INTEST CORP
Form 10-Q
May 15, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012 or

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

For the transition period from ___________________ to ____________________

Commission File Number 0-22529

inTEST Corporation
(Exact Name of Registrant as Specified in its Charter)

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

804 East Gate Drive, Suite 200
Mt. Laurel, New Jersey 08054

(Address of principal executive offices, including zip code)

(856) 505-8800
(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES X NO ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___ Accelerated filer ___
Non-accelerated filer ___

(Do not check if a smaller reporting company) Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ___ NO X

Number of shares of Common Stock, $.01 par value, outstanding as of the close of business on April 30, 2012:

10,408,054

---

inTEST CORPORATION

INDEX

PART I.	FINANCIAL INFORMATION	
		Page
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of March 31, 2012 (Unaudited) and December 31, 2011	1
	Unaudited Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011	2
	Unaudited Consolidated Statements of Comprehensive Earnings for the three months ended March 31, 2012 and 2011	3
	Unaudited Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2012	4
	Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011	5
	Notes to Consolidated Financial Statements	6 - 18
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18 - 24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	24 - 25

PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	25
Item 1A.	Risk Factors	25
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3.	Defaults Upon Senior Securities	25
Item 4.	Mine Safety Disclosures	25
Item 5.	Other Information	25
Item 6.	Exhibits	25
Signatures		26
Index to Exhibits		26

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	Mar. 31, 2012	Dec. 31, 2011
ASSETS:	(Unaudited)	
Current assets:		
Cash and cash equivalents	$10,101	$13,957
Trade accounts receivable, net of allowance for doubtful accounts of $147 and $195, respectively	7,942	6,189
Inventories	4,740	3,896
Deferred tax assets	473	453
Prepaid expenses and other current assets	302	302
Total current assets	23,558	24,797

Property and equipment:		
Machinery and equipment	3,709	3,585
Leasehold improvements	533	514
Gross property and equipment	4,242	4,099
Less: accumulated depreciation	(3,006)	(2,965)
Net property and equipment	1,236	1,134
Deferred tax assets	2,015	2,028
Goodwill	1,835	1,656
Intangible assets, net	2,522	942
Restricted certificates of deposit	500	500
Other assets	202	180
Total assets	$31,868	$31,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,941	$ 1,031
Accrued wages and benefits	1,225	1,795
Accrued sales commissions	516	493
Accrued rent	416	407
Accrued professional fees	371	451
Accrued warranty	285	214
Customer deposits	419	425
Other current liabilities	465	222
Total current liabilities	5,638	5,038
Commitments and contingencies (Notes 10 and 12)		
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; 10,463,255 shares issued	105	105
Additional paid-in capital	26,062	26,035
Accumulated deficit	(729)	(686)
Accumulated other comprehensive earnings	1,264	1,217
Treasury stock, at cost; 76,328 shares	(472)	(472)
Total stockholders' equity	26,230	26,199
Total liabilities and stockholders' equity	$31,868	$31,237

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011

Net revenues	$10,731	$11,704
Cost of revenues	6,135	6,611
Gross margin	4,596	5,093
Operating expenses:		
Selling expense	1,406	1,385
Engineering and product development expense	924	813
General and administrative expense	1,991	1,634
Restructuring and other charges	359	-
Total operating expenses	4,680	3,832
Operating income (loss)	(84)	1,261
Other income (expense):		
Interest income	1	3
Interest expense	-	(1)
Other	12	54
Total other income	13	56
Earnings (loss) before income tax expense (benefit)	(71)	1,317
Income tax expense (benefit)	(28)	60
Net earnings (loss)	$ (43)	$ 1,257
Net earnings (loss) per common share-basic	$0.00	$0.13
Weighted average common shares outstanding - basic	10,205,114	10,067,748
Net earnings (loss) per common share-diluted	$0.00	$0.12
Weighted average common shares and common share equivalents outstanding - diluted	10,205,114	10,266,644

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net earnings (loss)	$ (43)	$1,257
Foreign currency translation adjustments	47	62
Comprehensive earnings	$ 4	$1,319

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)
(Unaudited)

	Common Stock		Additional		Accumulated		Total
	Shares	Amount	Paid-In Capital	Accumulated Deficit	Other Comprehensive Earnings	Treasury Stock	Stock-holders' Equity
Balance, January 1, 2012	10,463,255	$ 105	$26,035	$(686)	$1,217	$(472)	$26,199
Net loss	-	-	-	(43)	-	-	(43)
Other comprehensive earnings	-	-	-	-	47	-	47
Amortization of deferred compensation related to restricted stock	-	-	27	-	-	-	27
Balance, March 31, 2012	10,463,255	$ 105	$26,062	$(729)	$1,264	$(472)	$26,230

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	$ (43)	$ 1,257
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	218	104
Foreign exchange gain	(9)	(9)
Amortization of deferred compensation related to restricted stock	27	48
(Gain) loss on sale of property and equipment	3	(40)
Proceeds from sale of demonstration equipment, net of gain	52	-
Deferred income tax expense (benefit)	(6)	31
Changes in assets and liabilities:		
Trade accounts receivable	(574)	(2,576)
Inventories	(37)	(504)
Prepaid expenses and other current assets	-	133
Other assets	(17)	(5)
Accounts payable	833	653
Accrued wages and benefits	(576)	(492)
Accrued sales commissions	(58)	56
Accrued rent	9	110
Accrued professional fees	(81)	(16)
Accrued warranty	3	23
Customer deposits	(7)	233
Other current liabilities	196	(150)
Deferred rent	-	(29)
Net cash used in operating activities	(67)	(1,173)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	(3,821)	-
Purchases of property and equipment	-	(574)
Proceeds from sale of property and equipment	-	40
Net cash used in investing activities	(3,821)	(534)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options exercised	-	30
Net cash provided by financing activities	-	30
Effects of exchange rates on cash	32	30
Net cash used in all activities	(3,856)	(1,647)
Cash and cash equivalents at beginning of period	13,957	6,895
Cash and cash equivalents at end of period	$10,101	$ 5,248
Cash payments for:		
Domestic and foreign income taxes	$ 27	$ 26

Interest	$ 4	$ -
Details of acquisition:		
Fair value of assets acquired	$ 3,916	
Liabilities assumed	(274)	
Goodwill resulting from acquisition	179	
Net cash paid for acquisition	$ 3,821	
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Forfeiture of non-vested shares of restricted stock	$ -	$ (20)

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
(In thousands, except share and per share data)

(1) NATURE OF OPERATIONS

We are an independent designer, manufacturer and marketer of thermal, mechanical and electrical products that are primarily used by semiconductor manufacturers in conjunction with automatic test equipment ("ATE") in the testing of integrated circuits ("ICs" or "semiconductors"). In addition, in recent years, we have begun marketing our thermal products in industries outside the ATE industry, such as the automotive, consumer electronics, defense/aerospace and telecommunications industries.

The consolidated entity is comprised of inTEST Corporation (parent) and our wholly-owned subsidiaries. We have three reportable segments which are also our reporting units: Thermal Products, Mechanical Products and Electrical Products. We manufacture our products in the U.S. Marketing and support activities are conducted worldwide from our facilities in the U.S., Germany and Singapore. On January 16, 2012, Temptronic Corporation ("Temptronic"), a wholly-owned subsidiary of inTEST Corporation, acquired substantially all of the assets and certain liabilities of Thermonics, Inc. ("Thermonics"), a division of Test Enterprises, Inc. The acquisition of the Thermonics business broadens the product line of inTEST's Thermal Products segment. This acquisition is discussed further in Note 3.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 30, 2012 (the "2011 Form 10-K").

Reclassification

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

Inventories

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventory are recorded in operating cash flows. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current industry conditions,

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

anticipated product life cycles, new product introductions and expected future use of the inventory. The charges for excess and obsolete inventory we record establish a new cost basis for the related inventory. We incurred excess and obsolete inventory charges of $150 and $86 for the three months ended March 31, 2012 and 2011, respectively.

Goodwill, Intangible and Long-Lived Assets

We account for goodwill and intangible assets in accordance with Accounting Standards Codification ("ASC") 350 (Intangibles- Goodwill and Other). Finite-lived intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment at least annually in the fourth quarter, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. In September 2011, the Financial Accounting Standards Board ("FASB") issued new guidance which provides an entity with the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If an entity determines this is the case, it is required to perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the

amount of goodwill impairment loss to be recognized. The two-step test is discussed below. If an entity determines that it is more-likely-than-not that the fair value of the reporting unit is greater than its carrying amounts, the two-step goodwill impairment test is not required. This new guidance was effective for fiscal years beginning after December 15, 2011. We adopted this guidance as of January 1, 2012. The adoption of this guidance did not have a material impact on our consolidated financial statements.

If we determine it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a result of our qualitative assessment, we will perform a quantitative two-step goodwill impairment test. In the Step I test, the fair value of a reporting unit is computed and compared with its book value. If the book value of a reporting unit exceeds its fair value, a Step II test is performed in which the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess. The two-step goodwill impairment assessment is based upon a combination of the income approach, which estimates the fair value of our reporting units based upon a discounted cash flow approach, and the market approach which estimates the fair value of our reporting units based upon comparable market multiples. This fair value is then reconciled to our market capitalization at year end with an appropriate control premium. The determination of the fair value of our reporting units requires management to make significant estimates and assumptions including the selection of appropriate peer group companies, control premiums, discount rate, terminal growth rates, forecasts of revenue and expense growth rates, changes in working capital, depreciation, amortization and capital expenditures. Changes in assumptions concerning future financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

Indefinite-lived intangible assets are assessed for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Long-lived assets, which consist of finite-lived intangible assets and property and equipment, are assessed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value. The cash flow estimates used to determine the impairment, if any, contain management's best estimates using appropriate assumptions and projections at that time.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC Topic 718 (Compensation - Stock Compensation) which requires that employee share-based equity awards be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value of stock options granted, which is then amortized to expense over the service periods. See further disclosures related to our stock-based compensation plan in Note 11.

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Subsequent Events

We have made an assessment of our operations and determined that there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the quarter ended March 31, 2012.

Revenue Recognition

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

With respect to sales tax collected from customers and remitted to governmental authorities, we use a net presentation in our consolidated statement of operations. As a result, there are no amounts included in either our net revenues or cost of revenues related to sales tax.

Product Warranties

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

Restructuring and Other Charges

We recognize a liability for restructuring charges at fair value only when the liability is incurred. The three main components of our restructuring plans have been related to workforce reductions, the consolidation of excess facilities and asset impairments. Workforce-related charges are accrued when it is determined that a liability has been incurred, which is generally after individuals have been notified of their termination dates and expected severance benefits. Plans to consolidate excess facilities result in charges for lease termination fees and future commitments to pay lease charges, net of estimated future sub-lease income. We recognize these charges when we have vacated the premises. In addition, as a result of plans to consolidate excess facilities, we may incur other associated costs such as charges to relocate inventory, equipment or personnel. We recognize charges for other associated costs when these costs are incurred, which is generally when the goods or services have been provided to us. Assets that may be impaired consist of property, plant and equipment and intangible assets. Asset impairment charges are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of the asset.

Income Taxes

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

For the quarters ended March 31, 2012 and 2011, we recorded an income tax benefit of $28 and income tax expense of $60, respectively. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. During the past several years, due to our history of operating losses in both our domestic and certain of our foreign operations, we had recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believed it was more likely

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

than not that we would not have sufficient taxable income to utilize these assets before they expire. During the second half of 2011, we reversed $3,110 of the valuation allowance which had been recorded against the deferred tax assets of these operations. The reversal of this amount of the valuation allowance was based on our current assessment that it is now more likely than not that we will be able to fully utilize these assets in the near future. Some of the key factors we considered in making our assessment included our profitability in both 2011 and 2010 and our level of certainty with regard to our forecasts of near term future profitability for the operations to which these assets relate.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share - basic is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during each period. Net earnings (loss) per common share - diluted is computed by dividing net earnings (loss) by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent stock options and unvested shares of restricted stock and are calculated using the treasury stock method. Common share equivalents are excluded from the calculation if their effect is anti-dilutive.

The table below sets forth, for the periods indicated, a reconciliation of weighted average common shares outstanding - basic to weighted average common shares and common share equivalents outstanding - diluted and the average number of potentially dilutive securities and their respective weighted average exercise prices that were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive:

	Three Months Ended March 31,	
	2012	2011
Weighted average common shares outstanding -- basic	10,205,114	10,067,748
Potentially dilutive securities:		
Employee stock options and unvested shares of restricted stock	-	198,896
Weighted average common shares and common share equivalents outstanding -- diluted	10,205,114	10,266,644
	421,472	59,950

Average number of potentially dilutive securities excluded from calculation		
Weighted average exercise price of excluded securities	$2.56	$4.56

Effect of Recently Adopted Amendments to Authoritative Accounting Guidance

In June 2011, the FASB issued an amendment to disclosures about comprehensive income. Under the amendment, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This amendment eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. Reclassification adjustments between net income and other comprehensive income must be shown on the face of the statement(s), with no resulting change in net earnings. The amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendment was effective for fiscal years beginning after December 15, 2011. The adoption of this amendment did not have a material impact on our consolidated financial statements.

As discussed above under "Goodwill, Intangible and Long-Lived Assets," in September 2011, the FASB issued an amendment to existing guidance on the assessment of goodwill impairment which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step impairment test is required. Otherwise, no further testing is required. The update also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendment was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this amendment did not have a material impact on our consolidated financial statements.

(3) ACQUISITION

On January 16, 2012, Temptronic acquired substantially all of the assets and certain liabilities of Thermonics pursuant to the Asset Purchase Agreement dated December 9, 2011. Thermonics is engaged in the business of designing, manufacturing, selling and distributing temperature forcing systems used in the testing of various products under temperature controlled situations. The acquisition of the Thermonics business broadens the product line of inTEST's Thermal Products segment.

The purchase price for the assets was approximately $3,821 in cash, plus the assumption of specified liabilities, including trade payables and certain customer contract obligations. We placed $400 of the

purchase price in escrow to provide security for certain indemnification obligations set forth in the acquisition agreement. In connection with this acquisition, we also signed a separate one year lease for the facility occupied by Thermonics in Sunnyvale, California. This facility is owned by the seller. We ceased operations at this facility in February 2012 and relocated the Thermonics product line to our facility in Mansfield, Massachusetts where our Temptronic operations are located. We recorded a restructuring charge in the first quarter of 2012 of $359 related to this action. See Note 5 for further detail regarding this charge.

Total acquisition costs incurred to complete this transaction were $485. The portion of these costs that was incurred in 2011 was $148. Acquisition costs are expensed as incurred and included in general and administrative expense.

The Thermonics acquisition was accounted for as a purchase business combination and, accordingly, the results of Thermonics have been included in our consolidated results of operations from the date of acquisition. The allocation of the total purchase price of Thermonics net tangible and identifiable intangible assets was based on their estimated fair values as of the acquisition date. The tangible assets acquired include accounts receivable, inventory, and property and equipment. Liabilities assumed include trade payables, certain customer contract obligations and accrued payments under a non-compete/non-solicitation agreement with a former employee of Thermonics. Identifiable intangible assets acquired include customer relationships, customer backlog, the Thermonics trade name, patented technology, and a non-compete/non-solicitation agreement with a former employee of Thermonics. The excess of the purchase price over the identifiable intangible and net tangible assets in the amount of $179 was allocated to goodwill and is deductible for tax purposes. Goodwill is attributed to the synergies that are expected to result from the operations of the combined businesses. The determination of fair value reflects the assistance of third-party valuation specialists, as well as our own estimates and assumptions. The purchase price allocation is preliminary pending the final determination of the fair value of certain acquired assets. We expect to complete this process by June 30, 2012.

The following represents the allocation of the purchase price:

Goodwill	$ 179
Identifiable intangible assets	1,728
Tangible assets acquired and liabilities assumed:	
Trade accounts receivable	1,161
Inventories	804
Property and equipment	223
Accounts payable	(77)
Accrued non-compete/non-solicitation payments	(48)
Accrued sales commissions	(82)
	(67

Accrued warranty	)
Total purchase price	$3,821

We estimated the fair value of identifiable intangible assets acquired using a combination of the income, cost and market approaches. We generally amortize our finite-lived intangible assets over their estimated useful lives on a straight-line basis, unless an alternate amortization method can be reliably determined. Any such alternate amortization method would be based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. The following table provides further information about the finite-lived intangible assets acquired in connection with the acquisition of Thermonics as of the acquisition date:

(Unaudited)

(3)

ACQUISITION (Continued)

	Fair Value	Weighted Average Estimated Useful Life
		(in months)
Customer relationships	$1,110	72
Customer backlog	70	3
Thermonics trade name	140	48
Patented technology	360	132
Non-compete/non-solicitation agreement	48	18
Total intangible assets	$1,728	78.3

For the period from January 16, 2012 to March 31, 2012, Thermonics contributed $669 of net revenues. We do not track net income within our Thermal Products segment by product line. As a result, the net income for Thermonics for the period from January 16, 2012 to March 31, 2012 is not available.

The following unaudited pro forma information gives effect to the acquisition of Thermonics as if the

acquisition occurred on January 1, 2011. These proforma summaries do not reflect any operating efficiencies or costs savings that may be achieved by the combined businesses. These proforma summaries are presented for informational purposes only and are not necessarily indicative of what the actual results of operations would have been had the acquisition taken place as of that date, nor are they indicative of future consolidated results of operations:

	Three Months Ended March 31,	
	2012	2011
Net revenues	$10,947	$13,070
Net earnings (loss)	545	417
Diluted earnings (loss) per share	$0.05	$0.04

The proforma results for 2011 shown above include non-recurring charges totaling $696. Of this total, $337 represents transaction costs related to the Thermonics acquisition and $359 represents facility closure costs related to the relocation of Thermonics operations.

(4) GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill on our balance sheets is a result of our acquisitions of Sigma Systems Corp. ("Sigma") in October 2008 and Thermonics in January 2012. The acquisition of Thermonics is discussed further in Note 3. All of our goodwill is allocated to our Thermal Products segment. Changes in the amount of the carrying value of goodwill for the three months ended March 31, 2012 are as follows:

	Sigma	Thermonics	Total
Balance - January 1, 2012	$1,656	$ -	$1,656
Acquisition of Thermonics	-	179	179
Balance - March 31, 2012	$1,656	$179	$1,835

Intangible Assets

As of March 31, 2012 and December 31, 2011, we had finite-lived intangible assets on our balance sheets that are a result of our acquisitions of Sigma Systems Corp. ("Sigma") in October 2008 and Thermonics in January 2012. The acquisition of Thermonics is discussed further in Note 3. At each of March 31, 2012 and December 31, 2011, we also had an indefinite-lived intangible asset which consists of a trademark. This asset is a result of our acquisition of Sigma

in October 2008.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) GOODWILL AND INTANGIBLE ASSETS

(Continued)

The following table provides further detail about our intangible assets as of March 31, 2012 and December 31, 2011:

	March 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$1,480	$ 256	$1,224
Patented technology	590	169	421
Software	270	95	175
Trade name	140	8	132
Customer backlog	70	58	12
Non-compete/non-solicitation agreement	48	-	48
Total finite-lived intangible assets	2,598	586	2,012
Indefinite-lived intangible assets:			
Trademark	510	-	510
Total intangible assets	$3,108	$ 586	$2,522

	December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$ 370	$ 200	$ 170
Patented technology	230	150	80
Software	270	88	182
Total finite-lived intangible assets	870	438	432
Indefinite-lived intangible assets:			
Trademark	510	-	510
Total intangible assets	$1,380	$ 438	$ 942

We generally amortize our finite-lived intangible assets over their estimated useful lives on a straightline basis, unless an alternate amortization method can be reliably determined. Any such alternate amortization method would be based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. None of our intangible assets have any residual value. The following table provides further information about the estimated useful lives of our finite-lived intangible assets as of March 31, 2012:

	Estimated Useful Life	Remaining Estimated Useful Life at March 31, 2012
	- - - - (in months) - - - -	
Finite-lived intangible assets resulting from the acquisition of Sigma:		
Customer relationships	72	30
Software	120	78
Patented technology	60	18

Finite-lived intangible assets resulting from the acquisition of Thermonics:		
Customer relationships	72	69.5
Customer backlog	3	0.5
Trade name	48	45.5
Patented technology	132	129.5
Non-compete/non-solicitation agreement	18	18

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) GOODWILL AND INTANGIBLE ASSETS

(Continued)

The following table sets forth changes in the amount of the carrying value of finite-lived intangible assets for the three months ended March 31, 2012:

Balance - January 1, 2012	$ 432
Acquisition of Thermonics	1,728
Amortization	(148)
Balance - March 31, 2012	$2,012

Total amortization expense for the three months ended March 31, 2012 and 2011 was $148 and $34, respectively. Total estimated amortization expense for 2012 is $476. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

2013	$446
2014	$355
2015	$289

2016	$229
2017	$212

(5)

RESTRUCTURING AND OTHER CHARGES

In connection with the acquisition of Thermonics, as discussed further in Note 3, we signed a separate one year lease for the facility in Sunnyvale, California occupied by Thermonics at the time of the acquisition. This facility is owned by the seller. We ceased operations at this facility in February 2012 and relocated the Thermonics product line to our facility in Mansfield, Massachusetts where our Temptronic operations are located. During the first quarter of 2012, we incurred approximately $359 of facility closure costs related to this action. These costs included lease termination fees of approximately $220 and other costs associated with this consolidation of facilities, including the cost to relocate inventory and equipment, of approximately $139. Accrued restructuring and other charges are included in Other Current Liabilities on our balance sheet.

Changes in our liability for restructuring and other charges for the three months ended March 31, 2012 are summarized as follows:

	Thermonics Relocation
Balance - January 1, 2012	$ -
Accruals for facility closure costs	359
Cash payments related to facility closure costs	(159)
Balance - March 31, 2012	$ 200

(6) MAJOR CUSTOMERS

During the three months ended March 31, 2012, Texas Instruments Incorporated accounted for 19% of our consolidated net revenues. While all three of our operating segments sold products to this customer, these revenues were primarily generated by our Mechanical Products segment. During the three months ended March 31, 2012, Teradyne, Inc. accounted for 13% of our consolidated net revenues. While both our Mechanical Products and our Electrical Products segments sold products to this customer, these revenues were primarily generated by our Electrical Products segment. No other customer accounted for 10% or more of our consolidated net revenues during the three months ended March 31, 2012. During the three months ended March 31, 2011, no customer accounted for 10% or more of our consolidated net revenues.

(7)

INVENTORIES

Inventories held at March 31, 2012 and December 31, 2011 were comprised of the following:

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(7)

INVENTORIES (Continued)

	Mar. 31,	Dec. 31,
	2012	***2011***
Raw materials	$3,545	$2,784
Work in process	419	351
Inventory consigned to others	234	201
Finished goods	542	560
	$4,740	$3,896

(8) DEBT

Letters of Credit

At each of March 31, 2012 and December 31, 2011, we had an outstanding letter of credit in the amount of $50. This letter of credit is secured by a pledged certificate of deposit in the amount of $50. This letter of credit was originally issued in September 2004 as a portion of the security deposit under a lease that we entered into for a facility for our Electrical Products operation based in northern California. This letter of credit expires September 13, 2012. The terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year until June 30, 2012, which is sixty days after the expiration of the lease term.

At each of March 31, 2012 and December 31, 2011, we had an outstanding letter of credit in the amount of $250. This letter of credit is secured by a pledged certificate of deposit in the amount of $250. This letter of credit was originally issued in April 2010 as a security deposit under a lease that we entered into for a facility in Mt. Laurel, New Jersey. Our Mechanical Products operation, which was located in Cherry Hill, New Jersey on December 31, 2010, relocated to this smaller facility in Mt. Laurel, New Jersey during the first quarter of 2011. This letter of credit expires April 1, 2013; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year throughout the entire lease term, which ends April 30, 2021. Provided that there is no event of default as defined under the terms and conditions of the lease, the required

amount of the letter of credit will decrease to $125 as of the sixty-fourth month of the term of the lease and to $90 as of the one-hundredth month of the term of the lease.

At each of March 31, 2012 and December 31, 2011, we had an outstanding letter of credit in the amount of $200. This letter of credit is secured by a pledged certificate of deposit in the amount of $200. This letter of credit was originally issued in November 2010 as a security deposit under a lease that we entered into for a facility in Mansfield, Massachusetts. Our Thermal Products operation, which was located in Sharon, Massachusetts on December 31, 2010, relocated to this facility in Mansfield, Massachusetts during the first quarter of 2011. This letter of credit expires November 7, 2012; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year throughout the entire lease term, which ends August 23, 2021. Provided that there is no event of default as defined under the terms and conditions of the lease, the required amount of the letter of credit will decrease to $100 as of the thirty-seventh month of the term of the lease and to $50 as of the sixty-first month of the term of the lease.

(9)

LEASEHOLD IMPROVEMENTS AND DEFERRED RENT

We record tenant improvements made to our leased facilities based on the amount of the total cost to construct the improvements regardless of whether a portion of that cost was paid through an allowance provided by the facility's landlord. The amount of the allowance, if any, is recorded as deferred rent. We amortize deferred rent on a straight-line basis over the lease term and record the amortization as a reduction of rent expense. Amortization of deferred rent for each of the three months ended March 31, 2012 and 2011 was $29.

(10)

GUARANTEES

Product Warranties

Warranty expense for the three months ended March 31, 2012 and 2011 was $45 and $73, respectively. The following table sets forth the changes in the liability for product warranties for the three months ended March 31, 2012:

(10) GUARANTEES (Continued)

Balance - January 1, 2012	$214
Acquisition of Thermonics	67

Payments made under product warranty	(41)
Accruals for product warranty	45
Balance - March 31, 2012	$285

(11) STOCK-BASED COMPENSATION

As of March 31, 2012, we had outstanding stock options and unvested restricted stock awards granted under stock-based employee compensation plans that are described more fully in Note 15 to the consolidated financial statements in our 2011 Form 10-K.

As of March 31, 2012, total compensation expense to be recognized in future periods was $204. The weighted average period over which this expense is expected to be recognized is 1.9 years. All of this expense is related to nonvested shares of restricted stock.

Restricted Stock Awards

We record compensation expense for restricted stock awards (nonvested shares) based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years. The following table shows the allocation of the compensation expense we recorded during the three months ended March 31, 2012 and 2011, respectively, related to nonvested shares:

	Three Months Ended March 31,	
	2012	2011
Cost of revenues	$ 2	$ 3
Selling expense	2	5
Engineering and product development expense	6	13
General and administrative expense	17	27
	$ 27	$ 48

There was no compensation expense capitalized in the three months ended March 31, 2012 or 2011.

The following table summarizes the activity related to nonvested shares for the three months ended March 31,

2012:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares outstanding, January 1, 2012	195,000	$1.62
Granted	-	-
Vested	(60,000)	1.42
Forfeited	-	-
Nonvested shares outstanding, March 31, 2012	135,000	1.70

Stock Options

The following table summarizes the stock option activity for the three months ended March 31, 2012:

(11) STOCK-BASED COMPENSATION

(Continued)

	Number of Shares	Weighted Average Exercise Price
Options outstanding, January 1, 2012 (249,000 exercisable)	249,000	$ 3.28
Granted	-	-
Exercised	-	-

Forfeited/Expired	(19,000)	3.61
Options outstanding, March 31, 2012 (230,000 exercisable)	230,000	3.26

(12)

EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan for our employees who work in the U.S. (the "inTEST 401(k) Plan"). All permanent employees of inTEST Corporation and inTEST Silicon Valley Corp who are at least 18 years of age are eligible to participate in the plan. We match employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of $5. Employer contributions vest over four years. Matching contributions are discretionary.

Temptronic adopted a defined contribution 401(k) plan for its domestic employees in 1988, that was merged into the inTEST 401(k) Plan effective September 1, 2002. The inTEST 401(k) Plan retains the matching provisions of the prior Temptronic plan for all Temptronic employees. Temptronic matches employee contributions $0.50 on the dollar up to 6% of the employees' annual compensation, with a maximum limit of $3. Matching contributions are discretionary. The eligibility and vesting provisions of the prior Temptronic plan have been conformed to those for inTEST Corporation and inTEST Silicon Valley Corporation employees.

In addition to the employer matching for which Temptronic employees are eligible, upon the termination of the Temptronic Equity Participation Plan ("EPP"), we also acknowledged that it was our intention to contribute $3,000 in the aggregate to the inTEST 401(k) Plan as a form of profit sharing (not to exceed $300 per year) for the benefit of Temptronic employees. The amount of these contributions approximates the amount that we had been committed to contribute to the EPP as of its termination date. All such profit sharing contributions are at the discretion of management, and will be allocated to employees annually in the same manner in which the shares held by the EPP had been allocated. The vesting provisions for these contributions are the same as those of the inTEST 401(k) Plan. Accruals for profit sharing contributions totaling $75 and $75 were made during the three months ended March 31, 2012 and 2011, respectively. Through March 31, 2012, we had made a total of $1,928 in profit sharing contributions. We have historically funded these contributions through the use of treasury shares during the quarter subsequent to the quarter in which we record the profit sharing liability, although management has the discretion to use cash to fund these contributions. Our current intention is to use cash to fund these contributions when our stock price is below $3.00 per share.

(13) SEGMENT INFORMATION

We have three reportable segments, which are also our reporting units: Thermal Products, Mechanical Products and Electrical Products.

The Thermal Products segment includes the operations of Temptronic Corporation, Thermonics (which we acquired in January 2012 as discussed further in Note 3), Sigma Systems Corp., Temptronic GmbH (Germany), and inTEST Pte, Limited (Singapore). Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic, Thermonics and Sigma Systems product lines. In addition, this segment provides post warranty service and support.

The Mechanical Products segment includes the operations of our Mt. Laurel, New Jersey manufacturing facility. Sales of our Mechanical Products segment consist primarily of manipulator and docking hardware products, which we

design, manufacture and market. In addition, this segment provides post warranty service and support for various ATE equipment.

The Electrical Products segment includes the operations of inTEST Silicon Valley Corporation. Sales of this segment consist primarily of tester interface products which we design, manufacture and market.

(13) SEGMENT INFORMATION

(Continued)

We operate our business worldwide, and all three segments sell their products both domestically and internationally. All three segments sell to semiconductor manufacturers, third-party test and assembly houses and ATE manufacturers. Our Thermal Products segment also sells into a variety of industries outside of the semiconductor industry, including the automotive, consumer electronics, defense/aerospace and telecommunications industries. Intercompany pricing between segments is either a multiple of cost for component parts or list price for finished goods.

	Three Months Ended March 31,	
	2012	2011
Net revenues from unaffiliated customers:		
Thermal Products	$ 6,111	$ 5,354
Mechanical Products	2,514	5,030
Electrical Products	2,116	1,346
Intersegment sales	(10)	(26)
	$10,731	$11,704
Intersegment sales:		
Thermal Products	$ -	$ -
Mechanical Products	10	-

	-	26
Electrical Products	$10	$26
Earnings (loss) before income tax expense (benefit):		
Thermal Products	$ 317	$ 763
Mechanical Products	(552)	521
Electrical Products	365	155
Corporate	(202)	(122)
	$ (71)	$1,317
Net earnings (loss):		
Thermal Products	$ 235	$ 745
Mechanical Products	(345)	473
Electrical Products	233	150
Corporate	(166)	(111)
	$ (43)	$1,257

	Mar. 31, 2012	Dec. 31, 2011
Identifiable assets:		
Thermal Products	$20,585	$20,030
Mechanical Products	7,459	8,240
	3,824	2,967

Electrical Products	$31,868	$31,237

The following table provides information about our geographic areas of operation. Net revenues from unaffiliated customers are based on the location to which the goods are shipped.

	Three Months Ended March 31,	
	2012	2011
Net revenues from unaffiliated customers:		
U.S.	$ 4,196	$ 4,227
Foreign	6,535	7,477
	$10,731	$11,704

- 17 -

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(13) SEGMENT INFORMATION

(Continued)

	Mar. 31, 2012	Dec. 31, 2011
Long-lived assets:		
U.S.	$1,010	$ 836
Foreign	226	298
	$1,236	$1,134

inTEST CORPORATION

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

Risk Factors and Forward-Looking Statements

In addition to historical information, this discussion and analysis contains statements relating to possible future events and results that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should" or "anticipates" or similar terminology. See Part I, Item 1 - "Business - Cautionary Statement Regarding Forward-Looking Statements" in our 2011 Form 10-K for examples of statements made in this report which may be "forward-looking statements." These statements involve risks and uncertainties and are based on various assumptions. Although we believe that our expectations are based on reasonable assumptions, investors and prospective investors are cautioned that such statements are only projections, and there cannot be any assurance that these events or results will occur.

Information about the primary risks and uncertainties that could cause our actual future results to differ materially from our historic results or the results described in the forward-looking statements made in this report or presented elsewhere by Management from time to time are included in Part I, Item 1A - "Risk Factors" in our 2011 Form 10-K. Material changes to such risk factors may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A. There have been no such changes from the risk factors set forth in our 2011 Form 10-K.

Overview

This MD&A should be read in conjunction with the accompanying consolidated financial statements.

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

We believe that purchases of most of our products are typically made from semiconductor manufacturers' capital expenditure budgets. Certain portions of our business, however, are generally less dependent upon the capital expenditure budgets of the end users. For example, purchases of certain related ATE interface products, such as sockets and interface boards, which must

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

(Continued)

be replaced periodically, are typically made from the end users' operating budgets. In addition, purchases of certain of our products, such as docking hardware, for the purpose of upgrading or improving the utilization, performance and efficiency of existing ATE, tend to be counter cyclical to sales of new ATE. Moreover, we believe a portion of our sales of thermal 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 an electronic device handler. In addition, we market our Thermostream temperature management systems in industries outside semiconductor test, such as the automotive, consumer electronics, defense/aerospace and telecommunications industries. We believe that these industries usually are less cyclical than the ATE industry.

While the majority of our orders and net revenues are derived from the ATE market, our operating results do not always follow the overall trend in the ATE market in any given period. We believe that these anomalies may be driven by a variety of changes within the ATE market, including, for example, changing product requirements, longer time periods between new product offerings by OEMs and changes in customer buying patterns. In particular, demand for our mechanical and electrical products, which are sold exclusively within the ATE industry, and our operating margins in these product segments have been affected by shifts in the competitive landscape, including (i) customers placing heightened emphasis on shorter lead times (which places increased demands on our available engineering and production capacity increasing unit costs) and ordering in smaller quantities (which prevents us from acquiring component materials in larger volumes at lower cost and increasing unit costs), (ii) the practice of OEM manufacturers to specify other suppliers as primary vendors, with less frequent opportunities to compete for such designations, (iii) the role of third-party test and assembly houses in the ATE market and their requirement of products with a greater range of use at the lowest cost, and (iv) customer supply line management groups demanding lower prices and spreading purchases across multiple vendors. These shifts in market practices have had, and may continue to have, varying levels of impact on our operating results, which are difficult to quantify or predict from period to period. Management has taken, and will continue to take, such actions it deems appropriate to adjust our strategies, products and operations to counter such shifts in market practices as they become evident.

Net Revenues and Orders

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

	Three Months Ended		
	Mar. 31,		Dec. 31,
	2012	2011	2011
	(in thousands)		
Net revenues from unaffiliated customers			
Thermal Products	$ 6,111	$ 5,354	$ 7,349

Mechanical Products	2,514	5,030	1,909
Electrical Products	2,116	1,346	824
Intersegment sales	(10)	(26)	(1)
	$10,731	$11,704	$10,081

Intersegment sales			
Thermal Products	$ -	$ -	$ -
Mecahnical Products	10	-	-
Electrical Products	-	26	1
	$ 10	$ 26	$ 1

Net revenues from unaffiliated customers (net of intersegment sales)			
Thermal Products	$ 6,111	$ 5,354	$ 7,349
Mechanical Products	2,504	5,030	1,909
Electrical Products	2,116	1,320	823
	$10,731	$11,704	$10,081

Net revenues from unaffiliated customers			
U.S.	$ 4,196	$ 4,227	$ 5,345
Foreign	6,535	7,477	4,736
	$10,731	$11,704	$10,081

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

(Continued)

Our consolidated net revenues for the quarter ended March 31, 2012 decreased $973,000 or 8% as compared to the same period in 2011. For the quarter ended March 31, 2012, net revenues (net of intersegment sales) of our Mechanical Products segment decreased $2.5 million or 50%, while the net revenues (net of intersegment sales) of our Thermal and Electrical Products segments increased $757,000 or 14% and $796,000 or 60%, respectively, as compared to the same period in 2011. During the quarter ended March 31, 2012, the net revenues of our Thermal Products segment included $669,000 of net revenues attributable to Thermonics, Inc. ("Thermonics"), which we acquired on January 16, 2012 as discussed further under "Acquisition" below. Adjusted to eliminate the impact of the net revenues attributable to Thermonics, the net revenues (net of intersegment sales) of our Thermal Products segment for the first quarter of 2012 would have increased $88,000 or 2% as compared to the same period in 2011. Net revenues from customers in various industries outside of the ATE industry and those net revenues as a percentage of our total consolidated net revenues were $2.4 million or 22%, respectively, for the quarter ended March 31, 2012, compared to $4.0 million or 40%, respectively, for the quarter ended December 31, 2011, and $2.3 million or 20%, respectively, for the quarter ended March 31, 2011. Adjusted to eliminate the impact of the net revenues attributable to Thermonics, the net revenues from customers in various industries outside of the ATE industry and those net revenues as a percentage of our total consolidated net revenues were $2.4 million or 23%.

During the first quarter of 2012, the level of demand experienced by our Mechanical Products segment was less than that experienced during the same period in 2011. We believe the decrease in the level of net revenues in our Mechanical Products segment reflects reduced demand within the ATE industry, which we had begun to see reflected in the level of our orders for this segment during the second quarter of 2011. This decline in demand was partially offset by increased demand from one particular major customer that had recently completed an acquisition and, as a result, had higher than typical demand for certain of our equipment as a part of the process of integrating their post-acquisition operations. This same major customer also purchases products from our Electrical Products segment and we believe this also is responsible for a portion of the increase in the net revenues of our Electrical Products segment during the first quarter of 2012 as compared to the same period in 2011. We also attribute the increase in the net revenues of our Electrical Products segment to a significant increase in demand from one particular major OEM customer.

We believe the relatively unchanged level of net revenues of our Thermal Products segment (when adjusted to eliminate the impact of the acquisition of Thermonics) primarily reflects that this segment has historically lagged our other two product segments in regard to experiencing the impact of both increases and decreases in the levels of demand within the ATE industry. In addition, approximately 40-60% of this segment's sales are to customers in various industries outside the ATE industry where we have experienced recent strength in demand.

Total orders for the quarter ended March 31, 2012 were $12.9 million compared to $8.1 million for the quarter ended December 31, 2011 and $13.1 million for the quarter ended March 31, 2011. Orders for the first quarter of 2012 include $553,000 attributable to Thermonics. For the quarter ended March 31, 2012, orders for our Thermal, Mechanical and Electrical Products segments were $5.3 million, $3.8 million and $3.8 million, respectively, compared to $6.1 million, $1.1 million and $864,000 for the quarter ended December 31, 2011, respectively, and $5.8 million, $5.6 million and $1.7 million for the quarter ended March 31, 2011, respectively. Orders from customers in various industries outside of the ATE industry and those orders as a percentage of our total consolidated orders were $1.7 million or 13%, respectively, for the quarter ended March 31, 2012, compared to $3.1 million or 38%, respectively, for the quarter ended December 31, 2011,

and $2.3 million or 17%, respectively, for the quarter ended March 31, 2011.We cannot be certain what the level of our orders or net revenues will be in any future period for any of our product segments.

Backlog

At March 31, 2012, our backlog of unfilled orders for all products was approximately $7.0 million, of which approximately $674,000 is attributable to Thermonics, compared with approximately $4.0 million at December 31, 2011 and $7.5 million at March 31, 2011. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2012. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

Restructuring and Other Charges

In connection with the acquisition of Thermonics, as discussed further in Note 3 to our consolidated financial statements, we signed a separate one year lease for the Sunnyvale, California facility occupied by Thermonics at the time of the acquisition. This facility is owned by the seller. We ceased operations at this facility in February 2012 and relocated the Thermonics product line to our facility in Mansfield, Massachusetts where our Temptronic operations are located. During the first quarter of 2012, we incurred approximately $359,000 of facility closure costs related to this action. These costs included lease termination fees of approximately $220,000 and other costs associated with this consolidation of facilities, including the cost to relocate inventory and equipment, of approximately $139,000. Accrued restructuring and other charges are included in Other Current Liabilities on our balance sheet.

Acquisition

On January 16, 2012, Temptronic Corporation acquired substantially all of the assets and certain liabilities of Thermonics, a division of Test Enterprises, Inc., pursuant to the Asset Purchase Agreement dated December 9, 2011. Thermonics is engaged in the business of designing, manufacturing, selling and distributing temperature forcing systems used in the testing of various products under temperature controlled situations. The acquisition of the Thermonics business broadens the product line of inTEST's Thermal Products segment. The purchase price for the assets was approximately $3.8 million in cash, plus the assumption of specified liabilities. For further discussion of the acquisition, see Note 3 to our consolidated financial statements.

Product/Customer Mix

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

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

We sell most of our products to semiconductor manufacturers and third-party test and assembly houses (end user sales) and to ATE manufacturers (OEM sales) who ultimately resell our equipment with theirs to semiconductor manufacturers. Our Thermal Products segment also sells into a variety of other industries including the automotive, consumer electronics, defense/aerospace and telecommunications industries. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. For the quarters ended March 31, 2012 and 2011, our OEM sales as a percentage of net revenues were 15% and 14%, respectively.

OEM sales generally have a lower gross margin than end user sales, as OEM sales historically have had a more significant discount. Our current net operating margins on most OEM sales, 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 have also continued to experience demands from our OEM customers' supply line managers to reduce our sales prices to them. If we cannot further reduce our manufacturing and operating costs, these pricing pressures will continue to reduce our gross and operating margins.

Results of Operations

All of our products are used by semiconductor manufacturers in conjunction with ATE in the testing of ICs. In addition, some of the products manufactured by our Thermal Products segment are used in industries outside of the semiconductor industry, including the automotive, consumer electronics, defense/aerospace and telecommunications industries. 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 and includes discussion of factors unique to each product segment where significant to an understanding of that segment.

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

	Percentage of Net Revenues Quarters Ended March 31,	
	2012	2011
Net revenues	100.0%	100.0%
Cost of revenues	57.2	56.5
Gross margin	42.8	43.5
Selling expense	13.1	11.8
Engineering and product development expense	8.6	6.9
	18.6	14.0

	2012	2011
General and administrative expense		
Restructuring and other charges	3.3	0.0
Operating income (loss)	(0.8)	10.8
Other income	0.1	0.5
Earnings (loss) before income tax expense (benefit)	(0.7)	11.3
Income tax expense (benefit)	(0.3)	0.5
Net earnings (loss)	(0.4)%	10.8%

Quarter Ended March 31, 2012 Compared to Quarter Ended March 31, 2011

Net Revenues. Net revenues were $10.7 million for the quarter ended March 31, 2012 compared to $11.7 million for the same period in 2011, a decrease of $973,000 or 8%. We believe the decrease in our net revenues during the first quarter of 2012 primarily reflects the factors previously discussed in the Overview.

During the quarter ended March 31, 2012, our net revenues from customers in the U.S. decreased 1% and our net revenues from foreign customers decreased 13%, respectively, as compared to the same period in 2011. The impact of changes in foreign currency exchange rates on the increase in net revenues from foreign customers was less than 1%.

Gross Margin. Gross margin was 43% for the first quarter of 2012 compared to 44% for the same period in 2011. The decrease in gross margin primarily reflects that our fixed operating costs were not as fully absorbed due to the lower net revenues levels during the first quarter of 2012 as compared to the same period in 2011. While our fixed operating costs declined $65,000 in absolute dollar terms during the quarter ended March 31, 2012 as compared to the same period in 2011, as a percentage of net revenues these costs increased from 16% for the quarter ended March 31, 2011 to 17% for the quarter ended March 31, 2012. The decline in the absolute dollar value of our fixed operating costs in the first quarter of 2012 as compared to the same period in 2011 primarily represents that the first quarter of 2011 had $74,000 of costs associated with the relocation of two of our domestic manufacturing operations during this period. There were no similar costs in the first quarter of 2012. To a lesser extent, we also attribute the decrease in our gross margin during the first quarter of 2012 as compared to the same period in 2011 to an increase in our charges for obsolete and excess inventory. These charges increased $63,000 in the first quarter of 2012 as compared to the same period in 2011, reflecting more items falling into our standard objective criteria primarily as a result of changes in demand for certain products made by our Mechanical and Electrical Products segments. These increases were partially offset by a slight decline in component material costs as a percentage of net revenues, reflecting changes in product and customer mix.

Selling Expense. Selling expense was $1.4 million in each of the quarters ended March 31, 2012 and 2011. Increases in third-party consulting fees and salary and benefits expense were offset by a decrease in commissions, reflecting the lower net revenue levels, and lower levels of accruals for product warranty expense.

Engineering and Product Development Expense. Engineering and product development expense was $924,000 for the first quarter of 2012 compared to $813,000 for the same period in 2011, an increase of $111,000 or 14%. The increase in engineering and product development expense primarily reflects higher salary and benefits expense and an increase in the use of third-party consultants.

General and Administrative Expense. General and administrative expense was $2.0 million for the first quarter of 2012 compared to $1.6 million for the same period in 2011, an increase of $357,000 or 22%. During the first quarter of 2012, we

recorded $337,000 in costs associated with the acquisition of Thermonics. There were no similar costs recorded in the first quarter of 2011. In addition, amortization expense related to our intangible assets increased $114,000 during the first quarter of 2012 as compared to the same period in 2011. This amount represents amortization of the intangible assets acquired as a part of the Thermonics transaction completed on January 16, 2012. These increases were partially offset by a decrease in accruals for profit-related bonuses reflecting the loss recorded for the first quarter of 2012 as compared to earnings recorded for the first quarter of 2011.

Restructuring and Other Charges. Restructuring and other charges were $359,000 for the first quarter of 2012. There were no similar charges for the first quarter of 2011. The restructuring and other charges recorded during the first quarter of 2012 represent facility closure costs related to the closure of the Sunnyvale, California facility occupied by Thermonics at the time of our acquisition of this operation, as discussed further in the Overview.

Other Income. Other income was $13,000 for the first quarter of 2012 compared to $56,000 for the first quarter of 2011, a decrease of $43,000. During the first quarter of 2011, we recorded a gain on sale of property and equipment. There was no similar gain recorded during the first quarter of 2012.

Income Tax Expense (Benefit). For the quarter ended March 31, 2012, we recorded an income tax benefit of $28,000 compared to income tax expense of $60,000 for the same period in 2011. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. During the past several years, due to our history of operating losses in both our domestic and certain of our foreign operations, we had recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believed it was more likely than not that we would not have sufficient taxable income to utilize these assets before they expire. During the third and fourth quarters of 2011, we reversed $3.1 million of the valuation allowance which had been recorded against the deferred tax assets of these operations. The reversal of this amount of the valuation allowance was based on our current assessment that it is now more likely than not that we will be able to fully utilize these assets in the near future. Some of the key factors we considered in making our assessment included our profitability in both 2011 and 2010 and our level of certainty with regard to our forecasts of near term future profitability for the operations to which these assets relate.

Liquidity and Capital Resources

Net cash used in operations for the three months ended March 31, 2012 was $67,000 compared to $1.2 million for the same period in 2011. The decrease in net cash used in operations primarily reflects a lower level of increase in the amount of trade accounts receivable and inventories during the first quarter of 2012 as compared to the same period in 2011. This was partially offset by a net loss of $43,000 in the first quarter of 2012 compared to net earnings $1.3 million for the same period in 2011. During the first quarter of 2012, trade accounts receivable increased $574,000 and inventories increased $37,000 compared to increases of $2.6 million and $504,000, respectively, during the same period in 2011. The lower level of increase primarily reflects that the level of increase in business activity in the first quarter of 2011 as compared to the fourth quarter of 2010 was much more significant than the level of increase in business activity during the first quarter of 2012 as compared to the fourth quarter of 2011. During the first quarter of 2012, accounts payable increased $833,000 compared to an increase of $653,000 during the comparable period in 2011. Accrued wages and benefits decreased $576,000 during the first quarter of 2012 compared to a decrease of $492,000 during the same period in 2011. The decreases in accrued wages and benefits during the first quarter of both 2012 and 2011 primarily represent the payout of profit related bonuses accrued on the prior year's results. Other current liabilities increased $196,000 during the first quarter of 2012 compared to a decrease of $150,000 during the same period in 2011. The increase in 2012 primarily reflects the accrual of restructuring charges related to the closure of the former Thermonics facility.

During the first quarter of 2012, we paid $3.8 million to acquire Thermonics, as discussed further in the Overview and in Note 3 to our consolidated financial statements. We have no significant commitments for capital expenditures for the balance of 2012, however, depending upon changes in market demand, we may make such purchases as we deem necessary and appropriate.

As of March 31, 2012, we had cash and cash equivalents of $10.1 million. We currently expect our cash and cash equivalents and projected future cash flow to be sufficient to support our short term working capital requirements. We do not currently have any available credit facilities under which we can borrow to help fund our working capital requirements. We cannot be certain that, if needed, we would be able to obtain any credit facilities or under what terms such credit facilities would be available.

New or Recently Adopted Accounting Standards

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

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On

an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, goodwill, identifiable intangibles, deferred income tax valuation allowances and product warranty reserves. We base our estimates on historical experience and on appropriate and customary assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Some of these accounting estimates and assumptions are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ markedly from what had been assumed when the financial statements were prepared. As of March 31, 2012, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2011 Form 10-K.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements during the three months ended March 31, 2012 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our interests.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This disclosure is not required for a smaller reporting company.

Item 4. CONTROLS AND PROCEDURES

CEO and CFO Certifications

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

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

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

Limitations on the Effectiveness of Controls. Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their

costs. Because of the inherent limitations in all

Item 4. CONTROLS AND PROCEDURES

(Continued)

control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within an entity have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a system of controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our management has designed the disclosure controls and procedures to provide reasonable assurance that the objectives of the control system were met.

CEO/CFO Conclusions about the Effectiveness of the Disclosure Controls and Procedures. As required by Rule 13a-15(b), inTEST management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this Report, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were effective at the reasonable assurance level.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Information regarding the primary risks and uncertainties that could materially and adversely affect our future performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements, appears in Part I, Item 1A -- "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

A list of the Exhibits which are required by Item 601 of Regulation S-K and filed with this Report is set forth in the Index to Exhibits immediately following the signature page, which Index to Exhibits is incorporated herein by reference.

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: May 15, 2012 /s/ Robert E. Matthiessen
Robert E. Matthiessen
President and Chief Executive Officer

Date: May 15, 2012 /s/ Hugh T. Regan, Jr.
Hugh T. Regan, Jr.
Secretary, Treasurer and Chief Financial Officer

Index to Exhibits

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

3.2* ByLaws of inTEST Corporation, as amended on October 30, 2007: Previously filed as Exhibit 3.2 of the Company's Form 8-K on November 5, 2007 and incorporated herein by reference.

10.1 Lease Agreement between Columbia California Warm Springs Industrial, LLC and inTEST Silicon Valley Corporation

dated January 9, 2012.

10.2 Guaranty Agreement between Columbia California Warm Springs Industrial, LLC and inTEST Corporation dated
January 9, 2012.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

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

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

* Indicates document previously filed.