503	228
Tester Interface	**(1,034)**	(3,270)	1,076
Corporate	**1**	(391)	(309)
	$ 3,990	$ (3,384)	$ 1,668
Income tax expense (benefit):			
Manipulator/Docking Hardware	**$ 985**	$ 222	$ 258
Temperature Management	**134**	52	140
Tester Interface	**—**	(38)	—
Corporate	**—**	—	—
	$ 1,119	$ 236	$ 398
Net earnings (loss):			
Manipulator/Docking Hardware	**$ 1,892**	$ (448)	$ 415
Temperature Management	**2,012**	451	88
Tester Interface	**(1,034)**	(3,232)	1,076
Corporate	**1**	(391)	(309)
	$ 2,871	$ (3,620)	$ 1,270
Capital expenditures:			
Manipulator/Docking Hardware	**$ 233**	$ 222	$ 1,426
Temperature Management	**304**	175	457
Tester Interface	**272**	1,051	443
	$ 809	$ 1,448	$ 2,326

	December 31,	
Identifiable assets:	**2006**	2005
Manipulator/Docking Hardware	**$20,324**	$18,533
Temperature Management	**11,692**	8,353
Tester Interface	**3,743**	3,983
	$35,759	$30,869

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

	Years Ended December 31,		
Net revenues from unaffiliated customers:	**2006**	2005	2004
U.S.	**$42,559**	$36,894	$54,123
Europe	**5,742**	6,050	7,343
Asia-Pacific	**14,045**	10,415	9,745
	$62,346	$53,359	$71,211

	December 31,	
Long-lived assets:	**2006**	2005
U.S.	**$2,983**	$3,629
Europe	**315**	266
Asia-Pacific	**30**	56
	$3,328	$3,951

(17) QUARTERLY CONSOLIDATED FINANCIAL DATA (UNAUDITED)

The following tables present certain unaudited consolidated quarterly financial information for each of the eight quarters ended December 31, 2006. In our opinion, 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.

Year-over-year quarterly comparisons of our results of operations may not be as meaningful as the sequential quarterly comparisons set forth below that tend to reflect the cyclical activity of the semiconductor industry as a whole. Quarterly fluctuations in expenses are related directly to sales activity and volume and may also reflect the timing of operating expenses incurred throughout the year.

	Quarters Ended				
	3/31/06	**6/30/06**	**9/30/06**	**12/31/06[1]**	**Total**
Net revenues	**$13,732**	**$18,889**	**$16,566**	**$13,159**	**$62,346**
Gross margin	**5,848**	**8,397**	**6,923**	**5,226**	**26,394**
Earnings before income taxes	**385**	**2,430**	**1,017**	**158**	**3,990**
Income tax expense	**45**	**488**	**509**	**77**	**1,119**
Net earnings	**340**	**1,942**	**508**	**81**	**2,871**
Net earnings per common share—basic	**$ 0.04**	**$ 0.22**	**$ 0.06**	**$ 0.01**	**$ 0.32**
Weighted average common shares outstanding—basic	**8,991,483**	**9,014,751**	**9,053,603**	**9,125,336**	**9,046,680**
Net earnings per common share—diluted	**$ 0.04**	**$ 0.21**	**$ 0.06**	**$ 0.01**	**$ 0.31**
Weighted average common shares outstanding—diluted	**9,067,697**	**9,123,570**	**9,264,809**	**9,292,525**	**9,187,979**

	Quarters Ended				
	3/31/05[2]	6/30/05[3]	9/30/05[4]	12/31/05[5]	Total
Net revenues	$10,685	$12,155	$16,448	$14,071	$53,359
Gross margin	3,151	4,236	6,481	5,912	19,780
Earnings (loss) before income taxes	(2,406)	(1,912)	516	418	(3,384)
Income tax expense (benefit)	6	(119)	123	226	236
Net earnings (loss)	(2,412)	(1,793)	393	192	(3,620)
Net earnings (loss) per common share—basic	$ (0.28)	$ (0.21)	$ 0.05	$ 0.02	$ (0.41)
Weighted average common shares outstanding—basic	8,722,205	8,745,042	8,823,979	8,932,384	8,806,528
Net earnings (loss) per common share—diluted	$ (0.28)	$ (0.21)	$ 0.04	$ 0.02	$ (0.41)
Weighted average common shares outstanding—diluted	8,722,205	8,745,042	8,911,672	9,005,557	8,806,528

Footnotes

(1) The quarter ended December 31, 2006 included $23 of restructuring charges and a $167 foreign currency translation adjustment related to the final dissolution of our U.K. operation.

(2) The quarter ended March 31, 2005 included $100 of restructuring charges.

(3) The quarter ended June 30, 2005 included $320 of restructuring charges and a tax benefit of $191 related to a domestic income tax refund received during the quarter.

(4) The quarter ended September 30, 2005 included $559 of inventory obsolescence charges, $28 of restructuring charges and a tax benefit of $52 related to a domestic income tax refund received during the quarter.

(5) The quarter ended December 31, 2005 included $124 of restructuring charges.

COMMON STOCK—MARKET PRICE AND DIVIDENDS

Our common stock is traded on the Nasdaq Global Market under the symbol "INTT." The following table sets forth the high and low sale prices of our common stock, as reported on the Nasdaq Global Market, for the periods indicated. Sale prices have been rounded to the nearest full cent.

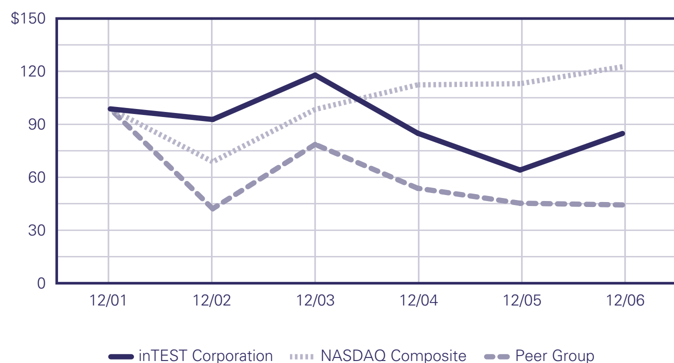
	Sales Price	
	High	Low
2006		
First Quarter	**$4.65**	**$3.20**
Second Quarter	**4.52**	**3.47**
Third Quarter	**6.50**	**3.92**
Fourth Quarter	**6.97**	**3.15**
2005		
First Quarter	$4.89	$3.88
Second Quarter	4.72	3.00
Third Quarter	4.29	3.15
Fourth Quarter	4.21	3.05

On March 16, 2007, the closing price for our common stock as reported on the Nasdaq Global Market was $4.83. As of March 16, 2007, we had 9,389,571 shares outstanding that were held of record by approximately 1,200 shareholders.

We have not paid dividends on our common stock since our initial public offering in 1997, and we do not plan to pay cash dividends in the foreseeable future. Our current policy is to retain any future earnings for reinvestment in the operation and expansion of our business, including possible acquisitions of other businesses, technologies or products. Payment of any future dividends will be at the discretion of our board of directors. In addition, our current credit agreement prohibits us from paying cash dividends without the lender's prior consent.

STOCK PERFORMANCE GRAPH

The following graph shows a comparison of cumulative total returns during the period commencing on December 31, 2001, and ending on December 31, 2006, for inTEST, the NASDAQ Market Composite Index and a composite index (the "Peer Group Index") of public companies engaged in manufacturing automatic test equipment with five or more years of public trading. The companies included in the Peer Group Index consist of Aehr Test Systems, Aetrium Incorporated, Cohu, Inc., Credence Systems Corporation, Electroglas, Inc., LTX Corporation, Micro Component Technology, Inc. and Teradyne, Inc. The comparison assumes $100 was invested on December 31, 2001 in our common stock and in each of the foregoing indices and assumes the reinvestment of all dividends, if any.



	12/01	12/02	12/03	12/04	12/05	**12/06**
InTEST Corporation	$100.00	$93.92	$119.41	$ 86.08	$ 64.90	**$ 85.88**
NASDAQ Composite	$100.00	$69.66	$ 99.71	$113.79	$114.47	**$124.20**
Peer Group	$100.00	$42.70	$ 79.62	$ 54.46	$ 45.86	**$ 44.89**

The historical stock price performance of our common stock is not necessarily indicative of future performance.

LEGAL COUNSEL

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Philadelphia, PA 19102-2186

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Philadelphia, PA 19103

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P.O. Box 43023
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877-282-1168

INVESTOR RELATIONS

The Ruth Group
757 Third Avenue
New York, NY 10017
646-536-7000
info@theruthgroup.com

FORM 10-K

A copy of our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available (without exhibits) without charge upon written request to:

Investor Relations
inTEST Corporation
7 Esterbrook Lane
Cherry Hill, NJ 08003

Our Annual Report on Form 10-K is also available through our website, www.intest.com.

ANNUAL STOCKHOLDERS' MEETING

Our 2007 Annual Meeting of Stockholders will be held at 11:00 A.M. Eastern Daylight Time on Wednesday, June 13, 2007, at our offices, 7 Esterbrook Lane, Cherry Hill, NJ 08003.

EXECUTIVE OFFICERS

Alyn R. Holt
Chairman

Robert E. Matthiessen
President and Chief Executive Officer

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

Daniel J. Graham
Senior Vice President and General Manager
Manipulator and Docking Hardware Product Segment

James Pelrin
Vice President and General Manager
Temperature Management Product Segment

Dale E. Christman
Vice President and General Manager
Tester Interface Product Segment

BOARD OF DIRECTORS

Alyn R. Holt
Chairman, inTEST Corporation

Robert E. Matthiessen
President and CEO, inTEST Corporation

Stuart F. Daniels, Ph.D.
Principal, The Daniels Group, Technology Assessment,
Protection and Commercialization Consulting

James J. Greed, Jr.
Principal, Foothill Technology,
Consulting to the Semiconductor Industry

James W. Schwartz, Esq.
Of Counsel, Saul Ewing LLP

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inTEST Corporation

CORPORATE HEADQUARTERS

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