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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 June 30, 2011 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 July 31, 2011:

10,386,927

inTEST CORPORATION

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PART 1. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

inTEST CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2011	Dec. 31, 2010
ASSETS:	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 8,879	$ 6,895
Trade accounts receivable, net of allowance for doubtful accounts of $151 and $150, respectively	8,278	6,244

Inventories	4,267	3,489
Prepaid expenses and other current assets	166	430
Total current assets	21,590	17,058
Property and equipment:		
Machinery and equipment	3,555	3,534
Leasehold improvements	514	765
Gross property and equipment	4,069	4,299
Less: accumulated depreciation	(2,932)	(3,581)
Net property and equipment	1,137	718
Goodwill	1,656	1,656
Intangible assets, net	1,010	1,077
Restricted certificates of deposit	700	700
Other assets	181	199
Total assets	$26,274	$21,408
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,105	$ 1,672
Accrued wages and benefits	1,497	1,779
Accrued professional fees	370	373
Accrued warranty	286	274
Accrued sales commissions	682	522
Other accrued expenses	882	497
Domestic and foreign income taxes payable	59	30
Deferred rent	98	118
Total current liabilities	5,979	5,265
Deferred rent, net of current portion	-	39
Total liabilities	5,979	5,304
Commitments and contingencies (Notes 9 and 11)		
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 and 10,464,505 shares issued, respectively	105	105
Additional paid-in capital	26,039	25,973
Accumulated deficit	(6,637)	(10,549)
Accumulated other comprehensive earnings	1,398	1,311
Treasury stock, at cost; 98,649 and 119,029 shares, respectively	(610)	(736)
Total stockholders' equity	20,295	16,104
Total liabilities and stockholders' equity	$26,274	$21,408

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 June 30,	Six Months Ended June 30,

	2011	2010	2011	2010
Net revenues	$13,800	$15,260	$25,504	$24,789
Cost of revenues	7,002	7,892	13,613	12,884
Gross margin	6,798	7,368	11,891	11,905
Operating expenses:				
Selling expense	1,587	1,754	2,972	2,983
Engineering and product development expense	822	787	1,635	1,488
General and administrative expense	1,666	1,653	3,300	3,134
Total operating expenses	4,075	4,194	7,907	7,605
Operating income	2,723	3,174	3,984	4,300
Other income (expense):				
Interest income	3	1	6	4
Interest expense	(1)	(18)	(2)	(36)
Other	8	9	62	13
Total other income (expense)	10	(8)	66	(19)
Earnings before income tax expense (benefit)	2,733	3,166	4,050	4,281
Income tax expense (benefit)	78	(2)	138	1
Net earnings	$ 2,655	$ 3,168	$ 3,912	$ 4,280
Net earnings per common share - basic	$0.26	$0.32	$0.39	$0.43
Weighted average common shares outstanding - basic	10,146,613	10,006,956	10,107,398	10,000,061
Net earnings per common share - diluted	$0.26	$0.31	$0.38	$0.42
Weighted average common and common share equivalents outstanding - diluted	10,296,902	10,186,364	10,281,857	10,093,146

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands)
(Unaudited)

Three Months Ended Six Months Ended

	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net earnings	$ 2,655	$ 3,168	$ 3,912	$ 4,280
Foreign currency translation adjustments	25	(66)	87	(120)
Comprehensive earnings	$ 2,680	$ 3,102	$ 3,999	$ 4,160

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except share data)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Addt'l Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
Balance, January 1, 2011	10,464,505	$ 105	$25,973	$(10,549)	$1,311	$(736)	$16,104
Net earnings	-	-	-	3,912	-	-	3,912
Other comprehensive earnings	-	-	-	-	87	-	87
Amortization of deferred compensation related to restricted stock	-	-	87	-	-	-	87
Stock options exercised	10,000	-	30	-	-	-	30
Forfeiture of non-vested shares of restricted stock	(11,250)	-	-	-	-	-	-
Issuance of 20,380 shares to satisfy profit sharing liability	-	-	(51)	-	-	126	75
Balance, June 30, 2011	10,463,255	$ 105	$26,039	$ (6,637)	$1,398	$(610)	$20,295

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 3,912	$ 4,280
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	209	190
Foreign exchange (gain) loss	(11)	9
Amortization of deferred compensation related to restricted stock	87	96
Profit sharing expense funded through the issuance of treasury stock	75	-
(Gain) loss on sale of property and equipment	(40)	(5)
Proceeds from sale of demonstration equipment, net of gain	107	8
Changes in assets and liabilities:		
Trade accounts receivable	(2,012)	(5,331)
Inventories	(761)	(136)
Prepaid expenses and other current assets	264	170
Restricted certificates of deposit	-	(250)
Other assets	28	32
Accounts payable	432	321
Accrued wages and benefits	(295)	647
Accrued professional fees	(4)	51
Accrued warranty	12	35
Accrued sales commissions	160	476
Accrued restructuring and other charges	-	(130)
Other accrued expenses	383	222
Domestic and foreign income taxes payable	29	(3)
Deferred rent	(59)	(59)
Net cash provided by operating activities	2,516	623
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(640)	(75)
Proceeds from sale of property and equipment	40	-
Net cash used in investing activities	(600)	(75)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options exercised	30	-
Net cash provided by financing activities	30	-
Effects of exchange rates on cash	38	(61)
Net cash provided by all activities	1,984	487
Cash and cash equivalents at beginning of period	6,895	2,647
Cash and cash equivalents at end of period	$ 8,879	$ 3,134
Cash payments for:		
Domestic and foreign income taxes	$ 78	$ 6
Interest	$ -	$ -

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Issuance of non-vested shares of restricted stock	$	-	$	411
Forfeitures of non-vested shares of restricted stock	$	(20)	$	(11)

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(1) NATURE OF OPERATIONS

We are an independent designer, manufacturer and marketer of mechanical, thermal 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").

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: Mechanical Products, Thermal 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.

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 patents and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the industry. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain of our accounts, including 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, 2010 filed with the Securities and Exchange Commission on March 31, 2011 (the "2010 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, 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 $197 and $353 for the six months ended June 30, 2011 and 2010, respectively.

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Goodwill, Intangible and Long-Lived Assets

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. The 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.

During the goodwill impairment assessment, we perform a Step I test to identify potential impairment, in which the fair value of a reporting unit is 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. 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 Accounting Standards Codification ("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 10.

Subsequent Events

We have made an assessment of our operations and determined there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the three and six months ended June 30, 2011 other than the cancellation on July 12, 2011 of one of our outstanding letters of credit, as discussed further in Note 7.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Sales of our products are made through our sales employees, third-party sales representatives and distributors. There are no differences in revenue recognition policies based on the sales channel. We do not provide our customers with rights of return or exchanges. Revenue is generally recognized upon product shipment. Our 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 costs 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 six months ended June 30, 2011 and 2010, we recorded income tax expense of $138 and $1, 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. Due to our history of operating losses in both our domestic and certain of our foreign operations, we have recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire.

Net Earnings Per Common Share

Net earnings per common share - basic is computed by dividing net earnings by the weighted average number of common shares outstanding during each period. Net earnings per common share - diluted is computed by dividing net earnings 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:

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding - basic	10,146,613	10,006,956	10,107,398	10,000,061
Potentially dilutive securities:				
Employee stock options and unvested shares of restricted stock	150,289	179,408	174,459	93,085
Weighted average common shares outstanding - diluted	10,296,902	10,186,364	10,281,857	10,093,146
Average number of potentially dilutive securities excluded from calculation	64,670	149,083	62,310	305,823
Weighted average exercise price of excluded securities	$4.38	$4.07	$4.47	$3.67

Effect of Recently Adopted Amendments to Authoritative Accounting Guidance

In January 2010, the Financial Accounting Standards Board (the "FASB") issued an amendment to an accounting standard regarding disclosure guidance with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. This amendment is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new guidance around the Level 3 activity reconciliations, which is effective for fiscal years beginning after December 15, 2010. The adoption of this amendment did not have any impact on our consolidated financial statements.

In July 2010, the FASB issued an amendment to an accounting standard that requires additional disclosure about the credit quality of financing receivables, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class, if applicable. The disaggregation of information is based on how allowances for credit losses are developed and how credit exposure is managed. This amendment is effective for interim periods and fiscal years ending after December 15, 2010. The adoption of this amendment did not have any impact on our consolidated financial statements.

In December 2010, the FASB issued an amendment to goodwill impairment testing. The amendment modifies Step I of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step II of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance did not have any impact on our consolidated financial statements.

In December 2010, the FASB issued an amendment to the disclosure of supplementary pro forma information for business combinations. The amendment specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendment is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We will implement this guidance in the event we consummate a business acquisition in the future.

(Unaudited)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

In June 2011, the FASB issued an amendment to Topic 220, 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 is effective for fiscal years beginning after December 15, 2011. We do not expect the adoption of this amendment to have a material impact on our consolidated financial statements.

(3) GOODWILL AND INTANGIBLE ASSETS

As of June 30, 2011 and December 31, 2010, our goodwill totaled $1,656 and our indefinite-lived intangible asset totaled $510. The goodwill and indefinite-lived intangible asset are both a result of our acquisition of Sigma Systems Corp. ("Sigma") in October 2008 and are allocated to our Thermal Products reporting unit.

As of June 30, 2011 and December 31, 2010, we had finite-lived intangible assets which totaled $500 and $567, net of accumulated amortization of $370 and $303, respectively. At June 30, 2011 and December 31, 2010 we had three finite-lived intangible assets which consisted of customer relationships, software and patents held by Sigma at the time of our acquisition of this operation in October 2008. These intangible assets are being amortized on a straight-line basis over estimated useful lives of 72 months, 120 months and 60 months, respectively. As of June 30, 2011, these assets had remaining estimated useful lives of 39 months, 87 months, and 27 months, respectively. These intangible assets are allocated to our Thermal Products segment.

The following table sets forth changes in the amount of the carrying value of finite-lived intangible assets for the six months ended June 30, 2011:

Balance - January 1, 2011	$567
Amortization	(67)
Balance - June 30, 2011	$500

Estimated annual amortization expense for 2011 is $135. The following table sets forth the estimated annual amortization expense for our finite-lived intangible assets for each of the next five years:

2012	$135
2013	$123
2014	$ 73
2015	$ 27
2016	$ 27

(Unaudited)

(4)

RESTRUCTURING AND OTHER CHARGES

In response to the significant decline in our orders and net revenues during 2008 and 2009, we took actions to reduce our cost structure, including facility closures, workforce reductions and temporary salary and benefits reductions. We consider some of the actions we took to be temporary in nature, such as certain salary and benefits reductions for current employees. At the time we took these temporary actions, it was generally our intent to restore all or a portion of the reduced salary and benefits in future periods when our results of operations and our cash flows improved sufficiently so as to allow us to do so. Any such restoration would impact the ultimate level of savings which will result from our restructuring actions. Effective January 1, 2010, we restored all of the temporary salary reductions we implemented in 2008 and 2009 for our domestic employees, with the exception of the salary of our Executive Chairman, which was restored to approximately 65% of its full reinstated level, reflecting a voluntary continued 35% reduction in his salary. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees and the Temptronic profit sharing contributions which had been suspended for most of these employees at the beginning of 2009. There are no other temporary actions remaining to be restored.

During six months ended June 30, 2011 and 2010, we did not record any restructuring charges. Changes in our liability for restructuring and other charges for the six months ended June 30, 2010 are summarized as follows:

	Sigma Relocation
Balance - January 1, 2010	$130
Accruals for one-time termination benefits and facility closure costs	-
Severance and other cash payments related to one-time termination benefits and facility closure costs	(130)
Balance - June 30, 2010	$ -

(5) MAJOR CUSTOMERS

Texas Instruments Incorporated accounted for 11% of our consolidated net revenues for the six months ended June 30, 2011. Texas Instruments Incorporated and Teradyne, Inc. each accounted for 15% of our consolidated net revenues for the six months ended June 30, 2010. While all three of our operating segments sold products to these customers, these revenues were primarily generated by our Mechanical Products and Electrical Products segments. During the six months ended June 30, 2011 and 2010, no other customer accounted for 10% or more of our consolidated net revenues.

(6) INVENTORIES

Inventories held at June 30, 2011 and December 31, 2010 were comprised of the following:

	June 30, 2011	Dec. 31, 2010
Raw materials	$3,145	$2,268
Work in process	482	385
Inventory consigned to others	272	223
Finished goods	368	613
	$4,267	$3,489

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inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(7) DEBT

Line of Credit

At each of June 30, 2011 and December 31, 2010, we had a secured credit facility that provides for maximum borrowings of $250. We have not used this credit facility to borrow any funds. Our usage consists of the issuance of letters of credit in the face amount of $250. This facility is secured by pledged certificates of deposit totaling $250. These certificates of deposit are included in Restricted Certificates of Deposit on our balance sheet. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. This credit facility expires on September 30, 2011.

Letters of Credit

At each of June 30, 2011 and December 31, 2010, we had four outstanding letters of credit totaling $700. All of these letters of credit were issued as security deposits under various operating leases we have entered into for our domestic facilities. Two of these letters of credit were issued under our credit facility, which is secured by pledged certificates of deposit as discussed above. The remaining two letters of credit are secured by separate pledged certificates of deposit. The individual letters of credit are discussed in more detail below.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of $200. This letter of credit was originally issued in December 2000 as a security deposit under a lease that our Temptronic subsidiary entered into for its facility in Sharon, Massachusetts. This letter of credit expired January 1, 2011 and was renewed for an additional year. The terms of the lease required 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 ended February 28, 2011. As a result of the termination of this lease in February 2011, this letter of credit was cancelled effective July 12, 2011.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit 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, 2011; however, the terms of the lease require that the letter of credit be renewed at least thirty days prior to its expiration date for successive terms of not less than one year until June 30, 2012, which is sixty days after the expiration of the lease term.

At each of June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of $250. This letter of credit is secured by a separate 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 have 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, 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 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 shall 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 June 30, 2011 and December 31, 2010, we had an outstanding letter of credit in the amount of $200. This letter of credit is secured by a separate 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 have 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 8, 2011; 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 shall 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.

(Unaudited)

(8) 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 the six months ended June 30, 2011 and 2010 was $59 and $59, respectively.

(9) GUARANTEES

Product Warranties

Warranty expense for the six months ended June 30, 2011 and 2010 was $103 and $102, respectively. The following table sets forth the changes in the liability for product warranties for the six months ended June 30, 2011:

Balance - January 1, 2011	$274
Payments made under product warranty	(91)
Accruals for product warranty	103
Balance - June 30, 2011	$286

(10) STOCK-BASED COMPENSATION

As of June 30, 2011, we have 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 2010 Form 10-K.

As of June 30, 2011, total compensation expense to be recognized in future periods was $291. The weighted average period over which this expense is expected to be recognized is 2.7 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 and six months ended June 30, 2011 and 2010, respectively, related to nonvested shares:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cost of revenues	$ 3	$ 3	$ 6	$ 5
Selling expense	5	5	10	8
	13	9	26	16

Engineering and product development expense	18	39	45	67
General and administrative expense	$39	$56	$87	$96

There was no compensation expense capitalized in the six months ended June 30, 2011 or 2010.

(Unaudited)

(10) STOCK-BASED COMPENSATION

The following table summarizes the activity related to nonvested shares for the six months ended June 30, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares outstanding, January 1, 2011	303,250	$1.89
Granted	-	-
Vested	(83,250)	2.17
Forfeited	(11,250)	1.73
Nonvested shares outstanding, June 30, 2011	208,750	1.78

Stock Options

The following table summarizes the stock option activity for the six months ended June 30, 2011:

Weighted

	Number of Shares	Average Exercise Price
Options outstanding, January 1, 2011 (337,000 exercisable)	337,000	$3.26
Granted	-	-
Exercised	(10,000)	3.04
Forfeited/Expired	-	-
Options outstanding, June 30, 2011 (327,000 exercisable)	327,000	3.26

(11)

EMPLOYEE BENEFIT PLANS

We have a defined contribution 401(k) plan (the "inTEST 401(k) Plan") for our employees who work in the U.S. As a part of this plan, we may match a portion of employee contributions. This plan, including our discretionary employer matching contributions, is more fully discussed in Note 16 to the consolidated financial statements in our 2010 Form 10-K. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees which had been eliminated for most of these employees at the beginning of 2009.

In addition to the employer matching contributions for which employees of our Temptronic subsidiary are eligible, upon the termination of the Temptronic Equity Participation Plan ("EPP"), we 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 profit sharing 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 essentially the same manner in which the shares held by the EPP had been allocated. The vesting provisions for these contributions will be the same as those of the inTEST 401(k) Plan. Effective January 1, 2009, we temporarily suspended profit sharing contributions due to operating losses being incurred by Temptronic. Effective April 1, 2010, profit sharing contributions were reinstated. Accruals for profit sharing contributions totaling $150 and $75 were made during the six months ended June 30, 2011 and 2010, respectively. Through June 30, 2011, we had made a total of $1,703 in profit sharing contributions. We have historically funded these obligations through the use of treasury shares during the quarter subsequent to the quarter in which we record the profit sharing liability, although management has the discretion to use cash to fund these obligations. Our current intention is to use cash to fund these obligations when our stock price is below $3.00 per share.

(12) SEGMENT INFORMATION

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

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(12) SEGMENT INFORMATION (Continued)

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 Thermal Products segment includes the operations of Temptronic Corporation, 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 and Sigma Systems product lines. In addition, this segment provides post warranty service and support.

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.

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 aerospace, automotive, communications, consumer electronics, defense and medical industries. Intercompany pricing between segments is either a multiple of cost for component parts or list price for finished goods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues from unaffiliated customers:				
Mechanical Products	$ 5,097	$ 7,778	$10,127	$12,534
Thermal Products	6,667	4,726	12,021	8,238
Electrical Products	2,040	2,776	3,386	4,038
Intersegment sales	(4)	(20)	(30)	(21)
	$13,800	$15,260	$25,504	$24,789

Intersegment sales:

Mechanical Products	$ 4	$ 4	$ 4	$ 4
	-	-	-	-
Thermal Products				
	-	16	26	17
Electrical Products				
	$ 4	$ 20	$ 30	$ 21

Earnings (loss) before income taxes:				
	$ 591	$1,864	$1,112	$2,914
Mechanical Products				
	1,830	475	2,593	499
Thermal Products				
	525	960	680	1,125
Electrical Products				
	(213	(133	(335	(257
Corporate	)	)	)	)
	$2,733	$3,166	$4,050	$4,281

Net earnings (loss):				
	$ 554	$1,859	$1,027	$2,906
Mechanical Products				
	1,789	482	2,534	506
Thermal Products				
	510	960	660	1,125
Electrical Products				
	(198	(133	(309	(257
Corporate	)	)	)	)
	$2,655	$3,168	$3,912	$4,280

	June 30,	Dec. 31,
Identifiable assets:	*2011*	*2010*
	$ 8,741	$ 7,617
Mechanical Products		

Thermal Products	14,459	11,315
	3,074	2,476
Electrical Products		
	$26,274	$21,408

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(12) SEGMENT INFORMATION (Continued)

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues from unaffiliated customers:				
	$ 4,796	$ 5,429	$ 9,023	$ 8,212
U.S.				
	9,004	9,831	16,481	16,577
Foreign				
	$13,800	$15,260	$25,504	$24,789

	June 30,	Dec. 31,
	2011	*2010*
Long-lived assets:		
	$ 827	$359
U.S.		
	310	359
Foreign		
	$1,137	$718

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inTEST CORPORATION

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

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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 2010 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 2010 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 2010 Form 10-K.

Overview

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

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

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 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, aerospace, medical 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).

inTEST CORPORATION

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

. (Continued)

	(in 000's)				
	Three Months Ended			Six Months Ended	
	June 30,		March 31,	June 30,	
	2011	2010	2011	2011	2010
Net revenues from unaffiliated customers:					
Mechanical Products	$ 5,097	$ 7,778	$ 5,030	$10,127	$12,534
Thermal Products	6,667	4,726	5,354	12,021	8,238
Electrical Products	2,040	2,776	1,346	3,386	4,038
Intersegment sales	(4)	(20)	(26)	(30)	(21)
	$13,800	$15,260	$11,704	$25,504	$24,789
Intersegment sales:					
Mechanical Products	$ 4	$ 4	$ -	$ 4	$ 4
Thermal Products	-	-	-	-	-
Electrical Products	-	16	26	26	17
	$ 4	$20	$26	$30	$21
Net revenues from unaffiliated customers (net of intersegment sales):					
Mechanical Products	$ 5,093	$ 7,774	$ 5,030	$10,123	$12,530
	6,667	4,726	5,354	12,021	8,238

Thermal Products					
	2,040	2,760	1,320	3,360	4,021
Electrical Products					
	$13,800	$15,260	$11,704	$25,504	$24,789
Net revenues from unaffiliated customers:					
	$ 4,796	$ 5,429	$ 4,227	$ 9,023	$ 8,212
U.S.					
	9,004	9,831	7,477	16,481	16,577
Foreign					
	$13,800	$15,260	$11,704	$25,504	$24,789

Our consolidated net revenues for the quarter ended June 30, 2011 increased $2.1 million or 18% as compared the quarter ended March 31, 2011. Net revenues (net of intersegment sales) of our Mechanical, Thermal and Electrical Products segments increased $63,000 or 1%, $1.3 million or 25% and $720,000 or 55%, respectively, for the quarter ended June 30, 2011 as compared to the quarter ended March 31, 2011. We believe the level of our net revenues during the quarter ended June 30, 2011 reflects continued strong demand in the ATE industry, although, as can be seen in the lower percentage increase in the net revenues of our Mechanical Products segment, we have recently experienced some softening in the level of demand within the industry. We believe the impact of this softening in demand was offset for our Electrical Products segment by new business we were able to win at one of our largest customers. For our Thermal Products segment, the impact of both increases and decreases in demand within the ATE industry are less significant due to the fact that only approximately 40-50% of this segment's sales are to semiconductor manufacturers with the balance of its sales being to customers in various industries outside the ATE industry. In addition, our Thermal Products 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; this historical trend has held true in this most recent up cycle.

As compared to the same period in 2010, our consolidated net revenues for the quarter ended June 30, 2011 decreased $1.5 million or 10%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased $2.7 million or 35% and $720,000 or 26%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased $1.9 million or 41% for the quarter ended June 30, 2011 as compared to the same period in 2010. We believe the decreases in the net revenues of our Mechanical and Electrical Products segments for the quarter ended June 30, 2011 as compared to the same period in 2010 primarily reflect a spike in demand that was experienced by both of these segments during the second quarter of 2010 caused by pent up demand following the significant down cycle that the ATE industry experienced from 2007 through 2009. In early 2010, many of our customers accelerated their orders as the lead times for certain of our products began to increase, resulting in the spike in demand during the second quarter of 2010. In contrast to our Mechanical and Electrical products segments, the net revenues of our Thermal Products segment increased significantly in the second quarter of 2011 as compared to the same period in 2010, as previously mentioned. We believe this increase reflects both that this segment lagged our other two product segments in coming out of the 2007/2009 downturn, combined with the recent strength in the industries other than ATE to which this segment sells.

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

Total consolidated orders for the quarter ended June 30, 2011 were $13.5 million compared to $13.1 million for the quarter ended March 31, 2011 and $12.2 million for the quarter ended June 30, 2010. For the quarter ended June 30, 2011, orders for our Mechanical, Thermal and Electrical Products segments were $4.3 million, $7.5 million and $1.7 million, respectively, compared to $5.6 million, $5.8 million and $1.7 million for the quarter ended March 31, 2011, respectively, and $4.5 million, $5.7 million and $2.0 million for the quarter ended June 30, 2010, respectively. 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 June 30, 2011, our backlog of unfilled orders for all products was approximately $7.2 million compared with approximately $7.5 million at March 31, 2011 and $6.0 million at June 30, 2010. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2011. 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.

Business Restructuring Initiatives

In response to the significant decline in our orders and net revenues during 2008 and early 2009, we took actions to reduce our cost structure, including facility closures, workforce reductions and temporary salary and benefits reductions. We consider some of the actions we took to be temporary in nature, such as certain salary and benefits reductions for current employees. At the time we took these temporary actions, it was generally our intent to restore all or a portion of the reduced salary and benefits in future periods when our results of operations and our cash flows improved sufficiently so as to allow us to do so. Any such restoration impacts the ultimate level of savings which result from our restructuring actions. The actions we took during 2009 are discussed in Note 4 to our 2010 Form 10-K. There were no additional restructuring actions taken in either 2010 or the first six months of 2011. Effective January 1, 2010, we restored all of the temporary salary reductions we implemented in 2008 and 2009 for our domestic employees, with the exception of the salary of our Executive Chairman, which was restored to approximately 65% of its full reinstated level, reflecting a voluntary continued 35% reduction in his salary. Also on this date, we restored the fees paid to our Board of Directors, which had been reduced by approximately 50%. Effective April 1, 2010, we restored the 401(k) Plan discretionary matching contribution for all domestic employees and the Temptronic profit sharing contributions which had been suspended for most of these employees at the beginning of 2009. There are no other temporary actions remaining to be restored.

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 patents) utilized in the product, the number of units ordered by the customer at one time, or the amount of inTEST designed and fabricated material included in our product compared with the amount of third-party designed and fabricated material included in our product. The weight of each of these factors, as well as the current market conditions, determines the ultimate sales price we can obtain for our products and the resulting gross margin.

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

We sell 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 aerospace, automotive, communications, consumer electronics, defense, and medical industries. The mix of customers during any given period will affect our gross margin due to differing sales discounts and commissions. For the six months ended June 30, 2011 and 2010, our OEM sales as a percentage of net revenues were 14% and 21%, 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 aerospace, automotive, communications, consumer electronics, defense and medical 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	50.7	51.7	53.4	52.0
Gross margin	49.3	48.3	46.6	48.0
Selling expense	11.5	11.5	11.7	12.0
Engineering and product development expense	6.0	5.2	6.4	6.0
General and administrative expense	12.1	10.8	12.9	12.6
Operating income	19.7	20.8	15.6	17.4
Other income (expense)	0.1	(0.1)	0.3	(0.1)
Earnings before income tax expense (benefit)	19.8	20.7	15.9	17.3
Income tax expense (benefit)	0.6	0.0	0.5	0.0
Net earnings	19.2%	20.7%	15.4%	17.3%

Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010

Net Revenues. Net revenues were $13.8 million for the quarter ended June 30, 2011 compared to $15.3 million for the same period in 2010, a decrease of $1.5 million or 10%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased $2.7 million or 35% and $720,000 or 26%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased $1.9 million or 41% for the quarter ended June 30, 2011 as compared to the same period in 2010. We believe the decrease in our consolidated net revenues during the second quarter of 2011 primarily reflects the factors previously discussed in the Overview.

During the quarter ended June 30, 2011, our net revenues from customers in the U.S. decreased 12% and our net revenues from foreign customers decreased 8%, as compared to the same period in 2010. Adjusted to eliminate the impact of changes in foreign currency exchange rates, the decrease from foreign customers would have been 10%.

Gross Margin. Gross margin was 49% for the second quarter of 2011 compared to 48% for the same period in 2010. While our fixed operating costs declined in absolute dollar terms by $154,000 during the second quarter of 2011 as compared to the same period in 2010, as a result of the decline in the level of our consolidated net revenues during this period, these costs remained unchanged at 11% of net revenues for both periods. The decline in the absolute dollar value of these costs during the second quarter of 2011 as compared to the same period in 2010 primarily reflects lower facility related costs as a result of the relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011. During the quarter ended June 30, 2011, our direct labor costs decreased $65,000, primarily reflecting the reduction in the level of our

consolidated net revenues, and our charges for obsolete and excess inventory decreased $100,000, primarily reflecting fewer items falling into our standard obsolete and excess criteria. As a percentage of net revenues, the combined decrease in our direct labor costs and our charges for obsolete and excess inventory was approximately 1%.

Selling Expense. Selling expense was $1.6 million for the second quarter of 2011 compared to $1.8 million for the same period in 2010, a decrease of $167,000 or 10%. The decrease in selling expense primarily reflects lower levels of commissions as a result of the decrease in net revenues experienced in the second quarter of 2011 as compared to the second quarter of 2010. To a lesser extent, there was also a decrease in accruals for product warranty claims. These decreases were partially offset by an increase in salary and benefits expense reflecting the hiring of additional sales staff.

Engineering and Product Development Expense. Engineering and product development expense was $822,000 for the second quarter of 2011 compared to $787,000 for the same period in 2010, an increase of $35,000 or 4%. The increase in engineering and product development expense primarily reflects higher legal fees related to our intellectual property.

General and Administrative Expense. General and administrative expense was relatively unchanged at $1.7 million for both the second quarter of 2011 and the same period in 2010. Higher levels of professional fees, primarily related to the filing of our shelf registration statement on Form S-3 in May 2011, were offset by a reduction in bad debt expense.

Other Income (Expense). Other income was $10,000 for the second quarter of 2011 compared to other expense of $8,000 for the second quarter of 2010. The shift from other expense in 2010 to other income in 2011 primarily reflects lower interest expense as a result of the repayment of the notes payable to stockholder during the fourth quarter of 2010.

Income Tax Expense. For the quarter ended June 30, 2011, we recorded income tax expense of $78,000 compared to an income tax benefit of $2,000 for the same period in 2010. 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. Due to our history of operating losses in both our domestic and certain of our foreign operations, we have recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire. The income tax expense recorded in 2011 primarily represents tax liabilities in various states in which we operate.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Net Revenues. Net revenues were $25.5 million for the six months ended June 30, 2011 compared to $24.8 million for the same period in 2010, an increase of $715,000 or 3%. Net revenues (net of intersegment sales) of our Mechanical and Electrical Products segments decreased $2.4 million or 19% and $661,000 or 16%, respectively, while the net revenues (net of intersegment sales) of our Thermal Products segment increased $3.8 million or 46% for the six months ended June 30, 2011 as compared to the same period in 2010. We believe the increase in our consolidated net revenues during the first six months of 2011 primarily reflects the factors previously discussed in the Overview.

During the six months ended June 30, 2011, our net revenues from customers in the U.S. increased 10% while our net revenues from foreign customers decreased 1%, respectively, as compared to the same period in 2010. Adjusted to eliminate the impact of changes in foreign currency exchange rates, the decrease from foreign customers would have been 2%.

Gross Margin. Gross margin was 47% for the six months ended June 30, 2011 compared to 48% for the same period in 2010. While our fixed operating costs increased in absolute dollar terms by $321,000 during the first six months of 2011 as compared to the same period in 2010, these costs remained relatively unchanged at 13% of net revenues for both periods. The increase in the absolute dollar value of these costs was primarily the result of higher salary and benefits expense during the first six months of 2011 as compared to the same period in 2010, reflecting additional headcount and, to a lesser extent, the restoration of 401(k) Plan discretionary matching contributions effective April 1, 2010 and annual raises for employees which generally occur each July. We also incurred additional rent and maintenance costs associated with the relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011. The move-related costs included in our fixed operating costs for the first six months of 2011 were $74,000. Our direct labor costs were relatively unchanged, both in absolute dollar terms and as a percentage of net revenues for the first six months of 2011 as compared to the same period in 2010. Our charges for obsolete and excess inventory were relatively unchanged at approximately 1% of net revenues for both the first six months of 2011 and 2010; however, in absolute dollar terms, these charges decreased $156,000 during the first six month of 2011 as compared to the same period in 2010, primarily reflecting fewer items falling into our standard obsolete and excess criteria.

Selling Expense.

Selling expense was relatively unchanged at $3.0 million for both the first six months of 2011 and 2010. Lower levels of commissions reflecting changes in product and customer mix were offset by an increase in salary and benefits expense, primarily reflecting the hiring of additional sales staff and, to a lesser extent, the aforementioned restoration of the 401(k) Plan discretionary matching contributions.

Engineering and Product Development Expense. Engineering and product development expense was $1.6 million for the first six months of 2011 compared to $1.5 million for the same period in 2010, an increase of $147,000 or 10%. The increase in engineering and product development expense reflects higher legal fees related to our intellectual property, an increase in salary and benefits expense, primarily as a result of the aforementioned restoration of 401(k) Plan discretionary matching contributions and higher levels of spending on materials used in research and development activities.

General and Administrative Expense. General and administrative expense was $3.3 million for the first six months of 2011 compared to $3.1 million for the same period in 2010, an increase of $166,000 or 5%. This increase was primarily a result of higher salary and benefits expense reflecting additional headcount and, to a lesser extent, the aforementioned restoration of 401(k) Plan discretionary matching contributions and annual raises for employees which generally occur each July. Also contributing to the increase were $54,000 of costs associated with the relocation of our domestic Mechanical and Thermal Products segments during the first quarter of 2011 and professional fees related to the filing of our shelf registration statement on Form S-3 in May 2011. These increases were partially offset by a reduction in bad debt expense.

Other Income (Expense). Other income was $66,000 for the first six months of 2011 compared to other expense of $19,000 for the same period in 2010. The shift from other expense in 2010 to other income in 2011 primarily reflects lower interest expense as a result of the repayment of the notes payable to stockholder during the fourth quarter of 2010 combined with a gain on sale of machinery and equipment during the first quarter of 2011.

Income Tax Expense. For the six months ended June 30, 2011, we recorded income tax expense of $138,000 compared to income tax expense of $1,000 for the same period in 2010. 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. Due to our history of operating losses in both our domestic and certain of our foreign operations, we have recorded a full valuation allowance against the deferred tax assets of these operations, including net operating loss carryforwards, where we believe it is more likely than not that we will not have sufficient taxable income to utilize these assets before they expire. The income tax expense recorded in 2011 primarily represents tax liabilities in various states in which we operate.

Liquidity and Capital Resources

Net cash provided by operations for the six months ended June 30, 2011 was $2.5 million compared to net cash provided by operations of $623,000 for the same period in 2010. The increase in net cash provided by operations primarily reflects a lower level of increase in the amount of accounts receivable during the first six months of 2011 as compared to the first six months of 2010. During the first six months of 2011, accounts receivable increased $2.0 million compared to an increase of $5.3 million during the first six months of 2010. The lower level of increase in the first six months of 2011 primarily reflects that there was a more significant increase in sales activity late in the second quarter of 2010 as compared to the same period in 2011.

During the first six months of 2011, inventories increased $761,000 and accounts payable increased $432,000, reflecting increased business activity. Other accrued expenses increased $383,000 during the six months ended June 30, 2011, primarily reflecting an increase in the amount of customer deposits on hand combined with higher accrued rent as a result of the relocation of two of our domestic facilities in the first quarter of 2011. Accrued wages and benefits decreased $295,000 during the six months ended June 30, 2011, primarily reflecting the payment in March 2011 of profit-related bonuses that had been accrued based on the financial results for the year ended December 31, 2010.

Purchases of property and equipment were $640,000 for the six months ended June 30, 2011. These purchases primarily represent leasehold improvements and other equipment purchased as a result of the relocation of two of our domestic facilities during the first quarter of 2011. We have no significant commitments for capital expenditures for the balance of 2011, however, depending upon changes in market demand, we may make such purchases as we deem necessary and appropriate.

We have a secured credit facility that provides for maximum borrowings of $250,000. We have not used this credit facility to borrow any funds. Our usage consists of the issuance of letters of credit in the face amount of $250,000. This facility is secured by pledged certificates of deposit totaling $250,000. We pay a quarterly fee of 1.5% per annum on the total amount of the outstanding letters of credit. This credit facility expires on September 30, 2011. On April 1, 2010 and November 8, 2010, two

additional letters of credit were issued in the face amounts of $250,000 and $200,000, respectively. These letters of credit are supported by separate pledged certificates of deposit that are not a part of our secured credit facility.

On May 4, 2011, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission for the offering, from time to time, of securities to be issued by us. The shelf registration statement will allow us to raise capital from the offering of up to $30 million of common stock, preferred stock, warrants, debt securities and/or units, conducted in one or more offerings while the shelf registration statement is effective. The specific terms of any particular securities that we may offer will be determined at the time of such offering and will be described in a separately filed prospectus supplement at the time of such offering. The maximum amount of securities offered and sold under the registration statement during any period of twelve months immediately prior to and including such sale, may not exceed one-third of the aggregate market value of the common equity held by non-affiliates. An offering under this registration statement would provide us with increased financial flexibility. Proceeds may be used for possible acquisitions of businesses, technologies or products that are complementary to our existing businesses or for other general corporate purposes, including working capital.

As of June 30, 2011, we had cash and cash equivalents of $8.9 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.

Income Tax Valuation Allowance

At June 30, 2011, we had a full valuation allowance recorded against our deferred tax assets of $3.2 million. In assessing the ability to realize our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In recent years, due to our history of operating losses, we believed it was more likely than not that we would not ultimately realize the benefit of the deferred tax assets.

We returned to profitability in the fourth quarter of 2009 and have been profitable since that time. We currently expect our profitability to continue for the balance of 2011 and into 2012. In the foreseeable future, we expect that we will determine that it is more likely than not that we will be able to realize some portion or all of the deferred tax assets. At that time, we expect to reverse that portion of the valuation allowance related to the deferred tax assets that we believe are more likely than not to be realized.

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 June 30, 2011, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2010 Form 10-K.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements during the three months ended June 30, 2011 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 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.

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inTEST CORPORATION

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, 2010. There have been no significant changes in risk factors from those set forth in our 2010 Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. [Removed and Reserved]

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.

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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 12, 2011 /s/ Robert E. Matthiessen
Robert E. Matthiessen
President and Chief Executive Officer

Date: August 12, 2011 /s/ Hugh T. Regan, Jr.
Hugh T. Regan, Jr.
Secretary, 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.

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.

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.

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$.50 per share until December 26, 2012 and (b) 5,000 shares issuable quarterly at a rate of 2,500 per quarter until October 1, 2006. . (6) Includes 265,000 held by Maj-Britt Rosenbaum. (7) Mr. Guillama has granted options to purchase 1,590,514 shares of the Company at $.001 per share, of the 2,700,000 shares he originally owned. Of the 1,590,514 options granted 257,642 options remain unexercised of which 35,000 options were granted to Directors and their affiliated persons and 222,642 options were granted to unaffiliated persons. . (8) Mrs. Guillama is the wife of Mr. Guillama. ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS On May 28, 2003, Transform Pack completed the acquisition of Quantum HIPAA Consulting Group, Inc., a Florida Corporation based in Wellington, Florida. Quantum HIPAA Consulting Group is in the business of advising the healthcare industry on the implementation of regulations created to comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Transform Pack made the acquisition by issuing 27,000,000 shares of Common Stock ($0.004 par value) to Noel J. Guillama, the sole stockholder of Quantum HIPAA Consulting Group, in exchange for all the issued and outstanding shares of Quantum HIPAA Consulting Group. As a result, of the acquisition on May 28, 2003, Mr. Guillama became the direct and beneficial owner of approximately 80.18 % of the issued and outstanding shares of the Company. Prior to the acquisition of Quantum HIPAA Consulting Group, there was no affiliation or other relationship between Transform Pack and Quantum HIPAA Consulting Group or Mr. Guillama. At a Special Meeting of the shareholders held on January 30, 2004 the majority of the shareholders agreed to issue 13,300,000 post reverse shares and 200,000 Series A Preferred Stock (subsequently cancelled and returned to the Company) to the majority shareholder of the Company, Mr. Guillama, of both QMT and RHS for the 80% of each of those companies. Mr. Guillama had previously granted 7,175,000 options exercisable at $.001 per share on the shares he owned in the two companies. Of this 1,000,000 options are held by an affiliate of Mr. Guillama, 2,180,000 are held by Directors of the Quantum Group and 3,995,000 are held by non affiliates. As of October 31, 2004, 965,000 options were exercised leaving Mr. Guillama with a direct and beneficial ownership of approximately 79% of the issued and outstanding shares of the Company. Control in the Company will not materially change, since all the shareholders in numbers and relative beneficial ownership of both QMT and RHS are also material and beneficial owners of the Common Shares of the Company today. The final merger was completed in August 2004. 42 ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K (a) (1) Financial Statements (a)(2) Financial Statement Schedules All schedules have been omitted because they are not applicable or the required information is provided in the consolidated financial statements, including the notes thereto, as part of this Form 10-KSB. (a) (3) Exhibits Exhibit Item 601 Title of Document No. Ref. No. 1 2.12 Exchange Agreement dated May 28, 2003 between Transform Pack International and Quantum HIPAA Consulting Group, Inc. 2. 2.12 Articles of Incorporation The Quantum Group, Inc. (Nevada) 3 2.2 Agreement and Plan of Exchange between The Quantum Group, Inc., Quantum Medical Technologies, Inc., and Noel J. Guillama, dated August 9, 2004(2) 4 2.3 Agreement and Plan of Exchange between The Quantum Group, Inc., Renaissance Health Systems, Inc., and Noel J. Guillama, date August 9, 2004(2) 5 3.4 By-Laws The Quantum Group, Inc. (Nevada)(1) 6 3.5 2003 INCENTIVE EQUITY & OPTION PLAN(1) 7 10.11 Put Option Agreement between Transform Pack International and HANS MEIER, CARMELLE CAISSIE, DANIEL SCHAM and ROBERT

TALBOT, TRUSTEE 8 14.1 Code of Ethics(3) 9 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* 10 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* 11 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* 12 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* -------------- * filed herewith (1) Incorporated by reference to the Company's Form 14-C filed on January 7, 2004 (2) Incorporated by reference to the Form 8-K filed August 20, 2004 (3) Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2003, as filed with the Commission on February 13, 2004 43 FORM 8-K FILINGS (b) Reports on Form 8-K filed during the quarter ended October 31, 2004 August 20, 2004: Disclosure of the acquisition of Quantum Medical Technologies, Inc. and Renaissance Health Systems, Inc. ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES AUDIT FEES Audit fees billed by the Company's principal accountant total $25,500 during the year ended October 31, 2005 through date of this report and $20,948 for the year ended October 31, 2004. AUDIT RELATED FEES No audited-related fees have been billed by the Company's principal accountant for any period. TAX FEES Tax fees billed by the Company's principal accountant totaled $4,800. ALL OTHER FEES No other fees other than those set out above have been paid to the Company's principal accountant. AUDIT COMMITTEES PRE-APPROVAL POLICIES AND PROCEDURES The Audit Committee approves all professional services and fees provided by our principal accountants. For the year 2005 and 2004, the audit committee approved only professional services rendered by our principal accountants for the audit of our annual financial statements and review of our financial statements included in our Form 10-QSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years and tax compliance. 44 SIGNATURES Pursuant to the requirements of the Securities Act, as amended, the registrant has duly caused this Amendment No. 1 to Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized, this 23rd of February, 2005. THE QUANTUM GROUP, INC. By: /s/ Noel J. Guillama -------------------------------- Noel J. Guillama, President and Chief Executive Officer Pursuant to the requirements of the Securities Act, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated. /s/ Noel J. Guillama /s/ Susan D. Guillama ------------------------------------ -------------------------- Noel J. Guillama, Director Susan D. Guillama, Director President and Chief Executive Officer Vice President Date: February 23, 2006 Date: February 23, 2006 /s/ Donald B. Cohen /s/ Mark Haggerty ------------------------------------ -------------------------- Donald B. Cohen, Director Mark Haggerty, Director Chief Financial Officer Date: February 23, 2006 Date: February 23, 2006 /s/ James D. Baker ------------------------------------ -------------------------- James D. Baker, Director Michael Rosenbaum, Director Date: February 23, 2006 Date: -------------- ------------------------------------ Peter Nauert, Director Date: ------------ 45 THE QUANTUM GROUP, INC. (A DEVELOPMENTAL STAGE ENTERPRISE) INDEX TO FINANCIAL STATEMENTS PAGE Report of Independent Registered Public Accounting Firm F-2 Consolidated Balance Sheet F-3 Consolidated Statements of Operations F-4 Consolidated Statements of Changes in Deficiency in Assets F-5 Consolidated Statements of Cash Flows F-6 Notes to the Consolidated Financial Statements F-7 F-1 [GRAPHIC OMITTED] DaszkalBolton LLP ---------------- CERTIFIED PUBLIC ACCOUNTANTS REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM -- To the Board of Directors and Shareholders The Quantum Group, Inc. We have audited the accompanying consolidated balance sheet of The Quantum Group, Inc. (a Development Stage Company) as of October 31, 2005, and the related consolidated statements of operations, changes in shareholders' deficiency in assets and cash flows for the two years ended October 31, 2005 and 2004 and for the period July 24, 2001 (inception) to October 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Quantum Group, Inc. at October 31, 2005 and the results of its operations and its cash flows for the two years then ended and for the period July 24, 2001 (inception) to October 31, 2005 in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses and had negative cash flows from operations which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do no include any adjustments that might result from the outcome of this uncertainty. /s/ DaszkalBolton LLP --------------------- Boca Raton, Florida February 12, 2006 2401 NW Boca Raton Boulevard o Boca Raton, FL 33431-6632 t: 561.367.1040 f: 561.750.3236 2401 PGA Boulevard, Suite 196 o Palm Beach Gardens, FL 33410-3500 t: 561.367.1040 f: 561.624.1151 2700 West Cypress Creek Road, Suite D 126 o Fort Lauderdale, FL 33309-1744 t: 954.974.3544 f: 954.974.3680 PCAOB Registered www.daszkalbolton.com [GRAPHIC OMITTED] Affiliated Offices Worldwide F-2 THE QUANTUM GROUP, INC. Consolidated Balance Sheet As of October 31, 2005 (A Development Stage Enterprise) ASSETS CURRENT ASSETS Cash $ 74,771 Prepaid expenses $ 129,457 ----------- TOTAL CURRENT ASSETS 204,228 PROPERTY AND EQUIPMENT, net of accumulated depreciation of $30,145 100,673 GOODWILL 23,300 OTHER ASSETS Software 395,000 Deposits 10,243 ----------- TOTAL ASSETS $ 733,444 =========== LIABILITIES AND DEFICIENCY IN ASSETS CURRENT LIABILITIES Accounts payable $ 140,553 Accrued liabilities $ 198,364 Accrued payroll and payroll taxes 737,941 Notes payable and accrued interest - shareholder 194,041 Other current liabilities 60,000 ----------- TOTAL CURRENT LIABILITIES 1,330,899 CAPITAL LEASE OBLIGATION - net of current portion 3,315 ----------- TOTAL LIABILITIES 1,334,214 COMMITMENTS AND CONTINGENCIES DEFICIENCY IN ASSETS ACCUMULATED DURING DEVELOPMENT STAGE Common Stock, par value $.001 per share, 170,000 shares authorized; 22,705,301 shares issued and outstanding 22,705 Additional paid in capital 2,790,500 Warrants 145,000 Accumulated deficit (3,434,137) Deferred Compensation (124,838) ----------- TOTAL DEFICIENCY IN ASSETS (600,770) ----------- TOTAL LIABILITIES AND DEFICIENCY IN ASSETS $ 733,444 =========== See accompanying notes to consolidated financial statements F-3 THE QUANTUM GROUP, INC. Consolidated Statement of Operations (A Development Stage Enterprise) For the Years Ended October 31, 2005 and 2004 For the period July 24, 2001 For the years ended (inception) to ----------------------------- ------------ October 31, October 31, October 31, 2005 2004 2005 ------------ ------------- ------------ Revenues $ 1,119 $ -- $ 1,119 Medical Costs $ 1,119 $ -- $ 1,119 ------------ ------------- ------------ Gross Profit $ -- $ -- $ -- ------------ ------------- ------------ General and adminstrative expenses Salaries and employee costs $ 1,238,416 $ 639,724 $ 1,998,478 Consulting expense 169,641 137,202 455,315 Occupancy 59,525 22,223 108,594 Interest 33,394 37,550 104,383 Other general & adminstrative expenses 352,644 283,287 767,367 ------------ ------------- ------------ Total Expenses 1,853,620 1,119,986 3,434,137 ------------ ------------- ------------ ------------ ------------- ------------ Net expenses representing net loss $ (1,853,620) $ (1,119,986) $ (3,434,137) ============ ============ ============ Basic and diluted (loss) per common share $ (0.09) $ (0.17) ============ ============ Weighted average number of common shares outstanding 20,261,348 6,565,873 ============ ============ See accompanying notes to consolidated financial statements. F-4 THE QUANTUM GROUP, INC. Consolidated Statement of Changes in Deficiency in Assets Accumulated During the Development Stage October 31, 2005 Preferred Stock Common Stock par value $.001 par value $.001 per share per share 30,000,000 authorized 70,000,000 authorized Additional ------------------- -------------------- Paid-in Deferred # of Shares Amount of Shares Amount Capital Warrants Compensation ---------- ------ --------- ------ ------- ---------- ------------ Balance at 10-31-01 -- -- 2,700,000 2,700 17,300 -- -- Net (loss) -- -- -- -- -- -- -- -- Balance at 10/31/02 2,700,000 2,700 17,300 -- -- Merger with TPII 510,885 511 (121,363) -- -- Sale of common stock for cash 86,000 86 64,914 -- -- Deferred compensation-stock options -- -- -- -- 207,500 -- (207,500) Deferred compensation-stock grants -- -- -- -- -- -- (327,150) Amortization of deferred comp -- -- -- -- -- -- 3,458 Net (loss) -- -- -- -- -- -- -- -- Balance at 10/31/03 -- -- 3,296,885 3,297 168,351 -- (531,192) Sale of common stock -- -- 1,188,122 1,188 276,690 -- -- Conversion of note payable -- -- 300,000 300 164,700 -- -- Issuance of stock - stk grants -- -- 197,269 197 172,551 -- 172,748 Amortization of deferred compensation -- -- -- -- -- -- 83,975 Stock based compensation -- -- 25,000 25 23,475 -- -- Merger - Renaissance Health Systems, Inc. 100,000 100 9,300,000 9,300 -- -- -- Merger - Quantum Medical Technologies, Inc. 100,000 100 4,000,000 4,000 -- -- -- Deferred compensation- stock grants -- -- -- -- -- -- (45,950) Grant of stock options -- -- -- -- 79,800 -- (79,800) Net (loss) -- -- -- -- -- -- -- --

Balance at 10/31/04 200,000 $ 200 18,307,276 $ 18,307 $ 885,567 -- $ (400,219) Sale of common stock -- -- 3,590,128 3,590 1,295,944 -- -- Issuance of stock - stk grants -- -- 176,325 176 134,373 -- 232,765 Stock based compensation -- -- 114,000 114 108,716 -- -- Stock issued in lieu of cash -- -- 317,572 318 179,750 -- -- Cancellation of preferred stock (200,000) $ (200) -- -- -- -- -- Amortization of deferred compensation -- -- -- -- -- -- 91,379 Stock issued for purchase of software -- -- 200,000 200 169,800 145,000 -- Deferred compensation-stock grants -- -- -- -- -- -- (57,683) Deferred compensation-stock options -- -- -- -- 16,350 -- (16,350) Net (loss) -- -- -- -- -- -- -- -- Balance at 10/31/05 -- $ -- 22,705,301 $ 22,705 $ 2,790,500 $ 145,000 $ (150,108) == RESTUBBED TABLE Allocated Shares Deferred Accumulated Total pensation Deficit Equity ---------- ----------- ------ Balance at 10-31-01 -- (127,576) (107,576) Net (loss) -- (86,400) (86,400) ------------------------------------ Balance at 10/31/02 -- (213,976) (193,976) Merger with TPII -- -- (120,852) Sale of common stock for cash -- -- 65,000 Deferred compensation-stock options -- -- -- Deferred compensation-stock grants $ 327,150 -- -- Amortization of deferred comp -- -- 3,458 Net (loss) -- (246,555) (246,555) ------------------------------------ Balance at 10/31/03 327,150 (460,531) (492,925) Sale of common stock -- -- 277,878 Conversion of note payable -- -- 165,000 Issuance of stock - stk grants (172,748) -- 172,748 Amortization of deferred compensation -- -- 83,975 Stock based compensation -- -- 23,500 Merger - Renaissance Health Systems, Inc. -- -- 9,400 Merger - Quantum Medical Technologies, Inc. -- -- 4,100 Deferred compensation- stock grants 45,950 -- -- Grant of stock options -- -- -- Net (loss) -- $(1,119,986) (1,119,986) ------------------------------------ Balance at 10/31/04 $ 200,352 $ (1,580,517) $ (876,310) Sale of common stock -- -- 1,299,534 Issuance of stock - stk grants (232,765) -- 134,549 Stock based compensation -- -- 108,830 Stock issued in lieu of cash -- -- 180,068 Cancellation of preferred stock -- -- (200) Amortization of deferred compensation -- -- 91,379 Stock issued for purchase of software -- -- 315,000 Deferred compensation-stock grants 57,683 -- -- Deferred compensation-stock options -- -- -- Net (loss) -- (1,853,620) (1,853,620) ------------------------------------ Balance at 10/31/05 $ 25,270 $(3,434,137) $ (600,770) ==================================== See accompanying notes to consolidated financial statements. F-5 THE QUANTUM GROUP, INC. (A Development Stage Enterprise) Consolidated Statements of Cash Flow For the Years Ended October 31, 2005 and 2004 Year Year July 24, 2001 ended ended (Inception) to October 31, October 31, October 31, 2005 2004 2005 ----------- ----------- ----------- OPERATING ACTIVITIES Net (loss) $(1,853,620) $(1,119,986) (3,434,137) ----------- ----------- ----------- Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization 23,186 4,033 30,145 Amortization of deferred compensation 226,353 83,975 313,786 Issuance of stock for compensation 90,461 196,248 286,709 Issuance of stock in lieu of cash 65,463 -- 65,463 Loss on conversion of debt to common stock -- 135,000 135,000 Changes in operating assets and liabilities: Decrease (increase) in other assets 6,102 (10,478) (7,148) Increase in accounts payable and accrued liabilities 396,731 456,291 1,046,191 ----------- ----------- ----------- Total adjustments 808,296 865,069 1,870,146 ----------- ----------- ----------- Net cash used in operating activities (1,045,324) (254,917) (1,563,991) INVESTING ACTIVITIES Purchase of property and equipment (71,403) (44,258) (120,281) Purchase of software (80,000) -- (90,000) ----------- ----------- ----------- Net cash used in investing activities (151,403) (44,258) (210,281) ----------- ----------- ----------- FINANCING ACTIVITIES Proceeds (repayments) on notes payable (60,437) 57,515 190,690 Proceeds from issuance of common stock 1,299,533 277,878 1,662,411 Repayments on capital lease obligation (3,566) (492) (4,058) ----------- ----------- ----------- Net cash provided by financing activities 1,235,530 334,901 1,849,043 ----------- ----------- ----------- Net increase (decrease) in cash 38,803 35,726 74,771 Cash at beginning of period 35,968 242 -- ----------- ----------- ----------- Cash at end of period $ 74,771 $ 35,968 $ 74,771 =========== =========== =========== Supplemental disclosures of cash flow information: Cash paid during the period for interest $ 53,931 $ 2,208 $ 56,139 Supplemental disclosures of non-cash investing and financing activities: Assumption of Liabilities of Transform Pack International Inc. $ -- $ -- $ 120,852 Common stock and preferred stock issued in connection with acquisitions $ -- $ 23,300 $ 23,300 Capital lease obligations incurred on purchases of equipment $ -- $ 10,358 $ 10,358 Conversion of convertible note into common stock $ -- $ 30,000 $ 30,000 Acquisition of Biocard assets $ 315,000 $ -- $ 315,000 See accompanying notes to consolidated financial statements F-6 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 1: DESCRIPTION OF COMPANY On May 28, 2003, Transform Pack International, Inc. (the "Company") merged with Quantum HIPAA Consulting, Inc. ("Quantum"). On January 30, 2004, the shareholders of the Company approved the reincorporation of the Company under the name of

The Quantum Group, Inc. ("QTUM"). The Company's business model is to become a provider of services to the healthcare industry in three complementary areas: outsourcing administrative responsibilities for physicians, Managed Care Organizations, healthcare facilities and physician associations; developing new technologies for the healthcare delivery system; and providing healthcare services to consumers. GOING CONCERN The Company has limited revenues to date. Since its inception, the Company has been dependent upon the receipt of capital investment to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's business plan will be successfully executed. The Company's ability to execute its business model will depend on its ability to obtain additional financing and achieve a profitable level of operations. There can be no assurance that sufficient financing will be obtained. Nor can any assurance be made that the Company will generate substantial revenues or that the business operations will prove to be profitable. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CASH EQUIVALENTS The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At October 31, 2005 there were no cash equivalents. PROPERTY AND EQUIPMENT Furniture and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. RESEARCH AND DEVELOPMENT COSTS Research and development costs are charged to expense when incurred. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material. F-7 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) GOODWILL Goodwill is recorded in connection with business combinations as the excess purchase price over the fair value of the net assets acquired. Goodwill is not amortized, but tested for recoverability annually or more frequently if indicators of possible impairment exist. The Company will recognize an impairment loss if the carrying value of the asset exceeds the fair value determination. As of October 31, 2005, there was no impairment of goodwill. PRINCIPLES OF CONSOLIDATION The accompanying consolidated financial statements for the period ended October 31, 2005 include the accounts of The Quantum Group, Inc. and its subsidiaries, Renaissance Health Systems, Inc. and Quantum Medical Technologies, Inc. All intercompany accounts have been eliminated in consolidation. REVENUE RECOGNITION The Company has entered into a full risk contract with a Health Maintenance Organization (HMO). Commencing when the Company has 300 patients, the Company will receive monthly fee for each patient that chooses one of the Company's physicians as their primary care physician. The fixed fee is based on a percentage of the premium the HMO receives. Revenue under this agreement is generally recorded in the period services are rendered at the rates then in effect with quarterly adjustments. The Company started treating patients in September 2005, but have not reached the 300 minimum by October 31, 2005. The Company has recorded income relating to the primary care physician's charges for the months of September and October 2005. Medical costs associated with the revenue were equal to the revenue. STOCK COMPENSATION The company has adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123 encourages the use of a fair-value-based method of accounting for stock-based awards, under which the fair value of stock options is determined on the date of grant and expensed over the vesting period. Under SFAS 123, companies may, however, measure compensation costs for those plans using the method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." Companies that apply APB No. 25 are required to include pro forma disclosures of net earnings and earnings per share as If the fair-value-based method of accounting had been applied. The Company elected to account for such plans under the provisions of APB No. 25. The Company accounts for stock options granted to consultants under the fair value provisions of SFAS 123. F-8 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) STOCK COMPENSATION (CONTINUED) Had the compensation expense for the stock option plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Standards No. 123, "Accounting for

Stock Based Compensation," at October 31, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below: 2005 2004 ------------ ------------ Net income (loss) As reported $ (1,853,620) $ (1,119,986) ------------ ------------ Pro forma $ (2,132,585) $ (1,246,706) ------------ ------------ Earnings per share As reported $ (0.09) $ (0.17) ------------ ------------ Pro forma $ (0.11) $ (0.19) ------------ ------------ The fair value of each option is estimated on the date of grant using the fair market value option-pricing model with the assumptions: Risk-free interest rate 3% Expected life (years) 5 Expected volatility 1.22 Expected dividends None NEW ACCOUNTING PRONOUNCEMENTS In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principles for all voluntary changes in accounting principles and to changes required by accounting pronouncements in the unusual instance that the pronouncements do not include specific transition provisions. It is effective for fiscal years beginning after December 15, 2005. The impact of adoption of this statement is not expected to be significant to the Company. In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), a revision to SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and superseding APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Adoption of the provisions of SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently in the process of evaluating the potential impact that the adoption of SFAS 123R will have on its consolidated financial position and results of operations. F-9 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying amounts of cash and cash equivalents, accounts payable and accrued liabilities approximate their fair value because of the short maturity of these financial instruments. NOTE 4: PROPERTY AND EQUIPMENT Property and equipment consists of the following: 2005 2004 -------- -------- Computer and other equipment $ 77,259 $ 33,118 Furniture and Fixtures 28,805 8,908 Leasehold Improvements 24,754 17,389 -------- -------- 130,818 59,415 Less: Accumulated Depreciation (30,145) (6,959) -------- -------- Total $100,673 $ 52,456 ======== ======== Depreciation expense for the years ended October 31, 2005 and 2004 was $23,186 and $4,033. NOTE 5: DEFERRED INCOME TAXES The Company's evaluation of the tax benefit of its net operating loss carry forward is presented in the following table for years ended October 31, 2005 and 2004. At October 31, the tax amounts have been calculated using the 34% federal and 5.5% state income tax rate. 2005 2004 ---------- ---------- Income tax (benefit) consists of: Current $ -- $ -- Deferred -- -- ---------- ---------- Provision (benefit) for income taxes $ -- $ -- ========== ========== Reconciliation of the federal statutory income tax rate to the Company's effective tax rate is as follows: 2005 2004 ---------- ---------- Taxes computed at combined federal $ (630,231) $ (380,795) Non-deductible expenses -- 46,867 State income taxes, net of federal income tax benefit (67,286) (35,652) ---------- ---------- Increase (decrease) in deferred tax asset valuation allowance (697,517) (369,580) ---------- ---------- Provision (benefit) for income taxes $ -- $ -- ========== ========== F-10 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 5: DEFERRED INCOME TAXES (CONTINUED) The components of the deferred tax asset were as follows at October 31: 2005 2004 ----------- ----------- Deferred tax assets: Net operating loss carryforward and start up costs $ 523,435 $ 212,473 Stock based compensation 214,144 75,149 Accrued compensation 377,657 147,648 Accrued interest 44,263 26,711 ----------- ----------- Total deferred tax assets 1,159,499 461,981 ----------- ----------- Valuation allowance: Beginning of year (461,983) (92,401) Decrease (increase) during the year (697,516) (369,582) ----------- ----------- Ending balance (1,159,499) (461,983) ----------- ----------- Net deferred taxes $ -- $ -- =========== =========== As of October 31, 2005, the Company had an unused net operating loss carryforward and start up costs of approximately $1,391,004 available for use on its future corporate income tax returns. This net operating loss carry forward begins to expire in October 2024. Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of any of the Company's net operation loss and credit carry forwards may be limited if cumulative changes in ownership of more than 50% occur during any three year period. NOTE 7: LOSS PER SHARE Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares for the period. The computation of diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares, such as options, had been issued. Diluted loss per share does not give effect to options granted, as the effects would be anti-dilutive. NOTE 8: LEASE COMMITMENTS Certain non-cancelable leases are classified as capital leases and leased assets are included as part of property and equipment. Other leases are classified as operating leases and thus are not capitalized. The Company leases its corporate offices under operating lease agreements, which expire July 14, 2007. Total rental expense amounted to $47,903 and $16,219 for the years ended October 31, 2005 and 2004, respectively. The Company is obligated under capital leases. The leased property under the capital leases had a cost of $10,538, and accumulated depreciation of $1,932 and $351, respectively. Amortization of the leased property is included in depreciation expense. F-11 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 8: LEASE COMMITMENTS (CONTINUED) Future minimum lease payments for these leases at October 31 are as follows: Capital Operating Years Ending October 31, Leases Leases == 2006 $ 4,200 $ 59,661 2007 3,500 32,316 2008 -- -- 2009 -- -- 2010 -- -- --------- --------- Total minimum lease payments 7,700 $ 91,977 Less: amount representing interest (819) --------- Present value of net minimum leae payments 6,881 Less: current portion (3,566) --------- Noncurrent portion $ 3,315 --------- NOTE 9: INCENTIVE EQUITY AND STOCK OPTION PLAN In October 2003, the Company adopted an incentive equity and stock option plan. The purpose of the plan is to advance the interests of the Company by providing an additional incentive to attract, retain and motivate highly qualified and competent persons who are key to the Company, including key employees, consultants, independent contractors, Board members, advisory board members, officers and directors by authorizing the grant of awards of Common Stock and options to purchase Common Stock of the Company. Options granted under this plan may either be options qualifying as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or options that do not so qualify. Any incentive option must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of such grant, but the exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of such fair market value as determined on the date of the grant. The term of each option and the manner in which it may be exercised is determined by the board of directors, provided that no option may be exercisable more that 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more that 10% of the our common stock, no more than five years after the date of the grant. The board of directors shall determine the exercise price of non-qualified options. The Company has reserved 5,000,000 shares of common stock under the plan. The board of directors or a committee of the board of directors will administer the plan including, without limitation, the selection of the persons who will be granted plan options under the plan, the type of plan options to be granted, the number of shares subject to each plan options and the plan option price. The per share exercise price of shares granted under the plan shall not be less than 90% of the fair market value of common stock on the grant date. Officers, directors and key employees of and consultants to Quantum will be eligible to receive non-qualified options or stock grants under the plan. Only officers, directors and employees of Quantum who are employed by Quantum or by any subsidiary thereof are eligible to receive incentive options. F-12 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 9: INCENTIVE EQUITY AND STOCK OPTION PLAN (CONTINUED) Under the plan, the Company granted 60,000 shares of common stock and no options during the year ended October 31, 2005. There were no options or stock granted during the year ended October 31, 2004. 2005 2004 --- Options Options ------------------------ --------------------- Incentive Weighted Weighted Stock Number of Average Common Number of Average Grants Shares Exercise Price Stock Grants Shares Exercise Price --------------------------------------- --------------------------------------- Outstanding at beginning of the period -- -- -- -- -- $ -- Granted 60,000 -- -- -- -- -- Exercised -- -- -- -- -- $ -- Forfeited -- -- -- -- $ -- --------- -------- --------- --------- -------- -------- Outstanding at October 31, 60,000 -- -- -- -- -- --------- -------- --------- --------- -------- -------- Exercisable at October 31, -- -- -- -- -- -- Available for issuance at October 31 under the plan 4,940,000 -- -- -- 5,000,000 -- --------- -------- --------- --------- -------- -------- NOTE 10: ACQUISITION OF QUANTUM MEDICAL TECHNOLOGIES, INC. AND RENAISSANCE HEALTH SYSTEMS, INC. Following a motion approved by the Company's shareholders during a meeting January 30, 2004, the Board of Directors agreed to issue 13,300,000 post reverse shares and 200,000 shares of Series A preferred stock, approved separately by the Board of Directors on July 19, 2004, to the shareholder of both Quantum Medical Technologies, Inc. (QMT) and Renaissance Health Systems, Inc. (RHS) for 80% of the those companies which the Company did not already own from the majority shareholder of the Company. The Series A preferred stock is convertible into 30 common shares after 4 years at the option of the holder. Control in the Company will not materially change, since all the shareholders in numbers and relative beneficial ownership of both QMT and RHS are also material and beneficial owners of the common shares of the Company today. The final merger was consummated in August 2004. On May 23, 2005, the majority shareholder returned the 200,000 Series A preferred stock received from the acquisition in order to facilitate future capital raising efforts. Quantum Medical Technologies, Inc. (QMT) was incorporated in January 2000, and is a developmental stage company, with no significant material assets or liabilities and no revenues, and consists primarily of intellectual and patent pending business process to provide medical technologies, computer programs, electronic services, predictive modeling and other services to the medical profession. The Company has begun to develop a Cybernaptic (SM) process to connect with an applications service provider (ASP) format most of the touch points in the healthcare delivery system. The Company also has in development a QuantumQuotient (SM) index that the Company believes could be used as a tool to provide a measurable way to tack improvement in the healthcare lifestyle of its subject. If this process can be confirmed, it could have significant value to the Company as a tool to reduce cost, and as a intellectual property it can sell or license to others. In addition, the Company has purchased an online medical office billing and collection program. F-13 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 10: ACQUISITION OF QUANTUM MEDICAL TECHNOLOGIES, INC. AND RENAISSANCE HEALTH SYSTEMS, INC. (CONTINUED) Renaissance Health Systems, Inc. was incorporated in December of 2002, and is a developmental stage company, with no significant material assets or liabilities and no revenues, which was formed to create a community health system (CHS) that will coordinate care to managed care patients by affiliating with providers, physicians and hospitals. The Company has secured contracts with a three Florida licensed health maintenance organizations to build CHSs. As of October 31, 2005, only one of the contracts is operational. NOTE 11: OTHER EQUITY TRANSACTIONS DEFERRED COMPENSATION The Company granted 93,950 and 57,000 shares of common stock to employees, directors and advisors in lieu of or as partial compensation for services performed for the Company for years ended October 31, 2005 and 2004, respectively. These shares started vesting August 1, 2004 and are to be vested over two and three year periods. The Company recorded $55,282 and $45,950 of unearned compensation for the years ended October 31, 2005 and 2004, respectively, and recorded the unvested shares as Deferred Compensation - Allocated Shares in the equity section of the balance sheet. The Company recognized $135,798 and $148,612 in compensation expense related to these stock grants for the years ended October 31, 2005 and 2004. During the year ended October 31, 2005, 8,025 shares were forfeited with a value of $6,627 and 138,575 shares were issued. During the year ended October 31, 2004, 98,125 shares were forfeited with a value of $88,312 and 98,933 shares were issued. The value of the stock was determined by the closing market price at the date of grant. Additionally, the Company granted 1,764,000 options at an average exercise price of $.57 per share to employees and directors and granted 52,500 options at an average exercise price of $.76 per share to consultants. All options granted during the year ended October 31, 2005 are to be vested over three years. These options start vesting January 27, 2005. The Company granted 185,000 options to consultants at an average exercise price of $.42 per share and 176,000 options to employees at an average exercise price of $.94 during the year ended October 31, 2004. These options vest over a period of a period of one to two years. The Company has recognized $16,350 and $79,800 in deferred compensation in relation to the issuance of the stock options in conjunction with Statement of Financial Accounting Standard No. 123 for the years ended October 31, 2005 and 2004, respectively. The values of the options were determined based upon the market value of the common shares at the time of grant less the exercisable price. The Company has recognized $84,235 and $3,458 in compensation expense related to stock option grants for the years ended October 31, 2005 and 2004, respectively. During fiscal years ended October 31, 2005 and 2004, 164,125 options with a value of $480 were forfeited and 14,288 options with a value of $7,144 were forfeited, respectively. REVERSE STOCK SPLIT In January 2004, the shareholders of the Company approved the merger of the Company into The Quantum Group, Inc. for the purpose of reincorporation in the State of Nevada. In conjunction with the reincorporation, the shareholders approved a 1 for 10 reverse stock split of its common stock. An amended and restated Articles of Incorporation have been filed to change the name of the Company to The Quantum Group, Inc. ("QTUM") and to set the authorized shares of common stock to 170,000,000 at a par value of $.001 per share and authorized preferred stock to 30,000,000 at a par value of $.001 per share. All share and per share amounts have been retroactively restated in the accompanying financial statements and notes for all periods presented. F-14 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 11: OTHER EQUITY TRANSACTIONS (CONTINUED) EQUITY FINANCING In June 2004, the Company entered into an agreement with two companies to raise a minimum of $500,000 to a maximum of $1,000,000. The shares were priced at 25% of the closing price of the Company's stock on the OTC. The placement companies received a combined placement fee of 13% of the gross proceeds received from issuance of shares and one warrant at an exercise price equal to the average price per share for every ten shares sold. The Company issued 138,529 five year warrants at an exercise price of $0.275 per share during the year ended October 31, 2005. The Company received $61,900 and issued 253,707 shares during the year ended October 31, 2005 and received $319,400 and issued 1,131,582 shares during the year ended October 31, 2004. Cash commission paid to the placement companies was $8,047 and $41,522 for the years ended October 31, 2005 and 2004, respectively. On August 26, 2004, an advance of $30,000 from an outside investor, made in June 2004, was converted into 300,000 shares of common stock at a conversion price of $0.10 per share. The Company recognized a loss on conversion of the debt of $135,000. In December 2004, the Company sold 370,370 shares of common stock for $0.27 per share. The Company paid a placement company 13% of the proceeds, $13,000, and 37,037 warrants at an exercise price of $0.27 per share. In December 2004, the Company agreed with a placement company to sell common stock of the Company at a price of $0.40 per share. The placement company received 13% cash commission and one warrant at an exercise price of $0.40 per share for every ten shares of common stock sold. The Company received $700,000 and issued 1,750,000 shares of common stock. The placement company received $91,000 in cash commissions and 175,000 warrants. On July 5, 2005, the Company issued a private placement memorandum to sell 3,000,000 shares of the Company's common stock for $0.50 per share in order to raise $1,500,000. The Company agreed to pay a placement agent a 13% cash commission plus one warrant at an exercise price of $0.50 per share for every ten dollars raised. As of October 31, 2005, the Company received $636,300 and issued 1,272,600 shares of common stock. Additionally, the Company paid $82,719 in cash commissions and issued 63,630 warrants to a placement company. NOTE 12: ACQUISITION OF SOFTWARE On December 16, 2004, Quantum Medical Technologies, Inc. entered into an agreement to purchase an application systems provider software from a Florida Limited Liability Corporation for $80,000. The software was in developmental stage and has received HIPPA certification. The purchase price is to be paid over a period of 120 days from the date of closing. Upon review and testing by an independent software development company, management has determined that certain representations by the seller were not met and therefore the Company has not made the second scheduled payment due 60 days from closing. The Company is seeking to renegotiate or rescind the purchase with the seller. On September 27, 2005, the Company acquired software, domain names and other assets from Biocard Corporation for 200,000 shares of common stock and 500,000 180-day warrants to purchase shares of the Company at an exercise price of $0.50 per share. The total value of the acquisition was $315,000. F-15 THE QUANTUM GROUP, INC. (A DEVELOPMENT STAGE ENTERPRISE) NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2005 NOTE 13: RELATED PARTY TRANSACTIONS On November 1, 2002, the Company entered into an agreement with a shareholder to purchase certain intellectual property integral to the Company's business. In exchange, the company issued a three (3) year installment note for $179,080 with an interest rate of eighteen percent (18%) per annum. The price of the sale was equal to the cost the shareholder incurred to develop the property purchased. The note is payable monthly starting January 2003. The Company is in technical default of the terms of the note and have classified the note as current. The Company paid $17,667 of principal during the year ended October 31, 2005. The note balance is $161,413 and $179,080 at October 31, 2005 and 2004, respectively and interest accrued is $46,645 and $54,410 at October 31, 2005 and 2004, respectively. NOTE 14: SUBSEQUENT EVENTS On November 30, 2005, the Company entered into a $100,000 two-year loan agreement. This agreement bears an interest rate of 13% per annum payable quarterly. Additional compensation included 70,000 shares of the Company's common stock. If the Company repays the loan within the first 365 days, 17,500 shares will be returned to the Company, if the loan is prepaid after 365 days and prior to the maturity date, 3,000 shares will be returned to the Company. The note is callable if the interest is not paid 15 days subsequent to notification by the holder that the interest was not paid. On December 16, 2005, the Company entered into a $100,000 promissory note. This note is due January 31, 2006 and bears an interest rate of 8% per annum payable at term of the note. Additional compensation includes 15,000 shares of the Company's common stock. The Company is currently in negotiation to extend the term of the note. On January 13, 2006, the Company entered into a $25,000 two-year loan agreement. This agreement bears an interest rate of 12% per annum payable quarterly. Additional compensation includes 1,500 shares of the Company's common stock for every quarter the loan is outstanding. Subsequent to October 31, 2005, under the current private placement memorandum, the Company has sold 220,000 shares of common stock for $110,000 and paid a commission of $14,300 and issued 11,000 warrants exercisable at $0.50 per share. F-16