

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2023 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 October 31, 2023: 12,161,312

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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)

	September 30, 2023 (Unaudited)	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,685	\$ 13,434
Restricted cash	-	1,142
Trade accounts receivable, net of allowance for credit losses of \$499 and \$496, respectively	20,710	21,215
Inventories	22,156	22,565
Prepaid expenses and other current assets	1,672	1,695
Total current assets	<u>86,223</u>	<u>60,051</u>
Property and equipment:		
Machinery and equipment	6,829	6,625
Leasehold improvements	3,581	3,242
Gross property and equipment	10,410	9,867
Less: accumulated depreciation	(7,267)	(6,735)
Net property and equipment	<u>3,143</u>	<u>3,132</u>
Right-of-use assets, net	4,755	5,770
Goodwill	21,578	21,605
Intangible assets, net	16,959	18,559
Deferred tax assets	1,381	280
Restricted certificates of deposit	100	100
Other assets	444	569
Total assets	<u>\$ 134,583</u>	<u>\$ 110,066</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of Term Note	\$ 4,100	\$ 4,100
Current portion of operating lease liabilities	1,730	1,645
Accounts payable	7,296	7,394
Accrued wages and benefits	4,030	3,907
Accrued professional fees	1,188	884
Customer deposits and deferred revenue	3,709	4,498
Accrued sales commissions	1,248	1,468
Domestic and foreign income taxes payable	1,245	1,409
Other current liabilities	1,557	1,564
Total current liabilities	<u>26,103</u>	<u>26,869</u>
Operating lease liabilities, net of current portion	3,501	4,705
Term Note, net of current portion	8,967	12,042
Contingent consideration	1,002	1,039
Other liabilities	397	455
Total liabilities	<u>39,970</u>	<u>45,110</u>
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; 12,237,070 and 11,063,271 shares issued, respectively	122	111
Additional paid-in capital	53,960	31,987
Retained earnings	41,430	32,854
Accumulated other comprehensive earnings	2	218
Treasury stock, at cost; 75,758 and 34,308 shares, respectively	(901)	(214)
Total stockholders' equity	<u>94,613</u>	<u>64,956</u>
Total liabilities and stockholders' equity	<u>\$ 134,583</u>	<u>\$ 110,066</u>

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Revenue	\$ 32,663	\$ 30,771	\$ 97,140	\$ 84,423
Cost of revenue	17,329	16,873	51,724	45,964
Gross profit	<u>15,334</u>	<u>13,898</u>	<u>45,416</u>	<u>38,459</u>
Operating expenses:				
Selling expense	4,367	4,009	13,483	11,498
Engineering and product development expense	1,802	1,866	5,689	5,649
General and administrative expense	5,882	4,864	16,099	14,623
Total operating expenses	<u>12,051</u>	<u>10,739</u>	<u>35,271</u>	<u>31,770</u>
Operating income	3,283	3,159	10,145	6,689
Interest expense	(168)	(179)	(526)	(457)
Other income	423	59	678	32
Earnings before income tax expense	3,538	3,039	10,297	6,264
Income tax expense	572	515	1,721	1,047
Net earnings	<u>\$ 2,966</u>	<u>\$ 2,524</u>	<u>\$ 8,576</u>	<u>\$ 5,217</u>
Earnings per common share - basic	\$ 0.25	\$ 0.24	\$ 0.76	\$ 0.49
Weighted average common shares outstanding - basic	11,886,005	10,695,867	11,294,306	10,655,469
Earnings per common share - diluted	\$ 0.24	\$ 0.23	\$ 0.74	\$ 0.48
Weighted average common shares and common share equivalents outstanding - diluted	12,212,317	10,864,540	11,665,850	10,840,644

See accompanying Notes to Consolidated Financial Statements.

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**

(In thousands)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net earnings	\$ 2,966	\$ 2,524	\$ 8,576	\$ 5,217
Unrealized gain (loss) on interest rate swap agreement	(44)	169	(115)	578
Foreign currency translation adjustments	(424)	(935)	(101)	(1,774)
Comprehensive earnings	<u>\$ 2,498</u>	<u>\$ 1,758</u>	<u>\$ 8,360</u>	<u>\$ 4,021</u>

See accompanying Notes to Consolidated Financial Statements

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands, except share data)  
(Unaudited)

	Nine Months Ended September 30, 2023						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 2023	11,063,271	\$ 111	\$ 31,987	\$ 32,854	\$ 218	\$ (214)	\$ 64,956
Net earnings	-	-	-	2,817	-	-	2,817
Other comprehensive earnings	-	-	-	-	71	-	71
Amortization of deferred compensation related to stock-based awards	-	-	474	-	-	-	474
Issuance of unvested shares of restricted stock	90,588	1	(1)	-	-	-	-
Forfeitures of unvested shares of restricted stock	(13,271)	-	-	-	-	-	-
Stock options exercised	25,200	-	165	-	-	-	165
Shares issued under Employee Stock Purchase Plan	2,292	-	48	-	-	-	48
Shares surrendered by employees to satisfy tax liability at vesting of stock-based awards	-	-	-	-	-	(33)	(33)
Balance, March 31, 2023	11,168,080	112	32,673	35,671	289	(247)	68,498
Net earnings	-	-	-	2,793	-	-	2,793
Other comprehensive earnings	-	-	-	-	181	-	181
Amortization of deferred compensation related to stock-based awards	-	-	605	-	-	-	605
Issuance of unvested shares of restricted stock	6,873	-	-	-	-	-	-
Stock options exercised	86,600	1	734	-	-	-	735
Shares issued under Employee Stock Purchase Plan	1,870	-	49	-	-	-	49
Shares surrendered by employees to satisfy tax liability at vesting of stock-based awards	-	-	-	-	-	(41)	(41)
Shares issued pursuant to At-the-Market Offering	921,797	9	19,235	-	-	-	19,244
Balance, June 30, 2023	12,185,220	122	53,296	38,464	470	(288)	92,064
Net earnings	-	-	-	2,966	-	-	2,966
Other comprehensive loss	-	-	-	-	(468)	-	(468)
Amortization of deferred compensation related to stock-based awards	-	-	544	-	-	-	544
Issuance of additional shares of restricted stock related to performance-based awards which vested in the period	40,557	-	-	-	-	-	-
Forfeiture of unvested shares of restricted stock	(4,220)	-	-	-	-	-	-
Stock options exercised	12,750	-	78	-	-	-	78
Shares issued under Employee Stock Purchase Plan	2,763	-	42	-	-	-	42
Shares surrendered by employees to satisfy tax liability at vesting of stock-based awards	-	-	-	-	-	(613)	(613)
Balance, September 30, 2023	<u>12,237,070</u>	<u>\$ 122</u>	<u>\$ 53,960</u>	<u>\$ 41,430</u>	<u>\$ 2</u>	<u>\$ (901)</u>	<u>\$ 94,613</u>

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)**  
(In thousands, except share data)  
(Unaudited)

	<b>Nine Months Ended September 30, 2022</b>						
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Earnings (loss)</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>					
Balance, January 1, 2022	10,910,460	\$ 109	\$ 29,931	\$ 24,393	\$ 594	\$ (204)	\$ 54,823
Net earnings	-	-	-	577	-	-	577
Other comprehensive earnings	-	-	-	-	173	-	173
Amortization of deferred compensation related to stock-based awards	-	-	372	-	-	-	372
Issuance of unvested shares of restricted stock	79,489	1	(1)	-	-	-	-
Shares issued under Employee Stock Purchase Plan	5,245	-	56	-	-	-	56
Balance, March 31, 2022	10,995,194	110	30,358	24,970	767	(204)	56,001
Net earnings	-	-	-	2,116	-	-	2,116
Other comprehensive loss	-	-	-	-	(603)	-	(603)
Amortization of deferred compensation related to stock-based awards	-	-	551	-	-	-	551
Issuance of unvested shares of restricted stock	44,044	-	-	-	-	-	-
Shares surrendered by employees to satisfy tax liability at vesting of stock-based awards	-	-	-	-	-	(10)	(10)
Shares issued under Employee Stock Purchase Plan	9,470	-	65	-	-	-	65
Balance, June 30, 2022	11,048,708	110	30,974	27,086	164	(214)	58,120
Net earnings	-	-	-	2,524	-	-	2,524
Other comprehensive loss	-	-	-	-	(766)	-	(766)
Amortization of deferred compensation related to stock-based awards	-	-	450	-	-	-	450
Forfeiture of unvested shares of restricted stock	(5,944)	-	-	-	-	-	-
Stock options exercised	8,060	-	38	-	-	-	38
Shares issued under Employee Stock Purchase Plan	7,034	1	54	-	-	-	55
Balance, September 30, 2022	11,057,858	\$ 111	\$ 31,516	\$ 29,610	\$ (602)	\$ (214)	\$ 60,421

See accompanying Notes to Consolidated Financial Statements

**inTEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 8,576	\$ 5,217
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,515	3,674
Provision for excess and obsolete inventory	385	307
Foreign exchange loss	17	107
Amortization of deferred compensation related to stock-based awards	1,623	1,373
Discount on shares sold under Employee Stock Purchase Plan	21	28
Loss on disposal of property and equipment	164	45
Deferred income tax benefit	(1,101)	(1,162)
Adjustment to contingent consideration liability	(358)	-
Changes in assets and liabilities:		
Trade accounts receivable	480	(4,900)
Inventories	(9)	(8,549)
Prepaid expenses and other current assets	21	(907)
Other assets	9	(1)
Operating lease liabilities	(1,275)	(1,064)
Accounts payable	(100)	3,947
Accrued wages and benefits	125	(527)
Accrued professional fees	305	(153)
Customer deposits and deferred revenue	(794)	(827)
Accrued sales commissions	(220)	310
Domestic and foreign income taxes payable	(166)	(672)
Other current liabilities	320	35
Other liabilities	(17)	61
Net cash provided by (used in) operating activities	<u>11,521</u>	<u>(3,658)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Refund of final working capital adjustment related to Acculogic	-	371
Purchase of property and equipment	(983)	(1,043)
Purchase of short-term investments	-	(3,494)
Net cash used in investing activities	<u>(983)</u>	<u>(4,166)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from public offering of common stock	19,244	-
Repayments of Term Note	(3,075)	(2,933)
Proceeds from shares sold under Employee Stock Purchase Plan	118	148
Proceeds from stock options exercised	978	38
Settlement of employee tax liabilities in connection with treasury stock transaction	(687)	(10)
Net cash provided by (used in) financing activities	<u>16,578</u>	<u>(2,757)</u>
Effects of exchange rates on cash	<u>(7)</u>	<u>(576)</u>
Net cash provided by (used in) all activities	27,109	(11,157)
Cash and cash equivalents at beginning of period	14,576	21,195
Cash and cash equivalents at end of period	<u>\$ 41,685</u>	<u>\$ 10,038</u>
<b>Cash payments for:</b>		
Domestic and foreign income taxes	\$ 2,988	\$ 2,926

See accompanying Notes to Consolidated Financial Statements.



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

**(1) NATURE OF OPERATIONS**

We are a global supplier of innovative test and process technology solutions for use in manufacturing and testing across a wide range of markets including automotive, defense/aerospace, industrial, life sciences, security and semiconductor. We have three operating segments which are also our reportable segments and reporting units: Electronic Test, Environmental Technologies and Process Technologies.

The consolidated entity is comprised of inTEST Corporation and our wholly-owned subsidiaries. We manufacture our products in the U.S., Canada and the Netherlands. Marketing and support activities are conducted worldwide from our facilities in the U.S., Canada, Germany, Singapore, the Netherlands and the U.K. We operate our business worldwide and sell our products both domestically and internationally.

All 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. In addition, we sell our products to a variety of different types of customers with varying levels of discounts and commission expense. As a result of changes in both the mix of products sold as well as customer mix in any given period, our consolidated gross margin can vary significantly from period to period.

The semiconductor market ("semi" or the "semi market") which includes both the broader semiconductor market, as well as the more specialized automated test equipment ("ATE") and wafer production sectors within the broader semiconductor market, has historically been the largest single market in which we operate. The semi market is characterized by rapid technological change, competitive pricing pressures and cyclical as well as seasonal market patterns. The semi market is also subject to periods of significant expansion or contraction in demand. In addition to the semi market, we sell into a variety of other markets. Our intention is to continue diversifying our markets, our product offerings within the markets we serve and our customer base across all of our markets with the goal of reducing our dependence on any one market, product or customer. In particular, we are seeking to reduce the impact of volatility in the semi market on our results of operations.

Our Electronic Test segment sells its products to semiconductor manufacturers and third-party test and assembly houses (end user sales) and to 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. These sales all fall within the ATE sector of the semi market. With the acquisition of Acculogic Inc. and its affiliates ("Acculogic") in December 2021, our Electronic Test segment also sells its products to customers in markets outside the semi market including the automotive, defense/aerospace, industrial and life sciences markets. Our Environmental Technologies segment sells its products to end users and OEMs within the ATE sector of the semi market. It also sells its products to customers in a variety of other markets other than the semi market, including the automotive, defense/aerospace, industrial and life sciences markets. Our Process Technologies segment sells its products to customers in the wafer production sector within the semi market. It also sells its products to customers in a variety of other markets other than the semi market, including the automotive, defense/aerospace, industrial, life sciences and security markets.

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, downward pricing pressures from customers, our reliance on a relatively few number of customers for a significant portion of our sales and our ability to safeguard patented technology and intellectual property in a rapidly evolving market. 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. Part of our strategy for growth includes potential acquisitions 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.

On May 11, 2023, we entered into an At-the-Market Issuance Sales Agreement (the "Sales Agreement") pursuant to which we issued and sold 921,797 shares of our common stock having an aggregate offering price of \$20,000 between May 11, 2023 and May 31, 2023. We received net proceeds from the sale of these shares of \$19,244 after payment of commissions of 3.0% of the gross proceeds and other fees related to the sale of these shares.

(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 ("U.S. GAAP") 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain of our accounts, including contingent consideration, 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 Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K") filed on March 22, 2023 with the Securities and Exchange Commission.

**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 nine months ended September 30, 2023.

**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 operating 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.

**Cash, Cash Equivalents and Restricted Cash**

Short-term investments that have maturities of three months or less when purchased are considered to be cash equivalents and are carried at cost, which approximates fair value. Our cash balances, which are deposited with highly reputable financial institutions, at times may exceed the federally insured limits. We have not experienced any losses related to these cash balances and believe the credit risk to be minimal.

Restricted cash at December 31, 2022 represented amounts deposited at our bank in the Netherlands to support a bank guarantee which one of the customers of our Process Technologies segment required as a condition of paying a deposit on a large order they placed with us in 2022. The related order was Euro denominated. The amount of the deposit and related guarantee declined as shipments were made against the order. At September 30, 2023 this deposit had been fully utilized and the bank guarantee had therefore lapsed. At December 31, 2022, the amount of the deposit, and, accordingly, the guarantee, was EUR 1,067, or \$1,142.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets and the consolidated statements of cash flows:

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 41,685	\$ 13,434
Restricted cash	-	1,142
Total cash, cash equivalents and restricted cash	<u>\$ 41,685</u>	<u>\$ 14,576</u>

#### **Trade Accounts Receivable and Allowance for Credit Losses**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. We grant credit to customers and generally require no collateral. To minimize our risk, we perform ongoing credit evaluations of our customers' financial condition. As discussed below under "Effect of Recently Adopted Amendments to Authoritative Accounting Guidance", effective January 1, 2023, we follow the guidance in Accounting Standards Codification ("ASC") Topic 326 (Financial Instruments – Credit Losses) in developing our estimate of the allowance for credit losses related to our accounts receivable. The allowance for credit losses is our best estimate of the amount of expected credit losses in our existing accounts receivable. In establishing the amount of allowance for credit losses, we consider all information available as of the reporting date including information related to past events, such as historical loss rates and actual incurred losses, as well as current conditions that may indicate future risk of loss and any other factors of which we are aware, that we believe could impact the ultimate collectability of the related receivables in future periods.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any significant off-balance sheet credit exposure related to our customers. Cash flows from accounts receivable are recorded in operating cash flows.

For the nine months ended September 30, 2023, there were no significant changes in the amount of the allowance for credit losses. During the nine months ended September 30, 2023, we recorded a bad debt recovery of \$79. This amount had been fully written off prior to our acquisition of Acculogic and was no longer in our accounts receivable balance. There was no bad debt expense or recovery recorded during the nine months ended September 30, 2022.

#### **Fair Value of Financial Instruments**

Our financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, accrued expenses, our credit facility, interest rate swaps and our liabilities for contingent consideration. Our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at cost which approximates fair value, due to the short maturities of the accounts. Our short-term investments are classified as held-to-maturity and carried at amortized cost. Our credit facility and our interest rate swap are discussed further below and in Note 9. Our liabilities for contingent consideration are accounted for in accordance with the guidance in ASC Topic 820 (Fair Value Measurement). ASC Topic 820 establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and our own assumptions (unobservable inputs). Our contingent consideration liabilities are measured at fair value on a recurring basis using Level 3 inputs which are inputs that are unobservable and significant to the overall fair value measurement. These unobservable inputs reflect our assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. See Note 3 for further disclosures related to the fair value of our liabilities for contingent consideration.

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

We have three reportable segments which are also our reporting units: Electronic Test, Environmental Technologies and Process Technologies.

We account for goodwill and intangible assets in accordance with 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 at the beginning of 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 at the beginning of 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, property and equipment and right-of-use (“ROU”) 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. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset group. If impairment is indicated, the asset group 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 innovative test and process technology solutions for use in manufacturing and testing in targeted markets including automotive, defense/aerospace, industrial, life sciences, security and semiconductor. We sell thermal management products including ThermoStreams, ThermoChambers, process chillers, refrigerators and freezers, which we sell under our Temptronic, Sigma, Thermonics and North Sciences product lines, and Ambrell Corporation's (“Ambrell”) precision induction heating systems, including EKOHEAT® and EASYHEAT™ products. As a result of the acquisition of Videology, we sell industrial-grade circuit board mounted video digital cameras and related devices, systems and software. We sell semiconductor ATE interface solutions which include manipulators, docking hardware and electrical interface products. As a result of the acquisition of Acculogic, we sell robotics-based electronic production test equipment. 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 many of our products to various other markets including the automotive, defense/aerospace, industrial, life sciences and security 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 credit losses, 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.

As discussed above, we follow the guidance in ASC Topic 326 in developing our estimate of the allowance for credit losses related to our accounts receivable. The allowance for credit losses is our best estimate of the amount of expected credit losses in our existing accounts receivable. We monitor the collectability of accounts receivable on an ongoing basis and record charges for bad debt expense in the period when we determine that a loss is expected to occur based on our assessment.

#### *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. We offer customers an option to separately purchase an extended warranty on certain 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 5 and 13 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 net realizable 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. Our criteria identify excess material as the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. Our criteria identify obsolete material as material that has not been used in a work order during the prior twenty-four months. 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). 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 of 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 Topic 842. Operating leases are included in operating lease 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 financing leases.

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 ROU assets is presented separately from the change in operating lease liabilities and is included in Depreciation and Amortization on our consolidated statements of cash flows.

We have made an accounting policy election not to apply the recognition requirements of ASC Topic 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 8 for further disclosures regarding our leases.

## **Interest Rate Swap Agreement**

We are exposed to interest rate risk on our floating-rate debt. We have entered into an interest rate swap agreement to effectively convert our floating-rate debt to a fixed-rate basis for a portion of our floating rate debt, as discussed further in Notes 3 and 9. The principal objective of this agreement is to eliminate the variability of the cash flows for interest payments associated with our floating-rate debt, thus reducing the impact of interest rate changes on future interest payment cash flows. We have elected to apply the hedge accounting rules in accordance with ASC Topic 815 (Derivatives and Hedging). Further, we have determined that this agreement qualifies for the shortcut method of hedge accounting. Changes in the fair value of interest rate swap agreements designated as cash flow hedges are recorded as a component of accumulated other comprehensive earnings (loss) within stockholders' equity and are amortized to interest expense over the term of the related debt.

## **Contingent Liability for Repayment of State and Local Grant Funds Received**

In connection with leasing a 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 \$550 to help offset a portion of the cost of the leasehold improvements we made to this facility. The final payment of \$87 was received during the three months ended March 31, 2022. 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 2024. If we fail to meet these employment targets, we may be required to repay a proportionate share of the proceeds. At September 30, 2023, \$193 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 consolidated 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 \$259 at September 30, 2023. At September 30, 2023, we were in compliance with the employment targets as specified in the grant agreement with the city of Rochester.

### **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, which is then amortized to expense over the service periods. See further disclosures related to our stock-based compensation plans in Note 10.

### **Income Taxes**

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

### **Earnings Per Common Share**

Earnings per common share - basic is computed by dividing net earnings by the weighted average number of common shares outstanding during each period. Earnings per common share - diluted is computed by dividing earnings 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 September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Weighted average common shares outstanding - basic	11,886,005	10,695,867	11,294,306	10,655,469
Potentially dilutive securities:				
Unvested shares of restricted stock and employee stock options	326,312	168,673	371,544	185,175
Weighted average common shares and common share equivalents outstanding - diluted	<u>12,212,317</u>	<u>10,864,540</u>	<u>11,665,850</u>	<u>10,840,644</u>
Average number of potentially dilutive securities excluded from calculation because their effect was anti-dilutive during the period	<u>107,666</u>	<u>518,145</u>	<u>119,585</u>	<u>491,014</u>

### **Effect of Recently Adopted 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 were effective for us for reporting periods beginning after December 15, 2022. The amendments replaced 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 adopted the amendments when they became effective for us on January 1, 2023. The adoption of these amendments did not have any impact on our consolidated financial statements.

(3) **FAIR VALUE MEASUREMENTS**

ASC Topic 820 (Fair Value Measurement) establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and our own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes among the following:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by us in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**Recurring Fair Value Measurements**

The interest rate swap agreement we entered into in connection with our Term Note, as discussed further in Notes 2 and 9 is measured at fair value on a recurring basis using Level 2 inputs. The contingent consideration liability on our balance sheets is measured at fair value on a recurring basis using Level 3 inputs. Our contingent consideration liability is a result of our acquisition of Acculogic on December 21, 2021, and represents the estimated fair value of the additional cash consideration payable that is contingent upon sales to Electric Vehicle (“EV”) or battery customers. Our acquisition of Acculogic and this liability are both discussed further in Note 3 to our consolidated financial statements in our 2022 Form 10-K. As of September 30, 2023, this liability was classified as long-term. As of December 31, 2022, \$324 of this liability was classified as current and was included in Other Current Liabilities on our balance sheet. During the quarter ended September 30, 2023, the total amount of this liability was adjusted down by \$358 as a result of a reduction in our forecast for sales to EV and battery customers in the five-year period following the acquisition. The decrease in the amount of the liability during the third quarter of 2023 was included in General and Administrative Expenses on our statement of operations.

The following fair value hierarchy table presents information about assets and (liabilities) measured at fair value on a recurring basis:

	Amounts at Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
<b>As of September 30, 2023</b>				
Contingent consideration liability – Acculogic	\$ (1,002)	\$ -	\$ -	\$ (1,002)
Interest rate swap	\$ 413	\$ -	\$ 413	\$ -
<b>As of December 31, 2022</b>				
Contingent consideration liability – Acculogic	\$ (1,363)	\$ -	\$ -	\$ (1,363)
Interest rate swap	\$ 528	\$ -	\$ 528	\$ -



Changes in the fair value of our Level 3 contingent consideration liabilities for the nine months ended September 30, 2023 were as follows:

	<b>Nine Months Ended September 30, 2023</b>
Balance at beginning of period	\$ 1,363
Impact of foreign currency translation adjustments	(3)
Adjustment to contingent consideration liability as a result of reduction in expected payout	(358)
Balance at end of period	<u>\$ 1,002</u>

**(4) GOODWILL AND INTANGIBLE ASSETS**

We have three operating segments which are also our reporting units: Electronic Test, Environmental Technologies and Process Technologies. Goodwill and intangible assets on our balance sheets are the result of our acquisitions.

**Goodwill**

Changes in the amount of the carrying value of goodwill for the nine months ended September 30, 2023 are as follows:

Balance - January 1, 2023	\$ 21,605
Impact of foreign currency translation adjustments	(27)
Balance - September 30, 2023	<u>\$ 21,578</u>

Goodwill was comprised of the following at September 30, 2023 and December 31, 2022:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Electronic Test	\$ 3,364	\$ 3,369
Environmental Technologies	1,817	1,817
Process Technologies	16,397	16,419
Total goodwill	<u>\$ 21,578</u>	<u>\$ 21,605</u>

**Intangible Assets**

Changes in the amount of the carrying value of indefinite-lived intangible assets for the nine months ended September 30, 2023 are as follows:

Balance - January 1, 2023	\$ 8,369
Impact of foreign currency translation adjustments	(5)
Balance - September 30, 2023	<u>\$ 8,364</u>

Changes in the amount of the carrying value of finite-lived intangible assets for the nine months ended September 30, 2023 are as follows:

Balance - January 1, 2023	\$ 10,190
Impact of foreign currency translation adjustments	(13)
Amortization	(1,582)
Balance - September 30, 2023	<u>\$ 8,595</u>

Intangible assets were allocated to our reporting segments at September 30, 2023 and December 31, 2022 as follows:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Electronic Test	\$ 3,761	\$ 4,139
Environmental Technologies	804	832
Process Technologies	12,394	13,588
Total intangible assets	<u>\$ 16,959</u>	<u>\$ 18,559</u>

The following tables provide further detail about our intangible assets as of September 30, 2023 and December 31, 2022:

	<b>September 30, 2023</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>Finite-lived intangible assets:</b>			
Customer relationships	\$ 16,296	\$ 9,251	\$ 7,045
Technology	2,848	1,298	1,550
Patents	590	590	-
Backlog	490	490	-
Software	270	270	-
Trade name	140	140	-
Total finite-lived intangible assets	<u>20,634</u>	<u>12,039</u>	<u>8,595</u>
<b>Indefinite-lived intangible assets:</b>			
Trademarks	8,364	-	8,364
Total intangible assets	<u>\$ 28,998</u>	<u>\$ 12,039</u>	<u>\$ 16,959</u>

	<b>December 31, 2022</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>Finite-lived intangible assets:</b>			
Customer relationships	\$ 16,313	\$ 7,990	\$ 8,323
Technology	2,855	988	1,867
Patents	590	590	-
Backlog	492	492	-
Software	270	270	-
Trade name	140	140	-
Total finite-lived intangible assets	<u>20,660</u>	<u>10,470</u>	<u>10,190</u>
<b>Indefinite-lived intangible assets:</b>			
Trademarks	8,369	-	8,369
Total intangible assets	<u>\$ 29,029</u>	<u>\$ 10,470</u>	<u>\$ 18,559</u>

We generally amortize our finite-lived intangible assets over their estimated useful lives based on the pattern in which the economic benefits of the intangible assets are expected to be consumed, or on a straight-line basis, if an alternate amortization method cannot be reliably determined. Any such alternate amortization method would be based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. None of our intangible assets have any residual value.

The following table sets forth the estimated annual amortization expense for each of the next five years:

2023 (remainder)	\$ 511
2024	\$ 1,965
2025	\$ 1,757
2026	\$ 1,148
2027	\$ 654

(5) **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. The information about revenue by customer and product type for the three and nine months ended September 30, 2022 has been reclassified to be consistent with how the information for the current period is presented. See also Note 13 for information about revenue by operating segment and geographic region.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Revenue by customer type:</b>				
End user	\$ 21,139	\$ 21,548	\$ 64,720	\$ 60,785
OEM/Integrator	11,524	9,223	32,420	23,638
	<u>\$ 32,663</u>	<u>\$ 30,771</u>	<u>\$ 97,140</u>	<u>\$ 84,423</u>
<b>Revenue by product type:</b>				
Thermal test	\$ 4,742	\$ 5,836	\$ 16,734	\$ 16,844
Thermal process	12,809	11,026	34,503	27,990
Semiconductor test	8,573	7,770	25,432	20,409
Video imaging	2,376	2,447	7,458	6,692
Flying probe and in-circuit testers	2,012	1,605	4,588	5,359
Service/other	2,151	2,087	8,425	7,129
	<u>\$ 32,663</u>	<u>\$ 30,771</u>	<u>\$ 97,140</u>	<u>\$ 84,423</u>
<b>Revenue by market:</b>				
Semiconductor	\$ 19,767	\$ 19,170	\$ 56,283	\$ 48,969
Industrial	2,456	2,130	8,399	7,859
Automotive (including Electric Vehicles)	1,789	1,621	5,928	7,971
Life Sciences	1,540	1,715	4,188	3,583
Defense/aerospace	3,392	1,914	10,121	4,830
Security	1,102	871	3,004	2,239
Other	2,617	3,350	9,217	8,972
	<u>\$ 32,663</u>	<u>\$ 30,771</u>	<u>\$ 97,140</u>	<u>\$ 84,423</u>

(6) **MAJOR CUSTOMERS**

During the nine months ended September 30, 2023, one customer accounted for 15% of our consolidated revenue. This revenue was primarily generated by our Electronic Test segment. No other customers accounted for 10% or more of our consolidated revenue during the nine months ended September 30, 2023. During the nine months ended September 30, 2022, no customer accounted for 10% or more of our consolidated revenue.

(7) **INVENTORIES**

Inventories held at September 30, 2023 and December 31, 2022 were comprised of the following:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Raw materials	\$ 16,987	\$ 16,888
Work in process	1,985	2,432
Inventory consigned to others	70	59
Finished goods	3,114	3,186
Total inventories	<u>\$ 22,156</u>	<u>\$ 22,565</u>

Total charges incurred for excess and obsolete inventory for the three months and nine months ended September 30, 2023 and 2022 were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Excess and obsolete inventory charges	\$ 119	\$ 77	\$ 385	\$ 307

(8) **LEASES**

As previously discussed in Note 2, we account for our leases in accordance with the guidance in ASC Topic 842. We lease our offices, warehouse facilities and certain equipment under non-cancellable operating leases that expire at various dates through 2031. Total operating lease and short-term lease costs for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 396	\$ 330	\$ 1,199	\$ 973
Short-term lease cost	\$ 3	\$ 7	\$ 10	\$ 51

The following is additional information about our leases as of September 30, 2023:

Range of remaining lease terms (in years)	0.5 to 7.6
Weighted average remaining lease term (in years)	4.5
Weighted average discount rate	4.4%

Maturities of lease liabilities as of September 30, 2023 were as follows:

2023 (remainder)	\$ 484
2024	1,898
2025	1,003
2026	704
2027	701
Thereafter	944
Total lease payments	\$ 5,734
Less imputed interest	(503)
Total	\$ 5,231

**Cash Flow Information**

Total amortization of ROU assets was \$390 and \$1,172 for the three months and nine months ended September 30, 2023, respectively, and \$334 and \$972 for the three months and nine months ended September 30, 2022, respectively.

During the nine months ended September 30, 2023, we entered into a 25-month lease for a facility for our Environmental Technologies segment's operation in Germany. At the effective date of this lease, we recorded a non-cash increase in our ROU assets and operating lease liabilities of approximately \$90. During this same period, we entered into two auto leases, one with a 36-month term and one with a 48-month term, for employees of our Process Technologies segment both of whom are based in Europe. At the effective date of these leases, we recorded non-cash increases in our ROU assets and operating lease liabilities totaling approximately \$71.

(9) **DEBT**

**Letters of Credit**

We have issued letters of credit as the 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 consolidated 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 September 30, 2023 and December 31, 2022 consisted of the following:

Facility	Original L/C Issue Date	L/C Expiration Date	Lease Expiration Date	Letters of Credit Amount Outstanding	
				September 30, 2023	Dec. 31, 2022
Mt. Laurel, NJ	3/29/2010	4/30/2024	4/30/2031	\$ 50	\$ 50
Mansfield, MA	10/27/2010	12/31/2024	12/31/2024	50	50
				\$ 100	\$ 100

**Credit Facility**

On October 15, 2021 (the "Closing Date"), we entered into an Amended and Restated Loan and Security Agreement with M&T Bank ("M&T") which, on October 28, 2021, was amended by the Joinder and Amendment to Amended and Restated Loan and Security Agreement and which, on December 30, 2021, was further amended by the Joinder and Second Amendment to Amended and Restated Loan and Security Agreement (as amended, the "Loan Agreement").

The Loan Agreement included a \$25,000 non-revolving delayed draw term note (the “Term Note”) and a \$10,000 revolving credit facility (the “Revolving Facility”) and together with the Term Note, the “Credit Facility”). The Credit Facility had a five-year contract period that began on the Closing Date and expired on October 15, 2026, and draws under the Term Note were permissible for two years.

On September 20, 2022, we further amended the Loan Agreement by entering into a Third Amendment to Amended and Restated Loan and Security Agreement (the Loan Agreement, as amended by the Third Amendment, the “Amended Loan Agreement”) and the Third Amended and Restated Delayed Draw Term Note. Under the Amended Loan Agreement, the maximum loan amount that we may borrow under the Term Note increased from \$25,000 to \$50,500, which raises the available funding at September 30, 2023 to \$30,000. Under the Amended Loan Agreement, the maturity date of the Term Note and Revolving Facility were also extended to September 19, 2027 (the “Contract Period”). At September 30, 2023, we had not borrowed any amounts under the \$10 million Revolving Facility. Our borrowings under the Term Note are discussed below and occurred prior to entering into the Amended Loan Agreement.

The principal balance of the Revolving Facility and the principal balance of any amount drawn under the Term Note accrues interest based on the secured overnight financing rate for U.S. government securities (“SOFR”) or a bank-defined base rate plus an applicable margin, depending on leverage. Each draw under the Term Note will have an option for us of either (i) up to a five-year amortizing term loan with a balloon due at maturity, or (ii) up to a five-year term with up to seven years amortization with a balloon due at maturity. Any amortization greater than five years will be subject to an excess cash flow recapture. The Amended Loan Agreement also allows us to enter into hedging contracts with M&T, including interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, or any other agreements or that are designed to protect us against fluctuations in interest rates or currency exchange rates.

The Amended Loan Agreement contains customary default provisions, including but not limited to the failure by us to repay obligations when due, violation of provisions or representations provided in the Amended Loan Agreement, bankruptcy by us, suspension of our business or any of our subsidiaries and certain material judgments. After expiration of the Contract Period or if a continued event of default occurs, interest will accrue on the principal balance at a rate of 2% in excess of the then applicable non-default interest rate. The Amended Loan Agreement includes customary affirmative, negative and financial covenants, including a maximum ratio of consolidated funded debt to consolidated EBITDA and a fixed charge coverage ratio. Our obligations under the Amended Loan Agreement are secured by liens on substantially all of our tangible and intangible assets that are owned as of the Closing Date or acquired thereafter.

On October 28, 2021, we drew \$12,000 under the Term Note to finance the acquisition of Videology as discussed above. We also entered into an interest rate swap agreement with M&T as of this date which is designed to protect us against fluctuations in interest rates during the five-year repayment and amortization period. As a result, the annual interest rate we expect to pay for this draw under the Term Note is fixed at approximately 3.2% based on current leverage.

On December 29, 2021, we drew \$8,500 under the Term Note to finance the acquisition of Acculogic as discussed above. We did not enter into an interest rate swap agreement with M&T related to this draw. The annual interest rate we expect to pay for this draw under the Term Note is variable. At September 30, 2023, it was approximately 7.4% based on current leverage. Effective November 1, 2023, this rate remained the same.

The following table sets forth the maturities of long-term debt for each of the next five years:

2023 (remainder)	\$	1,025
2024		4,100
2025		4,100
2026		3,842
	<u>\$</u>	<u>13,067</u>

## (10) STOCK-BASED COMPENSATION PLAN

As of September 30, 2023, we had unvested restricted stock awards and stock options granted under stock-based compensation plans that are described more fully in Note 15 to the consolidated financial statements in our 2022 Form 10-K. In addition, on June 21, 2023, our stockholders approved the inTEST Corporation 2023 Stock Incentive Plan (the “2023 Plan”) which replaces the Fourth Amended and Restated 2014 Stock Plan (the “2014 Plan”). No further awards can be granted under the 2014 Plan. The maximum number of shares of common stock available for grant and issuance under the 2023 Plan is (a) 350,000, plus (b) the number of shares of common stock available for issuance under the 2014 Plan on the date the 2023 Plan was approved by stockholders, plus (c) any shares of common stock that are subject to awards granted under the 2014 Plan that expire, are forfeited or canceled or terminate for any other reason on or after the date the 2023 Plan was approved by stockholders, without the issuance of shares. The number of shares available to be issued under the 2023 Plan as of the date of its approval was 1,117,942.

Our unvested restricted stock awards and stock options are accounted for based on their grant date fair value. As of September 30, 2023, total compensation expense to be recognized in future periods is \$3,450. The weighted average period over which this expense is expected to be recognized is 2.2 years.

The following table summarizes the compensation expense we recorded during the three and nine months ended September 30, 2023 and 2022 related to unvested shares of restricted stock and stock options:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenues	\$ 28	\$ 18	\$ 76	\$ 44
Selling expense	9	9	30	23
Engineering and product development expense	(1)	6	18	43
General and administrative expense	508	417	1,499	1,263
	<u>\$ 544</u>	<u>\$ 450</u>	<u>\$ 1,623</u>	<u>\$ 1,373</u>

There was no compensation expense capitalized in the three and nine months ended September 30, 2023 or 2022.

### Stock Options

We record compensation expense for stock options based on the fair market 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 nine months ended September 30, 2023 and 2022 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2023	2022
Risk-free interest rate	3.93%	2.05%
Dividend yield	0.00%	0.00%
Expected common stock market price volatility factor	.57	.55
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 nine months ended September 30, 2023 and 2022 was \$9.43 and \$4.53, respectively.

The following table summarizes the activity related to stock options for the nine months ended September 30, 2023:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, January 1, 2023 (167,886 exercisable)	580,419	8.91
Granted	93,860	16.25
Exercised	(124,550)	7.85
Canceled	(43,426)	9.82
Options outstanding, September 30, 2023 (173,032 exercisable)	<u>506,303</u>	10.45

### 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).

Since August 2020, we have increasingly granted performance-based restricted stock awards where the ultimate number of shares that vest can vary between 0% and 150% of the amount of the original award and is based on the achievement of specified performance metrics. Vesting for these awards is generally cliff vesting at the end of the period over which the performance metrics are measured. Compensation expense for these awards is recorded on a straight-line basis over the vesting period and is based on the expected final vesting percentage, which is re-assessed at the end of each reporting period and adjusted with a catch-up adjustment, as needed. Our initial assumption at the grant date of these awards is that the award will vest at the 100% level. The awards granted prior to January 1, 2023 are discussed in more detail in Note 15 to the consolidated financial statement in our 2022 Form 10-K. There have been no significant changes to our assumptions related to the expected vesting percentages for any of these performance-based awards as of September 30, 2023.

On March 8, 2023, our Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and certain other members of our senior management received restricted stock awards totaling 18,888 shares valued at \$303 as of the date of grant. These shares vest on the third anniversary of the grant date at a vesting percentage that could range from 0% to 150% of the number of shares of restricted stock awarded on March 8, 2023. The final vesting percentage will be based on the achievement of certain performance metrics related to consolidated revenue for specified time periods as determined by the Compensation Committee of our Board of Directors. As of September 30, 2023, we have estimated that these shares will vest at 100% of the original amount. On May 8, 2023 the newly appointed president of our Environmental Technologies segment received restricted stock awards totaling 5,081 shares valued at \$108 as of the date of grant. These shares vest on the third anniversary of the grant date at a vesting percentage that could range from 0% to 150% of the number of shares of restricted stock awarded on May 8, 2023. The final vesting percentage will be based on the achievement of certain performance metrics including revenue and income from operations for specified time periods as determined by the Compensation Committee of our Board of Directors in consultation with our CEO and CFO. As of September 30, 2023, we have estimated that these shares will vest at 100% of the original amount.

During the third quarter of 2023, our CEO and CFO vested in restricted stock awards where the final vesting percentage was based on the achievement of specified performance metrics related to our consolidated results for the three-year period ended June 30, 2023. During the quarter ended June 30, 2022, we had adjusted our assessment of the probable final vesting percentage for these shares from 100% to 150% and the expense being recorded related to these shares was adjusted accordingly as of that date. On August 24, 2023, these shares vested at the 150% level, as expected, and, as a result, 40,557 additional shares of common stock were issued. At the original grant dates of these awards, shares totaling 100% of the respective awards were issued. These additional shares issued on August 24, 2023 represented the additional 50% that vested.

The following table summarizes the activity related to unvested restricted stock awards for the nine months ended September 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares outstanding, January 1, 2023	288,450	7.80
Granted	97,461	16.43
Vested	(169,636)	7.79
Forfeited	(17,491)	10.08
Unvested shares outstanding, September 30, 2023	<u>198,784</u>	<u>11.72</u>

The total fair value of the restricted stock awards that vested during the nine months ended September 30, 2023 and 2022 was \$1,688 and \$550, respectively, as of the vesting dates of these awards.

## (11) EMPLOYEE STOCK PURCHASE PLAN

The inTEST Corporation Employee Stock Purchase Plan (the "ESPP") was adopted by the Board in April 2021 subject to approval by our stockholders, which occurred on June 23, 2021 at our Annual Meeting of Stockholders. The ESPP provides our eligible employees with an opportunity to purchase common stock through accumulated payroll deductions at a discounted purchase price. The ESPP became effective on October 1, 2021.

The ESPP provides that an aggregate of up to 250,000 shares of our common stock will be available for issuance thereunder. The shares of our common stock purchasable under the ESPP will be shares of authorized but unissued or reacquired shares, including shares repurchased by us on the open market.

During the nine months ended September 30, 2023, employees purchased 6,925 shares of our common stock through the ESPP at a cost of \$118. The closing market price of our common stock on the dates of purchase were \$20.74, \$26.26 and \$15.17, respectively. The prices paid by employees were \$17.63, \$22.32 and \$12.89, respectively, which represented a 15% discount. The total amount of the discount of \$21 was recorded as compensation expense in our consolidated statements of operations. During the nine months ended September 30, 2022, employees purchased 21,749 shares of our stock through the ESPP at a cost of \$148. The closing market price on the dates of purchase were \$10.73, \$6.82 and \$7.63, respectively. The prices paid by employees were \$9.12, \$5.80 and \$6.49, respectively, which represented a 15% discount. The total amount of the discount of \$28 was recorded as compensation expense in our consolidated statements of operations.

From the effective date of the ESPP through September 30, 2023, a total of 38,077 shares of our common stock have been purchased by employees through the ESPP at a cost of \$358. We have recorded a total of \$63 of compensation expense in our consolidated statements of operations related to these shares.

## (12) EMPLOYEE BENEFIT PLANS

We have defined contribution 401(k) plans for our employees who work in the U.S. These plans include the inTEST Corporation Incentive Savings Plan (the "inTEST Plan") and the Ambrell Corporation Savings & Profit Sharing Plan (the "Ambrell Plan"). During the quarter ended September 30, 2023, the Ambrell Plan, which is discussed further below, was merged into the inTEST Plan.

As of September 30, 2023, all permanent employees of Acculogic Ltd, Ambrell, inTEST Corporation, inTEST EMS LLC, Tempronic Corporation and Videology, who are at least 18 years of age, are eligible to participate in the inTEST 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.

Prior to the merger with the inTEST Plan, all permanent employees of Ambrell were immediately eligible to participate in the Ambrell Plan upon employment and were eligible for employer matching contributions after completing six months of service, as defined in the Ambrell Plan. The Ambrell Plan allowed eligible employees to make voluntary contributions up to 100% of compensation, up to the federal government contribution limits. We made a matching contribution of 50% of each employee's contributions up to a maximum of 10% of the employee's deferral with a maximum limit of \$5.

For the three and nine months ended September 30, 2023, we recorded expense of \$100 and \$671, respectively, for matching contributions to both plans. For the three and nine months ended September 30, 2022 we recorded expense of \$83 and \$433, respectively, for matching contributions to the inTEST Plan, and \$46 and \$232, respectively, for matching contributions to the Ambrell Plan.

## (13) SEGMENT INFORMATION

We have three operating segments which are also our reportable segments and reporting units: Electronic Test (which includes our semiconductor test equipment, flying probe and in-circuit testers), Environmental Technologies (which includes our thermal test, process and storage products) and Process Technologies (which includes our induction heating and video imaging products). We operate our business worldwide and sell our products both domestically and internationally. All of our segments sell to semiconductor manufacturers, third-party test and assembly houses and ATE manufacturers and to a variety of markets outside of the semi market, including the automotive, defense/aerospace, industrial, life sciences, security and other markets.

Our management team, including our CEO who is also our Chief Operating Decision Maker as defined under U.S. GAAP, evaluates the performance of our operating segments primarily on income from divisional operations which represents earnings before income tax expense and excludes interest expense, other income (expense), corporate expenses and acquired intangible amortization.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Revenue:</b>				
Electronic Test	\$ 11,547	\$ 10,408	\$ 32,911	\$ 28,983
Environmental Technologies	7,000	7,631	23,178	22,131
Process Technologies	14,116	12,732	41,051	33,309
Total revenue	\$ 32,663	\$ 30,771	\$ 97,140	\$ 84,423
<b>Income from divisional operations:</b>				
Electronic Test	\$ 3,268	\$ 2,406	\$ 8,487	\$ 6,486
Environmental Technologies	523	1,021	2,479	2,893
Process Technologies	2,909	2,465	8,177	5,764
Total income from divisional operations	6,700	5,892	19,143	15,143
Corporate expenses	(2,902)	(2,138)	(7,416)	(6,312)
Acquired intangible amortization	(515)	(595)	(1,582)	(2,142)
Interest expense	(168)	(179)	(526)	(457)
Other income (expense)	423	59	678	32
Earnings before income tax expense	\$ 3,538	\$ 3,039	\$ 10,297	\$ 6,264



	September 30, 2023	December 31, 2022
<b>Identifiable assets:</b>		
Electronic Test	\$ 32,406	\$ 31,143
Environmental Technologies	17,349	18,040
Process Technologies	56,685	56,866
Corporate	28,143	4,017
	<u>\$ 134,583</u>	<u>\$ 110,066</u>

The following table provides information about our geographic areas of operation. Revenue is based on the location to which the goods are shipped.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Revenue:</b>				
U.S.	\$ 10,670	\$ 12,619	\$ 31,672	\$ 35,921
Foreign	21,993	18,152	65,468	48,502
	<u>\$ 32,663</u>	<u>\$ 30,771</u>	<u>\$ 97,140</u>	<u>\$ 84,423</u>

	September 30, 2023	December 31, 2022
<b>Property and equipment:</b>		
U.S.	\$ 2,529	\$ 2,658
Foreign	614	474
	<u>\$ 3,143</u>	<u>\$ 3,132</u>

## 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 Quarterly Report on Form 10-Q for the period ended September 30, 2023 (this "Report"), including this management's discussion and analysis ("MD&A"), contains 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, such as statements of our plans, strategies and intentions, or our future performance or goals, projections of revenue, taxable earnings (loss), net earnings (loss), net earnings (loss) per share, capital expenditures and other financial items, that are based on management's current expectations and estimates. Our forward-looking statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "may," "could," "will," "should," "plans," "depending," "projects," "forecasts," "seeks," "anticipates," "goal," "objective," "target," "estimates," "future," "strategy," or variations of such words or similar terminology. Investors and prospective investors are cautioned that such forward-looking statements are only projections based on current expectations and estimates. These statements involve risks and uncertainties and are based upon various assumptions. Such risks and uncertainties include, but are not limited to:

- our ability to execute on our 5-Point Strategy;
- our ability to grow our presence in the life sciences, security, industrial and international markets;
- the possibility of future acquisitions or dispositions and the successful integration of any acquired operations;
- the success of our strategy to diversify our business by entering markets outside the semiconductor and automated test equipment ("ATE") markets, collectively the "semi market";
- indications of a change in the market cycles in the semi market, or other markets we serve;
- developments and trends in the semi market, including changes in the demand for semiconductors;
- our ability to convert backlog to sales and to ship product in a timely manner;
- the loss of any one or more of our largest customers, or a reduction in orders by a major customer;
- the availability of materials used to manufacture our products;
- the impact of current global supply chain constraints or other interruptions in our supply chain caused by external factors, including the conflicts in Ukraine and Israel;
- the sufficiency of cash balances, lines of credit and net cash from operations;
- stock price fluctuations;
- the ability to borrow funds or raise capital to finance potential acquisitions or for working capital;
- changes in the rate of, and timing of, capital expenditures by our customers;
- effects of exchange rate fluctuations;
- progress of product development programs;
- the anticipated market for our products;
- the availability of and retention of key personnel or our ability to hire personnel at anticipated costs;
- general economic conditions both domestically and globally, and
- other risk factors included in Part II, Item 1A – "Risk Factors" in this Report and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K").

These risks and uncertainties, among others, could cause our actual future results to differ materially from those described in our forward-looking statements or from our prior results. Any forward-looking statement made by us in this Report is based only on information currently available to us and speaks to circumstances only as of the date on which it is made. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Report to conform these statements to actual results or to changes in our expectations, except as required by law.

### Overview

This MD&A should be read in conjunction with the accompanying consolidated financial statements. In addition, please refer to the discussion of our business and markets contained in Part 1, Item 1 of our 2022 Form 10-K.

We are a global supplier of innovative test and process technology solutions for use in manufacturing and testing across a wide range of markets including automotive, defense/aerospace, industrial, life sciences, security and semiconductor. We have three reportable segments which are also our reporting units: Electronic Test (which includes our semiconductor test equipment, flying probe and in-circuit testers), Environmental Technologies (which includes our thermal test, process and storage products) and Process Technologies (which includes our induction heating and video imaging products).

All 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. These factors include, for example, the amount of engineering time required to develop the product, the market or customer to which we sell the product and the level of competing products available from other suppliers. The needs of our customers ultimately determine the products that we sell in a given time period. Therefore, the mix of products sold in a given period can change significantly when compared against the prior period. As a result, our consolidated gross margin may be significantly impacted by a change in the mix of products sold in a particular period.

### Markets

As discussed further in Part 1, Item 1 “Markets” of our 2022 Form 10-K, we are focused on specific target markets which include automotive, defense/aerospace, industrial, life sciences, security as well as both the front-end and back-end of the semi market. The semi market, which includes both the broader semiconductor market, as well as the more specialized ATE and wafer production sectors within the broader semiconductor market, has historically been the largest single market in which we operate. The semi market is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns and is subject to periods of significant expansion or contraction in demand. Our intention is to continue diversifying our markets, our product offerings within the markets we serve and our customer base across all of our markets with the goal of reducing our dependence on any one market, product or customer. In particular, we are seeking to reduce the impact of volatility in the semi market on our results of operations.

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”) and, for our induction heating products, the demand for wafer production equipment. Demand for ATE or wafer production equipment is primarily 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 ICs and products incorporating ICs. 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 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 revenue 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 revenue 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. These periods of heightened or reduced demand can shift depending on various factors impacting both our customers and the markets that they serve. In addition, during both downward and upward cycles in the semi market, in any given quarter, the trend in both our orders and revenue 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.

While a significant portion of our orders and revenue 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 revenue from the semi market to deviate from the overall trend in the 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. Recently this has become more pronounced for our sales into the wafer production sector within the broader semiconductor market due to the limited market penetration we have into this sector and the variability of orders we have experienced from the few customers we support. 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 discussed further in Part I, Item 1 “Overview and Strategy” of our 2022 Form 10-K, although the semi market remains our largest market, as part of our strategy to grow our business, we are focused on several other key target markets where we believe our products address test and process requirements and where we believe there is significant potential for growth. These key target markets include the automotive, defense/aerospace, industrial, life sciences and security markets. 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, because of our limited market share, our orders and revenue in any given period in these markets do not necessarily reflect the overall trends in these markets. Consequently, we are continuing to evaluate buying patterns and opportunities for growth in these, and other, markets that may affect our performance. The level of our orders and revenue in all of the markets we serve has varied in the past, and we expect will vary significantly in the future, as we work to build our presence in our current markets and establish new markets for our products.

### Revenue

The following table sets forth, for the periods indicated, a breakdown of revenue by market (in thousands).

Revenue	Three Months Ended									
	9/30/2023		9/30/2022		Change		6/30/2023		Change	
	\$	%	\$	%	\$	%	\$	%	\$	%
Semi	\$ 19,767	60.5%	\$ 19,170	62.3%	\$ 597	3.1%	\$ 18,833	57.8%	\$ 934	5.0%
Industrial	2,456	7.5%	2,130	6.9%	326	15.3%	2,806	8.6%	(350)	-12.5%
Auto/EV	1,789	5.5%	1,621	5.3%	168	10.4%	1,542	4.7%	247	16.0%
Life Sciences	1,540	4.7%	1,715	5.6%	(175)	-10.2%	1,135	3.5%	405	35.7%
Defense/Aero	3,392	10.4%	1,914	6.2%	1,478	77.2%	3,890	11.9%	(498)	-12.8%
Security	1,102	3.4%	871	2.8%	231	26.5%	936	2.9%	166	17.7%
Other	2,617	8.0%	3,350	10.9%	(733)	-21.9%	3,416	10.6%	(799)	-23.4%
	<u>\$ 32,663</u>	<u>100.0%</u>	<u>\$ 30,771</u>	<u>100.0%</u>	<u>\$ 1,892</u>	<u>6.1%</u>	<u>\$ 32,558</u>	<u>100.0%</u>	<u>\$ 105</u>	<u>0.3%</u>

Revenue	Nine Months Ended							
	9/30/2023		9/30/2022		Change			
	\$	%	\$	%	\$	%	\$	%
Semi	\$ 56,283	57.9%	\$ 48,969	58.0%	\$ 7,314	14.9%		
Industrial	8,399	8.6%	7,859	9.3%	540	6.9%		
Auto/EV	5,928	6.1%	7,971	9.5%	(2,043)	-25.6%		
Life Sciences	4,188	4.3%	3,583	4.2%	605	16.9%		
Defense/Aero	10,121	10.4%	4,830	5.7%	5,291	109.5%		
Security	3,004	3.2%	2,239	2.7%	765	34.2%		
Other	9,217	9.6%	8,972	10.6%	245	2.7%		
	<u>\$ 97,140</u>	<u>100.0%</u>	<u>\$ 84,423</u>	<u>100.0%</u>	<u>\$ 12,717</u>	<u>15.1%</u>		

Total consolidated revenue for the three months ended September 30, 2023 was \$32.7 million compared to \$30.8 million for the same period in 2022 and \$32.6 million for the three months ended June 30, 2023. The increase in revenue for the third quarter of 2023 as compared to the same period in 2022 reflects higher demand from most of our markets. In particular, we had increased shipments of our thermal solutions and our Acculogic products to the defense/aerospace market.

### Orders and Backlog

We use orders and backlog as key performance metrics to analyze and measure our financial performance and results of operations. We define orders as purchase orders that we have accepted from our customers. Orders are recorded based on the date received and accepted by us. We believe tracking orders is useful in planning for future production needs and staffing levels and we use information about the level of our orders to make decisions about resource allocation, including appropriate levels of inventory purchases and the balance of inventory we carry at any given time. Another important operational measure used is backlog. Backlog is a common measurement used in industries with extended lead times for order fulfillment, like those in which we operate. Backlog at any given date represents the amount of net revenue that we expect to realize for unfilled orders received as of that date. We believe backlog is useful and use this information for similar reasons to those detailed above for orders. The majority of our backlog at any given time is expected to be fulfilled within the next twelve months. Depending on the terms of the purchase orders we have accepted, customers may have the ability to cancel an order or accelerate or postpone currently scheduled delivery dates. In some cases, we may have the ability to charge a cancellation fee if a purchase order we have accepted is later cancelled by a customer. Given that both orders and backlog are operational measures and our methodology for calculating orders and backlog do not meet the definition of a non-GAAP measure, as that term is defined by the SEC, a quantitative reconciliation for each is not required or provided.

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

	Three Months Ended									
	9/30/2023		9/30/2022		Change		6/30/2023		Change	
					\$	%			\$	%
<b>Orders</b>										
Semi	\$ 12,935	48.2%	\$ 19,181	58.7%	\$ (6,246)	-32.6%	\$ 14,721	46.9%	\$ (1,786)	-12.1%
Industrial	1,637	6.1%	2,309	7.1%	(672)	-29.1%	5,756	18.3%	(4,119)	-71.6%
Auto/EV	3,051	11.3%	2,870	8.8%	181	6.3%	3,276	10.4%	(225)	-6.9%
Life Sciences	931	3.5%	927	2.8%	4	0.4%	609	1.9%	322	52.9%
Defense/Aero	3,032	11.3%	3,149	9.6%	(117)	-3.7%	3,216	10.2%	(184)	-5.7%
Security	2,212	8.2%	1,072	3.3%	1,140	106.3%	456	1.5%	1,756	385.1%
Other	3,056	11.4%	3,172	9.7%	(116)	-3.7%	3,397	10.8%	(341)	-10.0%
	<u>\$ 26,854</u>	<u>100.0%</u>	<u>\$ 32,680</u>	<u>100.0%</u>	<u>\$ (5,826)</u>	<u>-17.8%</u>	<u>\$ 31,431</u>	<u>100.0%</u>	<u>\$ (4,577)</u>	<u>-14.6%</u>

	Nine Months Ended							
	9/30/2023		9/30/2022		Change			
					\$	%		
<b>Orders</b>								
Semi	\$ 46,002	51.6%	\$ 58,295	59.4%	\$ (12,293)	-21.1%		
Industrial	11,535	12.9%	7,897	8.0%	3,638	46.1%		
Auto/EV	8,371	9.4%	8,239	8.4%	132	1.6%		
Life Sciences	3,476	3.9%	3,678	3.8%	(202)	-5.5%		
Defense/Aero	8,225	9.2%	6,897	7.0%	1,328	19.3%		
Security	2,880	3.2%	2,214	2.3%	666	30.1%		
Other	8,620	9.8%	11,041	11.2%	(2,421)	-21.9%		
	<u>\$ 89,109</u>	<u>100.0%</u>	<u>\$ 98,261</u>	<u>100.0%</u>	<u>\$ (9,152)</u>	<u>-9.3%</u>		

Total consolidated orders for the three months ended September 30, 2023 were \$26.9 million compared to \$32.7 million for the same period in 2022 and \$31.4 million for the three months ended June 30, 2023. Orders received in the third quarter of 2023 declined \$5.8 million, or 18%, compared with the same period in 2022 and \$4.6 million, or 15%, compared with the second quarter of 2023. Increased demand from the security, automotive/EV and life sciences markets helped to partially offset lower demand from the semi, industrial, defense/aerospace and other markets. In particular, we saw declines from both our front-end and back-end semi customers which we attribute to shifts in the production cycle in front-end semi and slowing in back-end test as customers continue to deploy units they have taken delivery of over the last few quarters. Demand in the semi market has historically experienced significant fluctuations in demand, as discussed previously in the Overview. In addition, the timing of the receipt of customer orders is unpredictable and typically more variable than the associated delivery schedules. In particular, in certain of our markets including the front-end of the semi market, the auto/EV market and the life sciences market for our image capture technology, our customers tend to place large orders with delivery schedules that extend over several quarters which results in the variability of quarterly order rates that is reflected in the total orders for the periods presented. In addition, during 2022 when supply chain constraints were prevalent across most industries, we saw a tendency for our customers to place orders earlier than they had historically done in the past.

At September 30, 2023, our backlog of unfilled orders for all products was approximately \$38.8 million compared with approximately \$47.9 million at September 30, 2022 and \$44.6 million at June 30, 2023. Our backlog includes customer orders that we have accepted, approximately 60% of which we expect to deliver in 2023. 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.

## **Israel-Hamas War, War in Ukraine and Global Supply Chain Constraints**

In early October 2023, Hamas attacked Israel and Israel formally declared war in response to the attack. The conflict is ongoing, and it is unclear when it might end. Ambrell has a sole source supplier of capacitors used in certain of our induction heating products that is located in Israel. This supplier is the sole source supplier of capacitors for numerous companies, and currently there are no viable alternatives available. We have been in frequent contact with our supplier since the conflict with Hamas began. With the shipment we received in mid-October, we currently estimate that we have enough supply to last through the fourth quarter. Our supplier has indicated that they have large stock available outside of the region and have more than one facility in Israel as well, so they believe they have redundancies in place that will help ensure that the supply chain to their customers is uninterrupted. We continue to monitor the situation closely and are staying in close contact with our supplier. However, there can be no assurance that the situation will not worsen which could impact our ability to ship certain of our induction heating products which could have a material impact on our future results of operations.

The ongoing war between Russia and Ukraine continues to contribute to global inflationary pressures and the availability of certain raw materials produced in that region, further exacerbating global supply chain challenges that emerged after the onset of the COVID-19 pandemic as described below. Acculogic purchases certain material from a key sole-source supplier in Belarus, which is bordered by Russia to the east and northeast and Ukraine to the south. We estimate that we currently have a six-to-nine-month supply of these parts that we are maintaining. We are currently in the process of qualifying an alternate supplier for these parts. We received prototype sample parts from the alternate supplier which we are now evaluating. We expect to complete this evaluation by the end of 2023.

In addition, while the supply chain and logistics challenges that we encountered throughout 2022 have eased and conditions appear to have stabilized, uncertainty in the global trade environment and the possibility of future global health or other crises remain. As a result, we expect that we may continue to experience increased prices, lack of availability and logistics delays from time to time for the foreseeable future. The actions we have taken and are continuing to take to mitigate these risks include qualifying new vendors as alternate sources in our supply chain, increasing our inventory of raw materials and ordering further in advance of when we expect to need materials than has been our practice in the past. We have also increased the prices that we charge our customers, where appropriate, and continue to work with our customers to find alternate options for the shipment of products where they control aspects of the logistics process. However, the environment in which we operate is dynamic and shifts rapidly at times, and the success of our efforts to mitigate and address the impacts on our business may not be successful. As a result, we could see increases in our costs or reduced revenues which would impact the level of our earnings in future periods.

Please refer to Part II, Item 1A in this Report and Part I, Item 1A of our 2022 Form 10-K for further discussion of the risks associated with our business operations, including risks associated with foreign operations.

## **Results of Operations**

The results of operations for all of our operating segments are generally affected by the same factors described in the Overview section 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 September 30, 2023 Compared to Three Months Ended September 30, 2022**

*Revenue.* Revenue was \$32.7 million for the three months ended September 30, 2023 compared to \$30.8 million for the same period in 2022, an increase of \$1.9 million, or 6%. We believe the increase in our revenue during the third quarter of 2023 primarily reflects the factors previously discussed under “Revenue” in the Overview section above.

*Gross Margin.* Our consolidated gross margin was 47% of revenue for the three months ended September 30, 2023 compared to 45% for the same period in 2022. The improvement in gross margin was primarily the result of a decline in the average cost of component materials used in our products in 2023 as compared to 2022. This decline was a result of changes in product mix.

*Selling Expense.* Selling expense was \$4.4 million for the three months ended September 30, 2023 compared to \$4.0 million for the same period in 2022, an increase of \$358,000, or 9%. The increase reflects higher commissions as a result of changes in product mix and sales channels. We also incurred higher freight charges, advertising costs and increased salary and benefits costs as we continue to invest to grow our business.

*Engineering and Product Development Expense.* Engineering and product development expense was \$1.8 million for the three months ended September 30, 2023 compared to \$1.9 million for the same period in 2022, a decrease of \$64,000, or 3%, primarily reflecting lower salary and benefits expense as we had open positions in the third quarter of 2023 that we are in the process of re-hiring. These positions were filled in the comparable prior period.

*General and Administrative Expense.* General and administrative expense was \$5.9 million for the three months ended September 30, 2023 compared to \$4.9 million for the same period in 2022, an increase of \$1.0 million, or 21%. This increase includes the impact of \$819,000 of costs for corporate development activities during the third quarter of 2023, primarily related to an acquisition opportunity which we are no longer pursuing. There were no similar costs during the third quarter of 2022. This increase was partially offset by the recording of a reduction in the expected final payout amount for the contingent consideration related to our acquisition of Acculogic, which is discussed more fully in the notes to our consolidated financial statements.

*Other Income.* For the three months ended September 30, 2023, we recorded other income of \$423,000 compared to \$59,000 for the same period in 2022, an increase of \$364,000. The increase in other income was primarily the result of increased interest earned on our cash balances. This reflects both higher average cash balances as well as higher rates of return being earned.

*Income Tax Expense.* For the three months ended September 30, 2023, we recorded income tax expense of \$572,000 compared to income tax expense of \$515,000 for the same period in 2022. Our effective tax rate was 16% for the three months ended September 30, 2023 compared to 17% for the same period in 2022. 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.

#### Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

*Revenue.* Revenue was \$97.1 million for the nine months ended September 30, 2023 compared to \$84.4 million for the same period in 2022, an increase of \$12.7 million, or 15%. We believe the increase in our revenue during the first nine months of 2023 primarily reflects higher demand from the semi market. There was also strong demand for our thermal test solutions for the defense/aerospace markets.

*Gross Margin.* Our consolidated gross margin was 47% of revenue for the nine months ended September 30, 2023 as compared to 46% of revenue for the same period in 2022. The improvement in our gross margin primarily reflects a decrease in our component material costs as a percentage of revenue, reflecting changes in product mix, and a decline in our fixed manufacturing costs as a percent of revenue. Even though our fixed manufacturing costs increased in absolute dollar terms, they were more fully absorbed by the higher revenue levels. The increase in our fixed manufacturing costs in absolute dollar terms reflects increased salary and benefits expense as a result of headcount additions and annual merit adjustments. To a lesser extent we also had increased depreciation and facility costs reflecting additions to our capitalized asset base and new facilities.

*Selling Expense.* Selling expense was \$13.5 million for the nine months ended September 30, 2023 compared to \$11.5 million for the same period in 2022, an increase of \$2.0 million, or 17%. The increase primarily reflects higher commissions on the higher revenue level. We also had an increase in salary and benefits expense, reflecting annual merit adjustments and additional headcount investments, and higher levels of travel and advertising costs as we are increasing the number of customer visits and trade show attendance as we work to continue to grow our business.

*Engineering and Product Development Expense.* Engineering and product development expense was \$5.7 million for the nine months ended September 30, 2023 compared to \$5.6 million for the same period in 2022, an increase of \$40,000 or 1%, primarily reflecting an increase in materials used in product development projects and fees paid to third parties to assist in our development efforts. These increases were offset somewhat by a decrease in salary and benefits expense as we have open positions in the first nine months of 2023 that we are in the process of re-hiring. These positions were filled in the comparable prior period.

*General and Administrative Expense.* General and administrative expense was \$16.1 million for the nine months ended September 30, 2023 compared to \$14.6 million for the same period in 2022, an increase of \$1.5 million, or 10%. The increase primarily reflects higher levels of salary and benefits expense, bonus accruals and stock-based compensation expense. The increases reflect, in part, annual merit adjustments as well as increased accruals for profit-based bonuses. We also recorded higher costs related to our corporate development efforts and an increase in audit fees in the first nine months of 2023 as compared to the same period in 2022. The increase in audit fees is a result of our anticipated transition to accelerated filer status for fiscal 2024. These increases were partially offset by a reduction in amortization expense related to our acquired intangible assets and the aforementioned reduction in the liability for contingent consideration related to the acquisition of Acculogic.

*Other Income.* For the nine months ended September 30, 2023, we recorded other income of \$678,000 compared to \$32,000 for the same period in 2022, an increase of \$646,000. The increase in other income was primarily the result of increased interest earned on our cash balances. This reflects both higher average cash balances as well as higher rates of return being earned.

*Income Tax Expense.* For the nine months ended September 30, 2023, we recorded income tax expense of \$1.7 million compared to income tax expense of \$1.0 million for the same period in 2022. Our effective tax rate was 17% in both periods. 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.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations. In 2021, we also utilized our Credit Facility, which is discussed below, to fund our acquisitions. We manage our businesses to maximize operating cash flows as our primary source of liquidity for our short-term cash requirements, as discussed below. We use cash to fund growth in our operating assets, for new product research and development, for acquisitions and for stock repurchases. We currently anticipate that any additional long-term cash requirements related to our strategy would be funded through a combination of our cash and cash equivalents, our Credit Facility or by issuing equity.

#### Proceeds from Sale of Common Stock

On May 11, 2023, we entered into an At-the-Market Issuance Sales Agreement (the "Sales Agreement") pursuant to which we issued and sold 921,797 shares of our common stock having an aggregate offering price of \$20.0 million between May 11, 2023 and May 31, 2023. We received net proceeds from the sale of these shares of \$19.2 million after payment of commissions of 3.0% of the gross proceeds and other fees related to the sale of these shares.

#### Credit Facility

As discussed in the Overview and in Note 9 to our consolidated financial statements in this Report, on October 15, 2021, we entered into the Loan Agreement with M&T. The Loan Agreement includes a \$25 million non-revolving delayed draw term note (the "Term Note") and a \$10 million revolving credit facility (the "Revolving Facility" and together with the Term Note, the "Credit Facility"). The Credit Facility had a five year contract period that began on the Closing Date and expired on October 15, 2026, and draws under the Term Note were permissible for two years.

On September 20, 2022, we further amended the Loan Agreement by entering into a Third Amendment to Amended and Restated Loan and Security Agreement (the Loan Agreement as amended by the Third Amendment, the "Amended Loan Agreement") and the Third Amended and Restated Delayed Draw Term Note 1A. Under the Amended Loan Agreement, the maximum loan amount that we may borrow under the Term Note increased from \$25 million to \$50.5 million, which raises the available funding at September 30, 2023 to \$30 million. Under the Amended Loan Agreement, the maturity date of the Term Note and Revolving Facility were also extended to September 19, 2027 (the "Contract Period"). At September 30, 2023, we had not borrowed any amounts under the \$10 million Revolving Facility. Our borrowings under the Term Note are discussed below and occurred prior to entering into the Amended Loan Agreement. The principal balance of the Revolving Facility and the principal balance of any amount drawn under the Term Note accrues interest based on the Secured Overnight Financing Rate or a bank-defined base rate plus an applicable margin, depending on leverage. The Amended Loan Agreement includes customary affirmative, negative and financial covenants, including a maximum ratio of consolidated funded debt to consolidated EBITDA of not more than 3.0 to 1.0 and a fixed charge coverage ratio of not less than 1.25 to 1.0. Our obligations under the Amended Loan Agreement are secured by liens on substantially all of our tangible and intangible assets. At September 30, 2023, we were in compliance with all of the covenants included in the Credit Facility. At September 30, 2023, we were in compliance with debt covenants of the Amended Loan Agreement.

On October 28, 2021, we drew \$12 million under the Term Note to finance the acquisition of Videology. We also entered into an interest rate swap agreement with M&T as of this date which is designed to protect us against fluctuations in interest rates during the five-year repayment and amortization period. As a result, the annual interest rate we expect to pay for this draw under the Term Note is fixed at approximately 3.2% based on current leverage.

On December 29, 2021, we drew \$8.5 million under the Term Note to finance the acquisition of Acculogic. We did not enter into an interest rate swap agreement with M&T related to this draw. The annual interest rate we expect to pay for this draw under the Term Note is variable. At September 30, 2023, it was approximately 7.4% based on current leverage.

Interest expense for the nine months ended September 30, 2023 and 2022 was \$526,000 and \$457,000, respectively.

#### Liquidity

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Cash and cash equivalents	\$ 41,685	\$ 13,434
Working capital	\$ 60,120	\$ 33,182

As of September 30, 2023, \$4.4 million, or 11%, 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 capacity available under our revolving credit facility and the anticipated net cash to be provided by our operations in the next twelve months to be sufficient to support our short-term working capital requirements and other corporate requirements. Our revolving credit facility is discussed above and in Note 9 to our consolidated financial statements in this Report.



Our material short-term cash requirements include payments due under our various lease agreements, recurring payroll and benefits obligations to our employees, purchase commitments for materials that we use in the products we sell and principal and interest payments on our debt. We also anticipate making investments in our business in the next twelve months including hiring of additional staff and other investments related to our geographic and market expansion efforts. We estimate that our minimum short-term working capital requirements currently range between \$8.0 million and \$10.0 million. We expect our current cash and cash equivalents, in combination with the borrowing capacity available under our Revolving Facility and the anticipated net cash to be provided by our operations to be sufficient to support these additional investments as well as our current short-term cash requirements.

Our current strategy for growth includes pursuing acquisition opportunities for complementary businesses, technologies or products. As discussed further in our 2022 Form 10-K, we acquired substantially all of the assets of Videology in October 2021 and we completed the acquisition of Acculogic in December 2021. We utilized \$20.5 million under the Term Note to finance these acquisitions. The borrowing availability under the Term Note was expanded in September 2022 as discussed above and in Note 9 to our consolidated financial statements in this Report. Also discussed above, we raised \$19.2 million from the sale of common stock in May 2023. We currently anticipate that any additional long-term cash requirements related to our strategy would be funded through a combination of our cash and cash equivalents, the remaining availability under the Term Note or by issuing additional equity.

### Cash Flows

*Operating Activities.* For the nine months ended September 30, 2023, we recorded net earnings of \$8.6 million. Net cash provided by operations during this period was \$11.5 million. During the nine months ended September 30, 2023, we had non-cash charges of \$3.5 million for depreciation and amortization which included \$1.2 million of amortization related to our ROU assets. Our operating lease liabilities declined \$1.3 million during this same period. During the nine months ended September 30, 2023, we recorded \$1.6 million for amortization of deferred compensation expense related to stock-based awards and a deferred tax benefit of \$1.1 million. During the first nine months of 2023, inventories were relatively unchanged. In the first half of 2023, the level of our inventories had increased as we secured inventory to fill the orders in our backlog. However, inventory levels decreased in the third quarter of 2023 as supply chain constraints have eased and we have seen a slowing in order rates, particularly from the semi market. We anticipate the level of our inventories will continue to decline for the balance of 2023. Similar to the trend in our inventory levels, accounts payable are relatively the same at September 30, 2023 as they were at December 31, 2022 after having increased during the first half of the year. This primarily reflects that we have slowed the pace of new purchases from our vendors. Customer deposits and deferred revenue declined \$794,000 during the first nine months of 2023 as we have now delivered all or substantially all of the large orders received in late 2022 where we collected sizable deposits from our customers as we needed to secure inventory in advance of the delivery schedule. We have not had as many large single orders placed in the first nine months of 2023 where similar deposits were collected.

*Investing Activities.* During the nine months ended September 30, 2023, purchases of property and equipment were \$983,000, primarily reflecting leasehold improvements to our new facility for our Acculogic operation in Canada and test equipment for our Electronic Test segment. These improvements were funded using our working capital. We have no significant commitments for capital expenditures for the balance of 2023; 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. These additional cash requirements would be funded by our cash and cash equivalents, anticipated net cash to be provided by operations and our revolving credit facility.

*Financing Activities.* During the nine months ended September 30, 2023, we had net proceeds of \$19.2 million from the sale of 921,797 shares of our common stock, as previously discussed. During this same period, we also received \$979,000 as a result of the exercise of options to purchase our stock by employees and \$118,000 as a result of purchases of our stock that were made by our employees under the inTEST Corporation Employee Stock Purchase Plan. During the nine months ended September 30, 2023, we made principal payments on our Term Note totaling \$3.1 million, and acquired \$687,000 of stock as a result of shares withheld by us from employees to satisfy tax liabilities incurred by them as a result of vesting of restricted stock awards. These shares are classified as treasury stock on our consolidated balance sheets.

### New or Recently Adopted Accounting Standards

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

### **Critical Accounting Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, 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 September 30, 2023, there have been no significant changes to the accounting estimates that we have deemed critical. Our critical accounting estimates are more fully described in our 2022 Form 10-K.

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

There were no off-balance sheet arrangements during the nine months ended September 30, 2023 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue 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 of 1934, as amended, (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 the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. 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) of the Exchange Act, inTEST management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this Report, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures were effective at the reasonable assurance level.

#### **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.

## **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 2022 Form 10-K filed with the Securities and Exchange Commission on March 22, 2023. There have been no material changes from the risk factors set forth in our 2022 Form 10-K, except for the addition of the following:

**We have a sole source supplier of components in Israel and the current Hamas-Israel conflict could disrupt our supply chain or cause other adverse effects on our revenue and earnings.**

In early October 2023, Hamas attacked Israel and Israel formally declared war in response to the attack. The conflict is ongoing, and it is unclear when it might end. The continuing conflict is likely to cause regional instability and could materially adversely affect global trade, regional economies and the global economy, which could materially adversely affect our financial condition and results of operations. Our subsidiary, Ambrell has a sole source supplier of capacitors used in certain of our induction heating products that is located in Israel. This supplier is the sole source supplier of capacitors for numerous companies, and currently there are not viable alternatives available. There can be no assurance that the situation will not worsen, which could impact our ability to assemble and ship certain of our induction heating products which could have a material impact on our results of operations in future periods.

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

The following table provides information with respect to shares of common stock withheld by the Company for net settlement of restricted stock awards for the third quarter of 2023:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</b>
July 1-31	-	\$ -	-	-
August 1-31	37,244(1)	\$ 16.44	-	-
September 1-30	-	\$ -	-	-
Total	<u>37,244</u>	<u>\$ 16.44</u>	<u>-</u>	<u>-</u>

(1) Shares withheld to cover tax withholding obligations under the net settlement provisions of our restricted stock awards.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\).](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\).](#)
- 32.1 [Certification of Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS Inline XBRL Taxonomy Instance Document
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* 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: November 9, 2023

/s/ Richard N. Grant, Jr.  
Richard N. Grant, Jr.  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: November 9, 2023

/s/ Duncan Gilmour  
Duncan Gilmour  
*Chief Financial Officer, Treasurer and Secretary*  
*(Principal Financial Officer)*

**CERTIFICATION**

I, Richard N. Grant, 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. The registrant's other certifying officer and I are 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. The registrant's other certifying officer and I have disclosed, based on our 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: November 9, 2023

/s/ Richard N. Grant, Jr.  
Richard N. Grant, Jr.  
President and Chief Executive Officer

**CERTIFICATION**

I, Duncan Gilmour, 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. The registrant's other certifying officer and I are 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. The registrant's other certifying officer and I have disclosed, based on our 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: November 9, 2023

/s/Duncan Gilmour  
Duncan Gilmour  
Chief Financial Officer, Treasurer and Secretary

**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 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard N. Grant, Jr., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 9, 2023

/s/ Richard N. Grant, Jr.  
Richard N. Grant, Jr.  
President and Chief Executive Officer



**inTEST CORPORATION**

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

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Duncan Gilmour, Chief Financial Officer, Treasurer and Secretary 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: November 9, 2023

/s/ Duncan Gilmour  
Duncan Gilmour  
Chief Financial Officer, Treasurer and Secretary