

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2002 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22529

**inTEST Corporation**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**22-2370659**

(I.R.S. Employer Identification Number)

**7 Esterbrook Lane**

**Cherry Hill, New Jersey 08003**

(Address of principal executive offices, including zip code)

**(856) 424-6886**

(Registrant's Telephone Number, including Area Code)

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

YES  NO

Number of shares of Common Stock, \$.01 par value, outstanding as of June 30, 2002:

8,694,455

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**inTEST CORPORATION**

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**PART I. FINANCIAL INFORMATION**

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**inTEST CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	June 30, 2002	Dec. 31, 2001
	-----	-----
	(Unaudited)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 7,722	\$ 7,281
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$132 and \$125, respectively	8,349	5,191
Inventories	7,230	7,554
Deferred tax asset	1,479	1,539
Refundable domestic and foreign income taxes	1,193	2,428
Other current assets	209	421
	-----	-----
Total current assets	26,182	24,414
	-----	-----
Property and equipment:		
Machinery and equipment	9,427	9,167
Leasehold improvements	2,631	2,607
	-----	-----
	12,058	11,774
Less: accumulated depreciation	(6,964)	(6,031)

Net property and equipment	5,094	5,743
Deferred tax asset	119	30
Other assets	674	648
Goodwill, net	933	933
Total assets	\$33,002	\$31,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,948	\$ 1,869
Accrued expenses	2,350	2,100
Domestic and foreign income taxes payable	51	218
Capital lease obligations	81	81
Total current liabilities	5,430	4,268
Capital lease obligations, net of current portion	256	296
Total liabilities	5,686	4,564
Commitments		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 8,694,455 and 8,685,205 shares issued, respectively	87	87
Additional paid-in capital	21,795	21,781
Retained earnings	7,968	8,127
Accumulated other comprehensive loss	(212)	(451)
Deferred compensation	-	(16)
Treasury stock, at cost; 375,648 and 375,982 shares, respectively	(2,322)	(2,324)
Total stockholders' equity	27,316	27,204
Total liabilities and stockholders' equity	\$33,002	\$31,768

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net revenues	\$12,963	\$16,675	\$19,931	\$36,780
Cost of revenues	7,576	11,143	12,610	23,285
Gross margin	5,387	5,532	7,321	13,495
Operating expenses:				
Selling expense	2,114	2,276	3,575	5,145
Engineering and product development expense	1,313	1,557	2,501	3,234
General and administrative expense	1,483	1,860	2,587	3,994
Total operating expenses	4,910	5,693	8,663	12,373
Operating income (loss)	477	(161)	(1,342)	1,122
Other income (expense):				
Interest income	26	49	54	110
Interest expense	(12)	(9)	(18)	(10)
Other	35	163	56	261
Total other income (expense)	49	203	92	361
Earnings (loss) before income taxes	526	42	(1,250)	1,483

Income tax expense (benefit)	(406)	78	(1,091)	661
	-----	-----	-----	-----
Net earnings (loss)	\$ 932	\$ (36)	\$ (159)	\$ 822
	=====	=====	=====	=====
Net earnings (loss) per common share - basic	\$0.11	\$0.00	\$(0.02)	\$0.10
Weighted average common shares outstanding-basic	8,311,709	8,265,932	8,310,473	8,259,074
Net earnings (loss) per common share - diluted	\$0.11	\$0.00	\$(0.02)	\$0.10
Weighted average common and common share equivalents outstanding-diluted	8,575,749	8,265,932	8,310,473	8,399,570

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	----- 2002	----- 2001	----- 2002	----- 2001
	-----	-----	-----	-----
Net earnings (loss)	\$ 932	\$ (36)	\$ (159)	\$ 822
Foreign currency translation adjustments	306	11	239	(278)
	-----	-----	-----	-----
Comprehensive earnings (loss)	\$1,238	\$ (25)	\$ 80	\$ 544
	=====	=====	=====	=====

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2002**

(In thousands, except share data)  
(Unaudited except Balance, December 31, 2001)

	Common Stock ----- Shares    Amount -----	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss -----	Deferred Compensation	Treasury Stock	Total Stockholders' Equity -----	
Balance, December 31, 2001	8,685,205	\$ 87	\$21,781	\$ 8,127	\$(451)	\$ (16)	\$(2,324)	\$27,204
Net loss	-	-	-	(159)	-	-	-	(159)
Other comprehensive earnings	-	-	-	239	-	-	-	239
Amortization of deferred compensation	-	-	-	-	16	-	-	16
Stock options exercised	9,250	-	38	-	-	-	-	38
Adjustment for termination of Equity Participation Plan	-	-	(24)	-	-	2	-	(22)
	-----	-----	-----	-----	-----	-----	-----	-----
Balance, June 30, 2002	8,694,455	\$ 87	\$21,795	\$ 7,968	\$(212)	\$ -	\$(2,322)	\$27,316
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

	Six Months Ended June 30,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ (159)	\$ 822
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation	927	864
Amortization of goodwill	-	239
Deferred taxes	(29)	60
Foreign exchange (gain) loss	4	4
Deferred compensation relating to stock options	16	39
Loss on disposal of fixed assets	7	16
Changes in assets and liabilities:		
Trade accounts and notes receivable	(3,124)	2,635
Inventories	352	229
Proceeds from sale of demonstration equipment, net of gain	50	46
Refundable domestic and foreign income taxes	1,241	39
Other current assets	220	(310)
Accounts payable	1,069	(2,330)
Domestic and foreign income taxes payable	(172)	-
Accrued expenses	238	(1,512)
Net cash provided by operating activities	640	841
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of machinery and equipment	(298)	(1,886)
Other long-term assets	(1)	13
Net cash used in investing activities	(299)	(1,873)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from financing of machinery and equipment	-	216
Repayments of capital lease obligations	(40)	(28)
Note receivable repayments from Equity Participation Plan	-	82
Proceeds from stock options exercised	38	26
Other	(22)	-
Net cash provided by (used in) financing activities	(24)	296
Effects of exchange rates on cash	124	(175)
Net cash provided by (used in) all activities	441	(911)
Cash and cash equivalents at beginning of period	7,281	5,680
Cash and cash equivalents at end of period	\$ 7,722	\$ 4,769
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital lease additions	\$ -	\$ 226
Cash payments (refunds) for:		
Domestic and foreign income taxes	\$(2,078)	\$ 535
Interest	18	9

See accompanying Notes to Consolidated Financial Statements.

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**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Information as of June 30, 2002 and for the six months ended  
June 30, 2002 and 2001 is unaudited)  
(In thousands, except for share and per share data)

**(1) NATURE OF OPERATIONS**

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

The consolidated entity is comprised of inTEST Corporation (parent) and our nine 100% owned subsidiaries. We manufacture our products in the U.S.,

the U.K. and Singapore. Marketing and support activities are conducted worldwide from our facilities in the U.S., the U.K., Germany, Japan and Singapore.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying 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 goodwill, inventory obsolescence write-downs, deferred income tax valuation allowances and warranty reserves, are particularly impacted by estimates.

### Risks and Uncertainties

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

### Reclassification

Certain prior period amounts have been reclassified to be comparable with the current period presentation.

### Interim Financial Reporting

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K filed on April 1, 2002.

### Net Earnings (Loss) Per Common Share

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

Prior to July 2001, weighted average common shares outstanding excluded unallocated shares of common stock held by the Temptronic Corporation Equity Participation Plan ("EPP").

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

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, which became effective on January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. We adopted SFAS No. 142 in the first quarter of 2002, as required, and we had unamortized goodwill in the amount of \$933 which is subject to the transition provisions of SFAS Nos. 141, *Business Combinations*, and 142. During the second quarter of 2002 we completed the first step of the transitional goodwill impairment test as required by SFAS No. 142 and have concluded that no impairment existed as of January 1, 2002. Amortization expense related to goodwill was \$119 and \$239 for the three months and six months ended June 30, 2001.

The following table sets forth our results for the three months and the six months ended June 30, 2001 assuming goodwill had not been amortized:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in thousands except per share data)			
Net earnings (loss)	\$ 932	\$ (36)	\$ (159)	\$ 822

Add back: Goodwill amortization	-	119	-	239
	-----	-----	-----	-----
Adjusted net earnings (loss)	\$ 932	\$ 83	\$ (159)	\$1,061
	=====	=====	=====	=====
Basic earnings (loss) per share:				
Net earnings (loss)	\$ .11	\$ .00	\$ (.02)	\$ .10
Goodwill amortization	-	.01	-	.03
	----	----	----	----
Adjusted net earnings (loss)	\$ .11	\$ .01	\$ (.02)	\$ .13
	=====	=====	=====	=====
Diluted earnings (loss) per share:				
Net earnings (loss)	\$ .11	\$ .00	\$ (.02)	\$ .10
Goodwill amortization	-	.01	-	.03
	----	----	----	----
Adjusted net earnings (loss)	\$ .11	\$ .01	\$ (.02)	\$ .13
	=====	=====	=====	=====

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

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement addresses the financial accounting and reporting of expenses related to restructurings initiated after 2002, and applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS No. 146, a company will record a liability for a cost associated with an exit or disposal activity when the liability is incurred and can be measured at fair value. The provisions of this Statement are effective prospectively for exit or disposal activities initiated after December 31, 2002. We have not determined the impact of adoption of this Statement on future periods.

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

**(3) SEGMENT INFORMATION**

We consider the various products we design, manufacture and market to form three reportable segments: positioner/docking hardware products, temperature management systems and tester interface products. The positioner/docking hardware segment includes the operations of our Cherry Hill, New Jersey manufacturing facility as well as the operations of three of our foreign subsidiaries: inTEST Limited (UK), inTEST Kabushiki Kaisha (Japan), and inTEST PTE, Limited (Singapore). Sales of this segment consist primarily of positioner and docking hardware products which we design, manufacture and market, as well as certain other related products which we design and market, but which are manufactured by third parties. The temperature management segment includes the operations of Temptronic Corporation (Massachusetts) as well as inTEST GmbH (Germany). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic product line. In addition, this segment provides after sale service and support, which is paid for by its customers. The tester interface segment includes the operations of inTEST Sunnyvale Corp. (California). Sales of this segment consist primarily of tester interface products which we design, manufacture and market under our TestDesign product line.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net revenues from unaffiliated customers:				
Positioner/Docking Hardware	\$ 6,167	\$ 7,286	\$ 9,033	\$15,179
Temperature Management	4,862	7,513	8,092	16,521
Tester Interface	1,934	1,876	2,806	5,080
	-----	-----	-----	-----
	\$12,963	\$16,675	\$19,931	\$36,780
	=====	=====	=====	=====

Affiliate sales or transfers from:



Positioner/Docking Hardware	\$ 186	\$ 339	\$ 304	\$ 605
Temperature Management	243	197	621	454
Tester Interface	314	52	428	699
	-----	-----	-----	-----
	\$ 743	\$ 588	\$ 1,353	\$ 1,758
	=====	=====	=====	=====
Operating income (loss):				
Positioner/Docking Hardware	\$ 109	\$ 95	\$ (793)	\$ 405
Temperature Management	(3)	64	(620)	1,041
Tester Interface	371	(320)	71	(324)
	-----	-----	-----	-----
	\$ 477	\$ (161)	\$ (1,342)	\$ 1,122
	=====	=====	=====	=====
Earnings (loss) before income taxes:				
Positioner/Docking Hardware	\$ 40	\$ 245	\$ (757)	\$ 667
Temperature Management	49	118	(564)	1,141
Tester Interface	437	(321)	71	(325)
	-----	-----	-----	-----
	\$ 526	\$ 42	\$ (1,250)	\$ 1,483
	=====	=====	=====	=====
Income tax expense (benefit):				
Positioner/Docking Hardware	\$ (260)	\$ 77	\$ (645)	\$ 161
Temperature Management	(152)	52	(337)	680
Tester Interface	6	(51)	(109)	(180)
	-----	-----	-----	-----
	\$ (406)	\$ 78	\$ (1,091)	\$ 661
	=====	=====	=====	=====

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

**(3) SEGMENT INFORMATION** (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net earnings (loss):				
Positioner/Docking Hardware	\$ 300	\$ 168	\$ (112)	\$ 506
Temperature Management	201	66	(227)	461
Tester Interface	431	(270)	180	(145)
	-----	-----	-----	-----
	\$ 932	\$ (36)	\$ (159)	\$ 822
	=====	=====	=====	=====

We began to allocate corporate overhead to our subsidiaries during the first quarter of 2002. Previously, all costs associated with our executive management team were charged to the Cherry Hill, New Jersey operation which is included in the positioner/docking hardware segment. The prior period segment information has been restated to be comparable with the current period. Substantially all interest income is generated by our three Delaware holding companies, whose results are also included in the positioner/docking hardware segment.

**(4) TERMINATION OF EQUITY PARTICIPATION PLAN**

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

On July 2, 2001, the EPP was terminated. Upon termination, the 375,982 remaining unallocated shares were returned to Temprotonic in satisfaction of the remaining unpaid principal amount of the note at that time. These shares have been recorded as treasury stock in the accompanying consolidated financial statements. Based on a stock price of \$6.18 on July 2, 2001, the value of the unallocated shares returned to Temprotonic was approximately \$604 less than the remaining principal of the note receivable as of that date. This difference was recorded as a reduction of additional paid in capital. We recently received favorable determination with respect to the termination of the EPP from the Internal Revenue Service and began distribution of the allocated shares to plan participants. During this process, we determined that an additional 334 shares were needed to be returned to the EPP in order to finalize the distribution to all participants. These shares, which had a value of approximately \$2, were taken from the treasury shares and returned to the EPP for distribution to participants during the second quarter of 2002. In addition, at July 2, 2001, the EPP had approximately \$22 of cash which the Company expected to receive as partial settlement of the remaining principal of the note, however, under the terms of the EPP, this amount was considered allocated to participants and has therefore been included in the distribution to plan participants. We expect the distribution of the allocated shares and cash to be substantially complete by the end of 2002.

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inTEST CORPORATION

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

**Overview**

Our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. Demand for ATE is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading existing equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. The semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have a severe impact on the semiconductor industry's demand for ATE, including the products we manufacture. This cyclical nature has been clearly demonstrated during the past six years, with downward cycles in 1996, 1998 and 2001 and up cycles in 1997 and 1999-2000.

**Net Revenues and Bookings**

The most recent downturn, which began during the fourth quarter of 2000, was the most severe downturn the ATE industry had ever experienced. Our consolidated quarterly net revenues declined from a peak of \$24.5 million for the quarter ended September 30, 2000 to \$7.0 million for the quarter ended March 31, 2002, a decline of approximately 72%. The decrease we experienced in net revenues during this period was comparable to the peak to trough differences being experienced by most of the companies in our industry. The approximate peak to trough percentage decline in quarterly net revenues by product segment was 92% in the tester interface segment (fourth quarter 2001), 75% in the positioner/docking hardware segment (fourth quarter 2001) and 63% in the temperature management segment (first quarter 2002). We believe the larger percentage declines in the net revenues of our tester interface segment were primarily due to the fact that these product sales are driven predominantly by semiconductor manufacturers' additions to production capacity, which essentially ceased during 2001. We believe the smaller percentage decline in the net revenues of our temperature management segment were the result of demand for certain products of this segment used in the research and product development projects of semiconductor manufacturers, which did not decline as significantly as the demand for other segments during 2001. During the second quarter of 2002, our consolidated net revenues increased quarter over quarter for the first time since the third quarter of 2000. Our consolidated net revenues for this period were \$13.0 million, an 86% increase from the first quarter of 2002. However, compared to the same quarter last year, our net revenues decreased \$3.7 million or 22%. It is still unclear whether the increase we saw from the first to the second quarter of 2002 indicates the beginning of the next up cycle. We cannot be sure that our net revenues will continue to increase in future quarters or that the rate of increase will be similar to what occurred in the second quarter.

Our consolidated quarterly net new orders booked ("bookings") declined from a peak of \$26.5 million for the quarter ended September 30, 2000 to \$6.1 million for the quarter ended September 30, 2001, a decline of approximately 77%. The peak to trough percentage decline in quarterly bookings by product segment is consistent with the declines in net revenues discussed above. The downward trend in bookings appears to have stopped in the fourth quarter of 2001, when we experienced the first increase in quarterly bookings in five quarters. Increases in quarterly bookings continued in each of the first and second quarters of 2002, with bookings for our most recent quarter ended June 30, 2002 increasing to \$14.9 million, a 53% increase from the first quarter of 2002. At the end of the first quarter of 2002, the industry consensus anticipated that the recovery in the semiconductor industry would begin in the second half of 2002. Since then, however, there is a growing consensus that the recent increases in demand for ATE may represent a correction of the significant under-spending by semiconductor manufacturers which occurred during 2001, and the expectation is that a robust recovery may not occur until 2003. Although we have continued to see sequential quarterly growth in our bookings since the fourth quarter of 2001, we cannot be sure that the downturn has ended, when the next cyclical growth phase will occur or the rate at which it will accelerate.

**Cost Containment Initiatives**

In response to the severe downturn, we implemented significant cost containment initiatives during 2001 to reduce operating losses and preserve cash. These initiatives were completed in several stages as the magnitude of the downturn became more apparent throughout 2001. The most significant cost reduction was in personnel, where we reduced headcount by 38% or 144 people. In addition, we implemented a temporary 10% reduction in compensation for all worldwide employees as well as a temporary elimination of company contributions to retirement plans for all domestic employees. Significant reductions were also made in corporate travel, advertising, professional services and supplies. The result of our cost containment efforts is reflected in the level of operating expenses, which declined from a peak of \$7.3 million for the quarter ended December 31, 2000 to \$3.8 million for the quarter ended March 31, 2002. Operating expenses increased to \$4.9 million for the second quarter of 2002, primarily as a result of the return of certain benefits as discussed below, as well as increases in commissions and other sales related expenditures and increased costs associated with patent infringement litigation, as more fully discussed under Results of Operations.

The goal of the cost containment initiatives implemented throughout 2001 was to reduce fixed operating costs to a level which, based on our then current revenue projections, would allow us to maintain our level of cash while still continuing our research and development programs and positioning ourselves such that, as the market improved, we would be able to be a prime supplier for both new and existing technologies developed by our customers. With the recent increases that we have experienced in both bookings and net revenues, we began to evaluate whether we could return to our employees the benefits which had been reduced or eliminated as a part of our cost containment efforts. While

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

each facility has been evaluated based on its current and projected operations and profitability, in general, we determined that it was appropriate to return employees to full salary as of June 1, 2002 and to restore Company contributions to retirement plans and provide performance reviews and merit increases effective July 1, 2002. Given the uncertainty of the timing and rate of the recovery, we are continuing to monitor our costs and cash balances closely and, in the event of a reversal of the current trend in net revenues, we are prepared to take the actions necessary to insure we can continue to meet the goals we had when we initially undertook our cost containment efforts.

Customer Mix

We sell our products to both semiconductor manufacturers (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. Historically, the majority of our positioner, docking hardware and tester interface product sales have been made directly to semiconductor manufacturers, with sales to these end users typically in the range of 65% to 75% of our net revenues. However, since the beginning of 2000, many semiconductor manufacturers have begun to show a preference for purchasing from a single source the various components of the ATE (excluding temperature management systems) that they need. Typically, this source is the tester manufacturer, who manufacturers the largest and most expensive components of the ATE system. As evidence of this trend, our OEM sales as a percentage of net revenues for the years ended December 31, 1999, 2000 and 2001 were 33%, 41% and 54%, respectively, for positioner/docking hardware products and 21%, 42% and 70%, respectively, for tester interface products. For the six months ended June 30, 2002 we have seen this trend in these two product segments reverse itself, as OEM sales as a percentage of net revenues were 48% for positioner/docking hardware products and 30% for tester interface products. In our temperature management segment, OEM sales as a percentage of net revenues decreased from 45% to 32% for the years ended December 31, 2000 and 2001, respectively. This trend also reversed itself in the first six months of 2002, as OEM sales as a percentage of net revenues were 36% for temperature management products. We anticipate that OEM sales as a percentage of net revenues for our positioner/docking hardware and tester interface product segments will range from 35% to 55% in future periods. The impact of an increase in OEM sales as a percentage of net revenues is a reduction in our gross margin, as OEM sales have a more significant discount than end user sales. Our current net operating margins on most OEM sales for these product segments, however, are only slightly less than margins on end user sales because of the payment of third party sales commissions on most end user sales. We also expect to continue to experience demands from our OEM customers' supply line management groups to reduce our sales prices to them. This continued price pressure may have the ultimate effect of reducing our gross and operating margins if we cannot further reduce our manufacturing and operating costs.

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

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

Results of Operations

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

Quarter Ended June 30, 2002 Compared to Quarter Ended June 30, 2001

*Net Revenues.* Net revenues were \$13.0 million for the quarter ended June 30, 2002 compared to \$16.7 million for the same period in 2001, a decrease of \$3.7 million or 22%. We believe that the decrease in net revenues compared to 2001 reflects the severe cyclical downturn in demand for ATE that started late in 2000. While net revenues declined over the comparable prior period for our positioner/docking hardware and temperature management product segments by 15% and 35%, respectively, net revenues for our tester interface segment for the comparable prior period were unchanged because this segment had experienced more significant declines for its products earlier in 2001 than the other two segments.

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

*Gross Margin.* Gross margin increased to 42% for the quarter ended June 30, 2002 from 33% for the comparable period in 2001. The increase is primarily the result of a reduction in component material costs combined with lower expenditures for direct labor and fixed operating costs. The decrease in component materials cost reflects lower levels of fabrication costs due to process improvements as well as the mix of products sold. The decrease in labor costs in 2002 as compared to 2001 is primarily a result of two factors. First, we had fewer employees in the second quarter of 2002 than we did in the second quarter of 2001 due to the two reductions in workforce which took place after the end of the second quarter of 2001. In addition, the 10% reduction in pay was implemented on August 1, 2001 and was not restored until June 1, 2002. The improvement in gross margin is also a result of lower facilities costs for our temperature management segment, primarily due to higher rental payments incurred during the early part of 2001 prior to its move to its new facility. To a lesser extent, the decreases in all components of our cost of sales as a percent of sales is a result of the decrease in OEM sales as a

percentage of total net revenues.

*Selling Expense.* Selling expense was \$2.1 million for the quarter ended June 30, 2002 compared to \$2.3 million for the same period in 2001, a decrease of \$162,000 or 7%. We attribute the decrease primarily to decreased commission expense due to the lower sales levels although this trend was partially offset by higher commissions paid on end user sales which increased as a percentage of total sales for both our positioner/docking hardware and tester interface product segments in the second quarter of 2002 as compared to 2001. In addition, salary and benefit expenditures decreased in 2002 as compared to 2001, primarily as a result of our cost containment program.

*Engineering and Product Development Expense.* Engineering and product development expense was \$1.3 million for the quarter ended June 30, 2002 compared to \$1.6 million for the same period in 2001, a decrease of \$244,000 or 16%. We attribute the decrease primarily to reduced salary and benefit expense resulting from our cost containment program. In addition, we incurred lower expenditures for travel.

*General and Administrative Expense.* General and administrative expense was \$1.5 million for the quarter ended June 30, 2002, compared to \$1.9 million for the same period in 2001, a decrease of \$377,000 or 20%. We attribute the decrease primarily to reduced salary and benefit expense resulting from our cost containment program, as well as the elimination of goodwill amortization. In addition, there were reductions in directors' fees and travel. These decreases were partially offset by an increase in legal fees consisting of application and maintenance fees and defense costs for our intellectual property.

*Other Income.* Other income was \$49,000 for the quarter ended June 30, 2002 compared to \$203,000 for the same period in 2001, a decrease of \$154,000 or 76%. The decline is primarily the result of a decrease in third party royalty income from the licensing of our intellectual property and a significant decline in commissions received by our Japanese subsidiary related to the sale of third party products. In addition, there was a reduction in interest income resulting from lower average cash balances and lower interest rates.

*Income Tax Expense (Benefit).* Income tax benefit was \$406,000 for the quarter ended June 30, 2002, compared with income tax expense of \$78,000 for the same period in 2001. Our effective tax rate for the second quarter of 2002 was (77)% compared to 186% for the comparable period in 2001. During the second quarter of 2002, we recorded a one-time tax benefit related to prior periods of approximately \$600,000. This benefit was due to the filing of amended prior year returns that were filed to claim additional research and experimentation credits for these years. During the second quarter of 2001 we accrued approximately \$60,000 of U.S taxes on earnings of our Singapore subsidiary which we repatriated in the form of a dividend in July 2001. Adjusted to exclude these items, our effective tax rate for the second quarter of 2002 was 37% compared to an effective tax rate of 43% for the comparable period in 2001. The decrease in the effective tax rate, as adjusted, is primarily a result of the fact that certain of our foreign subsidiaries who operate in jurisdictions where the statutory tax rates are higher than in the U.S. accounted for a larger percentage of our income for the second quarter of 2001 than for the comparable period in 2002. In July 2002, the New Jersey state legislature passed new tax legislation which is effective retroactive to January 1, 2002. The cumulative impact of this new legislation on our year-to-date results will be reflected in the third quarter of 2002.

#### Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

*Net Revenues.* Net revenues were \$19.9 million for the six months ended June 30, 2002 compared to \$36.8 million for the same period in 2001, a decrease of \$16.8 million or 46%. The decrease by segment for our positioner/docking hardware, temperature management and tester interface product segments were 41%, 51% and 45%, respectively. We believe that the decrease in net revenues compared to 2001 reflects the severe cyclical downturn in demand for ATE that started late in 2000.

*Gross Margin.* Gross margin was unchanged at 37% for each of the six months ended June 30, 2002 and 2001. Component material costs as a percent of revenues declined to 37% in 2002 from 43% in 2001. The decrease in component materials cost reflects lower levels of fabrication costs due to process improvements as well as the mix of products sold. The decrease in component material costs was offset by an increase in fixed operating costs as a percent of revenues, which increased from 17% to 23% in 2001 as compared to 2002. This is primarily the result of the lower sales levels which did not fully absorb these costs. The total dollar amount of fixed operating costs decreased \$1.6 million or 26% for the six months ended June 30, 2002 as compared to 2001. This was due primarily to our cost containment program combined with lower facilities costs for our Temptronic subsidiary, which paid rent at both its former facility and its new facility for a portion of the first half of 2001 prior to the completion of its move to the new facility. Direct labor costs as a percent of revenues remained relatively unchanged in 2002 as compared to 2001, although the total dollar amount of direct labor decreased \$680,000 or 49% as a result of reductions in staff and salaries in connection with our cost containment efforts.

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### **inTEST CORPORATION**

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

*Selling Expense.* Selling expense was \$3.6 million for the six months ended June 30, 2002 compared to \$5.1 million for the same period in 2001, a decrease of \$1.6 million or 31%. We attribute the decrease primarily to decreased commission expense due to the lower sales levels although this trend was partially offset by higher commissions paid on end user sales which increased as a percentage of total sales for both our positioner/docking hardware and tester interface product segments in the second quarter of 2002 as compared to 2001. In addition, salary and benefit expenditures decreased in 2002 as compared to 2001, primarily as a result of our cost containment program. Warranty costs decreased as well, primarily as a result of the lower sales levels.

*Engineering and Product Development Expense.* Engineering and product development expense was \$2.5 million for the six months ended June 30, 2002 compared to \$3.2 million for the same period in 2001, a decrease of \$733,000 or 23%. We attribute the decrease primarily to reduced salary and benefit expense resulting from our cost containment program. In addition, we incurred lower expenditures for travel and for research and development materials.

*General and Administrative Expense.* General and administrative expense was \$2.6 million for the six months ended June 30, 2002 compared to \$4.0 million for the same period in 2001, a decrease of \$1.4 million or 35%. We attribute the decrease primarily to reduced salary and benefit expense resulting from our cost containment program, as well as the elimination of goodwill amortization. In addition, we incurred lower directors' fees and travel due to our cost containment efforts.

*Other Income.* Other income was \$92,000 for the six months ended June 30, 2002 compared to \$361,000 for the same period in 2001, a decrease of \$269,000 or 75%. The decline is primarily the result of a decrease in third party royalty income from the licensing of our intellectual property and the absence of commissions received by our Japanese subsidiary related to the sale of third party products. In addition, there was a reduction in interest income resulting from lower average cash balances and lower interest rates.

*Income Tax Expense (Benefit)*. Income tax benefit was \$1.1 million for the six months ended June 30, 2002 compared with income tax expense of \$661,000 for the same period in 2001. Our effective tax rate for the first six months of 2002 was 87% compared to 45% for the comparable period in 2001. During the six months ended June 30, 2002, we recorded a one-time tax benefit related to prior periods of approximately \$600,000. This benefit was due to the filing of amended prior year returns that were filed to claim additional research and experimentation credits for these years. During the six months ended June 30, 2001, we accrued approximately \$60,000 of U.S taxes on earnings of our Singapore subsidiary which we repatriated in the form of a dividend in July 2001. Adjusted to exclude these items, our effective tax rate for the first half of 2002 was 39% compared to an effective tax rate of 41% for the comparable period in 2001. In July 2002, the New Jersey state legislature passed new tax legislation which is effective retroactive to January 1, 2002. The cumulative impact of this new legislation on our year-to-date results will be reflected in the third quarter of 2002.

### **Liquidity and Capital Resources**

Net cash provided by operations for the six months ended June 30, 2002 was \$640,000. Accounts receivable increased \$3.1 million from December 31, 2001 to June 30, 2002 primarily due to increased sales volume in the second quarter of 2002 which was partially offset by cash collections during the period. Inventories decreased \$352,000, as the result of shipments of previously ordered materials. Net refundable domestic and foreign income taxes decreased by \$1.0 million, primarily as the result of receiving a tax refund of approximately \$2.2 million during the period. This decrease was partially offset by the recording of tax benefits on the operating losses incurred during the first half of 2002 along with an approximate \$600,000 one-time tax credit related to prior years. Accounts payable increased \$1.1 million due to increased production levels, particularly during the second quarter of 2002, as sales levels and bookings increased. Accrued expenses increased \$238,000 primarily as the result of increases in accruals for commissions and employee salary and benefits.

Purchases of machinery and equipment were \$298,000 for the six months ended June 30, 2002, which consisted primarily of equipment purchased for our Temprontronic facility.

Net cash used by financing activities for the six months ended June 30, 2002 was \$24,000, which represented \$40,000 for payments under capital lease obligations and the return of \$22,000 of cash to the Temprontronic Equity Participation Plan related to the plan's termination, as further discussed in the notes to the consolidated financial statements. These items were partially offset by proceeds of \$38,000 from stock options exercised.

During the second quarter, we renegotiated our credit facilities with our existing lender in order to ensure the continued availability of funds should the current industry downturn be prolonged. In connection with this renegotiation, we granted a security interest in most of our domestic assets. The terms of the loan agreement require that we comply with various covenants including, among other things, restrictions on the minimum levels of stockholders' equity and EBITDA (earnings before interest, taxes, depreciation and amortization) as well as a limitation on the amount of capital expenditures and a prohibition against the payment of dividends. As of June 30, 2002, we were in compliance with all of the covenants. The credit facility provides for maximum borrowings of \$5.0 million (with a sublimit of up to \$500,000 for letters of credit). The maximum amount available for borrowings and letters of credit at any time is subject to a borrowing base formula tied to the level of our domestic accounts receivable and inventory. According to this formula, we had \$4.8 million available for borrowing at June 30, 2002 (\$5.0 million committed amount less \$200,000 in letters of credit outstanding). This line of credit facility replaces the \$5.0 million unsecured line of credit which was due to expire on September 30, 2002. The new credit facility expires on February 28, 2004.

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## **inTEST CORPORATION**

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

We believe that our existing cash balances and line of credit, plus the net cash anticipated from operations, will be sufficient to satisfy our cash requirements for the foreseeable future. However, we have experienced operating losses during recent quarters due to the severe industry downturn. Should the industry downturn continue for longer than anticipated, or be more severe than we currently project, and we are unable to reduce our operating expenses sufficiently, we may require additional equity or debt financing to meet working capital requirements or capital expenditure needs. We cannot determine with certainty that, if needed, we would be able to raise additional funding through either equity or debt financing. We do not anticipate paying dividends in the foreseeable future. Under the terms of our credit agreement, any payment of dividends would require the prior consent of the lender.

### **New Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, which became effective on January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. We adopted SFAS No. 142 in the first quarter of 2002, as required, and we had unamortized goodwill in the amount of \$933 which is subject to the transition provisions of SFAS Nos. 141, *Business Combinations*, and 142. During the second quarter of 2002 we completed the first step of the transitional goodwill impairment test as required by SFAS No. 142 and have concluded that no impairment existed as of January 1, 2002. Amortization expense related to goodwill was \$119 and \$239 for the three months and six months ended June 30, 2001.

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

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement addresses the financial

accounting and reporting of expenses related to restructurings initiated after 2002, and applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS No. 146, a company will record a liability for a cost associated with an exit or disposal activity when the liability is incurred and can be measured at fair value. The provisions of this Statement are effective prospectively for exit or disposal activities initiated after December 31, 2002. We have not determined the impact of adoption of this Statement on future periods.

### **International Operations**

Net revenues generated by our foreign subsidiaries were 12% and 14% of consolidated net revenues for the six months ended June 30, 2002 and 2001, respectively. We anticipate that net revenues generated by our foreign subsidiaries will continue to account for a significant portion of consolidated net revenues in the foreseeable future. The net revenues generated by our foreign subsidiaries will continue to be subject to certain risks, including political and economic instability of foreign countries, the imposition of financial and operational controls or regulatory restrictions by foreign governments, the need to comply with a variety of U.S. and foreign export and import laws, trade restrictions, changes in tariffs and taxes, longer payment cycles, fluctuations in foreign currency exchange rates, and the greater difficulty of administering business abroad. We cannot predict whether quotas, duties, taxes or other charges or restrictions will be implemented by the U.S. or any other country upon the importation or exportation of our products in the future. Any of these factors or the adoption of restrictive policies could have a material adverse effect on our business, financial condition or results of operations.

Net revenues denominated in foreign currencies were 10% and 12% of consolidated net revenues for the six months ended June 30, 2002 and 2001, respectively. Although we seek to operate our business such that a significant portion of our product costs are denominated in the same currency as the associated sales, we may be adversely affected in the future due to our exposure to foreign operations. Moreover, net revenues denominated in currencies other than U.S. dollars expose us to currency fluctuations, which can adversely affect our results of operations.

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## **inTEST CORPORATION**

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

The portion of our consolidated net revenues that were derived from sales to the Asia-Pacific region were 5% and 6% for the six months ended June 30, 2002 and 2001, respectively. Countries in the Asia-Pacific region, including Japan, have experienced economic instability resulting in weaknesses in their currency, banking and equity markets. Continued economic instability could have a material adverse effect on demand for our products and our consolidated results of operations.

#### **Risks That Could Affect Future Results**

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

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### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to currency exchange rate risk in the normal course of our business, primarily in our Japanese operation. Our exposure results from the fact that the sales of our Japanese subsidiary are in Japanese yen and inventory purchases are in U.S. dollars. We have the same exposure in our German operations as a portion of total sales are in Euros while inventory purchases are in U.S. dollars. We also have a similar exposure in our Singapore operations because our sales are in U.S. dollars but our manufacturing costs are in U.S. dollars, British pounds and Singapore dollars. We employ risk management strategies, including the use of forward exchange rate contracts, to manage our exposure to exchange rate risks involving the yen, and may, in the future, use forward exchange rate contracts to manage our exposure to exchange rate risks involving the Euro and Singapore dollar.

Our objective in managing currency exchange risk is to minimize the impact of significant currency exchange rate fluctuations. We use forward exchange rate contracts to establish a fixed conversion rate between the Japanese yen and the U.S. dollar so that the level of our gross margin from sales in Japan is not negatively affected by significant movements in the Japanese yen to U.S. dollar exchange rate. We purchase forward exchange rate contracts on a monthly basis in the amounts management deems appropriate in light of the amount of the U.S. dollar denominated obligations of our Japanese subsidiary that are due within the month. We do not purchase forward contracts with settlement dates beyond 30 days. As of June 30, 2002, there were no forward exchange rate contracts outstanding.

It is our policy to enter into forward exchange rate contracts only to the extent necessary to achieve the desired objectives of management in limiting our

exposure to significant fluctuations in currency exchange rates. We do not hedge all of our currency exchange rate risk exposures in a manner that would completely eliminate the impact of changes in currency exchange rates on our net earnings. We do not expect that the results of our operations or our liquidity will be materially affected by these risk management activities.

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**inTEST CORPORATION**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 2. Changes in Securities and Use of Proceeds**

Not applicable

**Item 3. Defaults Upon Senior Securities**

None

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

The Annual Meeting of Stockholders of the Company was held on June 12, 2002 (the "Meeting"). Notice of the Meeting was mailed to stockholders of record on or about May 15, 2002, together with proxy solicitation materials prepared in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

The matters submitted to a vote of stockholders at the Meeting were the following:

1. Election of the members of the Board of Directors;
2. Approval of amendment of the 1997 Stock Plan to increase the number of shares which may be issued under the 1997 Stock Plan by 150,000 to 1,250,000;
3. Ratification of the appointment by the Board of Directors of KPMG LLP as the independent public accountants for inTEST for the year ending December 31, 2002.

There was no solicitation in opposition to the nominees of the Board of Directors for election to the Board of Directors and all such nominees were elected. The number of votes cast for or withheld for each nominee for election to the Board of Directors were as follows:

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
Alyn R. Holt	7,608,048	312,174
Robert E. Matthiessen	7,640,931	199,568
Daniel J. Graham	7,640,631	199,868
Richard O. Endres	7,711,781	128,718
Stuart F. Daniels, Ph.D.	7,714,781	125,718
Douglas W. Smith	7,702,531	137,968
Gregory W. Slayton	7,699,381	141,118
James J. Greed, Jr.	7,711,881	128,618

The proposal to approve the amendments to the 1997 Stock Plan was approved. The number of votes cast for or against as well as the number of abstentions were as follows:

<u>For</u>	<u>Against</u>	<u>Abstentions</u>
6,592,522	1,232,186	15,791

The proposal to ratify the appointment of KPMG LLP as the Company's independent public accountants for the year ending December 31, 2002 was ratified. The number of votes cast for or against as well as the number of abstentions for the ratification were as follows:

<u>For</u>	<u>Against</u>	<u>Abstentions</u>
7,825,329	10,915	4,255

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

(a) *Exhibits:*

- 3.1\* Articles of Incorporation: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, and incorporated herein by reference.
- 3.2\* By-Laws: Previously filed by the Company as an Exhibit to the Company's Registration Statement on Form S-1, File No. 333-26457, and incorporated herein by reference.
- 10.1 Amended and Restated Loan Agreement dated May 29, 2002 between PNC Bank, National Association and the Company.
- 10.2 Amended and Restated Committed Line of Credit Note dated May 29, 2002 between PNC Bank, National Association and the Company.
- 10.3\* Amended and Restated 1997 Stock Plan, filed as an appendix to the Company's proxy statement filed on April 25, 2002, and incorporated herein by reference.
- 99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Indicates document previously filed

(b) *Reports on Form 8-K*

On April 25, 2002, we filed a report on Form 8-K providing information responsive to the requirements of Item 5 and 7 of that form regarding our financial results for the quarter ended March 31, 2002.

On June 18, 2002, we filed a report on Form 8-K providing information responsive to the requirements of Item 5 and 7 of that form regarding revised guidance for our financial results for the second quarter ending June 30, 2002.

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**Signatures**

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

**inTEST Corporation**

Date: August 14, 2002

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



Date: August 14, 2002

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

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**Index to Exhibits**

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

May 29, 2002

Attention: Hugh Regan  
inTEST Corporation  
inTEST Sunnyvale Corporation  
Temptronic Corp.  
inTEST Investments, Inc.  
inTEST Licensing Corp.  
inTEST IP Corp.  
Seven Esterbrook Lane  
Cherry Hill, NJ 08003

Re: \$5,000,000 Committed Line of Credit

Dear Hugh:

We are pleased to inform you that PNC Bank, National Association (the "**Bank**") has reapproved your request for the renewal and restatement of the committed line of credit extended to inTEST Corporation ("**InTEST**"), inTEST Sunnyvale Corporation, Temptronic Corporation, inTEST Investments, Inc., inTEST IP Corp. and inTEST Licensing Corp. (each, a "**Borrower**" and collectively, the "**Borrowers**"). This letter agreement (this "**Letter Agreement**") amends, restates and replaces (but does not constitute a novation of or affect the status of any liens or security interests granted pursuant to) the existing Letter Agreement, dated November 16, 2000, by and among the Bank and the Borrowers (the "**Existing Letter Agreement**"). We look forward to this opportunity to help you meet the financing needs of your business. All the details regarding your Line of Credit (as defined herein) are outlined in the following sections of this Letter Agreement.

1. **Facility and Use of Proceeds.** This is a committed revolving line of credit under which the Borrowers may request, and the Bank, subject to the terms and conditions of this Letter Agreement, will make, advances ("**Advances**") to the Borrowers from time to time until the Expiration Date, in an amount in the aggregate at any time outstanding not to exceed \$5,000,000 (the "**Line of Credit**" or the "**Loan**"). The "**Expiration Date**" means February 28, 2004, or such later date as may be designated by the Bank by written notice to the Borrowers. Advances under the Line of Credit will be used for working capital or other general business purposes of the Borrowers.

The Borrowers may request that the Bank, in lieu of cash advances, issue standby letters of credit (individually, a "**Letter of Credit**" and collectively, the "**Letters of Credit**") under the Line of Credit in an amount not to exceed \$500,000 in the aggregate having expiration dates not to exceed one year (but in no event shall the expiration date of a Letter of Credit be later than the date one week prior to the Expiration Date). The availability of Advances under the Line of Credit shall be reduced by the face amount of each Letter of Credit issued and outstanding (whether or not drawn). Each payment by the Bank under a Letter of Credit shall, in the Bank's discretion, constitute an Advance of principal under the Line of Credit and shall be evidenced by the Note (as defined below). The Letters of Credit shall be governed by the terms of this Letter Agreement and by one or more reimbursement agreements, in form and content satisfactory to the Bank, executed by the Borrowers in favor of the Bank (collectively, the "**Reimbursement Agreements**"). Each request for the issuance of a Letter of Credit must be accompanied by the requesting Borrower's execution of an application on the Bank's standard forms (each, an "**Application**"), together with all supporting documentation. Each Letter of Credit will be issued in the Bank's sole discretion and in a form acceptable to the Bank. The Borrowers shall pay to Bank a Letter of Credit fee in an amount equal to 2.25% per annum of the face amount of each Letter of Credit, which fee shall be payable quarterly in arrears on the first day of each calendar quarter, together with such other customary fees, commissions and expenses therefor as shall be required by the Bank. This letter is not a pre-advice for the issuance of a Letter of Credit and is not irrevocable.

The availability of Advances and Letters of Credit under the Line of Credit will be subject to a borrowing base formula and other provisions as set forth in a Borrowing Base Rider dated on or about the date of this Letter Agreement among the Borrowers and the Bank, the terms of which are incorporated herein by reference (the "**Borrowing Base Rider**"). At no time shall the sum of outstanding Advances under the

Line of Credit plus the face amount of any outstanding Letters of Credit (whether or not drawn) exceed the Borrowing Base (as defined in the Borrowing Base Rider). Pursuant to the Borrowing Base Rider, the Borrowers will be required to deliver periodic Borrowing Base Certificates, reporting on their accounts and inventory in accordance with defined eligibility standards, as a condition to Advances under the Line of Credit.

2. **Note.** The obligation of the Borrower to repay advances under the Line of Credit shall be evidenced by an amended and restated promissory note (the "**Note**") in form and content satisfactory to the Bank.

This Letter Agreement, the Note, the Security Agreement (as defined below) and the other agreements and documents executed and/or delivered pursuant hereto, as each may be amended, modified, extended or renewed from time to time, will constitute the "**Loan Documents.**" Capitalized terms not defined herein shall have the meaning ascribed to them in the Loan Documents.

3. **Interest Rate.** Interest on the unpaid balance of the Line of Credit Advances will be charged at the rates, and be payable on the dates and times, set forth in the Note.

4. **Repayment.** Subject to the terms and conditions of this Letter Agreement, the Borrowers may borrow, repay and reborrow under the Line of Credit until the Expiration Date, on which date the outstanding principal balance and any accrued but unpaid interest shall be due and payable. Interest will be due and payable as set forth in the Note, and will be computed on the basis of a year of 360 days and paid on the actual number of days that principal is outstanding.

5. **Security.** The Borrowers must cause, or have previously caused the following to be executed and delivered to the Bank, in form and content satisfactory to the Bank, as security for the Line of Credit:

- a. a security agreement (the "**Security Agreement**") granting the Bank a first priority perfected lien on each Borrower's existing and future assets and property, wherever located, as more fully described therein, excluding only the patents and trademarks of Borrowers.

If all or any portion of the tangible collateral is located on property which is not owned by the Borrowers or which is subject to a mortgage in favor of another lender, the Borrowers will deliver to the Bank Landlord's or Mortgagee's Waivers, as applicable, acceptable in form and content to the Bank for each such location.

Hazard insurance must be maintained on all inventory and equipment securing the Line of Credit in such amounts and with such coverages as are acceptable to the Bank, containing a standard lender loss payable clause in favor of the Bank.

The Loan will be cross-collateralized and cross-defaulted with all other present and future Obligations (as defined in the Loan Documents) of the Borrowers to the Bank.

6. **Covenants.** Unless compliance is waived in writing by the Bank, until payment and satisfaction in full of the Loan and termination of the commitment for the Line of Credit:

- a. The Borrowers will promptly submit to the Bank such information as the Bank may reasonably request relating to the Borrowers' affairs (including but not limited to annual Financial Statements (as hereinafter defined) and tax returns for the Borrowers) or any security for the Loan.
- b. No Borrowers will make or permit any change in its form of organization or the nature of its business as carried on as of the date of this Letter Agreement.
- c. InTest will not make or permits any change in its executive officers as set forth on **Schedule 6(c)** attached hereto.
- d. No Borrower will make or permit any change in its equity ownership, which results in greater than twenty-five percent (25%) equity ownership by any one person.
- e. The Borrowers will notify the Bank in writing of the occurrence of any Event of Default or an act or condition which, with the passage of time, the giving of notice or both, might become an Event of

Default.

f. The Borrowers will comply with the financial and other covenants included in **Exhibit "A"** hereto.

7. **Representations and Warranties.** To induce the Bank to extend the Loan and upon the making of each Advance to the Borrowers or issuing any Letter of Credit under the Line of Credit, each Borrower represents and warrants as follows:

- a. The Borrowers' latest Financial Statements provided to the Bank are true, complete and accurate in all material respects and fairly present the financial condition, assets and liabilities, whether accrued, absolute, contingent or otherwise, and the results of the Borrowers' operations for the period specified therein. The Borrowers' Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied from period to period subject, in the case of interim statements, to normal year-end adjustments. Since the date of the latest Financial Statements provided to the Bank, the Borrowers have not suffered any damage, destruction or loss which has materially adversely affected their business, assets, operations, financial condition or results of operations.
- b. There are no actions, suits, proceedings or governmental investigations pending or, to the knowledge of the Borrowers, threatened against any Borrower which could result in a material adverse change in such Borrower's business, assets, operations, financial condition or results of operations, and there is no basis known to any Borrower or its officers, directors or shareholders for any such action, suit, proceedings or investigation.
- c. Each Borrower has filed all returns and reports that are required to be filed (subject to any extensions granted) by it in connection with any federal, state or local tax, duty or charge levied, assessed or imposed upon such Borrower or its property, including unemployment, social security and similar taxes, and all of such taxes have been either paid, except such taxes (other than real estate taxes which must be paid regardless of challenge), if any, as are being contested in good faith and as to which adequate reserves have been provided.
- d. Each Borrower is duly organized, validly existing and in good standing under the laws of the state of its incorporation or organization and has the power and authority to own and operate its assets and to conduct its business as now or proposed to be carried on, and is duly qualified, licensed and in good standing to do business in all jurisdictions where its ownership of property or the nature of its business requires such qualification or licensing.
- e. Each Borrower has full power and authority to enter into the transactions provided for in this Letter Agreement and has been duly authorized to do so by all necessary and appropriate action and, when executed and delivered by such Borrower, this Letter Agreement and the other Loan Documents will constitute the legal, valid and binding obligations of such Borrower, enforceable against such Borrower in accordance with their terms.
- f. There does not exist any default or violation by any Borrower of or under any of the terms, conditions or obligations of: (i) its organizational documents; (ii) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement, or other instrument to which it is a party or by which it is bound; or (iii) any law, regulation, ruling, order, injunction, decree, condition or other requirement applicable to or imposed upon the Borrower by any law or by any governmental authority, court or agency.

8. **Fees.**

- a. On the date of the Note, the Borrowers shall pay to the Bank a fee of \$17,500.
- b. On the last day of each calendar quarter, until the Expiration Date, the Borrowers shall pay a commitment fee to the Bank, in arrears, at the rate of 0.425% per annum on the average daily balance of the Line of Credit which is undisbursed and uncanceled during the preceding calendar quarter. The commitment fee shall be computed on the basis of a year of 360 days and paid on the actual number of days elapsed.

9. **Expenses.** The Borrowers will reimburse the Bank for the Bank's out-of-pocket expenses incurred or to be incurred at any time in conducting UCC, title and other public record searches, and in filing and recording documents in the public records to perfect the Bank's liens and security interests. The Borrowers shall also reimburse the Bank for the Bank's expenses (including the reasonable fees and expenses of the Bank's outside and in-house counsel) in documenting and closing this transaction, in connection with any amendments, modifications or renewals of the Loan, and in connection with the collection of all of the Borrowers' Obligations to the Bank, including but not limited to enforcement actions relating to the Loan.
10. **Depository.** The Borrowers will establish and maintain at the Bank the Borrowers' primary depository accounts, with balances in the aggregate of at least \$50,000.
11. **Additional Provisions.** Before the first advance under the Loan and/or the issuance of any Letter of Credit, the Borrowers shall execute and deliver to the Bank the Note, an Application for each Letter of Credit, the Reimbursement Agreements, the Security Agreement and the other required Loan Documents and such other instruments and documents as the Bank may reasonably request, such as certified resolutions, incumbency certificates or other evidence of authority. The Bank will not be obligated to make any Advance or to issue any Letter of Credit under the Line of Credit if any Event of Default or event which with the passage of time, provision of notice or both would constitute an Event of Default, shall have occurred and be continuing.

Prior to execution of the final Loan Documents, the Bank may terminate this Letter Agreement if a material adverse change occurs with respect to any Borrower, any collateral for the Loan or any other person or entity connected in any way with the Loan, or if the Borrowers fail to comply with any of the terms and conditions of this Letter Agreement, or if the Bank reasonably determines that any of the conditions cannot be met.

This Letter Agreement is governed by the laws of New Jersey. No modification, amendment or waiver of any of the terms of this Letter Agreement, nor any consent to any departure by the Borrowers therefrom, will be effective unless made in a writing signed by the party to be charged, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. When accepted, this Letter Agreement and the other Loan Documents will constitute the entire agreement between the Bank and the Borrowers concerning the Line of Credit, and shall replace all prior understandings, statements, negotiations and written materials relating to the Line of Credit, including, without limitation, the Existing Letter Agreement.

The Borrowers agree to indemnify the Bank (and its directors, officers, employees, agents and controlling persons) against any and all claims, losses, damages, liabilities, costs and expenses (including, by way of example only, fees and expenses of counsel and expert witnesses) which may be incurred by any of them in connection with any investigation, litigation or other proceeding relating to the Loan, the Loan Documents and/ or the use of proceeds of the Loan, except those solely attributable to its or their own gross negligence or willful misconduct. The Borrowers' indemnification obligations are in addition to any other liability the Borrowers may otherwise have, and shall survive payment in full of the Loans, termination of this Letter Agreement and the other Loan Documents, and assignment of any rights hereunder.

The Bank will not be responsible for any damages, consequential, incidental, special, punitive or otherwise, that may be incurred or alleged by any person or entity, including the Borrowers, as a result of this Letter Agreement, the other Loan Documents, the transactions contemplated hereby or thereby, or the use of proceeds of the Loan.

THE BORROWERS AND THE BANK IRREVOCABLY WAIVE ANY AND ALL RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE ARISING OUT OF THIS LETTER AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED IN ANY OF SUCH DOCUMENTS AND ACKNOWLEDGE THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

The Borrowers shall be jointly and severally liable for all Obligations arising under this Letter Agreement and the other Loan Documents.

If and when a loan closing occurs, this Letter Agreement (as the same may be amended from time to time) shall survive the closing and will serve as our loan agreement throughout the term of the Loan.

Thank you for giving PNC Bank this opportunity to work with your business. We look forward to other ways in which we may be of service to your business or to you personally.

Very truly yours,

**PNC BANK, NATIONAL ASSOCIATION**

By: /s/ Gary Martz

Print Name: Gary Martz

Title: Assistant Vice President

**ACCEPTANCE**

With the intent to be legally bound hereby, the above terms and conditions are hereby agreed to and accepted as of this 29th day of May, 2002.

**TEMPTRONIC CORPORATION**

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

Print Name: Hugh T. Regan, Jr.

Title: Secretary and Treasurer

**INTEST CORPORATION**

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

Print Name: Hugh T. Regan, Jr.

Title: Secretary and Treasurer

**INTEST INVESTMENTS, INC.**

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

Print Name: Hugh T. Regan, Jr.

Title: Secretary and Treasurer

**INTEST SUNNYVALE CORPORATION**

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

Print Name: Hugh T. Regan, Jr.

Title: Secretary and Treasurer

**INTEST IP CORP.**

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

Print Name: Hugh T. Regan, Jr.

Title: Secretary and Treasurer

**INTEST LICENSING CORP.**

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

Print Name: Hugh T. Regan, Jr.

Title: Secretary and Treasurer

## A. FINANCIAL REPORTING COVENANTS:

1. The Borrowers will deliver to the Bank:
  - a. Financial Statements for its fiscal year, within ninety (90) days after fiscal year end, audited and certified without qualification by a certified public accountant acceptable to the Bank.
  - b. Financial Statements for each fiscal quarter, within forty-five (45) days after the fiscal quarter end, together with year-to-date and comparative figures for the corresponding periods of the prior year, certified as true and correct by InTEST's chief financial officer.
  - c. With each delivery of Financial Statements, a certificate of InTEST's chief financial officer as to the Borrowers' compliance with the financial covenants set forth below, if any, for the period then ended and whether any Event of Default exists, and, if so, the nature thereof and the corrective measures the Borrowers propose to take. This certificate shall set forth all detailed calculations necessary to demonstrate such compliance.
  - d. The Borrowers will deliver to the Bank within twenty-five (25) days following the close of each month, the Borrowers' detailed schedule of accounts receivable and accounts payable aging analysis and a report of the Borrowers' inventory, as established by a physical count or such other method as may be approved by the Bank.
  - e. Promptly upon request by Bank, the Borrowers shall deliver to the Bank such operating budgets and forecasts of Borrowers' cash flows, expenses and Borrowing Base availability as Bank may reasonably require, all of which shall be in form and content satisfactory to Bank.
  - f. Upon request by Bank and in any event at least contemporaneously with the delivery of Financial Statements, a copy of Borrowers' brokerage account statement evidencing Borrowers' compliance with the Liquidity Covenant set forth below.

**"Financial Statements"** means Borrowers' consolidated and consolidating balance sheet and statements of income and cash flows prepared in accordance with generally accepted accounting principles in effect from time to time ("**GAAP**") applied on a consistent basis (subject in the case of interim statements to normal year-end adjustments).

In the event that any financial information submitted to the Bank has been prepared by an outside accountant, the same shall be accompanied by a statement in writing signed by the accountant disclosing that the accountant is aware that the information prepared by such accountant would be submitted to and relied upon by the Bank in connection with the Bank's determination to grant or continue credit.

## B. FINANCIAL COVENANTS:

1. The Borrowers shall maintain at all times a minimum Consolidated Tangible Net Worth of \$22,000,000.00.
2. The Borrowers shall have at all times unencumbered cash and cash equivalents satisfactory to Bank with a value of at least \$2,000,000, maintained with financial institutions or brokerage firms in one or more accounts located in the United States of America (the "**Liquidity Covenant**").
3. Borrowers shall have Consolidated EBITDA of (a) not worse than negative \$2,000,000.00 for the fiscal quarter ending June 30, 2002; (b) not less than \$125,000.00 for the fiscal quarter ending September 30, 2002; (c) not less than \$370,000.00 for the fiscal quarter ending December 31, 2002; and (d) not less than \$500,000.00 for the fiscal quarter ending March 31, 2003 and for each fiscal quarter of Borrower ending thereafter.
4. The Borrowers shall not make or incur capital expenditures in excess of \$400,000 in the aggregate during any fiscal year.

As used herein:

"**Consolidated EBITDA**" means, for any period, Borrowers' consolidated net income, plus interest expense, plus income tax expense, plus depreciation, plus amortization.

"**Consolidated Tangible Net Worth**" means, as of any date, Borrowers' consolidated stockholder's equity, less any advances to affiliated parties, less all items properly classified as intangibles, in accordance with GAAP.

All of the above financial covenants shall be computed and determined in accordance with GAAP applied on a consistent basis (subject to normal year-end adjustments).

### C. NEGATIVE COVENANTS:

1. The Borrowers will not create, assume, incur or suffer to exist any mortgage, pledge, encumbrance, security interest, lien or charge of any kind upon any of its property, now owned or hereafter acquired, or acquire or agree to acquire any kind of property under conditional sales or other title retention agreements; provided, however, that the foregoing restrictions shall not prevent the Borrowers from:
  - a. incurring liens for taxes, assessments or governmental charges or levies which shall not at the time be due and payable or can thereafter be paid without penalty or are being contested in good faith by appropriate proceedings diligently conducted and with respect to which it has created adequate reserves;
  - b. making pledges or deposits to secure obligations under workers' compensation laws or similar legislation;
  - c. granting additional liens or security interests to secure existing or future indebtedness in an aggregate principal amount not to exceed \$100,000 at any time, provided such liens and security interests shall encumber only those assets of Borrowers acquired with the proceeds of such indebtedness;
  - d. entering into leases, as lessee, for real or personal property, provided that the aggregate annual rental obligations of Borrowers under all such leases shall not exceed \$50,000; or
  - e. granting liens or security interests in favor of the Bank.
2. The Borrowers will not create, incur, guarantee, endorse (except endorsements in the course of collection), assume or suffer to exist any indebtedness, except:
  - a. indebtedness to the Bank;
  - b. open account trade debt incurred in the ordinary course of business and not past due, or
  - c. indebtedness in respect of which liens are permitted under subparagraphs (1)(c) and 1(d) above, and any refinancings thereof; provided that the amount of the refinancing indebtedness is not more than the outstanding amount of the refinanced indebtedness, and the terms of the refinancing indebtedness are no more favorable to the lender than the terms of the refinanced indebtedness.
3. The Borrowers will not liquidate, or dissolve, or merge or consolidate with any person, firm, corporation or other entity, or sell, lease, transfer or otherwise dispose of all or any substantial part of its property or assets, whether now owned or hereafter acquired, which at the time of such disposition has a fair market value in excess of \$100,000.
4. The Borrowers will not make acquisitions of all or substantially all of the property or assets of any person, firm, corporation or other entity.
5. The Borrowers will not declare or pay any dividends on or make any distribution with respect to any class of its equity, or purchase, redeem, retire or otherwise acquire any of its equity.
6. The Borrowers will not make or have outstanding any loans or advances to or otherwise extend credit to any person, firm, corporation or other entity, except in the ordinary course of business, or make any investments, except for cash equivalents.



7. Borrowers shall not enter into any agreement with any other party which shall prohibit the Borrowers from granting, creating or suffering to exist, or otherwise restrict in any way (whether by covenant, by identifying such event as a default under such agreement or otherwise) the ability of the Borrowers to grant, create or suffer to exist in favor of Bank, any lien, security interest or other charge or encumbrance upon or with respect to any of Borrowers' assets.
8. The Borrowers shall notify the Bank in writing not less than five (5) business days prior to entering into any credit agreement or any amendment or modification to any existing credit agreement, in either case as permitted under the Loan Documents, pursuant to which any Borrower agrees to representations, warranties, covenants or terms which are more restrictive to such Borrower than those contained in any of the Loan Documents (the "**More Restrictive Provisions**"). Upon execution of such new agreement, amendment or modification, the corresponding covenants, terms and conditions of the Loan Documents shall be and are automatically and immediately deemed to be amended to conform with and to include the More Restrictive Provisions with respect to all Borrowers; provided, however, that the foregoing shall not be applicable to or be deemed to affect any provision of the Loan Documents if any new credit agreement, amendment or modification is less restrictive to any Borrower. The Borrowers hereby agree promptly to execute and deliver any and all such documents and instruments and to take all such further actions as the Bank, in its sole discretion, may deem necessary or appropriate to effectuate the provisions of this paragraph.

**SCHEDULE 6(C)  
TO LETTER AGREEMENT  
DATED MAY 29, 2002**

**Executive Officers of inTest Corporation**

Alyn R. Holt - Chairman

Robert E. Matthiessen - President and CEO

Hugh T. Regan, Jr. - Secretary, Treasurer and CFO

Steve G. Radakovich - Vice President Operations and COO

Daniel J. Graham - Executive Vice President and Vice Chairman

Jerome R. Bortnem - Vice President - Sales & Marketing

Jack R. Edmunds - Vice President - Supply Chain Management

**AMENDED AND RESTATED  
COMMITTED LINE OF CREDIT NOTE**

\$5,000,000.00

May 29, 2002

FOR VALUE RECEIVED, INTEST CORPORATION, INTEST SUNNYVALE CORPORATION, TEMPTRONIC CORPORATION, INTEST INVESTMENTS, INC., INTEST LICENSING CORP. and INTEST IP CORP. (each a "**Borrower**" and collectively, the "**Borrowers**"), with an address at Seven Esterbrook Lane, Cherry Hill, New Jersey 08003, jointly and severally promise to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "**Bank**"), in lawful money of the United States of America in immediately available funds at its offices located at 1950 East Route 70, Cherry Hill, New Jersey 08003, or at such other location as the Bank may designate from time to time, the principal sum of FIVE MILLION DOLLARS (\$5,000,000.00) (the "**Facility**") or such lesser amount as may be advanced to or for the benefit of the Borrowers hereunder, together with interest accruing on the outstanding principal balance from the date hereof, all as provided below:

1. **Advances.** The Borrowers may request advances, repay and request additional advances hereunder until the Expiration Date, subject to the terms and conditions of this Note and the other Loan Documents (as hereinafter defined). The "**Expiration Date**" shall mean February 28, 2004, or such later date as may be designated by the Bank by written notice from the Bank to the Borrowers. The Borrowers acknowledge and agree that in no event will the Bank be under any obligation to extend or renew the Facility or this Note beyond the Expiration Date. The Borrowers may request advances hereunder upon giving oral or written notice to the Bank by 11:00 a.m. (Philadelphia, Pennsylvania time) (a) on the day of the proposed advance, in the case of advances to bear interest under the Base Rate Option (as hereinafter defined) and (b) three (3) Business Days prior to the proposed advance, in the case of advances to bear interest under the Euro-Rate Option (as hereinafter defined), followed promptly thereafter by the Borrowers' written confirmation to the Bank of any oral notice. The aggregate unpaid principal amount of advances under this Note shall not exceed the face amount of this Note.

2. **Rate of Interest.** Each advance outstanding under this Note will bear interest at a rate or rates per annum as may be selected by the Borrower from the interest rate options set forth below (each, an "**Option**"):

(i) **Base Rate Option.** A rate of interest per annum which is at all times equal to the sum of (A) higher of (1) Prime Rate or (2) the Federal Funds Rate, plus (B) fifty basis points (0.50%). For purposes hereof, the "**Federal Funds Rate**" means the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) for the quotations for such day for such transactions received by the Bank from three Federal funds brokers of recognized standing selected by it. For purposes hereof, the term "**Prime Rate**" shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers. If and when the Prime Rate changes, the rate of interest with respect to any advance to which the Base Rate Option applies will change automatically without notice to the Borrower, effective on the date of any such change. There are no required minimum interest periods for advances bearing interest under the Base Rate Option.

(ii) **Euro-Rate Option.** A rate per annum equal to the sum of (A) the Euro-Rate, plus (B) two hundred twenty-five (225) basis points (2.25%), for the applicable Euro-Rate Interest Period.

For purposes hereof, the following terms shall have the following meanings:

"**Business Day**" shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required to be closed for business in Philadelphia, Pennsylvania.

"**Euro-Rate**" shall mean, with respect to any advance to which the Euro-Rate Option applies for the applicable Euro-Rate Interest Period, the interest rate per annum determined by the Bank by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1%) (i) the rate of interest

determined by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the eurodollar rate two (2) Business Days prior to the first day of such Euro-Rate Interest Period for an amount comparable to such advance and having a borrowing date and a maturity comparable to such Euro-Rate Interest Period by (ii) a number equal to 1.00 minus the Euro-Rate Reserve Percentage.

**"Euro-Rate Interest Period"** shall mean the period of one (1), two (2), three (3) or six (6) months selected by the Borrowers commencing on the date of disbursement of an advance (or the date of conversion of an advance to the Euro-Rate Option, as the case may be) and each successive period selected by the Borrowers thereafter; provided, that if a Euro-Rate Interest Period would end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless such day falls in the succeeding calendar month in which case the Euro-Rate Interest Period shall end on the next preceding Business Day. In no event shall any Euro-Rate Interest Period end on a day after the Expiration Date.

**"Euro-Rate Reserve Percentage"** shall mean the maximum effective percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency liabilities").

The Euro-Rate shall be adjusted with respect to any advance to which the Euro-Rate Option applies on and as of the effective date of any change in the Euro-Rate Reserve Percentage. The Bank shall give prompt notice to the Borrowers of the Euro-Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

If the Bank determines (which determination shall be final and conclusive) that, by reason of circumstances affecting the eurodollar market generally, deposits in dollars (in the applicable amounts) are not being offered to banks in the eurodollar market for the selected term, or adequate means do not exist for ascertaining the Euro-Rate, then the Bank shall give notice thereof to the Borrowers. Thereafter, until the Bank notifies the Borrowers that the circumstances giving rise to such suspension no longer exist, (a) the availability of the Euro-Rate Option shall be suspended, and (b) the interest rate for all advances then bearing interest under the Euro-Rate Option shall be converted at the expiration of the then current Euro-Rate Interest Period(s) to the Base Rate Option.

In addition, if, after the date of this Note, the Bank shall determine (which determination shall be final and conclusive) that any enactment, promulgation or adoption of or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by a governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank to make or maintain or fund loans under the Euro-Rate Option, the Bank shall notify the Borrowers. Upon receipt of such notice, until the Bank notifies the Borrowers that the circumstances giving rise to such determination no longer apply, (a) the availability of the Euro-Rate Option shall be suspended, and (b) the interest rate on all advances then bearing interest under the Euro-Rate Option shall be converted to the Base Rate Option either (i) on the last day of the then current Euro-Rate Interest Period(s) if the Bank may lawfully continue to maintain advances under the Euro-Rate Option to such day, or (ii) immediately if the Bank may not lawfully continue to maintain advances under the Euro-Rate Option.

The foregoing notwithstanding, it is understood that the Borrowers may select different Options to apply simultaneously to different portions of the advances and may select up to three (3) different interest periods to apply simultaneously to different portions of the advances bearing interest under the Euro-Rate Option. Interest hereunder will be calculated on the basis of a year of 360 days for the actual number of days elapsed. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

**3. Interest Rate Election.** Subject to the terms and conditions of this Note, at the end of each interest period applicable to any advance, the Borrowers may renew the Option applicable to such advance or convert such advance to a different Option; provided that, during any period in which any Event of Default (as hereinafter defined) has occurred and is continuing, any advances bearing interest under the Euro-Rate Option shall, at the Bank's sole discretion, be converted at the end of the applicable Euro-Rate Interest Period to the Base Rate Option and the Euro-Rate Option will not be available to Borrowers with respect to any new advances until such Event of Default has been cured by the Borrowers or waived by the Bank. The Borrowers shall notify the Bank of each election of an Option, each conversion from one Option to another, the amount of the advances then outstanding to be allocated to

each Option and where relevant the interest periods thereof. In the case of converting to the Euro-Rate Option, such notice shall be given at least three (3) Business Days prior to the commencement of any Euro-Rate Interest Period. If no notice of conversion or renewal is timely received by the Bank, the Borrowers shall be deemed to have converted such advance to the Base Rate Option. Any such election shall be promptly confirmed in writing by such method as the Bank may require.

**4. Advance Procedures.** A request for advance made by telephone must be promptly confirmed in writing by such method as the Bank may require. The Borrowers authorize the Bank to accept telephonic requests for advances, and the Bank shall be entitled to rely upon the authority of any person providing such instructions. The Borrower hereby indemnifies and holds the Bank harmless from and against any and all damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees and expenses) which may arise or be created by the acceptance of such telephone requests or making such advances. The Bank will enter on its books and records, which entry when made will be presumed correct, the date and amount of each advance, the interest rate and interest period applicable thereto, as well as the date and amount of each payment.

**5. Payment Terms.** The Borrowers shall pay accrued interest on the unpaid principal balance of this Note in arrears: (a) for the portion of advances bearing interest under the Base Rate Option, on the first day of each month during the term hereof, (b) for the portion of advances bearing interest under the Euro-Rate Option, on the last day of the respective Euro-Rate Interest Period for such advance, (c) if any Euro-Rate Interest Period is longer than three (3) months, then also on the three (3) month anniversary of such interest period and every three (3) months thereafter, and (d) for all advances, at maturity, whether by acceleration of this Note or otherwise, and after maturity, on demand until paid in full. All outstanding principal and accrued interest hereunder shall be due and payable in full on the Expiration Date.

If any payment under this Note shall become due on a Saturday, Sunday or public holiday under the laws of the State where the Bank's office indicated above is located, such payment shall be made on the next succeeding business day and such extension of time shall be included in computing interest in connection with such payment. The Borrowers hereby authorize the Bank to charge the Borrowers' deposit account at the Bank for any payment when due hereunder. Payments received will be applied to charges, fees and expenses (including attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

**6. Late Payments; Default Rate.** If the Borrowers fail to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Note within fifteen (15) calendar days of the date due and payable, the Borrowers also shall pay to the Bank a late charge equal to the lesser of five percent (5%) of the amount of such payment or \$100.00 (the "**Late Charge**"). Such fifteen (15) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank's option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, this Note shall bear interest at a rate per annum (based on a year of 360 days and actual days elapsed) which shall be three percentage points (3%) in excess of the interest rate in effect from time to time under this Note but not more than the maximum rate allowed by law (the "**De fault Rate**"). The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purposes of defraying the Bank's expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank's exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

**7. Prepayment.** The Borrowers shall have the right to prepay at any time and from time to time, in whole or in part, without penalty, any advance hereunder which is accruing interest under the Base Rate Option. If the Borrowers prepay (whether voluntary, on default or otherwise) all or any part of any advance which is accruing interest under the Euro-Rate Option on other than the last day of the applicable Euro-Rate Interest Period, the Borrowers shall pay to the Bank, on demand therefor, all amounts due pursuant to paragraph 8 below, including the Cost of Prepayment, if any.

**8. Yield Protection.** The Borrowers shall pay to the Bank, on written demand therefor, together with the written evidence of the justification therefor, all direct costs incurred, losses suffered or payments made by the Bank by reason of any change in law or regulation or its interpretation imposing any reserve, deposit, allocation of capital, or

similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets. In addition, the Borrowers agree to indemnify the Bank against any liabilities, losses or expenses (including loss of margin, any loss or expense sustained or incurred in liquidating or employing deposits from third parties, and any loss or expense incurred in connection with funds acquired to effect, fund or maintain any advance (or any part thereof) bearing interest under the Euro-Rate Option) which the Bank sustains or incurs as a consequence of either (i) the Borrowers' failure to make a payment on the due date thereof, (ii) the Borrowers' revocation (expressly, by later inconsistent notices or otherwise) in whole or in part of any notice given to the Bank to request, convert, renew or prepay any advance, or (iii) the Borrowers' payment, prepayment or conversion of any advance bearing interest under the Euro-Rate Option on a day other than the last day of the applicable Euro-Rate Interest Period, including but not limited to the Cost of Prepayment. "**Cost of Prepayment**" means an amount equal to the present value, if positive, of the product of (a) the difference between (i) the yield, on the beginning date of the applicable interest period, of a U.S. Treasury obligation with a maturity similar to the applicable interest period minus (ii) the yield, on the prepayment date, of a U.S. Treasury obligation with a maturity similar to the remaining maturity of the applicable interest period, and (b) the principal amount to be prepaid, and (c) the number of years, including fractional years from the prepayment date to the end of the applicable interest period. The yield on any U.S. Treasury obligation shall be determined by reference to Federal Reserve Statistical Release H.15(519) "Selected Interest Rates". For purposes of making present value calculations, the yield to maturity of a similar maturity U.S. Treasury obligation on the prepayment date shall be deemed the discount rate. The Cost of Prepayment shall also apply to any payments made after acceleration of the maturity of this Note. The Bank's determination of an amount payable under this paragraph shall, in the absence of manifest error, be conclusive and shall be payable on demand.

**9. Other Loan Documents.** This Note is issued in connection with a Letter Agreement by and among the Borrowers and the Bank, dated on or before the date hereof (the "**Letter Agreement**"), and the other agreements and documents executed in connection therewith or referred to therein, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the "**Loan Documents**"), and is secured by the property described in the Loan Documents (if any) and by such other collateral as previously may have been or may in the future be granted to the Bank to secure this Note.

**10. Events of Default.** The occurrence of any of the following events will be deemed to be an "**Event of Default**" under this Note: (i) the nonpayment of any principal, interest or other indebtedness under this Note when due; (ii) the occurrence of any event of default or default under any Loan Document or any other debt, liability or obligation to the Bank of any Obligor or any Obligor's failure to observe or perform any covenant or other agreement with the Bank contained in any Loan Document or any other documents now or in the future evidencing or security the obligations of any Obligor to Banks not otherwise specifically constituting an Event of Default under this **Section 10**, which default is not cured within thirty (30) days from the earlier of (a) Obligor's actual knowledge thereof or (b) Obligor's receipt of written notice from Bank thereof; provided that if such default is (I) willfully caused or permitted by Obligors or (II) consists of a willful failure by Obligors to comply with the covenants set forth in the Letter Agreement, no such notice or grace period shall be provided to Obligors; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within sixty (60) days of the commencement thereof, provided that the Bank shall not be obligated to advance additional funds during such period); (iv) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank; (v) a default with respect to any other indebtedness of any Obligor for borrowed money, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of any Obligor to the Bank; (vii) the entry of a final judgment (not fully covered by insurance) against any Obligor in excess of \$50,000 (or judgments aggregating \$75,000) and the failure of such Obligor to discharge the judgment within ten days of the entry thereof; (viii) if this Note or any guarantee executed by any Guarantor is secured, the failure of any Obligor to provide the Bank with additional collateral if in the Bank's opinion at any time or times, the market value of any of the collateral securing this Note or any guarantee has depreciated below that required pursuant to the Loan Documents (if any) or, if no specific value is so required, then in an amount deemed material by the Bank; (ix) any material adverse change in any Obligor's business, assets, operations, financial condition or results of operations; (x) any Obligor ceases doing business as a going concern; (xi) the revocation or attempted revocation, in whole or in part, of any guarantee by any Guarantor; (xii) the death, incarceration, indictment or legal incompetency of any individual Obligor or, if any Obligor is a partnership or limited liability company, the death, incarceration, indictment or legal incompetency of any individual general partner or member; or (xiii) any

representation or warranty made by any Obligor to the Bank in any Loan Document, or any other documents now or in the future evidencing or securing the obligations of any Obligor to the Bank, is false, erroneous or misleading in any material respect. Notwithstanding anything contained herein, the merger of one Obligor into another Obligor shall not constitute an Event of Default. As used herein, the term "**Obligor**" means any Borrower and any Guarantor, and the term "**Guarantor**" means any guarantor of the Borrower's obligations to the Bank existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) the Bank shall be under no further obligation to make advances hereunder; (b) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (c) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank's option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (d) at the Bank's option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (e) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law.

**11. Right of Setoff.** In addition to all liens upon and rights of setoff against the Borrowers' money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrowers' obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrowers hereby assign, convey, deliver, pledge and transfer to the Bank all of the Borrowers' right, title and interest in and to, all of the Borrowers' deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, payroll accounts, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrowers. Every such right of setoff shall be deemed to have been exercised immediately upon the occurrence of an Event of Default hereunder without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time.

**12. Miscellaneous.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Such notices and other communications may be hand-delivered, sent by facsimile transmission with confirmation of delivery and a copy sent by first-class mail, or sent by nationally recognized overnight courier service, to the addresses for the Bank and the Borrowers set forth in the Letter Agreement or to such other address as either may give to the other in writing for such purpose. No delay or omission on the Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power. No modification, amendment or waiver of any provision of this Note nor consent to any departure by the Borrowers therefrom will be effective unless made in a writing signed by the Bank. The Borrowers agree to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank's counsel. If any provision of this Note is found to be invalid by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrowers also waive all defenses based on suretyship or impairment of collateral. If this Note is executed by more than one Borrower, the obligations of such persons or entities hereunder will be joint and several. This Note shall bind the Borrowers and their respective heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrowers may not assign this Note in whole or in part without the Bank's written consent and the Bank at any time may assign this Note in whole or in part.

This Note has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated above is located. **This Note will be interpreted and the rights and liabilities of the Bank and the Borrower determined in accordance with the laws of the State where the Bank's office indicated above is located, excluding its conflict of laws rules.** The Borrowers hereby irrevocably consent to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Bank's office indicated above is located; provided that nothing contained in this Note will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against any of the Borrowers individually, against any security or against any property of any of the Borrowers within any other county, state or other foreign or domestic jurisdiction. The

Borrowers acknowledge and agree that the venue provided above is the most convenient forum for both the Bank and the Borrowers. The Borrowers waive any objection to venue and any objection based on a more convenient forum in any action instituted under this Note.

**13. Amendment and Restatement.** This Note amends and restates, and is in substitution for, that certain Second Amended and Restated Committed Line of Credit Note in the original principal amount of \$5,000,000.00 payable to the order of the Bank and dated November 1, 2000 (the "**Existing Note**"). However, without duplication, this Note shall in no way extinguish, cancel or satisfy Borrowers' unconditional obligation to repay all indebtedness evidenced by the Existing Note or constitute a novation of the Existing Note. Nothing herein is intended to extinguish, cancel or impair the lien priority or effect of any security agreement, pledge agreement or mortgage with respect to any Obligor's obligations hereunder and under any other document relating hereto.

**14. WAIVER OF JURY TRIAL.** The Borrowers irrevocably waive any and all rights the Borrowers may have to a trial by jury in any action, proceeding or claim of any nature relating to this Note, any documents executed in connection with this Note or any transaction contemplated in any of such documents. The Borrowers acknowledge that the foregoing waiver is knowing and voluntary.

The Borrowers acknowledge that it has read and understood all the provisions of this Note, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.

[Rest of page intentionally left blank.]

**WITNESS** the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

INTEST SUNNYVALE CORPORATION

By: /s/ Hugh T. Regan, Jr.  
Print Name: Hugh T. Regan, Jr.  
Title: Secretary and Treasurer

INTEST CORPORATION

By: /s/ Hugh T. Regan, Jr.  
Print Name: Hugh T. Regan, Jr.  
Title: Secretary and Treasurer

TEMPTRONIC CORPORATION

By: /s/ Hugh T. Regan, Jr.  
Print Name: Hugh T. Regan, Jr.  
Title: Secretary and Treasurer

INTEST IP CORP.

By: /s/ Hugh T. Regan, Jr.  
Print Name: Hugh T. Regan, Jr.  
Title: Secretary and Treasurer

INTEST LICENSING CORP.

By: /s/ Hugh T. Regan, Jr.  
Print Name: Hugh T. Regan, Jr.  
Title: Secretary and Treasurer

INTEST INVESTMENTS, INC.

By: /s/ Hugh T. Regan, Jr.  
Print Name: Hugh T. Regan, Jr.  
Title: Secretary and Treasurer

**inTEST CORPORATION**

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

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

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

Date: August 14, 2002

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



**inTEST CORPORATION**

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

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

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

Date: August 14, 2002

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