

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2020 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 1-36117

**inTEST Corporation**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**22-2370659**

(I.R.S. Employer Identification Number)

**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)

**Securities registered pursuant to Section 12(b) of the Act:**

<b><u>Title of Each Class</u></b>	<b><u>Trading Symbol</u></b>	<b><u>Name of Each Exchange on Which Registered</u></b>
Common Stock, par value \$0.01 per share	INTT	NYSE American

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES  NO

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

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Number of shares of Common Stock, \$0.01 par value, outstanding as of the close of business on July 31, 2020: 10,439,573

inTEST CORPORATION

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

**inTEST CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	June 30, 2020 (Unaudited)	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,424	\$ 7,612
Trade accounts receivable, net of allowance for doubtful accounts of \$210 and \$211, respectively	9,457	9,296
Inventories	7,930	7,182
Prepaid expenses and other current assets	445	805
<b>Total current assets</b>	<b>25,256</b>	<b>24,895</b>
Property and equipment:		
Machinery and equipment	5,452	5,269
Leasehold improvements	2,424	2,424
<b>Gross property and equipment</b>	<b>7,876</b>	<b>7,693</b>
Less: accumulated depreciation	(5,581)	(5,273)
<b>Net property and equipment</b>	<b>2,295</b>	<b>2,420</b>
Right-of-use assets, net	5,365	4,842
Goodwill	13,738	13,738
Intangible assets, net	13,034	13,654
Restricted certificates of deposit	140	140
Other assets	30	26
<b>Total assets</b>	<b>\$ 59,858</b>	<b>\$ 59,715</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,618	\$ 1,984
Accrued wages and benefits	1,873	2,007
Accrued professional fees	740	805
Customer deposits and deferred revenue	670	456
Accrued sales commissions	483	442
Current portion of operating lease liabilities	1,237	1,302
Domestic and foreign income taxes payable	768	868
Other current liabilities	401	497
<b>Total current liabilities</b>	<b>8,790</b>	<b>8,361</b>
Operating lease liabilities, net of current portion	4,383	3,794
Deferred tax liabilities	2,054	2,263
Other liabilities	452	463
<b>Total liabilities</b>	<b>15,679</b>	<b>14,881</b>
Commitments and Contingencies		
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; 10,459,150 and 10,413,982 shares issued, respectively	105	104
Additional paid-in capital	26,576	26,256
Retained earnings	17,032	18,005
Accumulated other comprehensive earnings	670	673
Treasury stock, at cost; 33,077 shares	(204)	(204)
<b>Total stockholders' equity</b>	<b>44,179</b>	<b>44,834</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 59,858</b>	<b>\$ 59,715</b>

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		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net revenues	\$ 13,275	\$ 14,352	\$ 24,505	\$ 32,414
Cost of revenues	7,208	7,633	13,571	16,859
Gross margin	6,067	6,719	10,934	15,555
Operating expenses:				
Selling expense	1,761	2,087	3,813	4,461
Engineering and product development expense	1,217	1,208	2,509	2,492
General and administrative expense	2,888	3,718	5,772	7,455
Total operating expenses	5,866	7,013	12,094	14,408
Operating income (loss)	201	(294)	(1,160)	1,147
Other income (loss)	(18)	(6)	(50)	15
Earnings (loss) before income tax expense (benefit)	183	(300)	(1,210)	1,162
Income tax expense (benefit)	13	(113)	(237)	211
Net earnings (loss)	\$ 170	\$ (187)	\$ (973)	\$ 951
Net earnings (loss) per common share - basic	\$ 0.02	\$ (0.02)	\$ (0.10)	\$ 0.09
Weighted average common shares outstanding - basic	10,252,490	10,411,276	10,236,672	10,398,147
Net earnings (loss) per common share - diluted	\$ 0.02	\$ (0.02)	\$ (0.10)	\$ 0.09
Weighted average common shares and common share equivalents outstanding - diluted	10,258,917	10,411,276	10,236,672	10,419,914

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)**

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net earnings (loss)	\$ 170	\$ (187)	\$ (973)	\$ 951
Foreign currency translation adjustments	35	59	(3)	(24)
Comprehensive earnings (loss)	<u>\$ 205</u>	<u>\$ (128)</u>	<u>\$ (976)</u>	<u>\$ 927</u>

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands, except share data)

(Unaudited)

	<b>Six Months Ended June 30, 2020</b>						
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Earnings</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>					
Balance, January 1, 2020	10,413,982	\$ 104	\$ 26,256	\$ 18,005	\$ 673	\$ (204)	\$ 44,834
Net loss	-	-	-	(1,143)	-	-	(1,143)
Other comprehensive loss	-	-	-	-	(38)	-	(38)
Amortization of deferred compensation related to stock-based awards	-	-	187	-	-	-	187
Issuance of unvested shares of restricted stock	58,160	1	(1)	-	-	-	-
Forfeiture of unvested shares of restricted stock	(8,315)	-	-	-	-	-	-
Repurchase and retirement of common stock	(13,767)	-	(74)	-	-	-	(74)
Balance, March 31, 2020	<u>10,450,060</u>	<u>105</u>	<u>26,368</u>	<u>16,862</u>	<u>635</u>	<u>(204)</u>	<u>43,766</u>
Net earnings	-	-	-	170	-	-	170
Other comprehensive earnings	-	-	-	-	35	-	35
Amortization of deferred compensation related to stock-based awards	-	-	208	-	-	-	208
Issuance of unvested shares of restricted stock	15,840	-	-	-	-	-	-
Forfeiture of unvested shares of restricted stock	(6,750)	-	-	-	-	-	-
Balance, June 30, 2020	<u>10,459,150</u>	<u>\$ 105</u>	<u>\$ 26,576</u>	<u>\$ 17,032</u>	<u>\$ 670</u>	<u>\$ (204)</u>	<u>\$ 44,179</u>
	<b>Six Months Ended June 30, 2019</b>						
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Earnings</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>					
Balance, January 1, 2019	10,523,035	\$ 105	\$ 26,513	\$ 15,683	\$ 783	\$ (204)	\$ 42,880
Net earnings	-	-	-	1,138	-	-	1,138
Other comprehensive loss	-	-	-	-	(83)	-	(83)
Amortization of deferred compensation related to stock-based awards	-	-	183	-	-	-	183
Issuance of unvested shares of restricted stock	80,300	1	(1)	-	-	-	-
Balance, March 31, 2019	<u>10,603,335</u>	<u>106</u>	<u>26,695</u>	<u>16,821</u>	<u>700</u>	<u>(204)</u>	<u>44,118</u>
Net loss	-	-	-	(187)	-	-	(187)
Other comprehensive income	-	-	-	-	59	-	59
Amortization of deferred compensation related to stock-based awards	-	-	213	-	-	-	213
Issuance of unvested shares of restricted stock	35,380	-	-	-	-	-	-
Forfeiture of unvested shares of restricted stock	(12,325)	-	-	-	-	-	-
Balance, June 30, 2019	<u>10,626,390</u>	<u>\$ 106</u>	<u>\$ 26,908</u>	<u>\$ 16,634</u>	<u>\$ 759</u>	<u>\$ (204)</u>	<u>\$ 44,203</u>

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ (973)	\$ 951
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,584	1,598
Payment of earnout for 2018 related to Ambrell acquisition	-	(12,167)
Provision for excess and obsolete inventory	305	243
Foreign exchange loss	37	17
Amortization of deferred compensation related to stock-based awards	395	396
Loss on disposal of property and equipment	-	17
Proceeds from sale of demonstration equipment, net of gain	-	59
Deferred income tax benefit	(209)	(189)
Changes in assets and liabilities:		
Trade accounts receivable	(205)	1,364
Inventories	(1,054)	(908)
Prepaid expenses and other current assets	359	132
Restricted certificates of deposit	-	35
Other assets	(4)	(1)
Accounts payable	635	626
Accrued wages and benefits	(133)	(941)
Accrued professional fees	(63)	104
Customer deposits and deferred revenue	217	(542)
Accrued sales commissions	41	(189)
Operating lease liabilities	(652)	(668)
Domestic and foreign income taxes payable	(100)	5
Other current liabilities	(94)	(156)
Other liabilities	(5)	263
Net cash provided by (used in) operating activities	<u>81</u>	<u>(9,951)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(190)	(298)
Net cash used in investing activities	<u>(190)</u>	<u>(298)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Paycheck Protection Program loans	2,829	-
Repayments of Paycheck Protection Program loans	(2,829)	-
Proceeds from revolving credit facility	2,800	-
Repayments of revolving credit facility	(2,800)	-
Repurchases of common stock	(74)	-
Net cash used in financing activities	<u>(74)</u>	<u>-</u>
Effects of exchange rates on cash	(5)	(18)
Net cash used in all activities	(188)	(10,267)
Cash and cash equivalents at beginning of period	7,612	17,861
Cash and cash equivalents at end of period	<u>\$ 7,424</u>	<u>\$ 7,594</u>
<b>Cash payments for:</b>		
Domestic and foreign income taxes	\$ 73	\$ 396

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
(In thousands, except share and per share data)

**(1) NATURE OF OPERATIONS**

We are a global supplier of precision-engineered solutions for use in manufacturing and testing across a wide range of markets including automotive, defense/aerospace, energy, industrial, semiconductor and telecommunications. We manage our business as two operating segments which are also our reportable segments: Thermal Products ("Thermal") and Electromechanical Semiconductor Products ("EMS"). Our Thermal segment designs, manufactures and sells our thermal test and thermal process products while our EMS segment designs, manufactures and sells our semiconductor test products. We manufacture our products in the U.S. Marketing and support activities are conducted worldwide from our facilities in the U.S., Germany, Singapore, the Netherlands and the U.K. The consolidated entity is comprised of inTEST Corporation and our wholly owned subsidiaries.

Our EMS segment sells its products to semiconductor manufacturers and third-party test and assembly houses (end user sales) and to automated test equipment ("ATE") manufacturers (original equipment manufacturer ("OEM") sales), who ultimately resell our equipment with theirs to both semiconductor manufacturers and third-party test and assembly houses. Our Thermal segment sells its products to many of these same types of customers; however, it also sells into a variety of other markets, including the automotive, defense/aerospace, energy, industrial and telecommunications markets. As a result of the acquisition of Ambrell Corporation ("Ambrell") in May 2017, our Thermal segment also sells into the consumer products packaging, fiber optics and other sectors within the broader industrial market, and into the wafer processing sector within the broader semiconductor market.

Both of our operating segments have multiple products that we design, manufacture and market to our customers. Due to a number of factors, our products have varying levels of 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.

Historically, we have referred to our markets as "Semiconductor" (which includes both the broader semiconductor market as well as the more specialized ATE and wafer processing sectors within the broader semiconductor market), and "Non-Semiconductor" (which includes all of the other markets we serve). Starting in the second quarter of 2019, we began referring to the broader semiconductor market, including the ATE and wafer processing sectors within that market, as the "Semi Market." All other markets are designated as "Multimarket." The Semi Market, which is the principal market in which we operate, is characterized by rapid technological change, competitive pricing pressures and cyclical as well as seasonal market patterns. This market 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 Semi Market and the other markets we serve, our ability to safeguard patented technology and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the markets that we serve. We also continue to implement an acquisition strategy that may cause us to incur substantial expense in reviewing and evaluating potential transactions. We may or may not be successful in locating suitable businesses to acquire and in closing acquisitions of businesses we pursue. In addition, we may not be able to successfully integrate any business we do acquire with our existing business and we may not be able to operate the acquired business profitably. As a result of these or other factors, we may experience significant period-to-period fluctuations in future operating results.

**COVID-19 Pandemic**

In early January 2020, a human infection was traced to a novel strain of coronavirus, referred to as "COVID-19". COVID-19 has subsequently spread to virtually all parts of the world and has caused massive disruptions in the global economy. On March 11, 2020, the World Health Organization ("WHO") officially declared COVID-19 a pandemic. Our business has been, and will continue to be, adversely affected by COVID-19. Since March 17, 2020, several states, including all of the states in which we have manufacturing facilities, have instituted "shelter-in place" orders as well as guidance in response to COVID-19 and the need to contain it. As of July 2020, all of the states in which we operate had begun the process of re-opening to varying degrees. However, some of these states have paused their re-opening plans or reversed actions they had taken with respect to their re-opening plans because of increased spread. Despite these changes, all of our operations remain deemed "critical and essential business operations" under the various governmental COVID-19 mandates which has allowed us to continue to operate our business with certain modifications as discussed below.



The impact of COVID-19 on our operations has been intensified because it has occurred and continues during a time when our business operations continue to be negatively affected by a global downturn in the Semi Market. The Semi Market, from which approximately half of our net revenues are derived, has been in a cyclical downturn since the beginning of 2019. This downturn has resulted in significant declines in our net revenues from the Semi Market and contributed to the net loss we recorded in the first half of 2020 of \$973. Our net revenues from the Semi Market for the first half of 2020 totaled \$11,869 compared to \$17,752 in the first half of 2019. During the first quarter of 2020, before the spread of COVID-19, we had started to see indications that the downturn was coming to an end and that the beginning of the next cyclical upturn in the Semi Market was imminent. However, COVID-19 impacted this timing, and, as a result, the recovery in the Semi Market has been delayed by at least a quarter, if not more. Although we have seen increasing order rates from our customers in the Semi Market during the second quarter of 2020, there can be no assurance that this will continue, in particular, if the spread of COVID-19 is not further contained and the global economy continues to be negatively impacted.

During 2019, we made adjustments to reduce our fixed cost structure, which included staff reductions and limits on all discretionary spending. As a result of the delay in the Semi Market recovery discussed above and the impacts of COVID-19 on our operations, we have taken actions to further reduce our fixed cost structure with the goal of limiting future losses and maintaining an adequate level of liquidity to operate our business. To date, these additional actions have included further staff reductions, the temporary closure of our EMS manufacturing facility in Fremont, California for approximately three weeks beginning in late March and the temporary closure of our Thermal segment manufacturing facility in Mansfield, Massachusetts for a two-week period at the beginning of April. As discussed further in Note 8, on April 10, 2020, we entered into a Loan and Security Agreement (the "Agreement") with M&T Bank ("M&T"). Under the terms of the Agreement, M&T has provided us with a \$7,500 revolving credit facility. This revolving credit facility was put in place to provide us with additional liquidity in response to the current business environment as a result of COVID-19.

As of the date of the filing of this report, all of our facilities are open. While we do not currently have any further plans for facility closures, if the current pace of COVID-19 cannot be sufficiently slowed and the spread of the virus is not contained, our business operations could be further interrupted. In addition, the aftermarket service and support that we provide to our customers has been, and we expect will continue to be, adversely impacted by COVID-19 due to travel restrictions which continue to exist in some locations and limitations on visitors allowed into customer facilities, which has resulted in some of these activities being reduced or suspended. Therefore, the net revenues associated with these aftermarket service and support activities, which typically range from 8% to 10% of our consolidated net revenues, may continue to be depressed. If the spread of the virus cannot be contained, government and health authorities may announce new or extend existing restrictions, which could require us to make further adjustments to our operations in order to comply with any such restrictions. These adjustments to our operations could include additional facility closures in the future if demand slows down, which could have a material negative impact on our business, results of operations and financial condition. The funds we may be able to draw down under the Agreement may not be sufficient to prevent the need to take further actions, such as staff reductions, facility closures or other salary and benefits adjustments for remaining employees. As a result of our current level of working capital as well as the availability of the revolving credit facility under the Agreement, we currently expect to have sufficient liquidity to operate our business throughout the balance of 2020, as further described in this report.

Generally, global supply chains and the timely availability of products have been, and will continue to be, materially disrupted by quarantines, factory slowdowns or shutdowns, border closings and travel restrictions resulting from COVID-19. We have experienced, and expect that we may continue to experience, price increases and/or lack of availability from our normal suppliers for the materials needed to produce our products in a timely manner and/or with the level of margins we typically expect to achieve. We are working to mitigate and address these delays and price increases, but there can be no assurance that we will not experience delays or price increases in the future which could have a material negative impact on our business, results of operations and financial condition.

We have implemented workplace safeguards designed to protect the health and well-being of our employees. A significant number of employees have been authorized to work from home and have been provided with the tools and technology necessary to do so. However, the process of working remotely may result in those employees not being as effective or responsive to our customers' needs as they would be under more normal conditions. This could result in lost business opportunities or have other negative impacts on our business. Remaining employees in our facilities are following WHO and Centers for Disease Control and Prevention ("CDC") recommended safety practices, as well as state and local directives, but there can be no assurances that we can successfully avoid one or more of our employees contracting COVID-19 and entering our facilities while infected. Should this occur, or should we have employees who become ill or otherwise are unable to work, we may experience limitations in employee resources or may be required to close affected facilities for a time to clean and disinfect appropriately.

The duration of any business disruption and related financial impact cannot be reasonably estimated at this time but may materially affect our ability to operate our business and result in additional costs. The extent to which COVID-19 may impact our operating results, financial condition, and liquidity will depend on future developments, which are highly uncertain and cannot be predicted as of the date of the filing of this report, including new information that may emerge concerning the severity of COVID-19 and steps taken to contain COVID-19 or treat its impact, among others. The adverse effects of COVID-19 on our business could be material in future periods.

## (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 and deferred tax assets and liabilities including related valuation allowances, 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 Form 10-K for the year ended December 31, 2019 (“2019 Form 10-K”) filed on March 23, 2020 with the Securities and Exchange Commission (“SEC”).

### **Reclassification**

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

### **Subsequent Events**

We have made an assessment of our operations and determined that there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the six months ended June 30, 2020 other than those described in Note 1 under “COVID-19 Pandemic” and in Note 13.

### **Business Combinations**

Acquired businesses are accounted for using the purchase method of accounting, which requires that the purchase price be allocated to the net assets acquired at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Fair values of intangible assets are estimated by valuation models prepared by our management and third-party advisors. The assets purchased and liabilities assumed have been reflected in our consolidated balance sheets, and the results are included in the consolidated statements of operations and consolidated statements of cash flows from the date of acquisition. Any change in the fair value of acquisition-related contingent consideration subsequent to the acquisition date, including changes from events after the acquisition date, will be recognized in the consolidated statement of operations in the period of the estimated fair value change. Acquisition-related transaction costs, including legal and accounting fees and other external costs directly related to the acquisition, are recognized separately from the acquisition and expensed as incurred in general and administrative expense in the consolidated statements of operations.

### **Goodwill, Intangible and Long-Lived Assets**

We account for goodwill and intangible assets in accordance with Accounting Standards Codification (“ASC”) Topic 350 (Intangibles - Goodwill and Other). Finite-lived intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment 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. Goodwill is considered to be impaired if the fair value of a reporting unit is less than its carrying amount. As a part of the goodwill impairment assessment, we have the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If, as a result of our qualitative assessment, we determine that it is more-likely-than-not that the fair value of the reporting unit is greater than its carrying amount, a quantitative goodwill impairment test is not required. However, if, as a result of our qualitative assessment, we determine it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, or, if we choose not to perform a qualitative assessment, we are required to perform a quantitative goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized.

The quantitative goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The goodwill impairment assessment is based upon the income approach, which estimates the fair value of our reporting units based upon a discounted cash flow approach. 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 control premiums, discount rates, terminal growth rates, forecasts of revenue and expense growth rates, income tax rates, changes in working capital, depreciation, amortization and capital expenditures. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

Indefinite-lived intangible assets are assessed for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. As a part of the impairment assessment, we have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, as a result of our qualitative assessment, we determine that it is more-likely-than-not that the fair value of the indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required; otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of the 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.

### **Revenue Recognition**

We recognize revenue in accordance with the guidance in ASC Topic 606 (Revenue from Contracts with Customers). We recognize revenue for the sale of products or services when our performance obligations under the terms of a contract with a customer are satisfied and control of the product or service has been transferred to the customer. Generally, this occurs when we ship a product or perform a service. In certain cases, recognition of revenue is deferred until the product is received by the customer or at some other point in the future when we have determined that we have satisfied our performance obligations under the contract. Our contracts with customers may include a combination of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. In addition to the sale of products and services, we also lease certain of our equipment to customers under short-term lease agreements. We recognize revenue from equipment leases on a straight-line basis over the lease term.

Revenue is recorded in an amount that reflects the consideration we expect to receive in exchange for those products or services. We do not have any material variable consideration arrangements, or any material payment terms with our customers other than standard payment terms which generally range from net 30 to net 90 days. We generally do not provide a right of return to our customers. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

### ***Nature of Products and Services***

We are a global supplier of precision-engineered solutions for use in manufacturing and testing across a wide range of markets including automotive, defense/aerospace, energy, industrial, semiconductor and telecommunications. We sell thermal management products including ThermoStreams, ThermoChambers and process chillers, which we sell under our Temptronic, Sigma and Thermonics product lines, and Ambrell's precision induction heating systems, including EKOHEAT and EASYHEAT products. We sell semiconductor ATE interface solutions which include manipulators, docking hardware and electrical interface products. We provide post-warranty service and support for the equipment we sell. We sell semiconductor ATE interface solutions and certain thermal management products to the Semi Market. We also sell our thermal management products to various other markets including the automotive, defense/aerospace, energy, industrial and telecommunications markets.

We lease certain of our equipment under short-term leasing agreements with original lease terms of six months or less. Our lease agreements do not contain purchase options.

*Types of Contracts with Customers*

Our contracts with customers are generally structured as individual purchase orders which specify the exact products or services being sold or equipment being leased along with the selling price, service fee or monthly lease amount for each individual item on the purchase order. Payment terms and any other customer-specific acceptance criteria are also specified on the purchase order. We generally do not have any customer-specific acceptance criteria, other than that the product performs within the agreed upon specifications. We test substantially all products manufactured as part of our quality assurance process to determine that they comply with specifications prior to shipment to a customer.

*Contract Balances*

We record accounts receivable at the time of invoicing. Accounts receivable, net of the allowance for doubtful accounts, is included in current assets on our balance sheet. To the extent that we do not recognize revenue at the same time as we invoice, we record a liability for deferred revenue. In certain instances, we also receive customer deposits in advance of invoicing and recording of accounts receivable. Deferred revenue and customer deposits are included in current liabilities on our consolidated balance sheets.

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, if any, historical experience, and other currently available evidence.

*Costs to Obtain a Contract with a Customer*

The only costs we incur associated with obtaining contracts with customers are sales commissions that we pay to our internal sales personnel or third-party sales representatives. These costs are calculated based on set percentages of the selling price of each product or service sold. Commissions are considered earned by our internal sales personnel at the time we recognize revenue for a particular transaction. Commissions are considered earned by third-party sales representatives at the time that revenue is recognized for a particular transaction. We record commission expense in our consolidated statements of operations at the time the commission is earned. Commissions earned but not yet paid are included in current liabilities on our balance sheets.

*Product Warranties*

In connection with the sale of our products, we generally provide standard one- or two-year product warranties which are detailed in our terms and conditions and communicated to our customers. Our standard warranties are not offered for sale separately from our products; therefore, there is not a separate performance obligation related to our standard warranties. We record estimated warranty expense for our standard warranties at the time of sale based upon historical claims experience. In very limited cases, we offer customers an option to separately purchase an extended warranty for certain of our products. In the case of extended warranties, we recognize revenue in the amount of the sale price for the extended warranty on a straight-line basis over the extended warranty period. We record costs incurred to provide service under an extended warranty at the time the service is provided. Warranty expense is included in selling expense in our consolidated statements of operations.

See Notes 4 and 12 for further information about our revenue from contracts with customers.

**Inventories**

Inventories are valued at cost on a first-in, first-out basis, not in excess of market value. Cash flows from the sale of inventories 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 market conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The excess and obsolete inventory charges we record establish a new cost basis for the related inventories.

## Leases

We account for leases in accordance with ASC Topic 842 (Leases) which was effective for us as of January 1, 2019. Upon adoption of ASC Topic 842, we elected the package of practical expedients which included the grandfathering of the lease classification that had been made under prior guidance and, accordingly, we did not re-evaluate any of our leases for classification purposes in connection with the implementation of ASC Topic 842. All of our lease contracts are still being treated as operating leases. We do not currently have any lease contracts that meet the criteria to be categorized as financing leases. We did not elect the hindsight practical expedient and, therefore, did not reevaluate the lease terms that we used under prior guidance. The implementation of ASC Topic 842 had a significant impact on our consolidated balance sheet as a result of recording right-of-use assets and lease liabilities for all our multi-year leases. Under prior guidance, none of these leases had any related asset recorded on our balance sheets. The only related liability recorded on our balance sheets was the amount which represented the difference between the lease payments we had made and the straight-line rent expense we had recorded in our statements of operations. The implementation of ASC Topic 842 did not have a significant impact on our pattern of expense recognition for any of our multi-year leases.

We determine if an arrangement is a lease at inception. A lease contract is within scope if the contract has an identified asset (property, plant or equipment) and grants the lessee the right to control the use of the asset during the lease term. The identified asset may be either explicitly or implicitly specified in the contract. In addition, the supplier must not have any practical ability to substitute a different asset and would not economically benefit from doing so for the lease contract to be in scope. The lessee's right to control the use of the asset during the term of the lease must include the ability to obtain substantially all the economic benefits from the use of the asset as well as decision-making authority over how the asset will be used. Leases are classified as either operating leases or finance leases based on the guidance in ASC 842. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property and equipment and financing lease liabilities. We do not currently have any finance leases. We do not have embedded leases nor do we have any initial direct costs related to our lease contracts.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. None of our leases provide an implicit rate; therefore, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease. We include these options in the determination of the amount of the ROU asset and lease liability when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Certain of our operating leases contain predetermined fixed escalations of minimum rentals and rent holidays during the original lease terms. Rent holidays are periods during which we have control of the leased facility but are not obligated to pay rent. For these leases, our ROU asset and lease liability are calculated including any rent holiday in the determination of the life of the lease.

We have lease agreements which contain both lease and non-lease components, which are generally accounted for separately. In addition to the monthly rental payments due, most of our leases for our offices and warehouse facilities include non-lease components representing our portion of the common area maintenance, property taxes and insurance charges incurred by the landlord for the facilities which we occupy. These amounts are not included in the calculation of the ROU assets and lease liabilities as they are based on actual charges incurred in the periods to which they apply.

Operating lease payments are included in cash outflows from operating activities on our consolidated statements of cash flows. Amortization of right of use assets is presented separately from the change in operating lease liabilities and is included in Depreciation and Amortization in our consolidated statements of cash flows.

We have made an accounting policy election not to apply the recognition requirements of ASC 842 to short-term leases (leases with a term of one year or less at the commencement date of the lease). Lease expense for short-term lease payments is recognized on a straight-line basis over the lease term.

See Note 7 for further disclosures regarding our leases.

## Contingent Liability for Repayment of State and Local Grant Proceeds

In connection with leasing a new facility in Rochester, New York, which our subsidiary, Ambrell, occupied in May 2018, we entered into agreements with the city of Rochester and the state of New York under which we received grants totaling \$463 to help offset a portion of the cost of the leasehold improvements we have made to this facility. In exchange for the funds we received under these agreements, we are required to create and maintain specified levels of employment in this location through various dates ending in 2023. If we fail to meet these employment targets, we may be required to repay a proportionate share of the proceeds. As of June 30, 2020, \$423 of the total proceeds received could still be required to be repaid if we do not meet the targets. We have recorded this amount as a contingent liability which is included in other liabilities on our balance sheet. Those portions of the proceeds which are no longer subject to repayment are reclassified to deferred grant proceeds and amortized to income on a straight-line basis over the remaining lease term for the Rochester facility. Deferred grant proceeds are included in other current liabilities and other liabilities on our balance sheet and totaled \$33 at June 30, 2020.

As of December 31, 2019, we were not in compliance with the employment targets as specified in the grant agreement with the city of Rochester. We applied for and received a waiver of this requirement for the year ended December 31, 2019. As of June 30, 2020, we are still not in compliance with these employment targets. We have until December 31, 2020 to come into compliance with the targets as outlined in the waiver received for the year ended December 31, 2019. If we do not achieve compliance, we will need to apply for an additional waiver or we may be required to repay a proportionate share of the proceeds.

### **Stock-Based Compensation**

We account for stock-based compensation in accordance with ASC Topic 718 (Compensation - Stock Compensation), which requires that employee share-based equity awards be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value of stock options granted, which is then amortized to expense over the service periods. See further disclosures related to our stock-based compensation plan in Note 9.

### **Income Taxes**

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

### **Net Earnings (Loss) Per Common Share**

Net earnings (loss) per common share - basic is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during each period. Net earnings (loss) per common share - diluted is computed by dividing net earnings (loss) by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent unvested shares of restricted stock and stock options 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 that were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Weighted average common shares outstanding - basic	10,252,490	10,411,276	10,236,672	10,398,147
Potentially dilutive securities:				
Unvested shares of restricted stock and employee stock options	6,427	-	-	21,767
Weighted average common shares and common share equivalents outstanding - diluted	10,258,917	10,411,276	10,236,672	10,419,914
Average number of potentially dilutive securities excluded from calculation	711,499	618,071	719,832	423,962

### **Effect of Recently Issued Amendments to Authoritative Accounting Guidance**

In June 2016, the Financial Accounting Standards Board ("FASB") issued amendments to the guidance for accounting for credit losses. In November 2019, the FASB deferred the effective date of these amendments for certain companies, including smaller reporting companies. As a result of the deferral, the amendments are effective for us for reporting periods beginning after December 15, 2022. The amendments replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires the use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. The amendments require a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We plan to adopt the amendments when they become effective for us on January 1, 2023. We are currently evaluating the impact the adoption of these amendments will have on our consolidated financial statements.

In December 2019, the FASB issued amendments to the accounting for income taxes, which add new guidance to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740 (Income Taxes) and changing the accounting for certain income tax transactions. The amendments are effective for us as of January 1, 2021. Early adoption is permitted. We plan to adopt the amendments when they become effective for us on January 1, 2021. We do not expect these amendments to have a material impact on our consolidated financial statements.

### (3) GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets on our balance sheets are the result of our acquisitions of Sigma Systems Corp. ("Sigma") in October 2008, Thermonics, Inc. ("Thermonics") in January 2012 and Ambrell in May 2017. All our goodwill and intangible assets are allocated to our Thermal segment.

#### Goodwill

Goodwill totaled \$13,738 at both June 30, 2020 and December 31, 2019 and was comprised of the following:

Sigma	\$	1,656
Thermonics		50
Ambrell		12,032
Total	\$	<u>13,738</u>

#### Intangible Assets

Changes in the amount of the carrying value of finite-lived intangible assets for the six months ended June 30, 2020 are as follows:

Balance - January 1, 2020	\$	6,944
Amortization		(620)
Balance June 30, 2020	\$	<u>6,324</u>

The following tables provide further detail about our intangible assets as of June 30, 2020 and December 31, 2019:

	<b>June 30, 2020</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Finite-lived intangible assets:			
Customer relationships	\$ 10,480	\$ 4,354	\$ 6,126
Technology	600	436	164
Patents	590	556	34
Software	270	270	-
Trade name	140	140	-
Total finite-lived intangible assets	<u>12,080</u>	<u>5,756</u>	<u>6,324</u>
Indefinite-lived intangible assets:			
Trademarks	6,710	-	6,710
Total intangible assets	<u>\$ 18,790</u>	<u>\$ 5,756</u>	<u>\$ 13,034</u>
	<b>December 31, 2019</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Finite-lived intangible assets:			
Customer relationships	\$ 10,480	\$ 3,805	\$ 6,675
Technology	600	380	220
Patents	590	541	49
Software	270	270	-
Trade name	140	140	-
Total finite-lived intangible assets	<u>12,080</u>	<u>5,136</u>	<u>6,944</u>
Indefinite-lived intangible assets:			
Trademarks	6,710	-	6,710
Total intangible assets	<u>\$ 18,790</u>	<u>\$ 5,136</u>	<u>\$ 13,654</u>

We generally amortize our finite-lived intangible assets over their estimated useful lives on a straight-line basis, unless an alternate amortization method can be reliably determined. Any such alternate amortization method would be based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. None of our intangible assets have any residual value.

Total amortization expense for our finite-lived intangible assets was \$309 and \$620 for the three months and six months ended June 30, 2020, respectively, and \$315 and \$632 for the three months and six months ended June 30, 2019, respectively. The following table sets forth the estimated annual amortization expense for each of the next five years:

2020 (remainder)	\$	614
2021	\$	1,226
2022	\$	1,167
2023	\$	1,067
2024	\$	980

#### **Assessment for Impairment of Goodwill and Long-Lived Assets**

As discussed in Note 2, goodwill is assessed for impairment 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. Long-lived assets 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. As a result of recent market conditions and trends, including the significant ongoing impact of COVID-19 on the global economy, we performed a qualitative review of facts and circumstances to determine whether it was more likely than not that our goodwill or long-lived assets were impaired and if, as a result, a quantitative impairment assessment was required to be performed as of June 30, 2020. Our review included identifying and weighting the significant factors that have impacted our business operations in recent months, both positively and negatively. We considered the nature of these factors, including whether they were ongoing and related to our core business and markets, or non-recurring and reflected macro-economic or global events that are not directly related to our core business and markets. As a result of our qualitative review, we determined that it was more likely than not that our goodwill and long-lived assets were not impaired and, therefore, no quantitative assessment for impairment was required and, thus not performed, as of June 30, 2020. As a result of the ongoing uncertainty surrounding the impact of COVID-19 on our operations, we expect to perform similar qualitative reviews at various points throughout the balance of 2020. There can be no assurance that we will be able to continue to conclude that it is more likely than not that our goodwill and long-lived assets are not impaired. We may determine that we need to perform a quantitative assessment for impairment at some point prior to the fourth quarter, when our annual assessment typically occurs. Such a quantitative assessment could result in a determination that an impairment exists which would result in recording an impairment charge. The amount of any such impairment charge could be material. Any future impairment charge recorded could materially adversely impact our balance sheet and results of operations and could result in our being unable to borrow funds that would otherwise be available under our revolving credit facility discussed in Note 8.

#### **(4) REVENUE FROM CONTRACTS WITH CUSTOMERS**

The following tables provide additional information about our revenue from contracts with customers, including revenue by customer and product type and revenue by market. See also Note 12 for information about revenue by operating segment and geographic region.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b><i>Net revenues by customer type:</i></b>				
End user	\$ 11,946	\$ 13,106	\$ 21,867	\$ 29,143
OEM/Integrator	1,329	1,246	2,638	3,271
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ 24,505</u>	<u>\$ 32,414</u>
<b><i>Net revenues by product type:</i></b>				
Thermal test	\$ 3,703	\$ 4,282	\$ 7,850	\$ 9,249
Thermal process	4,563	4,660	8,311	10,668
Semiconductor test	3,665	3,609	5,489	8,893
Service/other	1,344	1,801	2,855	3,604
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ 24,505</u>	<u>\$ 32,414</u>
<b><i>Net revenues by market:</i></b>				
Semi Market	\$ 6,858	\$ 7,641	\$ 11,869	\$ 17,752
Industrial	3,899	4,279	8,126	10,225
Defense/aerospace	1,496	1,150	2,904	2,132
Telecommunications	597	691	1,008	1,284
Other Multi Markets	425	591	598	1,021
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ 24,505</u>	<u>\$ 32,414</u>

There was not a significant change in the amount of the allowance for doubtful accounts for the six months ended June 30, 2020.



(5) **MAJOR CUSTOMERS**

During the six months ended June 30, 2020, no customer accounted for 10% or more of our consolidated net revenues. During the six months ended June 30, 2019, Texas Instruments Incorporated accounted for 12% of our consolidated net revenues. While both of our segments sold to this customer, these revenues were primarily generated by our EMS segment. No other customers accounted for 10% or more of our consolidated net revenues during the six months ended June 30, 2019.

(6) **INVENTORIES**

Inventories held at June 30, 2020 and December 31, 2019 were comprised of the following:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Raw materials	\$ 5,326	\$ 5,369
Work in process	1,544	949
Inventory consigned to others	45	54
Finished goods	1,015	810
<b>Total inventories</b>	<b>\$ 7,930</b>	<b>\$ 7,182</b>

Total charges incurred for excess and obsolete inventory for the three months and six months ended June 30, 2020 and 2019, respectively, were as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Excess and obsolete inventory charges	\$ 134	\$ 136	\$ 305	\$ 243

(7) **LEASES**

We lease our offices, warehouse facilities and certain equipment under non-cancellable operating leases which expire at various dates through 2028. Total operating lease and short-term lease costs for the three months and six months ended June 30, 2020 and 2019 were as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating lease cost	\$ 389	\$ 370	\$ 781	\$ 736
Short-term lease cost	\$ 10	\$ 14	\$ 22	\$ 27

The following is additional information about our leases as of June 30, 2020:

Range of remaining lease terms (in years)	0.6 to 7.8
Weighted average remaining lease term (in years)	5.3
Weighted average discount rate	4.8%

Maturities of lease liabilities as of June 30, 2020 were as follows:

2020 (remainder)	\$ 770
2021	1,252
2022	1,089
2023	1,106
2024	1,140
Thereafter	1,012
<b>Total lease payments</b>	<b>\$ 6,369</b>
Less imputed interest	(749)
<b>Total</b>	<b>\$ 5,620</b>

**Supplemental Cash Flow Information**

Total amortization of right of use assets was \$328 and \$653 for the three months and six months ended June 30, 2020, respectively, and \$295 and \$601 for the three months and six months ended June 30, 2019, respectively.

During the six months ended June 30, 2020, we recorded a non-cash increase in our ROU assets and operating lease liabilities as a result of a modification of the lease for our EMS facility in Fremont, California. On January 23, 2020, we executed an amendment to this lease, which extended the term for a period of 61 months commencing on November 1, 2020 and expiring on November 30, 2025. At the effective date of this modification, we recorded an increase in our ROU assets and operating lease liabilities of approximately \$1,176.

During the six months ended June 30, 2019, we recorded a non-cash decrease in our ROU assets and operating lease liabilities as a result of a modification of the lease for Ambrell’s U.K. facility. This lease had an original term of 15 years, which extended through August 2029. The lease included the option to terminate the lease at specified points in time without penalty. We exercised this option in March 2019, and the lease expired in September 2019. At the effective date of this modification, we recorded a reduction in our ROU assets and operating lease liabilities of approximately \$486. In addition, on April 8, 2019, we executed an amendment to the lease for our facility in Mansfield, Massachusetts that extended the term of the lease for an additional forty months to December 31, 2024 and expanded the amount of leased space by approximately 6,100 square feet. The current rate per square foot that is in place through August 31, 2021 (the original expiration date of the lease) did not change. After August 31, 2021, there are predetermined fixed escalations of the rate as outlined in the amendment. At the effective date of this modification, we recorded an increase in our ROU assets and operating lease liabilities of approximately \$1,819.

**(8) DEBT**

**Letters of Credit**

We have issued letters of credit as security deposits for certain of our domestic leases. These letters of credit are secured by pledged certificates of deposit which are classified as Restricted Certificates of Deposit on our balance sheets. The terms of our leases require us to renew these letters of credit at least 30 days prior to their expiration dates for successive terms of not less than one year until lease expiration.

Our outstanding letters of credit at June 30, 2020 and December 31, 2019 consisted of the following:

	Original L/C Issue Date	L/C Expiration Date	Lease Expiration Date	Letters of Credit Amount Outstanding	
				June 30, 2020	December 31, 2019
Mt. Laurel, NJ	3/29/2010	4/30/2021	4/30/2021	\$ 90	\$ 90
Mansfield, MA	10/27/2010	12/31/2024	12/31/2024	50	50
				<u>\$ 140</u>	<u>\$ 140</u>

**Line of Credit**

As previously indicated in Note 1, on April 10, 2020 (the “Closing Date”) we entered into the Agreement with M&T. Under the terms of the Agreement, M&T has provided us with a \$7,500 revolving credit facility under which our domestic subsidiaries, Ambrell, EMS LLC, Tempronic and Silicon Valley, are guarantors (collectively, the “Guarantors”). The revolving credit facility has a 364-day contract period that began on the Closing Date and expires on April 9, 2021 (the “Contract Period”). The principal balance of the revolving credit facility accrues interest at the LIBOR rate plus 2.5%. In the event the current LIBOR rate is no longer available or representative, the Agreement includes a mechanism for providing an alternate benchmark. Interest payments are due on a monthly basis, and principal payments are due, along with any accrued and unpaid interest thereon, on the earlier of (a) the expiration of the Contract Period, or (b) on demand upon the occurrence of an event of default that is continuing. As of June 30, 2020, we had \$7,500 available to borrow under this facility.

The Agreement contains customary events of default including, but not limited to, the failure by us to repay obligations when due, violation of provisions or representations provided in the Agreement, bankruptcy of inTEST Corporation, suspension of the business of inTEST Corporation or any of our subsidiaries and certain material judgments. After expiration of the Contract Period, or if during the continuance of an event of default, interest will accrue on the principal balance at a rate of 2% in excess of the then applicable non-default interest rate. Our obligations under the Agreement are secured by liens on substantially all our tangible and intangible assets. The Agreement includes customary affirmative, negative and financial covenants, including a maximum ratio of assets to liabilities and a fixed charge coverage ratio.

This facility was put in place to provide us with additional liquidity in response to the current business environment, as a result of COVID-19. During the three months ended June 30, 2020, we drew down \$2,800 on our revolving credit facility. This amount was fully repaid during this same period.

**Paycheck Protection Program Loans**

As discussed more fully in Note 13 to our consolidated financial statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2020 (“Q1 2020 Form 10-Q”) filed on May 13, 2020 with the Securities and Exchange Commission, during April 2020 we applied for and received loans through the Paycheck Protection Program (the “PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) administered by the U.S. Small Business Administration (the “SBA”) totaling \$2,829. We repaid the full amount of the PPP loans on May 5, 2020 with the applicable interest.

**(9) STOCK-BASED COMPENSATION**

As of June 30, 2020, we had unvested restricted stock awards and stock options granted under stock-based compensation plans that are described more fully in Note 12 to the consolidated financial statements in our 2019 Form 10-K.

As of June 30, 2020, total unrecognized compensation expense related to unvested restricted stock awards and stock options was \$1,676. The weighted average period over which this expense is expected to be recognized is 2.7 years. The following table shows the allocation of the compensation expense we recorded during the three months and six months ended June 30, 2020 and 2019, respectively, related to stock-based compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenues	\$ -	\$ -	\$ -	\$ -
Selling expense	3	4	6	4
Engineering and product development expense	11	12	21	15
General and administrative expense	194	197	368	377
	<u>\$ 208</u>	<u>\$ 213</u>	<u>\$ 395</u>	<u>\$ 396</u>

There was no stock-based compensation expense capitalized in the three months or six months ended June 30, 2020 or 2019.

**Restricted Stock Awards**

We record compensation expense for restricted stock awards 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 for employees and over one year for our independent directors (25% at each of March 31, June 30, September 30, and December 31 of the year in which they were granted).

The following table summarizes the activity related to unvested shares of restricted stock for the six months ended June 30, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares outstanding, January 1, 2020	165,031	\$ 6.55
Granted	74,000	3.59
Vested	(61,636)	4.90
Forfeited	(15,065)	5.02
Unvested shares outstanding, June 30, 2020	<u>162,330</u>	<u>5.61</u>

The total fair value of the shares that vested during the six months ended June 30, 2020 and 2019 was \$210 and \$292, respectively, as of the vesting dates of these shares.

**Stock Options**

We record compensation expense for stock options based on the fair value of the options as of the grant date. No option may be granted with an exercise period in excess of ten years from the date of grant. Generally, stock options will be granted with an exercise price equal to the fair market value of our stock on the date of grant and will vest over four years.

The fair value for stock options granted during the six months ended June 30, 2020 and 2019 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Risk-free interest rate	0.46%	2.38%
Dividend yield	0.00%	0.00%
Expected common stock market price volatility factor	.44	.41
Weighted average expected life of stock options (years)	6.25	6.25

The per share weighted average fair value of stock options issued during the six months ended June 30, 2020 and 2019 was \$1.48 and \$2.78, respectively.

The following table summarizes the activity related to stock options for the six months ended June 30, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value
Options outstanding, January 1, 2020 (87,900 exercisable)	506,810	\$ 6.89
Granted	113,980	3.49
Exercised	-	-
Forfeited	(27,140)	6.30
Options outstanding, June 30, 2020 (202,055 exercisable)	<u>593,650</u>	<u>6.26</u>

**(10) STOCK REPURCHASE PLAN**

On July 31, 2019, our Board of Directors authorized the repurchase of up to \$3,000 of our common stock from time to time on the open market, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or in privately negotiated transactions pursuant to a newly authorized stock repurchase plan (the "2019 Repurchase Plan"). Repurchases may be made under a Rule 10b5-1 plan entered into with RW Baird & Co., which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws and our internal trading windows. The 2019 Repurchase Plan does not obligate us to purchase any particular amount of common stock and may be suspended or discontinued at any time without prior notice. The 2019 Repurchase Plan is funded using our operating cash flow or available cash. Purchases began on September 18, 2019 under this plan. During the quarter ended March 31, 2020, we repurchased 13,767 under the 2019 Repurchase Plan at a cost of \$74, including fees paid to our broker. On March 2, 2020, we suspended repurchases under the 2019 Repurchase Plan. For the term of the 2019 Repurchase Plan through June 30, 2020, we have repurchased a total of 243,075 shares at a cost of \$1,216, which includes fees paid to our broker of \$6. All of the repurchased shares were retired.

**(11) EMPLOYEE BENEFIT PLANS**

We have defined contribution 401(k) plans for our employees who work in the U.S. All permanent employees of inTEST Corporation, inTEST EMS LLC (“EMS LLC”), Temptronic Corporation (“Temptronic”) and inTEST Silicon Valley Corporation (“Silicon Valley”) who are at least 18 years of age are eligible to participate in the inTEST Corporation Incentive Savings Plan. We match employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of \$5. Employer contributions vest ratably over four years. Matching contributions are discretionary. For the three months and six months ended June 30, 2020 we recorded \$92 and \$257 of expense for matching contributions, respectively. For the three months and six months ended June 30, 2019 we recorded \$92 and \$282 of expense for matching contributions, respectively.

All permanent employees of Ambrell are immediately eligible to participate in the Ambrell Corporation Savings & Profit Sharing Plan (the "Ambrell Plan") upon employment and are eligible for employer matching contributions after completing one year of service, as defined in the Ambrell Plan. The Ambrell Plan allows eligible employees to make voluntary contributions up to 100% of compensation, up to the federal government contribution limits. We will make a matching contribution of 25% of each employee's contributions up to a maximum of 2% of such employee's annual compensation. For the three months and six months ended June 30, 2020 we recorded \$15 and \$32 of expense for matching contributions, respectively. For the three months and six months ended June 30, 2019 we recorded \$14 and \$37 of expense for matching contributions, respectively.

**(12) SEGMENT INFORMATION**

We have two reportable segments, Thermal and EMS, which are also our reporting units. Thermal includes the operations of Temptronic, Thermonics, Sigma, inTEST Thermal Solutions GmbH (Germany), inTEST Pte, Limited (Singapore) and Ambrell. Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temptronic, Thermonics and Sigma product lines, and precision induction heating systems which are designed, manufactured and marketed by Ambrell. In addition, this segment provides post-warranty service and support. EMS includes the operations of our manufacturing facilities in Mt. Laurel, New Jersey and Fremont, California. Sales of this segment consist primarily of manipulator, docking hardware and tester interface products, which we design, manufacture and market.

We operate our business worldwide and sell our products both domestically and internationally. Both of our segments sell to semiconductor manufacturers, third-party test and assembly houses and ATE manufacturers. Thermal also sells into a variety of markets outside of the Semi Market, including the automotive, defense/aerospace, energy, industrial, telecommunications and other markets.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
<b>Net Revenues:</b>				
Thermal	\$ 9,476	\$ 10,519	\$ 18,810	\$ 23,153
EMS	3,799	3,833	5,695	9,261
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ 24,505</u>	<u>\$ 32,414</u>
<b>Earnings (loss) before income tax expense (benefit):</b>				
Thermal	\$ (13)	\$ 309	\$ (439)	\$ 1,453
EMS	261	102	(743)	1,149
Corporate	(65)	(711)	(28)	(1,440)
	<u>\$ 183</u>	<u>\$ (300)</u>	<u>\$ (1,210)</u>	<u>\$ 1,162</u>
<b>Net earnings (loss):</b>				
Thermal	\$ (3)	\$ 298	\$ (353)	\$ 1,189
EMS	226	125	(598)	940
Corporate	(53)	(610)	(22)	(1,178)
	<u>\$ 170</u>	<u>\$ (187)</u>	<u>\$ (973)</u>	<u>\$ 951</u>
			June 30,	December 31,
			2020	2019
<b>Identifiable assets:</b>				
Thermal		\$ 51,380	\$ 51,621	
EMS		7,704	7,319	
Corporate		774	775	
		<u>\$ 59,858</u>	<u>\$ 59,715</u>	

The following tables provide 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,	
	2020	2019	2020	2019
<b>Net revenues:</b>				
U.S.	\$ 4,954	\$ 6,283	\$ 10,673	\$ 13,093
Foreign	8,321	8,069	13,832	19,321
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ 24,505</u>	<u>\$ 32,414</u>
			June 30, 2020	December 31, 2019
<b>Property and equipment:</b>				
U.S.		\$ 1,920	\$ 1,920	\$ 2,163
Foreign			375	257
		<u>\$ 2,295</u>	<u>\$ 2,295</u>	<u>\$ 2,420</u>

### (13) SUBSEQUENT EVENTS

#### Executive Management Changes

On August 6, 2020, our Board of Directors accepted the resignation of James Pelrin as President and Chief Executive Officer (“CEO”) and as a director. In connection with his resignation, we entered into a Separation and Consulting Agreement (the “Separation Agreement”) with Mr. Pelrin dated August 6, 2020 pursuant to which Mr. Pelrin has agreed to provide consulting services for three months, subject to an extension of up to an additional three months at our option. The Separation Agreement also provides that Mr. Pelrin is entitled to severance and other benefits. The full text of the Separation Agreement is included as Exhibit 10.1 to our Current Report on Form 8-K (“8-K”) filed on August 11, 2020 with the SEC.

On August 6, 2020, our Board of Directors approved, effective as of August 24, 2020 (the “Start Date”), the appointment of Richard N. Grant, Jr. to the position of President and CEO and to fill the vacancy on our Board of Directors left by Mr. Pelrin’s resignation. We entered into a letter agreement with Mr. Grant, subject to his appointment as our President, CEO and a director, which appointments occurred on August 6, 2020 and are effective as of the Start Date. The full text of the letter agreement is included as Exhibit 10.2 to our 8-K filed on August 11, 2020 with the SEC.

On August 6, 2020, our Board of Directors appointed Hugh T. Regan, Jr., our Chief Financial Officer and Treasurer, as interim President and CEO until Mr. Grant assumes his position as President and CEO.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Risk Factors and Forward-Looking Statements**

In addition to historical information, this report including this management's discussion and analysis ("MD&A") contain statements that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements do not convey historical information but relate to predicted or potential future events and financial results, such as statements of our plans, strategies and intentions, or our future performance or goals that are based upon management's current expectations. Our forward-looking statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should," "plans," "projects," "forecasts," "outlook," or "anticipates" or similar terminology. See "Cautionary Statement Regarding Forward-Looking Statements" in our 2019 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. We undertake no obligation to update the information in this report including this MD&A to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events.

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 include, but are not limited to:

- the impact of COVID-19 on our business, liquidity, financial condition and results of operations, including as a result of evolving public health requirements in response to COVID-19, such as:
  - government mandated facility closures;
  - availability of employees;
  - supply chain and distribution interruptions;
  - price increases and/or lack of availability from our normal suppliers for the materials needed to produce our products in a timely manner and/or with the level of margins we typically expect to achieve;
  - customers' inability or refusal to accept product deliveries and the sufficiency of our revolving credit facility to address the impact of COVID-19;
- indications of a change in the market cycles in the Semi Market or other markets we serve including as a result of COVID-19;
- changes in business conditions and general economic conditions both domestically and globally including as a result of COVID-19;
- changes in the demand for semiconductors, generally and as a result of COVID-19;
- the success of our strategy to diversify our business by entering markets outside the Semi Market;
- the possibility of future acquisitions or dispositions and the successful integration of any acquired operations;
- the ability to borrow funds or raise capital to finance potential acquisitions;
- changes in the rates of, and timing of, capital expenditures by our customers including as a result of COVID-19;
- progress of product development programs;
- increases in raw material and fabrication costs associated with our products including as a result of COVID-19;
- and other risk factors included in Part I, Item 1A - "Risk Factors" in our 2019 Form 10-K and Part II, Item 1A - "Risk Factors" in this Quarterly Report on Form 10-Q.

Material changes to such risk factors may be reported in subsequent Quarterly Reports on Form 10-Q in Part II, Item 1A.

**COVID-19 Pandemic**

In early January 2020, a human infection was traced to a novel strain of coronavirus, referred to as COVID-19. COVID-19 has subsequently spread to virtually all parts of the world and has caused massive disruptions in the global economy. On March 11, 2020, the World Health Organization ("WHO") officially declared COVID-19 a pandemic. Our business has been, and will continue to be, adversely affected by COVID-19. Since March 17, 2020, several states, including all of the states in which we have manufacturing facilities, have instituted "shelter-in place" orders as well as guidance in response to COVID-19 and the need to contain it. As of July 2020, all of the states in which we operate had begun the process of re-opening to varying degrees. However, some of these states have paused their re-opening plans or reversed actions they had taken with respect to their re-opening plans because of increased spread. Despite these changes, all of our operations remain deemed "critical and essential business operations" under the various governmental COVID-19 mandates which has allowed us to continue to operate our business with certain modifications as discussed below.

The impact of COVID-19 on our operations has been intensified because it has occurred and continues during a time when our business operations continue to be negatively affected by a global downturn in the Semi Market. The Semi Market, from which approximately half of our net revenues are derived, has been in a cyclical downturn since the beginning of 2019. This downturn has resulted in significant declines in our net revenues from the Semi Market and contributed to the net loss we recorded in the first half of 2020 of \$973. Our net revenues from the Semi Market for the first half of 2020 totaled \$11.9 million compared to \$17.8 million in the first half of 2019. During the first quarter of 2020, before the spread of COVID-19, we had started to see indications that the downturn was coming to an end and that the beginning of the next cyclical upturn in the Semi Market was imminent. However, COVID-19 impacted this timing, and, as a result, the recovery in the Semi Market has been delayed by at least a quarter, if not more. Although we have seen increasing order rates from our customers in the Semi Market during the second quarter of 2020, there can be no assurance that this will continue, in particular, if the spread of COVID-19 is not further contained and the global economy continues to be negatively impacted.

During 2019, we made adjustments to reduce our fixed cost structure, which included staff reductions and limits on all discretionary spending. As a result of the delay in the Semi Market recovery discussed above and the impacts of COVID-19 on our operations, we have taken actions to further reduce our fixed cost structure with the goal of limiting future losses and maintaining an adequate level of liquidity to operate our business. To date, these additional actions have included further staff reductions, the temporary closure of our EMS manufacturing facility in Fremont, California for approximately three weeks beginning in late March and the temporary closure of our Thermal segment manufacturing facility in Mansfield, Massachusetts for a two-week period at the beginning of April. As discussed further in Notes 1 and 8 to our consolidated financial statements, on April 10, 2020, we entered into a Loan and Security Agreement (the "Agreement") with M&T Bank ("M&T"). Under the terms of the Agreement, M&T has provided us with a \$7.5 million revolving credit facility. This revolving credit facility was put in place to provide us with additional liquidity in response to the current business environment as a result of COVID-19.

As of the date of the filing of this report, all of our facilities are open. While we do not currently have any further plans for facility closures, if the current pace of COVID-19 cannot be sufficiently slowed and the spread of the virus is not contained, our business operations could be further interrupted. In addition, the aftermarket service and support that we provide to our customers has been, and we expect will continue to be, adversely impacted by COVID-19 due to travel restrictions which continue to exist in some locations and limitations on visitors allowed into customer facilities, which has resulted in some of these activities being reduced or suspended. Therefore, the net revenues associated with these aftermarket service and support activities, which typically range from 8% to 10% of our consolidated net revenues, may continue to be depressed. If the spread of the virus cannot be contained, government and health authorities may announce new or extend existing restrictions, which could require us to make further adjustments to our operations in order to comply with any such restrictions. These adjustments to our operations could include additional facility closures in the future if demand slows down, which could have a material negative impact on our business, results of operations and financial condition. The funds we may be able to draw down under the Agreement may not be sufficient to prevent the need to take further actions, such as staff reductions, facility closures or other salary and benefits adjustments for remaining employees. As a result of our current level of working capital as well as the availability of the revolving credit facility under the Agreement, we currently expect to have sufficient liquidity to operate our business throughout the balance of 2020, as further described in this report.

Generally, global supply chains and the timely availability of products have been, and will continue to be, materially disrupted by quarantines, factory slowdowns or shutdowns, border closings and travel restrictions resulting from COVID-19. We have experienced, and expect that we may continue to experience, price increases and/or lack of availability from our normal suppliers for the materials needed to produce our products in a timely manner and/or with the level of margins we typically expect to achieve. We are working to mitigate and address these delays and price increases, but there can be no assurance that we will not experience delays or price increases in the future which could have a material negative impact on our business, results of operations and financial condition.

We have implemented workplace safeguards designed to protect the health and well-being of our employees. A significant number of employees have been authorized to work from home and have been provided with the tools and technology necessary to do so. However, the process of working remotely may result in those employees not being as effective or responsive to our customers' needs as they would be under more normal conditions. This could result in lost business opportunities or have other negative impacts on our business. Remaining employees in our facilities are following WHO and CDC recommended safety practices, as well as state and local directives, but there can be no assurances that we can successfully avoid one or more of our employees contracting COVID-19 and entering our facilities while infected. Should this occur, or should we have employees who become ill or otherwise are unable to work, we may experience limitations in employee resources or may be required to close affected facilities for a time to clean and disinfect appropriately.

The duration of any business disruption and related financial impact cannot be reasonably estimated at this time but may materially affect our ability to operate our business and result in additional costs. The extent to which COVID-19 may impact our operating results, financial condition, and liquidity will depend on future developments, which are highly uncertain and cannot be predicted as of the date of the filing of this report, including new information that may emerge concerning the severity of COVID-19 and steps taken to contain COVID-19 or treat its impact, among others. The adverse effects of COVID-19 on our business could be material in future periods.



## Overview

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

We are a global supplier of precision-engineered solutions for use in manufacturing and testing across a wide range of markets including automotive, defense/aerospace, energy, industrial, semiconductor and telecommunications. We manage our business as two operating segments: Thermal Products (“Thermal”) and Electromechanical Semiconductor Products (“EMS”). Our Thermal segment designs, manufactures and sells our thermal test and thermal process products while our EMS segment designs, manufactures and sells our semiconductor test products.

Our EMS segment sells its 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 both semiconductor manufacturers and third-party test and assembly houses. Our Thermal segment sells its products to many of these same types of customers; however, it also sells into a variety of other markets, including the automotive, defense/aerospace, energy, industrial and telecommunications markets. As a result of the acquisition of Ambrell in May 2017, our Thermal segment also sells into the consumer products packaging, fiber optics and other sectors within the broader industrial market, and into the wafer processing sector within the broader semiconductor market.

Both of our operating segments have multiple products that we design, manufacture and market to our customers. Due to a number of factors, our products have varying levels of 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.

## Markets

Historically, we have referred to our markets as “Semiconductor” (which includes both the broader semiconductor market as well as the more specialized semiconductor ATE and wafer processing sectors within the broader semiconductor market), and “Non-Semiconductor” (which included all of the other markets we serve). In the second quarter of 2019, we began referring to the semiconductor market, including the ATE and wafer processing sectors within that market, as the “Semi Market.” All other markets are designated as “Multimarket.” While the Semi Market represents the historical roots of inTEST and remains a very important component of our business, Multimarket is where we have focused our strategic growth efforts in the last several years. Our goal has been to grow our business, both organically and through acquisition, in these markets as we believe these markets have historically been less cyclical than the Semi Market. It is important to note that business within our Thermal segment can fall into either the Semi Market or Multimarket, depending upon how our customers utilize our products or upon their respective applications. Prior to the acquisition of Ambrell in May 2017, we offered only highly specialized engineering solutions used for testing applications in Multimarket, the demand for which is limited and which varies significantly from period to period. Our acquisition of Ambrell not only provided expansion into new markets but also broadened our offerings to include products sold into process or manufacturing applications. Historically, Ambrell sold its precision induction heating systems almost exclusively to customers in the industrial market, but since 2018, has also had significant sales into the Semi Market. Overall, however, the acquisition of Ambrell has reduced our dependence on customers in the Semi Market. We expect that our future orders and net revenues will be approximately equally split between the Semi Market and Multimarket.

The portion of our business that is derived from the Semi Market is substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of integrated circuits (“ICs”) or, for Ambrell, the demand for wafer processing equipment. Demand for ATE or wafer processing equipment is driven by semiconductor manufacturers that are opening new, or expanding existing, semiconductor fabrication facilities or upgrading equipment, which in turn is dependent upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. Such market demand can be the result of market expansion, development of new technologies or redesigned products to incorporate new features, or the replacement of aging equipment. In addition, we continue to focus on design improvements and new approaches for our own products that contribute to our net revenues as our customers adopt these new products.

In the past, the Semi Market has been highly cyclical with recurring periods of oversupply, which often severely impact the Semi Market's demand for the products we manufacture and sell into the market. This cyclical nature 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. Market cycles are difficult to predict, and because they 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 the Semi Market, 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.

In addition to being cyclical, the Semi Market has also developed a seasonal pattern, with the second and third quarters being the periods of strong demand and the first and fourth quarters being periods of weaker demand. These periods of heightened or reduced demand can shift depending on various factors impacting both our customers and the markets that they serve.

Third party market share statistics are not available for the products we manufacture and sell into the Semi Market; therefore, comparisons of period over period changes in our market share are not easily determined. As a result, it is difficult to ascertain if Semi Market volatility in any period is the result of macro-economic or customer-specific factors impacting Semi Market demand, or if we have gained or lost market share to a competitor during the period.

While the majority of our orders and net revenues are derived from the Semi Market, and our operating results generally follow the overall trend in the Semi Market, in any given period we may experience anomalies that cause the trend in our net revenues to deviate from the overall trend in the Semi Market. We believe that these anomalies may be driven by a variety of factors within the Semi Market, including, for example, changing product requirements, longer periods between new product offerings by OEMs and changes in customer buying patterns. In addition, in recent periods, we have seen instances when demand within the Semi Market is not consistent for each of our operating segments or for any given product within a particular operating segment. This inconsistency in demand can be driven by a number of factors but, in most cases, we have found that the primary reason is unique customer-specific changes in demand for certain products driven by the needs of their customers or markets served. These shifts in market practices and customer-specific needs have had, and may continue to have, varying levels of impact on our operating results and 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.

As previously mentioned, as part of our ongoing strategy to reduce the impact of Semi Market volatility on our business operations, we continue to diversify our served markets to address the thermal test and thermal process requirements of several markets outside the Semi Market. These include the automotive, defense/aerospace, energy, industrial, telecommunications and other markets, which we refer to as Multimarket. We believe that these markets are usually less cyclical than the Semi Market. While market share statistics exist for some of these markets, due to the nature of our highly specialized product offerings in these markets, we do not expect broad market penetration in many of these markets and therefore do not anticipate developing meaningful market shares in most of these markets.

In addition, our Multimarket orders and net revenues in any given period do not necessarily reflect the overall trends in the markets within Multimarket due to our limited market shares. Consequently, we are continuing to evaluate buying patterns and opportunities for growth in Multimarket that may affect our performance. The level of our Multimarket orders and net revenues has varied in the past, and we expect will vary significantly in the future, as we work to build our presence in Multimarket and establish new markets for our products.

### Orders and Backlog

The following table sets forth, for the periods indicated, a breakdown of the orders received by operating segment and market (in thousands).

	Three Months Ended		Change		Three Months Ended		Change	
	June 30,				March 31,			
	2020	2019	\$	%	2020	\$	%	
<b>Orders:</b>								
Thermal	\$ 10,446	\$ 12,112	\$ (1,666)	(14)%	\$ 10,499	\$ (53)	(1)%	
EMS	3,472	3,809	(337)	(9)%	3,277	195	6%	
	<u>\$ 13,918</u>	<u>\$ 15,921</u>	<u>\$ (2,003)</u>	<u>(13)%</u>	<u>\$ 13,776</u>	<u>\$ 142</u>	<u>1%</u>	
Semi Market	\$ 7,299	\$ 8,629	\$ (1,330)	(15)%	\$ 6,692	\$ 607	9%	
Multimarket	6,619	7,292	(673)	(9)%	7,084	(465)	(7)%	
	<u>\$ 13,918</u>	<u>\$ 15,921</u>	<u>\$ (2,003)</u>	<u>(13)%</u>	<u>\$ 13,776</u>	<u>\$ 142</u>	<u>1%</u>	

	Six Months Ended		Change	
	June 30,			
	2020	2019	\$	%
<b>Orders:</b>				
Thermal	\$ 20,945	\$ 20,933	\$ 12	-%
EMS	6,749	6,883	(134)	(2)%
	<u>\$ 27,694</u>	<u>\$ 27,816</u>	<u>\$ (122)</u>	<u>-%</u>
Semi Market	\$ 13,991	\$ 14,202	\$ (211)	(1)%
Multimarket	13,703	13,614	89	1%
	<u>\$ 27,694</u>	<u>\$ 27,816</u>	<u>\$ (122)</u>	<u>-%</u>

Total consolidated orders for the three months ended June 30, 2020 were \$13.9 million compared to \$15.9 million for the same period in 2019 and \$13.8 million for the three months ended March 31, 2020. Orders from customers in Multimarket for the three months ended June 30, 2020 were \$6.6 million, or 48% of total consolidated orders, compared to \$7.3 million, or 46% of total consolidated orders for the same period in 2019 and \$7.1 million or 51% of total consolidated orders for the three months ended March 31, 2020.

We believe that the decrease in our consolidated orders during the three months ended June 30, 2020 as compared to the same period in 2019 reflects both the downturn in the Semi Market, where approximately half of our business is derived, and the impact of COVID-19, in particular as it relates to demand for our Thermal segment's aftermarket service and support as well as demand for induction heating products from certain of our customers who have been impacted by government mandated closures during the three months ended June 30, 2020. In contrast, we believe the increase in our Semi Market orders and the orders of our EMS segment, which sells exclusively into the Semi Market, during the three months ended June 30, 2020 as compared to the three months ended March 31, 2020 reflects that the downturn in the Semi Market is coming to an end. Although we have recently experienced increasing order rates from our customers in the Semi Market, as previously mentioned, there can be no assurance that this will continue, in particular, if the spread of COVID-19 cannot be further contained and the global economy continues to be negatively impacted.

At June 30, 2020, our backlog of unfilled orders for all products was approximately \$8.7 million compared with approximately \$8.8 million at June 30, 2019 and \$8.1 million at March 31, 2020. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2020. 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.

### Net Revenues

The following table sets forth, for the periods indicated, a breakdown of the net revenues by operating segment and market (in thousands).

	Three Months Ended		Change		Three Months Ended March 31, 2020	Change	
	June 30,		\$	%		\$	%
	2020	2019					
<b>Net revenues:</b>							
Thermal	\$ 9,476	\$ 10,519	\$ (1,043)	(10)%	\$ 9,334	\$ 142	2%
EMS	3,799	3,833	(34)	(1)%	1,896	1,903	100%
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ (1,077)</u>	<u>(8)%</u>	<u>\$ 11,230</u>	<u>\$ 2,045</u>	<u>18%</u>
Semi Market	\$ 6,858	\$ 7,641	\$ (783)	(10)%	\$ 5,011	\$ 1,847	37%
Multimarket	6,417	6,711	(294)	(4)%	6,219	198	3%
	<u>\$ 13,275</u>	<u>\$ 14,352</u>	<u>\$ (1,077)</u>	<u>(8)%</u>	<u>\$ 11,230</u>	<u>\$ 2,045</u>	<u>18%</u>

	Six Months Ended		Change	
	June 30,		\$	%
	2020	2019		
<b>Net revenues:</b>				
Thermal	\$ 18,810	\$ 23,153	\$ (4,343)	(19)%
EMS	5,695	9,261	(3,566)	(39)%
	<u>\$ 24,505</u>	<u>\$ 32,414</u>	<u>\$ (7,909)</u>	<u>(24)%</u>
Semi Market	\$ 11,869	\$ 17,752	\$ (5,883)	(33)%
Multimarket	12,636	14,662	(2,026)	(14)%
	<u>\$ 24,505</u>	<u>\$ 32,414</u>	<u>\$ (7,909)</u>	<u>(24)%</u>

Total consolidated net revenues for the three months ended June 30, 2020 were \$13.3 million compared to \$14.4 million for the same period in 2019 and \$11.2 million for the three months ended March 31, 2020. We believe the decrease in our consolidated net revenues as compared to the same period in 2019 primarily reflects the aforementioned downturn in the Semi Market, which we believe may be coming to an end based on recent increases we have experienced in our order levels, as discussed under the Orders and Backlog section above. We believe the increase in our consolidated net revenues for the three months ended June 30, 2020 as compared to the three months ended March 1, 2020 reflects this same trend. However, as also discussed under Orders and Backlog, we believe COVID-19 may slow the pace of the recovery in the Semi Market.

Net revenues from customers in Multimarket for the three months ended June 30, 2020 were \$6.4 million, or 48% of total consolidated net revenues, compared to \$6.7 million, or 47% of total consolidated net revenues for the same period in 2019 and \$6.2 million or 55% of total consolidated orders for the three months ended March 31, 2020.

### **Results of Operations**

The results of operations for our two operating segments are generally affected by the same factors described in the Overview and COVID-19 Pandemic sections above. Separate discussions and analyses for each segment would be repetitive. The discussion and analysis that follows, therefore, is presented on a consolidated basis and includes discussion of factors unique to each segment where significant to an understanding of that segment.

#### **Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019**

*Net Revenues.* Net revenues were \$13.3 million for the three months ended June 30, 2020 compared to \$14.4 million for the same period in 2019, a decrease of \$1.1 million, or 8%. We believe the decrease in our net revenues during the second quarter of 2020 primarily reflects the factors previously discussed in the Overview and COVID-19 Pandemic sections.

*Gross Margin.* Our consolidated gross margin was 46% of net revenues for the three months ended June 30, 2020 as compared to 47% of net revenues for the same period in 2019. The decrease in our gross margin primarily reflects an increase in our component material costs as a percentage of net revenues, which was a result of changes in product mix. To a lesser extent, we also had an increase in our fixed operating costs as a percentage of net revenues. Although our fixed operating costs decreased \$122,000 in absolute dollar terms, they increased as a percentage of net revenues as a result of not being as fully absorbed by the lower net revenues levels in the three months ended June 30, 2020 as compared to the same period in 2019. The \$122,000 decrease in our fixed operating costs primarily reflects a reduction in materials used in operations and service in our Thermal segment. To a lesser extent there were also reductions in freight, travel, headcount and the use of outsourced labor for our Thermal segment. These decreases were partially offset by an increase in facilities costs in our Thermal segment.

*Selling Expense.* Selling expense was \$1.8 million for the three months ended June 30, 2020 compared to \$2.1 million for the same period in 2019, a decrease of \$326,000, or 16%. The decrease primarily reflects a reduction in travel and trade show expense, reflecting the impact of COVID-19. In late March 2020, we suspended all non-essential travel, including attendance at trade shows. To a lesser extent, there was also a reduction in warranty expense and lower levels of commission expense, as a result of the lower net revenue levels.

*Engineering and Product Development Expense.* Engineering and product development expense was relatively unchanged at \$1.2 million for both the three months ended June 30, 2020 and 2019. Increases in salaries and benefits expense in our Thermal segment were offset by a reduction in spending on third-party consultants and materials used in product development in both of our segments.

*General and Administrative Expense.* General and administrative expense was \$2.9 million for the three months ended June 30, 2020 compared to \$3.7 million for the same period in 2019, a decrease of \$830,000, or 22%. The expense for the three months ended June 30, 2019 included \$351,000 of costs related to an acquisition which we later decided not to pursue. There were no similar costs in the three months ended June 30, 2020. During the three months ended June 30, 2019, we also recorded restructuring costs of \$223,000, primarily related to the consolidation of Ambrell's European operations. This compares to restructuring costs of \$38,000 recorded during the three months ended June 30, 2020, related to employee terminations in our Thermal segment which were a result of reduced levels of demand. During the three months ended June 30, 2020 we also recorded lower levels of expense for salaries and benefits, reflecting a reduction in administrative staff, reduced spending on third-party professionals who assist us in a variety of strategic and compliance related matters and lower travel costs.

*Income Tax Expense (Benefit).* For the three months ended June 30, 2020, we recorded income tax expense of \$13,000 compared to an income tax benefit of \$113,000 for the same period in 2019. Our effective tax rate was 7% for the three months ended June 30, 2020 compared to 38% for the same period in 2019. 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. The effective tax rates in each of the three months ended June 30, 2020 and 2019 reflect adjustments that were made to bring the effective tax rates for the six-month periods ended June 30, 2020 and 2019 to the expected annualized effective tax rate as of June 30 in each year.

#### Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

*Net Revenues.* Net revenues were \$24.5 million for the six months ended June 30, 2020 compared to \$32.4 million for the same period in 2019, a decrease of \$7.9 million, or 24%. We believe the decrease in our net revenues during the first six months of 2020 primarily reflects the factors previously discussed in the Overview.

*Gross Margin.* Our consolidated gross margin was 45% of net revenues for the six months ended June 30, 2020 as compared to 48% of net revenues for the same period in 2019. The decrease in our gross margin as a percentage of net revenues primarily reflects an increase in our fixed operating costs as a percentage of net revenues. Although our fixed operating costs decreased by \$415,000 in absolute dollar terms, they represented 20% of net revenues for the six months ended June 30, 2020 as compared to 16% of net revenues for the same period in 2019. This is a result of not being as fully absorbed by the lower net revenues levels in the first six months of 2020. The \$415,000 decrease in our fixed operating costs primarily reflects headcount reductions, lower levels of outsourced labor, and a reduction in materials used in operations and service in our Thermal segment. These decreases were partially offset by an increase in facilities costs in our Thermal segment. The increase in our fixed operating costs as a percentage of net revenues was partially offset by a reduction in component material costs for the six months ended June 30, 2020 as compared to the same period in 2019, reflecting changes in product mix.

*Selling Expense.* Selling expense was \$3.8 million for the six months ended June 30, 2020 compared to \$4.5 million for the same period in 2019, a decrease of \$648,000, or 15%. The decrease primarily reflects a reduction in travel and trade show expense, reflecting the aforementioned suspension of all non-essential travel and trade show attendance as a result of COVID-19. To a lesser extent, there was also a reduction in warranty expense and lower levels of commission expense, as a result of the lower net revenue levels.

*Engineering and Product Development Expense.* Engineering and product development expense was relatively unchanged at \$2.5 million for each of the six months ended June 30, 2020 and 2019. Increases in salaries and benefits expense were offset by a reduction in spending on materials used in product development.

*General and Administrative Expense.* General and administrative expense was \$5.8 million for the six months ended June 30, 2020 compared to \$7.5 million for the same period in 2019, a decrease of \$1.7 million, or 23%. During the six months ended June 30, 2019, we incurred \$703,000 related to an acquisition opportunity which we have decided not to pursue. There were no similar costs in the six months ended June 30, 2020. During the six months ended June 30, 2019, we also recorded restructuring costs of \$223,000, primarily related to the consolidation of Ambrell's European operations. This compares to restructuring costs of \$46,000 recorded during the six months ended June 30, 2020, primarily related to employee terminations in our Thermal segment which were a result of reduced levels of demand. During the six months ended June 30, 2020 we also recorded lower levels of expense for profit-based bonuses, reduced spending on third-party professionals who assist us in a variety of strategic and compliance related matters and lower travel costs.

*Income Tax Expense (Benefit).* For the six months ended June 30, 2020, we recorded an income tax benefit of \$237,000 compared to income tax expense of \$211,000 for the same period in 2019. Our effective tax rate was 20% for the six months ended June 30, 2020 compared to 18% for the same period in 2019. 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.

**Liquidity and Capital Resources**

As discussed more fully in the Overview, our business and results of operations are substantially dependent upon the demand for ATE by semiconductor manufacturers and companies that specialize in the testing of ICs. The cyclical and volatile nature of demand for ATE makes estimates of future revenues, results of operations and net cash flows difficult, especially in light of COVID-19.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations, and we manage our businesses to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets, for new product research and development, for acquisitions and for stock repurchases.

**Liquidity**

Our cash and cash equivalents and working capital were as follows (in thousands):

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents	\$ 7,424	\$ 7,612
Working capital	\$ 16,466	\$ 16,534

As of June 30, 2020, \$2.8 million, or 38%, of our cash and cash equivalents was held by our foreign subsidiaries. We currently expect our cash and cash equivalents, in combination with the borrowing availability under our revolving credit facility to be sufficient to support our short-term working capital requirements and other corporate requirements. Our revolving credit facility is discussed in Notes 1 and 8 to our consolidated financial statements. Should the impact of COVID-19 on our operations, including the disruption to our business caused by potential future closures of our facilities or reduced demand from our customers, be more significant than we currently anticipate, we may need additional financial resources, including additional debt or equity financings. There can be no assurance that any such debt or equity financings would be available on favorable terms or rates or at all.

**Cash Flows**

*Operating Activities.* For the six months ended June 30, 2020, we recorded a net loss of \$1.0 million. Our net cash provided by operations was \$81,000. During this same period, we had non-cash charges of \$1.6 million for depreciation and amortization, which included \$653,000 of amortization related to our right-of-use assets. During the six months ended June 30, 2020, we also recorded \$395,000 for amortization of deferred compensation expense related to stock-based awards. During the six months ended June 30, 2020, accounts receivable increased \$205,000, inventories increased \$1.1 million and accounts payable increased \$635,000, reflecting the recent increase in order levels.

*Investing Activities.* During the six months ended June 30, 2020, purchases of property and equipment were \$190,000. We have no significant commitments for capital expenditures for the balance of 2020; however, depending upon changes in market demand or manufacturing and sales strategies, we may make such purchases or investments as we deem necessary and appropriate.

*Financing Activities.* As discussed more fully in Note 13 to our consolidated financial statements in our Q1 2020 Form 10-Q, during April 2020, we applied for and received loans through the PPP) of the CARES Act administered by the SBA totaling \$2.8 million. We repaid the full amount of the PPP loans on May 5, 2020 with the applicable interest. During the six months ended June 30, 2020 we borrowed and repaid \$2.8 million on our revolving credit facility. During the six months ended June 30, 2020, we utilized \$74,000 to repurchase 13,767 shares of our common stock under the 2019 Repurchase Plan. On March 2, 2020, we suspended repurchases under the 2019 Repurchase Plan.

**New or Recently Adopted Accounting Standards**

See the Notes to our 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, contingent consideration liabilities and deferred income tax valuation allowances. 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, 2020, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2019 Form 10-K.

### **Off -Balance Sheet Arrangements**

There were no off-balance sheet arrangements during the six months ended June 30, 2020 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**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Exchange Act. Because there are inherent limitations in all control systems, 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. 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. 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. Our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. 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), 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, including impacts of COVID-19. 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.

#### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We will continue monitoring and assessing any impacts from COVID-19 on our internal controls.

## **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 2019 Form 10-K filed with the Securities and Exchange Commission on March 23, 2020. There have been no changes from the risk factors set forth in our 2019 Form 10-K, except for the addition of the following:

### **Our business, results of operations and financial condition and the market price of our common stock have been and will continue to be adversely affected by the COVID-19 pandemic.**

In early January 2020, a human infection was traced to a novel strain of coronavirus, referred to as COVID-19. COVID-19 has subsequently spread to virtually all parts of the world, and has caused massive disruptions in the global economy. On March 11, 2020, the WHO officially declared COVID-19 a pandemic. Our business has been, and will continue to be, adversely affected by COVID-19. Since March 17, 2020, several states, including all of the states in which we operate, have instituted "shelter-in place" orders as well as guidance in response to COVID-19 and the need to contain it. As of July 2020, all of the states in which we operate had begun the process of re-opening to varying degrees. However, some of these states have paused their re-opening plans or reversed actions they had taken with respect to their re-opening plans because of increased spread. We have carefully reviewed all rules, regulations and orders issued as of the date of the filing of this report and responded accordingly. Despite these changes, all of our operations remain deemed "critical and essential business operations" under the various governmental COVID-19 mandates which has allowed us to continue to operate our business with certain modifications.

The impact of COVID-19 on our operations is intensified because it has occurred and continues during a time when our business operations continue to be negatively affected by a global downturn in the Semi Market. We currently expect that the recovery in the Semi Market may be delayed. In addition, the aftermarket service and support that we provide to our customers has been, and we expect will continue to be, adversely impacted by COVID-19 due to travel restrictions and limitations on visitors allowed into customer facilities, which has resulted in some of these activities being reduced or suspended.

If the impact of COVID-19 is more significant than we currently expect, on top of downturns in the Semi Market, our business operations could be further interrupted. We may determine that we need to take actions to reduce our fixed cost structure with the goal of limiting future losses and maintaining an adequate level of liquidity to operate our business. These actions may include staff reductions, facility closures or other adjustments as we deem necessary. These actions may not be successful in reducing our cost structure sufficiently and we may experience further losses or a reduced level of liquidity which could negatively impact our ability to operate our business. We expect that government and health authorities may announce new or extend existing restrictions, which could require us to make further adjustments to our operations in order to comply with any such restrictions. These adjustments could include additional facility closures which could negatively impact our ability to operate our business.

Generally, global supply chains and the timely availability of products have been, and will continue to be, materially disrupted by quarantines, factory slowdowns or shutdowns, border closings and travel restrictions resulting from COVID-19. We have experienced, and expect that we may continue to experience, price increases and/or lack of availability from our normal suppliers for the materials needed to produce our products in a timely manner and/or with the level of margins we typically expect to achieve. Delays in receipt of materials or price increases in the future could have a material negative impact on our business, results of operations and financial condition.

As a result of COVID-19, a significant number of employees have been authorized to work from home. However, the process of working remotely may result in these employees not being as effective or responsive to our customers' needs as they would be under more normal conditions. This could result in lost business opportunities or have other negative impacts on our business. There can be no assurances that we can avoid one of our employees contracting COVID-19 and entering our facilities while infected. Should this occur, or should we have employees who become ill or otherwise are unable to work, we may experience limitations in employee resources or may be required to close affected facilities for a time to clean and disinfect appropriately.

The adverse effects of COVID-19 on our business could be material in future periods, particularly if there are significant and prolonged economic slowdowns in regions where we derive a significant amount of our revenue or profit, or where our suppliers are located, or if we are forced to close additional facilities and limit or cease manufacturing operations for extended periods of time. We could experience delays in receipt of customer orders, cancellation or postponement of existing orders and/or our ability to fulfill orders placed with us within the order's specified timeline and for the cost we estimated when we accepted the order may be negatively affected. This could lead to a reduction in revenue and/or an increase in our cost of revenues in future periods and could have a material adverse effect on our business, results of operations and financial condition. COVID-19 has also led to extreme volatility in capital markets and has adversely affected, and may continue to adversely affect, the market price of our common stock.

The duration of any business disruption and related financial impact cannot be reasonably estimated at this time but may materially affect our ability to operate our business and result in additional costs. The extent to which COVID-19 may impact our results will depend on future developments, which are highly uncertain and cannot be predicted as of the time of the filing of this report, including new information that may emerge concerning the severity of COVID-19 and steps taken to contain COVID-19 or treat its impact, among others. As a result of any negative impact of COVID-19 on our business, results of operations, and financial condition, we may determine that our goodwill and long-lived assets are impaired which would result in recording an impairment charge. The amount of any such impairment charge could be material.



**The terms and covenants relating to our revolving credit facility could adversely impact our financial performance and liquidity, and thus we may need additional financial resources to maintain our liquidity.**

Our revolving credit facility contains covenants requiring us to, among other things, provide financial and other information and to provide notice upon the occurrence of certain events affecting us or our business. These covenants also place restrictions on our ability to incur additional indebtedness, and enter into certain transactions, including selling assets, engaging in mergers or acquisitions, or engaging in transactions with affiliates. If we fail to satisfy one or more of the covenants under our revolving credit facility, we would be in default thereunder, and may be required to repay such debt with capital from other sources or otherwise not be able to draw down against our line of credit. Under such circumstances, due to the industry in which we operate, we may have difficulty in locating another lender that would be willing to extend credit to us, and other sources of capital may not be available to us on reasonable terms or at all. In addition, should the impact of COVID-19 on our operations, including the disruption to our business caused by potential future closures of our facilities or reduced demand from our customers, be more significant than we currently anticipate, we may need additional financial resources, including additional debt or equity financings. There can be no assurance that any such debt or equity financings would be available on favorable terms or rates or at all.

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

None

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

10.1	<a href="#">Loan and Security Agreement among inTEST Corporation, Ambrell Corporation, inTEST Silicon Valley Corporation, inTEST EMS, LLC, Temptronic Corporation and M&amp;T Bank dated April 10, 2020. (1)</a>
10.2	<a href="#">Patents, Trademarks, Copyrights and Licenses Security Agreement, dated April 10, 2020, by inTEST Corporation, Ambrell Corporation, inTEST Silicon Valley Corporation, inTEST EMS, LLC, Temptronic Corporation and M&amp;T Bank. (1)</a>
10.3	<a href="#">Surety Agreement, dated April 10, 2020, by Ambrell Corporation, inTEST Silicon Valley Corporation, inTEST EMS, LLC, Temptronic Corporation and M&amp;T Bank. (1)</a>
10.4	<a href="#">Revolver Note, dated April 10, 2020. (1)</a>
10.10*	<a href="#">Amended and Restated Change of Control Agreement dated April 29, 2020 between the Company and Hugh T. Regan, Jr. (2)</a>
10.11*	<a href="#">Form of Indemnification Agreement. (3)</a>
31.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a).</a>
32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Taxonomy Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Previously filed by the Company as an exhibit to the Company's Current Report on Form 8-K dated April 10, 2020, File No. 001-36117, filed April 15, 2020, and incorporated herein by reference.
- (2) Previously filed by the Company as an exhibit to the Company Form 10-Q for the quarter ended March 31, 2020, File No. 001-36117, filed May 13, 2020, and incorporated herein by reference.
- (3) Previously filed by the Company as an exhibit to the Company's Current Report on Form 8-K dated June 24, 2020, File No. 001-36117, filed June 29, 2020, and incorporated herein by reference.

\* Indicates a management contract or compensatory plan, contract or arrangement in which directors or executive officers participate.

**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, 2020

/s/ Hugh T. Regan, Jr.  
Hugh T. Regan, Jr.  
*Interim President and Chief Executive Officer*  
*Secretary, Treasurer and Chief Financial Officer*

**CERTIFICATION**

I, Hugh T. Regan, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of inTEST Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am solely responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2020

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

**inTEST CORPORATION**

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

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh T. Regan, Jr., Interim President and Chief Executive Officer, and the Secretary, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 12, 2020

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