

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020 or

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

For the transition period from _____ to _____

Commission File Number 1-36117

inTEST Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

22-2370659

(I.R.S. Employer Identification Number)

804 East Gate Drive, Suite 200

Mt. Laurel, New Jersey 08054

(Address of principal executive offices, including zip code)

(856) 505-8800

(Registrant's Telephone Number, including Area Code)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth 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, 2020: 10,529,123

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)

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,473	\$ 7,612
Trade accounts receivable, net of allowance for doubtful accounts of \$211 and \$211, respectively	9,533	9,296
Inventories	6,924	7,182
Prepaid expenses and other current assets	712	805
Total current assets	<u>26,642</u>	<u>24,895</u>
Property and equipment:		
Machinery and equipment	5,531	5,269
Leasehold improvements	2,628	2,424
Gross property and equipment	8,159	7,693
Less: accumulated depreciation	(5,742)	(5,273)
Net property and equipment	<u>2,417</u>	<u>2,420</u>
Right-of-use assets, net	7,094	4,842
Goodwill	13,738	13,738
Intangible assets, net	12,727	13,654
Restricted certificates of deposit	140	140
Other assets	31	26
Total assets	<u>\$ 62,789</u>	<u>\$ 59,715</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,203	\$ 1,984
Accrued wages and benefits	2,028	2,007
Accrued professional fees	852	805
Customer deposits and deferred revenue	1,392	456
Accrued sales commissions	441	442
Current portion of operating lease liabilities	1,299	1,302
Domestic and foreign income taxes payable	631	868
Other current liabilities	438	497
Total current liabilities	<u>9,284</u>	<u>8,361</u>
Operating lease liabilities, net of current portion	6,049	3,794
Deferred tax liabilities	2,182	2,263
Other liabilities	451	463
Total liabilities	<u>17,966</u>	<u>14,881</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; 10,562,200 and 10,413,982 shares issued, respectively	106	104
Additional paid-in capital	26,660	26,256
Retained earnings	17,490	18,005
Accumulated other comprehensive earnings	771	673
Treasury stock, at cost; 33,077 shares	(204)	(204)
Total stockholders' equity	<u>44,823</u>	<u>44,834</u>
Total liabilities and stockholders' equity	<u>\$ 62,789</u>	<u>\$ 59,715</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net revenues	\$ 14,443	\$ 14,632	\$ 38,948	\$ 47,046
Cost of revenues	7,993	7,427	21,564	24,286
Gross margin	6,450	7,205	17,384	22,760
Operating expenses:				
Selling expense	1,747	2,044	5,560	6,505
Engineering and product development expense	1,316	1,261	3,825	3,753
General and administrative expense	2,960	3,094	8,732	10,549
Total operating expenses	6,023	6,399	18,117	20,807
Operating income (loss)	427	806	(733)	1,953
Other income (loss)	6	(12)	(44)	3
Earnings (loss) before income tax expense (benefit)	433	794	(777)	1,956
Income tax expense (benefit)	(25)	147	(262)	358
Net earnings (loss)	\$ 458	\$ 647	\$ (515)	\$ 1,598
Net earnings (loss) per common share - basic	\$ 0.04	\$ 0.06	\$ (0.05)	\$ 0.15
Weighted average common shares outstanding - basic	10,269,995	10,421,383	10,247,779	10,405,892
Net earnings (loss) per common share - diluted	\$ 0.04	\$ 0.06	\$ (0.05)	\$ 0.15
Weighted average common shares and common share equivalents outstanding - diluted	10,287,562	10,429,536	10,247,779	10,423,121

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net earnings (loss)	\$ 458	\$ 647	\$ (515)	\$ 1,598
Foreign currency translation adjustments	101	(144)	98	(168)
Comprehensive earnings (loss)	<u>\$ 559</u>	<u>\$ 503</u>	<u>\$ (417)</u>	<u>\$ 1,430</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, 2020						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 2020	10,413,982	\$ 104	\$ 26,256	\$ 18,005	\$ 673	\$ (204)	\$ 44,834
Net loss	-	-	-	(1,143)	-	-	(1,143)
Other comprehensive loss	-	-	-	-	(38)	-	(38)
Amortization of deferred compensation related to stock-based awards	-	-	187	-	-	-	187
Issuance of unvested shares of restricted stock	58,160	1	(1)	-	-	-	-
Forfeiture of unvested shares of restricted stock	(8,315)	-	-	-	-	-	-
Repurchase and retirement of common stock	(13,767)	-	(74)	-	-	-	(74)
Balance, March 31, 2020	10,450,060	105	26,368	16,862	635	(204)	43,766
Net earnings	-	-	-	170	-	-	170
Other comprehensive earnings	-	-	-	-	35	-	35
Amortization of deferred compensation related to stock-based awards	-	-	208	-	-	-	208
Issuance of unvested shares of restricted stock	15,840	-	-	-	-	-	-
Forfeiture of unvested shares of restricted stock	(6,750)	-	-	-	-	-	-
Balance, June 30, 2020	10,459,150	105	26,576	17,032	670	(204)	44,179
Net earnings	-	-	-	458	-	-	458
Other comprehensive earnings	-	-	-	-	101	-	101
Amortization of deferred compensation related to stock-based awards	-	-	85	-	-	-	85
Issuance of unvested shares of restricted stock	155,110	2	(2)	-	-	-	-
Forfeiture of unvested shares of restricted stock	(52,060)	(1)	1	-	-	-	-
Balance, September 30, 2020	<u>10,562,200</u>	<u>\$ 106</u>	<u>\$ 26,660</u>	<u>\$ 17,490</u>	<u>\$ 771</u>	<u>\$ (204)</u>	<u>\$ 44,823</u>
	Nine Months Ended September 30, 2019						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, January 1, 2019	10,523,035	\$ 105	\$ 26,513	\$ 15,683	\$ 783	\$ (204)	\$ 42,880
Net earnings	-	-	-	1,138	-	-	1,138
Other comprehensive loss	-	-	-	-	(83)	-	(83)
Amortization of deferred compensation related to stock-based awards	-	-	183	-	-	-	183
Issuance of unvested shares of restricted stock	80,300	1	(1)	-	-	-	-
Balance, March 31, 2019	10,603,335	106	26,695	16,821	700	(204)	44,118
Net loss	-	-	-	(187)	-	-	(187)
Other comprehensive earnings	-	-	-	-	59	-	59
Amortization of deferred compensation related to stock-based awards	-	-	213	-	-	-	213
Issuance of unvested shares of restricted stock	35,380	-	-	-	-	-	-
Forfeiture of unvested shares of restricted stock	(12,325)	-	-	-	-	-	-
Balance, June 30, 2019	10,626,390	106	26,908	16,634	759	(204)	44,203
Net earnings	-	-	-	647	-	-	647
Other comprehensive loss	-	-	-	-	(144)	-	(144)

Amortization of deferred compensation related to stock-based awards	-	-	242	-	-	-	242
Issuance of unvested shares of restricted stock	16,900	-	-	-	-	-	-
Repurchase and retirement of common stock	(39,158)	-	(179)	-	-	-	(179)
Balance, September 30, 2019	<u>10,604,132</u>	<u>\$ 106</u>	<u>\$ 26,971</u>	<u>\$ 17,281</u>	<u>\$ 615</u>	<u>\$ (204)</u>	<u>\$ 44,769</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	\$ (515)	\$ 1,598
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,378	2,431
Payment of earnout for 2018 related to Ambrell acquisition	-	(12,167)
Provision for excess and obsolete inventory	410	341
Foreign exchange loss	33	37
Amortization of deferred compensation related to stock-based awards	480	638
Loss on disposal of property and equipment	2	17
Proceeds from sale of demonstration equipment, net of gain	54	138
Deferred income tax benefit	(81)	(307)
Changes in assets and liabilities:		
Trade accounts receivable	(237)	1,254
Inventories	(146)	(1,551)
Prepaid expenses and other current assets	95	(235)
Restricted certificates of deposit	-	35
Other assets	(5)	-
Accounts payable	215	943
Accrued wages and benefits	18	(969)
Accrued professional fees	47	192
Customer deposits and deferred revenue	936	(509)
Accrued sales commissions	(2)	(257)
Operating lease liabilities	(977)	(1,059)
Domestic and foreign income taxes payable	(240)	171
Other current liabilities	(60)	(135)
Other liabilities	(5)	263
Net cash provided by (used in) operating activities	<u>2,400</u>	<u>(9,131)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(520)	(413)
Net cash used in investing activities	<u>(520)</u>	<u>(413)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loans	2,829	-
Repayments of Paycheck Protection Program loans	(2,829)	-
Proceeds from revolving credit facility	2,800	-
Repayments of revolving credit facility	(2,800)	-
Repurchases of common stock	(74)	(179)
Net cash used in financing activities	<u>(74)</u>	<u>(179)</u>
Effects of exchange rates on cash	<u>55</u>	<u>(113)</u>
Net cash provided by (used in) all activities	1,861	(9,836)
Cash and cash equivalents at beginning of period	7,612	17,861
Cash and cash equivalents at end of period	<u>\$ 9,473</u>	<u>\$ 8,025</u>
Cash payments for:		
Domestic and foreign income taxes	\$ 58	\$ 488

See accompanying Notes to Consolidated Financial Statements.

inTEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except share and per share data)

(1) NATURE OF OPERATIONS

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

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

Both of our operating segments have multiple products that we design, manufacture and market to our customers. Due to a number of factors, our products have varying levels of gross margin. The mix of products we sell in any period is ultimately determined by our customers' needs. Therefore, the mix of products sold in any given period can change significantly from the prior period. As a result, our consolidated gross margin can be significantly impacted in any given period by a change in the mix of products sold in that period.

Historically, we have referred to our markets as "Semiconductor" (which includes both the broader semiconductor market as well as the more specialized ATE and wafer processing sectors within the broader semiconductor market), and "Non-Semiconductor" (which includes all of the other markets we serve). Starting in the second quarter of 2019, we began referring to the broader semiconductor market, including the ATE and wafer processing sectors within that market, as the "Semi Market." All other markets are designated as "Multimarket." The Semi Market, which is the principal market in which we operate, is characterized by rapid technological change, competitive pricing pressures and cyclical as well as seasonal market patterns. This market is subject to significant economic downturns at various times. Our financial results are affected by a wide variety of factors, including, but not limited to, general economic conditions worldwide and in the markets in which we operate, economic conditions specific to the Semi Market and the other markets we serve, our ability to safeguard patented technology and intellectual property in a rapidly evolving market, downward pricing pressures from customers, and our reliance on a relatively few number of customers for a significant portion of our sales. In addition, we are exposed to the risk of obsolescence of our inventory depending on the mix of future business and technological changes within the markets that we serve. 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.

COVID-19 Pandemic

Our business has been, and will continue to be, adversely affected by the ongoing COVID-19 pandemic. As of the date of this filing, COVID-19 continues to cause significant disruptions in the normal business environment, both domestically and globally, and we believe the situation will remain challenging until the spread of the virus can be contained. Since March 17, 2020, several states, including all of the states in which we have manufacturing facilities, have instituted "shelter-in place" orders as well as guidance in response to COVID-19 and the need to contain it. As of the date of this filing, all of the states in which we operate have re-opened to varying degrees. However, some of these states have paused their re-opening plans or reversed actions they had taken with respect to their re-opening plans because of increased spread. Despite these changes, all of our operations continue to be deemed "critical and essential business operations" under the various governmental COVID-19 mandates which has allowed us to continue to operate our business with certain modifications as discussed below.

Although our net revenues from all of the markets we serve have been significantly affected by COVID-19, the impact of COVID-19 on our net revenues from the Semi Market has been intensified because it began during a time when our business operations were also being negatively affected by a global downturn in the Semi Market. The Semi Market, from which approximately half of our net revenues are derived, entered a cyclical downturn in the beginning of 2019. This downturn resulted in significant declines in our net revenues from the Semi Market during 2020 as compared to 2019, particularly during the first half of the year, and was the primary factor causing the net loss we recorded in the first nine months of 2020 of \$515. Our net revenues from the Semi Market for the first nine months of 2020 totaled \$19,256 compared to \$24,878 in the first nine months of 2019. During the first quarter of 2020, before the spread of COVID-19, we had started to see indications that the downturn was coming to an end and that the beginning of the next cyclical upturn in the Semi Market was about to commence. However, COVID-19 impacted this timing and, as a result, the recovery in the Semi Market was delayed. Although we saw increasing order rates from our customers in the Semi Market during the second quarter of 2020, this trend did not continue for all of the products we sell into this market during the third quarter of 2020. While the broader Semi Market appears to have entered the next cyclical upturn, we serve only a portion of that broader market. Furthermore, because we sell to a limited number of customers in the ATE and wafer processing sectors within the broader Semi Market, the trend in our orders and net revenues does not always follow the overall trend in these sectors of the broader Semi Market. Accordingly, there can be no assurance that the trend in our orders from customers in the Semi Market will follow the trend in the broader Semi Market, in particular, if the spread of COVID-19 is not further contained and one or more of our significant customers is negatively impacted.

In addition, the aftermarket service and support that we provide to our customers has been, and we expect may continue to be, adversely impacted by COVID-19 due to travel restrictions which continue to exist in some locations and limitations on visitors allowed into customer facilities, which has resulted in some of these activities being reduced or suspended. The net revenues associated with these aftermarket service and support activities typically range from 8% to 10% of our consolidated net revenues. Although these net revenues returned to a more typical range during the third quarter of 2020, if the spread of COVID-19 worsens, these revenues may be reduced in future periods.

During 2019, we made adjustments to reduce our fixed cost structure, which included staff reductions and limits on all discretionary spending. As a result of the delay in the Semi Market recovery discussed above and the impact of COVID-19 on our operations, we have taken actions to further reduce our fixed cost structure with the goal of limiting future losses and maintaining an adequate level of liquidity to operate our business. To date, these additional actions have included further staff reductions, the temporary closure of our EMS manufacturing facility in Fremont, California for approximately three weeks beginning in late March and the temporary closure of our Thermal segment manufacturing facility in Mansfield, Massachusetts for a two-week period at the beginning of April. As discussed further in Note 9, on April 10, 2020, we entered into a Loan and Security Agreement (the "Agreement") with M&T Bank ("M&T"). Under the terms of the Agreement, M&T has provided us with a \$7,500 revolving credit facility. This revolving credit facility was put in place to provide us with additional liquidity in response to the current business environment as a result of COVID-19.

As of the date of the filing of this report, all of our facilities are open, although a significant number of our employees are working remotely as discussed below. As discussed further in Note 3, we are in the process of closing our manufacturing operation in Fremont, California. We expect that action to be substantially completed during the fourth quarter of 2020. While we do not currently have any further plans for other facility closures, if the current pace of the spread of COVID-19 cannot be sufficiently slowed and the spread of the virus is not contained, our business operations could be further interrupted. If the spread of the virus cannot be contained, government and health authorities may announce new or extend existing restrictions, which could require us to make further adjustments to our operations in order to comply with any such restrictions. These adjustments to our operations could include additional facility closures in the future if demand slows down, which could have a material negative impact on our business, results of operations, financial condition and cash flows. The funds we may be able to draw down under the Agreement may not be sufficient to prevent the need to take further actions, such as staff reductions, facility closures or other salary and benefits adjustments for remaining employees. As a result of our current level of working capital as well as the availability of the revolving credit facility under the Agreement, we currently expect to have sufficient liquidity to operate our business throughout the balance of 2020, as further described in this report.

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Form 10-K for the year ended December 31, 2019 (“2019 Form 10-K”) filed on March 23, 2020 with the Securities and Exchange Commission (“SEC”).

Reclassification

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

Subsequent Events

We have made an assessment of our operations and determined that there were no material subsequent events requiring adjustment to, or disclosure in, our consolidated financial statements for the nine months ended September 30, 2020 other than those described in Note 1 under “COVID-19 Pandemic” and Note 3.

Business Combinations

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

Restructuring and Other Charges

In accordance with the guidance in Accounting Standards Codification (“ASC”) Topic 420 (Exit or Disposal Cost Obligations), we recognize a liability for restructuring costs at fair value only when the liability is incurred. Workforce-related charges are accrued when it is determined that a liability has been incurred, which is generally after individuals have been notified of their termination dates and expected severance benefits. Depending on the timing of the termination dates, these charges may be recognized upon notification or ratably over the remaining required service period of the employees. Plans to consolidate excess facilities may result in lease termination fees and impairment charges related to our right-of-use (“ROU”) assets that are associated with the leases for these facilities. Other long-lived assets that may be impaired as a result of restructuring consist of property and equipment, goodwill and intangible assets. Asset impairment charges included in restructuring and other charges are based on an estimate of the amounts and timing of future cash flows related to the expected future remaining use and ultimate sale or disposal of the asset, and, in the case of our ROU assets, would include expected future sublease rental income, if applicable. These estimates are derived using the guidance in ASC Topic 842 (Leases), ASC Topic 360 (Property, Plant and Equipment) and ASC Topic 350 (Intangibles - Goodwill and Other).

Goodwill, Intangible and Long-Lived Assets

We account for goodwill and intangible assets in accordance with ASC Topic 350. Finite-lived intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment annually in the fourth quarter on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. Goodwill is considered to be impaired if the fair value of a reporting unit is less than its carrying amount. As a part of the goodwill impairment assessment, we have the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If, as a result of our qualitative assessment, we determine that it is more-likely-than-not that the fair value of the reporting unit is greater than its carrying amount, a quantitative goodwill impairment test is not required. However, if, as a result of our qualitative assessment, we determine it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, or, if we choose not to perform a qualitative assessment, we are required to perform a quantitative goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized.

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

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

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

Revenue Recognition

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

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

Nature of Products and Services

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

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

Types of Contracts with Customers

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

Contract Balances

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

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

Costs to Obtain a Contract with a Customer

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

Product Warranties

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

See Notes 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 market value. Cash flows from the sale of inventories are recorded in operating cash flows. On a quarterly basis, we review our inventories and record excess and obsolete inventory charges based upon our established objective excess and obsolete inventory criteria. These criteria identify material that has not been used in a work order during the prior twelve months and the quantity of material on hand that is greater than the average annual usage of that material over the prior three years. In certain cases, additional excess and obsolete inventory charges are recorded based upon current market conditions, anticipated product life cycles, new product introductions and expected future use of the inventory. The excess and obsolete inventory charges we record establish a new cost basis for the related inventories.

Leases

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

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

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

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

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

We have made an accounting policy election not to apply the recognition requirements of ASC 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.

Contingent Liability for Repayment of State and Local Grant Proceeds

In connection with leasing a new facility in Rochester, New York, which our subsidiary, Ambrell, occupied in May 2018, we entered into agreements with the city of Rochester and the state of New York under which we received grants totaling \$463 to help offset a portion of the cost of the leasehold improvements we have made to this facility. In exchange for the funds we received under these agreements, we are required to create and maintain specified levels of employment in this location through various dates ending in 2023. If we fail to meet these employment targets, we may be required to repay a proportionate share of the proceeds. As of September 30, 2020, \$423 of the total proceeds received could still be required to be repaid if we do not meet the targets. We have recorded this amount as a contingent liability which is included in other liabilities on our balance sheet. Those portions of the proceeds which are no longer subject to repayment are reclassified to deferred grant proceeds and amortized to income on a straight-line basis over the remaining lease term for the Rochester facility. Deferred grant proceeds are included in other current liabilities and other liabilities on our balance sheet and totaled \$32 at September 30, 2020.

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

Stock-Based Compensation

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

Net Earnings (Loss) Per Common Share

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Weighted average common shares outstanding - basic	10,269,995	10,421,383	10,247,779	10,405,892
Potentially dilutive securities:				
Unvested shares of restricted stock and employee stock options	17,567	8,153	-	17,229
Weighted average common shares and common share equivalents outstanding - diluted	10,287,562	10,429,536	10,247,779	10,423,121
Average number of potentially dilutive securities excluded from calculation	631,392	657,969	722,538	501,964

Effect of Recently Issued Amendments to Authoritative Accounting Guidance

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

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

(3) **RESTRUCTURING AND OTHER CHARGES**

EMS Segment Restructuring and Facility Consolidation

On September 21, 2020, we notified employees in our Fremont, California facility of a plan to consolidate all manufacturing for our EMS segment into our manufacturing operation located in Mt. Laurel, New Jersey. Currently, our interface products are manufactured in the Fremont facility, and our manipulator and docking hardware products are manufactured in the Mt. Laurel facility. The consolidation of manufacturing operations will result in the closure of the Fremont facility and the termination of certain employees at that location. The consolidation is being undertaken to better serve customers through streamlined operations and reduce the fixed annual operating costs for the EMS segment. The consolidation is expected to be substantially completed during the fourth quarter of 2020. A small engineering and sales office will be maintained in northern California after the consolidation of manufacturing operations has been completed.

As a result of this action, we expect to incur cash charges for severance and other one-time termination benefits ranging from \$50 to \$100. In addition, we expect to incur cash charges for other costs related to the facility consolidation, including moving costs and production start-up costs, ranging from \$300 to \$400. Most of these costs are expected to be incurred during the fourth quarter of 2020. Costs incurred through September 30, 2020 related to these actions were \$14. The costs are included in general and administrative expense on our statement of operations. The cash payments are expected to be made during the fourth quarter of 2020 and the first quarter of 2021. In addition, we intend to try to sublease our facility located in Fremont, California. When manufacturing operations cease in the Fremont facility we expect to record an impairment charge related to the ROU asset for the lease of the Fremont facility as we do not currently expect to sublet the facility for the full remaining term of the lease. We currently estimate the amount of this charge will range from \$700 to \$800. This impairment charge is expected to be recorded in the fourth quarter of 2020 and will be a non-cash charge. As of September 30, 2020, the ROU asset related to this facility totaled \$1,174.

Changes in the amount of the liability for accrued restructuring for the nine months ended September 30, 2020 are as follows:

Balance - January 1, 2020	\$	-
Accruals for other associated costs		14
Cash payments		(14)
Balance September 30, 2020	\$	-

Executive Management Changes

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

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

Total costs incurred during the nine months ended September 30, 2020 related to these executive management changes were \$495, which consisted of \$224 for the executive management search firm, \$128 for legal fees related to the transition, and \$143 for severance and consulting fees paid to our former CEO. These costs were partially offset by the reversal of \$117 of expense related to stock-based compensation awards forfeited at his termination date by our former CEO. All of these costs were included in general and administrative expense in our consolidated statement of operations and were accrued and paid during the nine months ended September 30, 2020. We expect to incur an additional \$20 in consulting fees during the fourth quarter of 2020 related to these actions. In addition, in connection with these actions, we are reducing the administrative footprint in our Mansfield, Massachusetts corporate office associated with the reestablishment of the Mt. Laurel, New Jersey office as our corporate headquarters. We expect to record a non-cash impairment charge in the range of \$100 to \$200 during the fourth quarter of 2020 related to the ROU asset associated with the lease of the corporate space in Mansfield. As of September 30, 2020, the ROU asset related to this space totaled \$242. We do not expect to incur any additional costs related to these actions after December 31, 2020.

(4) GOODWILL AND INTANGIBLE ASSETS

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

Goodwill

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

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

Intangible Assets

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

Balance - January 1, 2020	\$	6,944
Amortization		(927)
Balance September 30, 2020	\$	<u>6,017</u>

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

	September 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	\$ 10,480	\$ 4,633	\$ 5,847
Technology	600	457	143
Patents	590	563	27
Software	270	270	-
Trade name	140	140	-
Total finite-lived intangible assets	<u>12,080</u>	<u>6,063</u>	<u>6,017</u>
Indefinite-lived intangible assets:			
Trademarks	6,710	-	6,710
Total intangible assets	<u>\$ 18,790</u>	<u>\$ 6,063</u>	<u>\$ 12,727</u>

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

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

Total amortization expense for our finite-lived intangible assets was \$307 and \$927 for the three months and nine months ended September 30, 2020, respectively, and \$312 and \$944 for the three months and nine months ended September 30, 2019, respectively. The following table sets forth the estimated annual amortization expense for each of the next five years:

2020 (remainder)	\$ 307
2021	\$ 1,226
2022	\$ 1,167
2023	\$ 1,067
2024	\$ 980

Assessment for Impairment of Goodwill and Long-Lived Assets

As discussed in Note 2, goodwill is assessed for impairment annually in the fourth quarter on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. Long-lived assets are assessed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. As a result of recent market conditions and trends, including the significant ongoing impact of COVID-19 on the global economy, we performed a qualitative review of facts and circumstances to determine whether it was more likely than not that our goodwill or long-lived assets were impaired and if, as a result, a quantitative impairment assessment was required to be performed as of September 30, 2020. Our review included identifying and weighting the significant factors that have impacted our business operations in recent months, both positively and negatively. We considered the nature of these factors, including whether they were ongoing and related to our core business and markets, or non-recurring and reflected macro-economic or global events that are not directly related to our core business and markets. As a result of our qualitative review, we determined that it was more likely than not that our goodwill and long-lived assets were not impaired and, therefore, no quantitative assessment for impairment was required and, thus not performed, as of September 30, 2020. During the fourth quarter of 2020, we will perform our annual impairment assessment related to our goodwill. As a result of the ongoing uncertainty surrounding the impact of COVID-19 on our operations, we may perform additional qualitative reviews of goodwill and long-lived assets for impairment at various points in 2021. There can be no assurance that we will be able to continue to conclude that it is more likely than not that our goodwill and long-lived assets are not impaired. We may determine that we need to perform a quantitative assessment for impairment at some point in the future. Such a quantitative assessment could result in a determination that an impairment exists which would result in recording an impairment charge. The amount of any such impairment charge could be material. Any future impairment charge recorded could materially adversely impact our balance sheet and results of operations and could result in our being unable to borrow funds that would otherwise be available under our revolving credit facility discussed in Note 9.

(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. See also Note 13 for information about revenue by operating segment and geographic region.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenues by customer type:				
End user	\$ 12,651	\$ 13,167	\$ 34,518	\$ 42,310
OEM/Integrator	1,792	1,465	4,430	4,736
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ 38,948</u>	<u>\$ 47,046</u>
Net revenues by product type:				
Thermal test	\$ 3,632	\$ 4,568	\$ 11,482	\$ 13,817
Thermal process	5,574	4,635	13,885	15,303
Semiconductor test	3,604	3,841	9,093	12,734
Service/other	1,633	1,588	4,488	5,192
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ 38,948</u>	<u>\$ 47,046</u>
Net revenues by market:				
Semi Market	\$ 7,387	\$ 7,126	\$ 19,256	\$ 24,878
Industrial	4,220	5,758	12,346	15,983
Defense/aerospace	2,015	153	4,919	1,437
Telecommunications	419	1,377	1,427	3,509
Other Multi Markets	402	218	1,000	1,239
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ 38,948</u>	<u>\$ 47,046</u>

There was no change in the amount of the allowance for doubtful accounts for the nine months ended September 30, 2020.

(6) MAJOR CUSTOMERS

During the nine months ended September 30, 2020, no customer accounted for 10% or more of our consolidated net revenues. During the nine months ended September 30, 2019, Texas Instruments Incorporated accounted for 11% of our consolidated net revenues. While both of our segments sold to this customer, these revenues were primarily generated by our EMS segment. No other customers accounted for 10% or more of our consolidated net revenues during the nine months ended September 30, 2019.

(7) INVENTORIES

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

	September 30, 2020	December 31, 2019
Raw materials	\$ 4,800	\$ 5,369
Work in process	1,042	949
Inventory consigned to others	49	54
Finished goods	1,033	810
Total inventories	<u>\$ 6,924</u>	<u>\$ 7,182</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Excess and obsolete inventory charges	\$ 105	\$ 98	\$ 410	\$ 341

(8) LEASES

We lease our offices, warehouse facilities and certain equipment under non-cancellable operating leases which expire at various dates through 2031. Total operating lease and short-term lease costs for the three months and nine months ended September 30, 2020 and 2019 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 393	\$ 370	\$ 1,174	\$ 1,106

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

Range of remaining lease terms (in years)	0.3	to	10.0
Weighted average remaining lease term (in years)	6.6		
Weighted average discount rate	4.4%		

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

2020 (remainder)	\$	378
2021		1,407
2022		1,321
2023		1,341
2024		1,377
Thereafter		2,566
Total lease payments	\$	8,390
Less imputed interest		(1,042)
Total	\$	7,348

Supplemental Cash Flow Information

Total amortization of ROU assets was \$324 and \$977 for the three months and nine months ended September 30, 2020, respectively, and \$351 and \$952 for the three months and nine months ended September 30, 2019, respectively.

Non-cash increases in operating lease liabilities and ROU assets as a result of lease modifications for the nine months ended September 30, 2020 were as follows:

Modification to lease for facility in Fremont, California	\$	1,176
Modification to lease for facility in Mt. Laurel, New Jersey	\$	2,051

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

On September 22, 2020, we executed an amendment to the lease for our EMS facility in Mt. Laurel, New Jersey, which extended the term of the existing lease for a period of 120 months commencing on May 1, 2021. In addition, effective on May 1, 2021, the leased space shall be reduced to approximately 33,650 square feet. At the effective date of this modification, we recorded an increase in our ROU assets and operating lease liabilities of approximately \$2,051.

Non-cash increases (decreases) in operating lease liabilities and ROU assets as a result of lease modifications for the nine months ended September 30, 2019 was as follows:

Modification to Ambrell's U.K. facility lease	\$	(486)
Modification to lease for facility in Mansfield, Massachusetts	\$	1,811
Modification to Ambrell's Netherlands facility lease	\$	(48)

The lease for Ambrell's U.K. facility had an original term of 15 years, which extended through August 2029. The lease included the option to terminate the lease at specified points in time without penalty. We exercised this option in March 2019, and the lease expired in September 2019. At the effective date of this modification, we recorded a reduction in our ROU assets and operating lease liabilities of approximately \$486.

On April 8, 2019, we executed an amendment to the lease for our facility in Mansfield, Massachusetts that extended the term of the lease for an additional forty months to December 31, 2024 and expanded the amount of leased space by approximately 6,100 square feet. The current rate per square foot that is in place through August 31, 2021 (the original expiration date of the lease) did not change. After August 31, 2021, there are predetermined fixed escalations of the rate as outlined in the amendment. As a result of this modification, we recorded an increase in our ROU assets and operating lease liabilities of approximately \$1,811.

During the third quarter of 2019, the lease for a portion of Ambrell’s facility in the Netherlands was modified to reduce the term of that lease to expire in September 2019 as that portion of the space was no longer needed. At the effective date of this modification, we recorded a reduction in our ROU assets and operating lease liabilities of approximately \$48.

(9) DEBT

Letters of Credit

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

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

	Original L/C Issue Date	L/C Expiration Date	Lease Expiration Date	Letters of Credit Amount Outstanding	
				September 30, 2020	December 31, 2019
Mt. Laurel, NJ	3/29/2010	4/30/2021	4/30/2031	\$ 90	\$ 90
Mansfield, MA	10/27/2010	12/31/2024	12/31/2024	50	50
				<u>\$ 140</u>	<u>\$ 140</u>

Line of Credit

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

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

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

Paycheck Protection Program Loans

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

(10) STOCK-BASED COMPENSATION

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

As of September 30, 2020, total unrecognized compensation expense related to unvested restricted stock awards and stock options was \$1,544. The weighted average period over which this expense is expected to be recognized is 2.8 years. The following table shows the allocation of the compensation expense we recorded during the three months and nine months ended September 30, 2020 and 2019, respectively, related to stock-based compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	\$ -	\$ -	\$ -	\$ -
Selling expense	3	-	9	4
Engineering and product development expense	10	11	31	26
General and administrative expense	72	231	440	608
	<u>\$ 85</u>	<u>\$ 242</u>	<u>\$ 480</u>	<u>\$ 638</u>

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

Restricted Stock Awards

We record compensation expense for restricted stock awards based on the quoted market price of our stock at the grant date and amortize the expense over the vesting period. Restricted stock awards generally vest over four years for employees and over one year for our independent directors (25% at each of March 31, June 30, September 30, and December 31 of the year in which they were granted).

On August 24, 2020, our new President and CEO received two restricted stock awards totaling 141,610 shares valued at \$650 as of the date of grant, which was also his hire date. Of the total shares awarded, 66,448 shares vest over 4 years (25% at each anniversary) and 75,162 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 awarded on August 24, 2020. The final vesting percentage will be based on the achievement of certain performance metrics, including net revenue compound annual growth rate and diluted earnings per share excluding amortization of intangibles, for specified time periods as determined by the Compensation Committee of our Board of Directors. As of September 30, 2020, we have estimated that these shares will vest at 100% of the original amount awarded and are recording expense based on this estimate on a straight-line basis over the three year vesting period. Our estimate of the final expected vesting percentage will be reassessed and adjusted, as needed, at the end of each reporting period.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares outstanding, January 1, 2020	165,031	\$ 6.55
Granted	229,110	4.24
Vested	(80,361)	5.47
Forfeited	(67,125)	6.03
Unvested shares outstanding, September 30, 2020	<u>246,655</u>	<u>4.89</u>

The total fair value of the shares that vested during the nine months ended September 30, 2020 and 2019 was \$296 and \$370, respectively, as of the vesting dates of these shares.

Stock Options

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

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

	2020	2019
Risk-free interest rate	0.46%	2.35%
Dividend yield	0.00%	0.00%
Expected common stock market price volatility factor	.44	.42
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, 2020 and 2019 was \$1.48 and \$2.75, respectively.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Options outstanding, January 1, 2020 (87,900 exercisable)	506,810	\$ 6.89
Granted	113,980	3.49
Exercised	-	-
Forfeited	(182,590)	6.31
Options outstanding, September 30, 2020 (204,630 exercisable)	<u>438,200</u>	6.25

(11) STOCK REPURCHASE PLAN

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

(12) EMPLOYEE BENEFIT PLANS

We have defined contribution 401(k) plans for our employees who work in the U.S. All permanent employees of inTEST Corporation, EMS LLC, Temprotonic and Silicon Valley who are at least 18 years of age are eligible to participate in the inTEST Corporation Incentive Savings Plan. We match employee contributions dollar for dollar up to 10% of the employee's annual compensation, with a maximum limit of \$5. Employer contributions vest ratably over four years. Matching contributions are discretionary. For the three months and nine months ended September 30, 2020 we recorded \$56 and \$313 of expense for matching contributions, respectively. For the three months and nine months ended September 30, 2019 we recorded \$53 and \$335 of expense for matching contributions, respectively.

All permanent employees of Ambrell are immediately eligible to participate in the Ambrell Corporation Savings & Profit Sharing Plan (the "Ambrell Plan") upon employment and are eligible for employer matching contributions after completing one year of service, as defined in the Ambrell Plan. The Ambrell Plan allows eligible employees to make voluntary contributions up to 100% of compensation, up to the federal government contribution limits. We will make a matching contribution of 25% of each employee's contributions up to a maximum of 2% of such employee's annual compensation. For the three months and nine months ended September 30, 2020 we recorded \$17 and \$49 of expense for matching contributions, respectively. For the three months and nine months ended September 30, 2019 we recorded \$11 and \$48 of expense for matching contributions, respectively.

(13) SEGMENT INFORMATION

We have two reportable segments, Thermal and EMS, which are also our reporting units. Thermal includes the operations of Temprotonic, Thermonics, Sigma, inTEST Thermal Solutions GmbH (Germany), inTEST Pte, Limited (Singapore) and Ambrell. Sales of this segment consist primarily of temperature management systems which we design, manufacture and market under our Temprotonic, Thermonics and Sigma product lines, and precision induction heating systems which are designed, manufactured and marketed by Ambrell. In addition, this segment provides post-warranty service and support. EMS includes the operations of our manufacturing facilities in Mt. Laurel, New Jersey and Fremont, California. Sales of this segment consist primarily of manipulator, docking hardware and tester interface products, which we design, manufacture and market. See Note 3 for information related to the planned closure of our manufacturing facility in Fremont, California.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net Revenues:				
Thermal	\$ 10,724	\$ 10,622	\$ 29,534	\$ 33,775
EMS	3,719	4,010	9,414	13,271
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ 38,948</u>	<u>\$ 47,046</u>
Earnings (loss) before income tax expense (benefit):				
Thermal	\$ 478	\$ 496	\$ 39	\$ 1,949
EMS	169	475	(574)	1,624
Corporate	(214)	(177)	(242)	(1,617)
	<u>\$ 433</u>	<u>\$ 794</u>	<u>\$ (777)</u>	<u>\$ 1,956</u>
Net earnings (loss):				
Thermal	\$ 379	\$ 403	\$ 26	\$ 1,592
EMS	218	387	(380)	1,327
Corporate	(139)	(143)	(161)	(1,321)
	<u>\$ 458</u>	<u>\$ 647</u>	<u>\$ (515)</u>	<u>\$ 1,598</u>

	September 30, 2020	December 31, 2019
Identifiable assets:		
Thermal	\$ 51,920	\$ 51,621
EMS	9,940	7,319
Corporate	929	775
	<u>\$ 62,789</u>	<u>\$ 59,715</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenues:				
U.S.	\$ 5,562	\$ 6,226	\$ 16,235	\$ 19,319
Foreign	8,881	8,406	22,713	27,727
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ 38,948</u>	<u>\$ 47,046</u>
Property and equipment:				
U.S.	\$ 2,088	\$ 2,163		
Foreign	329	257		
	<u>\$ 2,417</u>	<u>\$ 2,420</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 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 and financial results, such as statements of our plans, strategies and intentions, or our future performance or goals that are based upon management's current expectations. Our forward-looking statements can often be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should," "plans," "projects," "forecasts," "outlook," or "anticipates" or similar terminology. See "Cautionary Statement Regarding Forward-Looking Statements" in our 2019 Form 10-K for examples of statements made in this report which may be "forward-looking statements." These statements involve risks and uncertainties and are based on various assumptions. Although we believe that our expectations are based on reasonable assumptions, investors and prospective investors are cautioned that such statements are only projections, and there cannot be any assurance that these events or results will occur. We undertake no obligation to update the information in this report including this MD&A, to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events.

Information about the primary risks and uncertainties that could cause our actual future results to differ materially from our historic results or the results described in the forward-looking statements made in this report or presented elsewhere by management from time to time include, but are not limited to:

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

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

COVID-19 Pandemic

Our business has been, and will continue to be, adversely affected by the ongoing COVID-19 pandemic. As of the date of this filing, COVID-19 continues to cause significant disruptions in the normal business environment, both domestically and globally, and we believe the situation will remain challenging until the spread of the virus can be contained. Since March 17, 2020, several states, including all of the states in which we have manufacturing facilities, have instituted "shelter-in place" orders as well as guidance in response to COVID-19 and the need to contain it. As of the date of this filing, all of the states in which we operate have re-opened to varying degrees. However, some of these states have paused their re-opening plans or reversed actions they had taken with respect to their re-opening plans because of increased spread. Despite these changes, all of our operations continue to be deemed "critical and essential business operations" under the various governmental COVID-19 mandates which has allowed us to continue to operate our business with certain modifications as discussed below.

Although our net revenues from all of the markets we serve have been significantly affected by COVID-19, the impact of COVID-19 on our net revenues from the Semi Market has been intensified because it began during a time when our business operations were also being negatively affected by a global downturn in the Semi Market. The Semi Market, from which approximately half of our net revenues are derived, entered a cyclical downturn in the beginning of 2019. This downturn resulted in significant declines in our net revenues from the Semi Market during 2020 as compared to 2019, particularly during the first half of the year, and was the primary factor causing the net loss we recorded in the first nine months of 2020 of \$515,000. Our net revenues from the Semi Market for the first nine months of 2020 totaled \$19.3 million compared to \$24.9 million in the first nine months of 2019. During the first quarter of 2020, before the spread of COVID-19, we had started to see indications that the downturn was coming to an end and that the beginning of the next cyclical upturn in the Semi Market was about to commence. However, COVID-19 impacted this timing and, as a result, the recovery in the Semi Market was delayed. Although we saw increasing order rates from our customers in the Semi Market during the second quarter of 2020, this trend did not continue for all of the products we sell into this market during the third quarter of 2020. While the broader Semi Market appears to have entered the next cyclical upturn, we serve only a portion of that broader market. Furthermore, because we sell to a limited number of customers in the ATE and wafer processing sectors within the broader Semi Market, the trend in our orders and net revenues does not always follow the overall trend in these sectors of the broader Semi Market. Accordingly, there can be no assurance that the trend in our orders from customers in the Semi Market will follow the trend in the broader Semi Market, in particular, if the spread of COVID-19 is not further contained and one or more of our significant customers is negatively impacted.

In addition, the aftermarket service and support that we provide to our customers has been, and we expect may continue to be, adversely impacted by COVID-19 due to travel restrictions which continue to exist in some locations and limitations on visitors allowed into customer facilities, which has resulted in some of these activities being reduced or suspended. The net revenues associated with these aftermarket service and support activities typically range from 8% to 10% of our consolidated net revenues. Although these net revenues returned to a more typical range during the third quarter of 2020, if the spread of COVID-19 worsens, these revenues may be reduced in future periods.

During 2019, we made adjustments to reduce our fixed cost structure, which included staff reductions and limits on all discretionary spending. As a result of the delay in the Semi Market recovery discussed above and the impact of COVID-19 on our operations, we have taken actions to further reduce our fixed cost structure with the goal of limiting future losses and maintaining an adequate level of liquidity to operate our business. To date, these additional actions have included further staff reductions, the temporary closure of our EMS manufacturing facility in Fremont, California for approximately three weeks beginning in late March and the temporary closure of our Thermal segment manufacturing facility in Mansfield, Massachusetts for a two-week period at the beginning of April. As discussed further in Note 9 to our consolidated financial statements, on April 10, 2020, we entered into a Loan and Security Agreement (the "Agreement") with M&T Bank ("M&T"). Under the terms of the Agreement, M&T has provided us with a \$7.5 million revolving credit facility. This revolving credit facility was put in place to provide us with additional liquidity in response to the current business environment as a result of COVID-19.

As of the date of the filing of this report, all of our facilities are open, although a significant number of our employees are working remotely as discussed below. As discussed further in Note 3 to our consolidated financial statements, we are in the process of closing our manufacturing operation in Fremont, California. We expect that action to be substantially completed during the fourth quarter of 2020. While we do not currently have any further plans for other facility closures, if the current pace of COVID-19 cannot be sufficiently slowed and the spread of the virus is not contained, our business operations could be further interrupted. If the spread of the virus cannot be contained, government and health authorities may announce new or extend existing restrictions, which could require us to make further adjustments to our operations in order to comply with any such restrictions. These adjustments to our operations could include additional facility closures in the future if demand slows down, which could have a material negative impact on our business, results of operations, financial condition and cash flows. The funds we may be able to draw down under the Agreement may not be sufficient to prevent the need to take further actions, such as staff reductions, facility closures or other salary and benefits adjustments for remaining employees. As a result of our current level of working capital as well as the availability of the revolving credit facility under the Agreement, we currently expect to have sufficient liquidity to operate our business throughout the balance of 2020, as further described in this report.

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

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

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

Overview

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

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

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

Both of our operating segments have multiple products that we design, manufacture and market to our customers. Due to a number of factors, our products have varying levels of gross margin. The mix of products we sell in any period is ultimately determined by our customers' needs. Therefore, the mix of products sold in any given period can change significantly from the prior period. As a result, our consolidated gross margin can be significantly impacted in any given period by a change in the mix of products sold in that period.

Markets

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

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

In the past, the Semi Market has been highly cyclical with recurring periods of oversupply, which often severely impact the Semi Market's demand for the products we manufacture and sell into the market. This cyclicity can cause wide fluctuations in both our orders and net revenues and, depending on our ability to react quickly to these shifts in demand, can significantly impact our results of operations. Market cycles are difficult to predict and, because they are generally characterized by sequential periods of growth or declines in orders and net revenues during each cycle, year over year comparisons of operating results may not always be as meaningful as comparisons of periods at similar points in either up or down cycles. In addition, during both downward and upward cycles in the Semi Market, in any given quarter, the trend in both our orders and net revenues can be erratic. This can occur, for example, when orders are canceled or currently scheduled delivery dates are accelerated or postponed by a significant customer or when customer forecasts and general business conditions fluctuate during a quarter.

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

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

While approximately half of our orders and net revenues are derived from the Semi Market, and our operating results generally follow the overall trend in the Semi Market, in any given period we may experience anomalies that cause the trend in our net revenues to deviate from the overall trend in the Semi Market. We believe that these anomalies may be driven by a variety of factors within the Semi Market, including, for example, changing product requirements, longer periods between new product offerings by OEMs and changes in customer buying patterns. In addition, in recent periods, we have seen instances when demand within the Semi Market is not consistent for each of our operating segments or for any given product within a particular operating segment. This inconsistency in demand can be driven by a number of factors but, in most cases, we have found that the primary reason is unique customer-specific changes in demand for certain products driven by the needs of their customers or markets served. Recently this has become more pronounced for our sales into the wafer processing 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 previously mentioned, as part of our ongoing strategy to reduce the impact of Semi Market volatility on our business operations, we continue to diversify our served markets to address the thermal test and thermal process requirements of several markets outside the Semi Market. These include the automotive, defense/aerospace, energy, industrial, telecommunications and other markets, which we refer to as Multimarket. We believe that these markets are usually less cyclical than the Semi Market. While market share statistics exist for some of these markets, due to the nature of our highly specialized product offerings in these markets, we do not expect broad market penetration in many of these markets and therefore do not anticipate developing meaningful market shares in most of these markets.

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

EMS Segment Restructuring and Facility Consolidation

On September 21, 2020, we notified employees in our Fremont, California facility of a plan to consolidate all manufacturing for our EMS segment into the manufacturing operation located in Mt. Laurel, New Jersey. Currently, our interface products are manufactured in the Fremont facility, and our manipulator and docking hardware products are manufactured in the Mt. Laurel facility. This action will result in the closure of the Fremont facility and the termination of certain employees at that location. The consolidation of manufacturing operations is being undertaken to better serve customers through streamlined operations and reduce the fixed annual operating costs for the EMS segment. The consolidation is expected to be substantially completed during the fourth quarter of 2020. A small engineering and sales office will be maintained in northern California after the consolidation of manufacturing operations has been completed. The costs related to these actions are included in general and administrative expense on our consolidated statement of operations and are discussed in more detail in Note 3 to our consolidated financial statements.

Orders and Backlog

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

	Three Months Ended September 30,				Three Months Ended June 30,			
	2020		2019		2020		2019	
	\$	%	\$	%	\$	%	\$	%
Orders:								
Thermal	\$ 11,004		\$ 9,543	15%	\$ 10,446		\$ 558	5%
EMS	3,423		4,314	(21)%	3,472		(49)	(1)%
	<u>\$ 14,427</u>		<u>\$ 13,857</u>	4%	<u>\$ 13,918</u>		<u>\$ 509</u>	4%
Semi Market	\$ 7,263		\$ 6,602	10%	\$ 7,299		\$ (36)	-%
Multimarket	7,164		7,255	(1)%	6,619		545	8%
	<u>\$ 14,427</u>		<u>\$ 13,857</u>	4%	<u>\$ 13,918</u>		<u>\$ 509</u>	4%

	Nine Months Ended September 30,					
	2020		2019		Change	
	\$	%	\$	%	\$	%
Orders:						
Thermal	\$ 31,949		\$ 30,476		\$ 1,473	5%
EMS	10,172		11,197		(1,025)	(9)%
	<u>\$ 42,121</u>		<u>\$ 41,673</u>		<u>\$ 448</u>	1%
Semi Market	\$ 21,254		\$ 20,804		\$ 450	2%
Multimarket	20,867		20,869		(2)	-%
	<u>\$ 42,121</u>		<u>\$ 41,673</u>		<u>\$ 448</u>	1%

Total consolidated orders for the three months ended September 30, 2020 were \$14.4 million compared to \$13.9 million in each of the three months ended September 30, 2019 and June 30, 2020. Orders from customers in Multimarket for the three months ended September 30, 2020 were \$7.2 million, or 50% of total consolidated orders, compared to \$7.3 million, or 52% of total consolidated orders for the same period in 2019 and \$6.6 million or 48% of total consolidated orders for the three months ended June 30, 2020.

We believe that the increase in our consolidated orders during the three months ended September 30, 2020 as compared to the same period in 2019 primarily reflects increased demand in our Thermal segment from certain of its Semi Market customers. This was partially offset by our EMS segment continuing to experience reduced levels of demand from the Semi Market in the third quarter of 2020 as compared to the same period in 2019. As previously discussed under the Markets section above, we periodically see instances when demand within the Semi Market is not consistent for each of our segments or for any given product within a particular segment. We believe the increase in orders for our Thermal segment as well as recent indications from customers of our EMS segment signal we are coming out of the cyclical downturn in the Semi Market that has been ongoing since late 2019. However, there can be no assurance that this trend will continue, in particular, if the spread of COVID-19 cannot be further contained, or worsens, and additional government mandated restrictions or shutdowns are enacted.

We believe that the increase in our consolidated orders during the three months ended September 30, 2020 as compared to the three months ended June 30, 2020 primarily reflects portions of our business returning to the levels we experienced prior to the onset of COVID-19. We had seen negative impacts in the second quarter of 2020 from COVID-19 on certain aspects of our business, in particular for our Thermal segment related to aftermarket service and support. We also experienced reductions in demand during the second quarter of 2020 for induction heating products from certain of our customers who had been impacted by government mandated closures. During the third quarter of 2020, we saw an improvement as customers re-opened facilities and began to allow limited service and support visits or found alternate methods to access service and support, either virtually or by shipping equipment to us for service.

At September 30, 2020, our backlog of unfilled orders for all products was approximately \$8.7 million compared with approximately \$8.0 million at September 30, 2019 and \$8.7 million at June 30, 2020. Our backlog includes customer orders which we have accepted, substantially all of which we expect to deliver in 2020. While backlog is calculated on the basis of firm purchase orders, a customer may cancel an order or accelerate or postpone currently scheduled delivery dates. Our backlog may be affected by the tendency of customers to rely on short lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog. As a result, our backlog at a particular date is not necessarily indicative of sales for any future period.

Net Revenues

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

	Three Months Ended		Change		Three Months Ended		Change	
	September 30,				June 30,			
	2020	2019	\$	%	2020	\$	%	
Net revenues:								
Thermal	\$ 10,724	\$ 10,622	\$ 102	1%	\$ 9,476	\$ 1,248	13%	
EMS	3,719	4,010	(291)	(7)%	3,799	(80)	(2)%	
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ (189)</u>	<u>(1)%</u>	<u>\$ 13,275</u>	<u>\$ 1,168</u>	<u>9%</u>	
Semi Market	\$ 7,387	\$ 7,126	\$ 261	4%	\$ 6,858	\$ 529	8%	
Multimarket	7,056	7,506	(450)	(6)%	6,417	639	10%	
	<u>\$ 14,443</u>	<u>\$ 14,632</u>	<u>\$ (189)</u>	<u>(1)%</u>	<u>\$ 13,275</u>	<u>\$ 1,168</u>	<u>9%</u>	

	Nine Months Ended		Change	
	September 30,			
	2020	2019	\$	%
Net revenues:				
Thermal	\$ 29,534	\$ 33,775	\$ (4,241)	(13)%
EMS	9,414	13,271	(3,857)	(29)%
	<u>\$ 38,948</u>	<u>\$ 47,046</u>	<u>\$ (8,098)</u>	<u>(17)%</u>
Semi Market	\$ 19,256	\$ 24,878	\$ (5,622)	(23)%
Multimarket	19,692	22,168	(2,476)	(11)%
	<u>\$ 38,948</u>	<u>\$ 47,046</u>	<u>\$ (8,098)</u>	<u>(17)%</u>

Total consolidated net revenues for the three months ended September 30, 2020 were \$14.4 million compared to \$14.6 million for the same period in 2019 and \$13.3 million for the three months ended June 30, 2020. Net revenues from customers in Multimarket for the three months ended September 30, 2020 were \$7.1 million, or 49% of total consolidated net revenues, compared to \$7.5 million, or 51% of total consolidated net revenues for the same period in 2019 and \$6.4 million or 48% of total consolidated orders for the three months ended June 30, 2020.

We believe the decrease in our consolidated net revenues as compared to the same period in 2019 reflects a combination of factors including the impact of COVID-19 on our revenues from Multimarket customers, which are all in our Thermal segment, and the impact of both COVID-19 and the aforementioned downturn in the Semi Market on our EMS segment. We believe the increase in our consolidated net revenues for the three months ended September 30, 2020 as compared to the three months ended June 30, 2020 reflects that the impact of COVID-19 is lessening and we are beginning to experience increased demand from certain of our Semi Market customers. As previously discussed under the Orders and Backlog section above, we believe this signals that the downturn in the Semi Market is coming to an end, although there can be no assurance that this trend will continue or what the pace of the recovery may be.

Results of Operations

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

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

Net Revenues. Net revenues were \$14.4 million for the three months ended September 30, 2020 compared to \$14.6 million for the same period in 2019, a decrease of \$189,000, or 1%. We believe the decrease in our net revenues during the third quarter of 2020 primarily reflects the factors previously discussed in the Overview and COVID-19 Pandemic sections.

Gross Margin. Our consolidated gross margin was 45% of net revenues for the three months ended September 30, 2020 as compared to 49% of net revenues for the same period in 2019. The decrease in our gross margin primarily reflects changes in product and customer mix. To a lesser extent, we also had an increase in our fixed operating costs as a percentage of net revenues. Although our fixed operating costs were relatively unchanged in absolute dollar terms, they increased as a percentage of net revenues as a result of not being as fully absorbed by the lower net revenues levels in the three months ended September 30, 2020 as compared to the same period in 2019.

Selling Expense. Selling expense was \$1.7 million for the three months ended September 30, 2020 compared to \$2.0 million for the same period in 2019, a decrease of \$297,000, or 15%. The decrease primarily reflects a reduction in travel and trade show expense, reflecting the impact of COVID-19. In late March 2020, we suspended all non-essential travel, including attendance at trade shows. To a lesser extent, there was also a reduction in warranty expense and lower levels of commission expense, as a result of the lower net revenue levels, and a decrease in salary and benefits expense in our Thermal segment due to headcount reductions.

Engineering and Product Development Expense. Engineering and product development expense was relatively unchanged at \$1.3 million for both the three months ended September 30, 2020 and 2019. Increases in salaries and benefits expense in our Thermal segment were offset by a reduction in spending on third-party consultants in our Thermal segment and reduced travel in both of our segments.

General and Administrative Expense. General and administrative expense was \$3.0 million for the three months ended September 30, 2020 compared to \$3.1 million for the same period in 2019, a decrease of \$134,000, or 4%. The expense for the three months ended September 30, 2020 included \$133,000 for severance and medical benefits for our former CEO who resigned on August 6, 2020. In connection with his resignation, we also recorded a reduction of \$117,000 in stock-based compensation expense related to awards that he forfeited at his termination date. During the three months ended September 30, 2020 we recorded lower levels of expense for salaries and benefits, reflecting a reduction in administrative staff, lower travel costs and reduced spending on third-party professionals who assist us in a variety of strategic and compliance related matters. These reductions were partially offset by accruals related to the guaranteed minimum cash bonus that will be paid to our new CEO for 2020.

Income Tax Expense (Benefit). For the three months ended September 30, 2020, we recorded an income tax benefit of \$25,000 compared to income tax expense of \$147,000 for the same period in 2019. Our effective tax rate was (6)% for the three months ended September 30, 2020 compared to 19% for the same period in 2019. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses. The effective tax rates in each of the three months ended September 30, 2020 and 2019 reflect adjustments that were made to bring the effective tax rates for the nine-month periods ended September 30, 2020 and 2019 to the expected annualized effective tax rate as of September 30 in each year.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Net Revenues. Net revenues were \$38.9 million for the nine months ended September 30, 2020 compared to \$47.0 million for the same period in 2019, a decrease of \$8.1 million, or 17%. We believe the decrease in our net revenues during the first nine months of 2020 primarily reflects the factors previously discussed in the Overview, including the impact of the ongoing downturn in the Semi Market and COVID-19.

Gross Margin. Our consolidated gross margin was 45% of net revenues for the nine months ended September 30, 2020 as compared to 48% of net revenues for the same period in 2019. The decrease in our gross margin as a percentage of net revenues primarily reflects an increase in our fixed operating costs as a percentage of net revenues. Although our fixed operating costs decreased by \$356,000 in absolute dollar terms, they represented 19% of net revenues for the nine months ended September 30, 2020 as compared to 16% of net revenues for the same period in 2019. This is a result of not being as fully absorbed by the lower net revenues levels in the first nine months of 2020. The \$356,000 decrease in our fixed operating costs primarily reflects a reduction in materials used in operations and service, headcount reductions and lower levels of outsourced labor in our Thermal segment. These decreases were partially offset by an increase in facilities costs in our Thermal segment.

Selling Expense. Selling expense was \$5.6 million for the nine months ended September 30, 2020 compared to \$6.5 million for the same period in 2019, a decrease of \$945,000, or 15%. The decrease primarily reflects a reduction in travel and trade show expense, reflecting the aforementioned suspension of all non-essential travel and trade show attendance as a result of COVID-19. In addition, there was also a reduction in warranty expense and lower levels of commission expense, as a result of the lower net revenue levels.

Engineering and Product Development Expense. Engineering and product development expense was relatively unchanged at \$3.8 million for both the nine months ended September 30, 2020 and 2019. Increases in salaries and benefits expense were offset by a reduction in spending on travel, third-party consultants and materials used in product development.

General and Administrative Expense. General and administrative expense was \$8.7 million for the nine months ended September 30, 2020 compared to \$10.5 million for the same period in 2019, a decrease of \$1.8 million, or 17%. During the nine months ended September 30, 2019, we incurred \$683,000 related to an acquisition opportunity which we decided not to pursue. There were no similar costs in the nine months ended September 30, 2020. During the nine months ended September 30, 2019, we also recorded restructuring costs of \$242,000, primarily related to the consolidation of Ambrell's European operations. This compares to restructuring costs of \$179,000 recorded during the nine months ended September 30, 2020, primarily related to the aforementioned resignation of our former CEO and, to a lesser extent, employee terminations in our Thermal segment which were a result of reduced levels of demand. During the nine months ended September 30, 2020 we also recorded reduced spending on third-party professionals who assist us in a variety of strategic and compliance related matters, lower travel costs, reduced levels of stock-based compensation expense, lower salaries and benefits expense and reduced levels of accruals for profit-based bonuses.

Income Tax Expense (Benefit). For the nine months ended September 30, 2020, we recorded an income tax benefit of \$262,000 compared to income tax expense of \$358,000 for the same period in 2019. Our effective tax rate was 34% for the nine months ended September 30, 2020 compared to 18% for the same period in 2019. The increase in our effective tax rate primarily represents the impact of changes in the expected mix of foreign and domestic source income for 2020 and other adjustments related to recently enacted tax regulations where specific application of the regulations is still evolving. On a quarterly basis, we record income tax expense or benefit based on the expected annualized effective tax rate for the various taxing jurisdictions in which we operate our businesses.

Liquidity and Capital Resources

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

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

Liquidity

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

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 9,473	\$ 7,612
Working capital	\$ 17,358	\$ 16,534

As of September 30, 2020, \$3.4 million, or 36%, of our cash and cash equivalents was held by our foreign subsidiaries. In addition, included in our cash and cash equivalents at September 30, 2020 was \$1.4 million in advance deposits from customers on orders we expect to ship in the fourth quarter of 2020. We currently expect our cash and cash equivalents, in combination with the borrowing availability under our revolving credit facility to be sufficient to support our short-term working capital requirements and other corporate requirements. Our revolving credit facility is discussed in Notes 1 and 9 to our consolidated financial statements. Should the impact of COVID-19 on our operations, including the disruption to our business caused by potential future closures of our facilities or reduced demand from our customers, be more significant than we currently anticipate, we may need additional financial resources, including additional debt or equity financings. There can be no assurance that any such debt or equity financings would be available on favorable terms or rates or at all.

Cash Flows

Operating Activities. For the nine months ended September 30, 2020, we recorded a net loss of \$515,000 and our net cash provided by operations was \$2.4 million. During this same period, we had non-cash charges of \$2.4 million for depreciation and amortization, which included \$977,000 of amortization related to our ROU assets. During the nine months ended September 30, 2020, we also recorded \$480,000 for amortization of deferred compensation expense related to stock-based awards and a provision for excess and obsolete inventory of \$410,000. During the nine months ended September 30, 2020, customer deposits and deferred revenue increased \$936,000, primarily reflecting an increase in customers placing deposits with their orders for future shipment, our operating lease liabilities decreased \$977,000, primarily reflecting cash payments made under our facility lease agreements, and our domestic and foreign taxes payable decreased \$240,000, primarily reflecting the accrual of an income tax benefit on our loss for the nine months.

Investing Activities. During the nine months ended September 30, 2020, purchases of property and equipment were \$520,000. During the fourth quarter of 2020, we expect to spend approximately \$202,000 to complete the tenant improvements to our facility in Mt. Laurel, New Jersey. These improvements are being done in connection with reducing the size of that facility and consolidating manufacturing operations from our Fremont, California operation as discussed under the Overview section above and in Notes 3 and 8 to our consolidated financial statements. We have no other significant commitments for capital expenditures for the balance of 2020; however, depending upon changes in market demand or manufacturing and sales strategies, we may make such purchases or investments as we deem necessary and appropriate.

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

New or Recently Adopted Accounting Standards

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

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories, long-lived assets, goodwill, identifiable intangibles, contingent consideration liabilities and deferred income tax valuation allowances. We base our estimates on historical experience and on appropriate and customary assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Some of these accounting estimates and assumptions are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ markedly from what had been assumed when the financial statements were prepared. As of September 30, 2020, there have been no significant changes to the accounting policies that we have deemed critical. These policies are more fully described in our 2019 Form 10-K.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the nine months ended September 30, 2020 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our interests.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This disclosure is not required for a smaller reporting company.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Exchange Act. Because there are inherent limitations in all control systems, a control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our management has designed the disclosure controls and procedures to provide reasonable assurance that the objectives of the control system were met.

CEO/CFO Conclusions about the Effectiveness of the Disclosure Controls and Procedures. As required by Rule 13a-15(b), management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures, including impact of COVID-19. Based on that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Information regarding the primary risks and uncertainties that could materially and adversely affect our future performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements, appears in Part I, Item 1A - "Risk Factors" of our 2019 Form 10-K filed with the Securities and Exchange Commission on March 23, 2020. There have been no changes from the risk factors set forth in our 2019 Form 10-K, except for the addition of the following:

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

Our business has been, and will continue to be, adversely affected by COVID-19. As of the date of this filing, the ongoing COVID-19 pandemic continues to cause significant disruptions in the normal business environment, both domestically and globally, and we believe the situation will remain challenging until the spread of the virus can be contained. Since March 17, 2020, several states, including all of the states in which we have manufacturing facilities, have instituted "shelter-in place" orders as well as guidance in response to COVID-19 and the need to contain it. As of the date of this filing, all of the states in which we operate had begun the process of re-opening to varying degrees. However, some of these states have paused their re-opening plans or reversed actions they had taken with respect to their re-opening plans because of increased spread. Despite these changes, all of our operations continue to be deemed "critical and essential business operations" under the various governmental COVID-19 mandates which has allowed us to continue to operate our business with certain modifications.

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

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

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

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

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

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

If the EMS facility consolidation takes longer than we currently expect, the costs incurred could exceed our current estimates and the efficiencies we project from the consolidation may not occur.

On September 21, 2020, we notified employees in our Fremont, California facility of a plan to consolidate all manufacturing for our EMS segment from our Fremont facility into our manufacturing operation located in Mt. Laurel, New Jersey. Currently, our interface products are manufactured in the Fremont facility, and our manipulator and docking hardware products are manufactured in the Mt. Laurel facility. The consolidation of manufacturing operations will result in the closure of the Fremont facility and the termination of certain employees at that location. The consolidation of manufacturing operations is being undertaken to streamline operations and reduce the fixed annual operating costs for the EMS segment. The consolidation is expected to be substantially completed during the fourth quarter of 2020. If we are unable to complete the consolidation in the timeframe that we currently expect, this could impact customer shipments and reduce our revenue or increase our costs in future periods. If we do not meet our customers' expectations for on-time delivery, this could result in lost business opportunities. If we do not achieve the efficiencies we currently anticipate as a result of the consolidation, our costs could be higher than we currently expect in future periods. In addition, if the consolidation is delayed, we would incur costs associated with the facility consolidation in excess of those we currently estimate. The occurrence of any of these events could have a material adverse effect on our business, results of operations and financial condition in future periods.

Non-compliance with the terms and covenants relating to our revolving credit facility could adversely impact our financial performance and liquidity, and thus we may need additional financial resources to maintain our liquidity.

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- | | |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1 | First Amendment to Lease Agreement, dated September 22, 2020, by and between inTEST Corporation and Exeter 804 East Gate 2018, LLC. (1) |
| 10.2* | Separation and Consulting Agreement between inTEST Corporation and James Pelrin dated August 6, 2020. (2) |
| 10.3* | Letter Agreement between inTEST Corporation and Richard N. Grant, Jr. dated July 24, 2020. (2) |
| 10.4* | inTEST Corporation Third Amended and Restated 2014 Stock Plan. |
| 10.5* | Form of Restricted Stock Award Agreement for Employees. |
| 10.6* | Form of Restricted Stock Award Agreement for Directors. |
| 10.7* | Form of Incentive Stock Option Agreement. |
| 10.8* | Form of Non-Qualified Stock Option Agreement. |
| 10.9* | Change of Control Agreement dated August 11, 2020 between the Company and Richard N. Grant, Jr. |
| 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 | XBRL Taxonomy Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

- (1) Previously filed by the Company as an exhibit to the Company's Current Report on Form 8-K dated September 22, 2020, File No. 001-36117, filed September 24, 2020, and incorporated herein by reference.

(2) Previously filed by the Company as an exhibit to the Company's Current Report on Form 8-K dated August 6, 2020, File No. 001-36117, filed August 11, 2020, and incorporated herein by reference.

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

Signatures

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

inTEST Corporation

Date: November 12, 2020

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

Date: November 12, 2020

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

**inTEST CORPORATION
THIRD AMENDED AND RESTATED
2014 STOCK PLAN**

**ARTICLE I
ESTABLISHMENT**

1.1 Purpose

The inTEST Corporation Third Amended and Restated 2014 Stock Plan (the "Plan") is hereby established by inTEST Corporation (the "Company"). The purpose of the Plan is to promote the overall financial objectives of the Company and its stockholders by motivating those persons selected to participate in the Plan to achieve long-term growth in the equity of the Company and by retaining the association of those individuals who are instrumental in achieving this growth. The Plan provides additional incentives to officers and other key employees ("Key Employees"), consultants ("Consultants") and members of the Board of Directors of the Company (the "Board of Directors") or its Affiliates, as defined herein ("Directors"), to enter into or remain in the service or employ of the Company or its Affiliates and to devote themselves to the Company's success by granting such individuals an opportunity to acquire or increase their proprietary interest in the Company through receipt of Awards.

"Awards" may consist of: (i) "Option(s)," or rights to acquire the Company's Common Stock, par value \$.01 per share (the "Common Stock"), including "ISOs" and "NQSOs" as hereinafter defined, (ii) awards of shares of Common Stock ("Stock Awards"), (iii) awards of stock appreciation rights ("Stock Appreciation Rights," or "SARs") or (iv) awards of restricted stock units ("Restricted Stock Units," or "RSUs").

1.2 Two-Part Plan

The Plan shall be divided into two sub-plans: the "Key Employee Plan," which will govern benefits for Key Employees, as defined above, and the "Non-Qualified Plan," which will govern benefits to Directors and Consultants. All provisions hereunder which refer to the "Plan" shall apply to each of the Key Employee Plan and the Non-Qualified Plan.

**ARTICLE II
STOCK SUBJECT TO PLAN**

2.1 Aggregate Maximum Number

The aggregate maximum number of shares of the Common Stock for which Awards may be granted under the Plan, including without limitation, the Key Employee Plan, is 2,000,000 shares (the "Plan Shares"), which number is subject to adjustment as provided in Section 9.6. Plan Shares shall be issued from authorized and unissued Common Stock or Common Stock held in or hereafter acquired for the treasury of the Company. If any outstanding Award granted under the Plan expires, lapses or is terminated for any reason, or if, pursuant to the terms of a Stock Award, the shares so awarded are forfeited, then the Plan Shares allocable to the unexercised portion of such Awards, or the forfeited shares under a Stock Award, as the case may be, may again be the subject of an Award granted pursuant to the Plan.

2.2 Terms Applicable to All Awards

For any Award granted under the Plan, the Committee shall not accelerate vesting except upon death or disability, or upon a Change of Control, as it is defined in subsections 9.1(b) and 9.1(c).

2.3 Dividends

The Committee may grant dividends with respect to any Award subject to the terms and conditions the Committee establishes. To the extent an unvested Award qualifies for dividends, such dividends will accrue and be paid by the Company at the time the Award vests.

ARTICLE III **TERM OF PLAN**

3.1 Term of Plan

The Plan shall commence on the date of approval of the Plan by the Board of Directors of the Company (“Effective Date”), but shall terminate unless the Plan is approved by the stockholders of the Company within twelve months of such date as set forth in Section 422(b)(1) of the Internal Revenue Code of 1986, as amended (the “Code”). Any Awards granted pursuant to the Plan prior to approval of the Plan by the stockholders of the Company shall be subject to such approval and, notwithstanding anything to the contrary herein or in any Award Document (as defined below), shall not be exercisable until such approval is obtained. Any Stock Awards granted pursuant to the Plan prior to approval of the Plan by the stockholders of the Company shall not vest until after such approval is obtained. No Award may be granted under the Plan on or after March 4, 2024.

ARTICLE IV **ELIGIBILITY**

4.1 Key Employee Plan

Except as herein provided, the persons who shall be eligible to participate in the Key Employee Plan and be granted Awards shall be those Key Employees who shall be in a position, in the opinion of the Committee, as defined herein, to make contributions to the growth, management, protection and success of the Company and its Affiliates. Of those persons described in the preceding sentence, the Committee, as herein defined, may, from time to time, select persons to be granted Awards and shall determine the terms and conditions with respect thereto. In making any such selection and in determining the form of the Award, the Committee may give consideration to the person’s functions and responsibilities, the person’s contributions to the Company and its Affiliates, the value of the individual’s service to the Company and its Affiliates and such other factors deemed relevant by the Committee. The term “Affiliates” shall mean any entity in which the Company owns, directly or indirectly, 50 percent or more of the voting equity at the time of the granting of the Award.

4.2 Non-Qualified Plan

NQSOs (as defined herein), Stock Awards, SARS and RSUs may be granted to Directors and Consultants pursuant to the Non-Qualified Plan as herein provided.

ARTICLE V **STOCK OPTIONS**

5.1 Key Employee Plan Options

Options granted under the Key Employee Plan may be either ISOs, as defined herein, or NQSOs. Each Option granted under the Key Employee Plan is intended to be an incentive stock option ("ISO") within the meaning of Section 422(b) of the Code for federal income tax purposes, except to the extent (i) any such ISO grant would exceed the limitation of subsection 5.3(a) below, (ii) any Option is specifically designated at the time of grant of the Award (the "Grant Date") as not being an ISO (an Option which is not an ISO, and therefore is a non-qualified option, is referred to herein as an "NQSO"), (iii) any Option is granted to a person who is not an employee of the Company or any Affiliate on the Grant Date or (iv) as may be otherwise provided in any option agreement hereunder. Under the Key Employee Plan, Options may be granted to Key Employees at such times, in such amounts, and on such terms and conditions as determined by the Committee, in accordance with the terms of the Plan, and, in the case of Options granted to any executive officer of the Company, subject to the further approval and recommendation of a majority of the Independent Directors and the Board of Directors. "Independent Director" shall have the same meaning as given to that term in Section 803A and 805(c)(1) of the NYSE American Company Guide, as it may from time to time be amended or superseded by any successor rule of the NYSE American or the primary exchange on which the Company Common Stock is listed for trading.

5.2 Non-Qualified Plan Options

Any Options granted under the Non-Qualified Plan shall be NQSOs. Such Options may be granted to Directors and Consultants at such times, in such amounts, and on such terms and conditions as determined by the Committee in accordance with the terms of the Plan.

5.3 Terms and Conditions of Options

Options granted pursuant to the Plan shall be evidenced by written option agreements in such form as the Committee shall from time to time approve, subject to the following terms and conditions. Option agreements may also contain such other terms and conditions (including vesting schedules for the exercisability of Options) which the Committee shall from time to time provide which are not inconsistent with the terms of the Plan. Persons to whom Options are granted are hereinafter referred to as "Optionees."

(a) Number of Option Shares

Each option agreement shall state the number of shares of Common Stock ("Option Shares") to which it pertains. If the aggregate fair market value of Option Shares with respect to which ISOs are exercisable for the first time by an Optionee during any calendar year (determined as of the date the ISO is granted) and any options granted under other incentive stock option plans of the Company exceed \$100,000, the portion of such options in excess of \$100,000 shall be treated as options which are not ISOs in accordance with Section 422(d) of the Code.

(b) Option Price

Each option agreement shall state the price at which an Option Share may be purchased (the "Option Price"), which shall be not less than 100% of the "Fair Market Value" of a share of the Common Stock on the Grant Date. If the Common Stock is listed on a national securities exchange, the Fair Market Value is the closing price of the Common Stock on the relevant date (or, if such date is not a business day or a day on which quotations are reported, then on the immediately preceding date on which quotations were reported), as reported by the principal national exchange on which such shares are traded (in the case of an exchange). If the Common Stock is not listed on a national securities exchange, the Fair Market Value will be as determined by the Committee in good faith in accordance with Section 409A of the Code. If an ISO is granted to an Optionee who then owns, directly or by attribution under Section 424(d) of the Code, shares possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, then the Option Price shall be not less than One Hundred and Ten Percent (110%) of the Fair Market Value of an Option Share on the Grant Date.

(c) Medium of Payment

An Optionee shall pay for Option Shares (i) in cash, (ii) by bank check payable to the order of the Company or (iii) by such other mode of payment as the Committee may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board. Furthermore, the Committee may provide in an option agreement that payment may be made in whole or in part in shares of the Common Stock held by the Optionee for more than one year. If payment is made in whole or in part in shares of the Common Stock, then the Optionee shall deliver to the Company certificates registered in the name of such Optionee representing shares of Common Stock legally and beneficially owned by such Optionee, free of all liens, claims and encumbrances of every kind and having a Fair Market Value on the date of delivery of such notice that is not less than the Option Price of the Option Shares with respect to which such Option is to be exercised, accompanied by stock powers duly endorsed in blank by the record holder of the shares represented by such certificates. If certificates for shares of the Company's Common Stock delivered to the Company represent a number of shares in excess ("Excess Shares") of the number of shares required to make payment for the Option Price of the Option Shares (or the relevant portion thereof) with respect to which such Option is to be exercised by payment in shares of Common Stock, the stock certificate issued to the Optionee shall represent the total of the Option Shares in respect of which payment is so made plus such Excess Shares. Notwithstanding the foregoing, the Board of Directors, in its sole discretion, may refuse to accept shares of Common Stock in payment of the Option Price. In that event, any certificates representing shares of Common Stock which were delivered to the Company shall be returned to the Optionee with notice of the refusal of the Board of Directors to accept such shares in payment of the Option Price. The Board of Directors may impose such limitations or prohibitions on the use of shares of the Common Stock to exercise an Option as it deems appropriate, subject to the provisions of the Plan.

(d) Initial Exercise

The Committee shall determine and set forth in the option agreement the time at which an Option may first be exercised.

(e) Termination of Options

All Options shall expire at such time as the Committee may determine and set forth in the option agreement, which date shall not be later than the last business date immediately preceding the tenth anniversary of the Grant Date of such Option (the "Expiration Date"). No Option may be exercised later than the Expiration Date. Notwithstanding the foregoing, no Option shall be exercisable after the first to occur of the following:

(i) In the case of an ISO, five years from the Grant Date if, on the Grant Date the Optionee owns, directly or by attribution under Section 424(d) of the Code, shares possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company;

(ii) The date set by the Board of Directors of the Company to be an accelerated Expiration Date after a finding by the Board of Directors of the Company that a change in the financial accounting treatment for Options from that in effect on the date the Plan was adopted materially adversely affects or, in the determination of the Board of Directors, may materially adversely affect in the foreseeable future, the Company, provided the Board of Directors may take whatever other action, including acceleration of any exercise provisions, it deems necessary should it make the determination referred to hereinabove;

(iii) Expiration of one year (or such shorter period as the Committee may select and set forth in the option agreement) from the date the Optionee's employment or service with the Company terminates for any reason other than circumstances described by Subsection (e)(v), below;

(iv) In the event of a "Change of Control" (as defined in Section 9.1, below), the Committee can (A) accelerate the Expiration Date of any Option which has vested provided an Optionee who holds an Option is given written notice at least thirty (30) days before the date so fixed, (B) terminate any Option which has not then vested or (C) accelerate the vesting schedule of any Option subject to Section 9.2; or

(v) In the case of an Option granted under the Key Employee Plan, a finding by the Committee that the Optionee has been discharged from employment with the Company for Cause. For purposes of this Section, "Cause" shall mean: (A) a breach by Optionee of his employment agreement with the Company, (B) a breach of Optionee's duty of loyalty to the Company, including without limitation any act of dishonesty, embezzlement or fraud with respect to the Company, (C) the commission by Optionee of a felony, a crime involving moral turpitude or other act causing material harm to the Company's standing and reputation, (D) Optionee's continued failure to perform his duties to the Company or (E) unauthorized disclosure by Optionee of trade secrets or other confidential information belonging to the Company. In the event of a finding that the Optionee has been discharged for Cause, in addition to immediate termination of the Option, the Optionee shall automatically forfeit all Option Shares for which the Company has not yet delivered the share certificates upon refund of the Option Price.

(f) Transfers

No ISO granted under the Plan may be transferred, except by will or by the laws of descent and distribution. During the lifetime of the person to whom an ISO is granted, such Option may be exercised only by such person. No NQSO under the Plan may be transferred, except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

(g) Other Provisions

The option agreements shall contain such other provisions including, without limitation, additional restrictions upon the exercise of the Option or additional limitations upon the term of the Option, as the Committee shall deem advisable.

5.4 Exercise

(a) Notice

No Option shall be deemed to have been exercised prior to the receipt by the Company of written notice of such exercise and of payment in full of the Option Price for the Option Shares to be purchased. Each such notice shall (i) specify the number of Option Shares to be purchased, (ii) satisfy the securities law requirements set forth in this Section 5.4, and (iii) in the case of an ISO, state that the Optionee acknowledges that the Option Shares may not be sold within one year of exercise or two years from the Grant Date and that the Option must be exercised within three months following termination of employment or, in the case of termination of employment because of death or disability, one year from the date of death or disability, in order to maintain the ISO status of the Option.

(b) Restricted Stock

Each exercise notice shall (unless the Option Shares are covered by a then current registration statement or a Notification under Regulation A under the Securities Act of 1933, as amended (the "Securities Act")), contain the Optionee's acknowledgment in form and substance satisfactory to the Company that (i) such Option Shares are being purchased for investment and not for distribution or resale (other than a distribution or resale which, in the opinion of counsel satisfactory to the Company, may be made without violating the registration provisions of the Securities Act); (ii) the Optionee has been advised and understands that (A) the Option Shares have not been registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act and are subject to restrictions on transfer and (B) the Company is under no obligation to register the Option Shares under the Securities Act or to take any action which would make available to the Optionee any exemption from such registration, (iii) such Option Shares may not be transferred without compliance with all applicable federal and state securities laws, and (iv) an appropriate legend referring to the foregoing restrictions on transfer and any other restrictions imposed in an option agreement may be endorsed on the certificates. Notwithstanding the above, should the Company be advised by counsel that the issuance of Option Shares upon the exercise of an Option should be delayed pending (A) registration under federal or state securities laws, (B) the receipt of an opinion that an appropriate exemption therefrom is available, (C) the listing or inclusion of the Option Shares on any securities exchange or in an automated quotation system or (D) the consent or approval of any governmental regulatory body whose consent or approval is necessary in connection with the issuance of such Option Shares, the Company may defer the exercise of any Option granted hereunder until either such event in A, B, C or D has occurred.

(c) Notice of Disqualifying Disposition

An Optionee shall notify the Committee if any Option Shares received upon the exercise of an ISO are sold within one year of exercise or two years from the Grant Date.

ARTICLE VI
RESTRICTED STOCK AWARDS

6.1 Grants of Stock Awards

Stock Awards will consist of shares of Common Stock (“Restricted Stock”) transferred to recipients (“Recipient”), either without payment therefor or with such payment as may be required by the Committee, as additional compensation for such Recipient’s service to the Company. Stock Awards shall be subject to such terms and conditions as the Committee determines appropriate as evidenced in a written document (an “Award Document”), including, without limitation, restrictions on the sale or other disposition of such Restricted Stock and rights of the Company to reacquire such Restricted Stock upon termination of the Recipient’s employment or service within specified periods.

6.2 Transferability; Legends

Restricted Stock may be transferred only if (i) the Restricted Stock is covered by a then current registration statement or a Notification under Regulation A under the Securities Act, or such transfer complies with the requirements of Rule 144 of the Exchange Act; and (ii) such transfer does not violate any restriction imposed on the Stock Award. Restricted Stock may bear a legend referring to (x) the restrictions on transferability of such Restricted Stock, or (y) if the Recipient is subject to Section 16 of the Exchange Act at the time the Restricted Stock is issued, the liability which may arise under Section 16 upon disposition of the Restricted Stock.

ARTICLE VII
STOCK APPRECIATION RIGHTS

7.1 Stock Appreciation Rights

A Stock Appreciation Right, or “SAR,” is an Award entitling the Recipient, upon exercise, to receive an amount in cash or Common Stock, or a combination thereof (such form to be determined by the Committee), determined solely by reference to appreciation, from and after the date of grant, in the Fair Market Value of a share of Common Stock. The date as of which such appreciation or other measure is determined shall be the exercise date of the SAR Award.

7.2 Grants

SARs may be granted in tandem with, or independently of, Options granted under the Plan. When SARs are expressly granted in tandem with Options, then (i) the SARs will be exercisable only at such time or times, and to the extent, that the related Option is exercisable, and will be exercisable in accordance with the procedure required for exercise of the related Option; (ii) the SARs will terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a SAR granted with respect to fewer than the full number of shares covered by an Option will not be terminated until and only to the extent that the number of shares as to which the related Option has been exercised or has terminated exceeds the number of shares not covered by the SAR; (iii) the Option will terminate and no longer be exercisable upon the exercise of the related SAR; and (iv) the SAR will be transferable only with the related Option. A SAR not expressly granted in tandem with an Option will become exercisable at such time or times, and on such conditions, as the Committee may specify in the SAR Award.

7.3 Terms and Conditions

The Committee shall determine all terms and conditions of a SAR Award, including, but not limited to (i) the number of shares subject to such SAR Award or a formula for determining such, (ii) the terms and conditions on the grant, vesting (including any time- or performance-based vesting criteria), issuance and/or forfeiture of the shares, and (iii) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan. The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the stock on the date of grant. To the extent that an award of Stock Appreciation Rights is subject to Section 409A, it may contain such additional terms and conditions as the Committee shall determine in its sole discretion in order for such Award to comply with the requirements of Section 409A.

7.4 Vesting of SAR Awards

At the time of the grant of a SAR Award, the Committee shall establish a vesting date or vesting dates with respect to such SAR Award, provided that SARs awarded in tandem with Options shall be subject to the same vesting date or vesting dates established by the Committee pursuant to Section 4(g) for such related Options and shall be exercisable only to the extent that such related Option shall then be exercisable. The Committee may establish vesting dates based upon the passage of time and/or the satisfaction of performance criteria or other conditions as deemed appropriate by the Committee.

ARTICLE VIII **RESTRICTED STOCK UNITS**

8.1 RSU Grants

The Committee may grant Awards in the form of Restricted Stock Units. A Restricted Stock Unit or RSU is a bookkeeping entry representing the equivalent of one share of Common Stock for each Restricted Stock Unit awarded to the Recipient and represents an unfunded and unsecured obligation of the Company. The Committee shall determine the restrictions and conditions applicable to each Restricted Stock Unit at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each RSU shall be determined by the Committee, and such terms and conditions may differ among individual Awards. At the end of the vesting period, the Restricted Stock Units, to the extent vested, shall be settled in the form of shares of Common Stock. To the extent that an award of Restricted Stock Units is subject to Section 409A, it may contain such additional terms and conditions as the Committee shall determine in its sole discretion in order for such Award to comply with the requirements of Section 409A.

8.2 Terms and Conditions

The Committee shall determine all terms and conditions of any such Restricted Stock Unit, including, but not limited to (i) the number of shares subject to such Restricted Stock Unit or a formula for determining such, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the performance criteria, if any, and level of achievement of such performance criteria that shall determine the number of shares granted, issued, retainable and/or vested, (iv) the terms and conditions on the grant, issuance and/or forfeiture of the shares, and (v) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan. A Participant may not vote the shares represented by a Restricted Stock Unit. A Restricted Stock Unit may be settled in cash or Common Stock, or a combination, as determined by the Committee, with the amount of the cash payment based on the Fair Market Value of the shares of Common Stock at the time of vesting. Any such settlements may be subject to such conditions, restrictions and contingencies as the Committee shall establish.

8.3 Vesting of Restricted Stock Unit

At the time of the grant of a Restricted Stock Unit, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Restricted Stock Unit, which vesting dates may be based upon the passage of time and/or the satisfaction of performance criteria or other conditions as deemed appropriate by the Committee.

8.4 Rights as a Stockholder

A Recipient shall have the rights as a stockholder only as to shares of Common Stock acquired by the Recipient upon the settlement of vested Restricted Stock Units.

8.5 Termination

Except as may otherwise be provided by the Committee either in the Award or in writing after the Award is issued, the Recipient's right in any Restricted Stock Units that have not vested shall automatically terminate upon the Recipient's termination of employment (or cessation of service relationship) with the Company or any Affiliate for any reason.

ARTICLE IX
CHANGE OF CONTROL OF THE COMPANY

9.1 Change of Control

A “Change of Control” shall be deemed to have occurred upon the earliest to occur of the following events:

(a) Dissolution or Liquidation

The date the stockholders of the Company (or the Board of Directors, if stockholder action is not required) approve a plan or other arrangement pursuant to which the Company will be dissolved or liquidated;

(b) Sale of Assets

Upon approval of the stockholders of the Company (or the Board of Directors, if stockholder action is not required), the date the Company consummates a definitive agreement to sell or otherwise dispose of all or substantially all of the assets of the Company to any “Unrelated Person” or “Unrelated Persons” (as defined below) acting in concert with one another. “Person” means any entity, person or group (within the meaning of Section 13(d)(3) or Section 14(d) (2) of the Exchange Act of 1934). “Unrelated Person” means any Person other than (1) the Company or any of its Affiliates or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Affiliates or (2) any Person who, as of the Effective Date, is the beneficial owner of at least twenty percent (20%) of the outstanding Common Stock of the Company;

(c) Merger or Consolidation

Upon approval of the stockholders of the Company (or the Board of Directors, if stockholder action is not required) and the stockholders of the other constituent corporation (or its board of directors if stockholder action is not required), the date the Company consummates a merger or consolidation of the Company with or into such other corporation, and such other corporation is an Unrelated Person, other than a merger or consolidation of the Company in which holders of shares of the Common Stock of the Company immediately prior to the merger or consolidation will hold at least a majority of the ownership of common stock of the surviving corporation (and, if one class of common stock is not the only class of voting securities entitled to vote on the election of directors of the surviving corporation, a majority of the voting power of the surviving corporation’s voting securities) immediately after the merger or consolidation, which common stock (and, if applicable, voting securities) is to be held in substantially the same proportion as such holders’ ownership of the Common Stock of the Company immediately before the merger or consolidation;

(d) Change in Beneficial Owner

The date any Unrelated Person will have become the beneficial owner of, or will have obtained voting control over, more than forty percent (40%) of the outstanding shares of the Common Stock of the Company; or

(e) Change in Majority of the Board of Directors

The date individuals who, as of the Effective Date, constitute the Board of Directors of the Company (the "Incumbent Directors") cease for any reason to constitute a majority of the members of the Board; provided that any individual who becomes a Director, after the Effective Date, whose election or nomination for election by the Company's stockholders was approved by a majority of the Incumbent Directors (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened "election contest" relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 under the Exchange Act), "tender offer" (as such term is used in Section 14(d) of the Exchange Act) or a proposed merger) will be deemed to be an Incumbent Director.

9.2 Vesting Upon a Change of Control

Awards granted under the Plan shall immediately vest and be exercisable and any restrictions thereon shall lapse following a Change of Control provided that (i) the Unrelated Person, as defined in subsection 9.1(b), involved in such Change of Control does not assume or substitute Awards granted under the Plan; (ii) the Optionee's or Recipient's employment is terminated by the Unrelated Person within two years following the Change of Control other than for Cause, as defined in subsection 5.3(e)(v); or (iii) the Optionee or Recipient resigns for "Good Reason," which shall mean a material reduction in such individual's pay or benefits, relocation of the individual's position by the Company of greater than 50 miles, or any material demotion of the individual's position as determined by the Committee.

ARTICLE X
ADMINISTRATION

10.1 Committee

The "Committee," for purposes of the Non-Qualified Plan and the Key Employee Plan, will be the Compensation Committee of the Board of Directors (the "Committee") as constituted from time to time, or the full Board of Directors acting in its discretion. The Committee shall operate and administer the Plan, including the grant of Options and Stock Awards. The Committee shall make such interpretations and construction of the Plan as it deems appropriate or necessary from time to time in its sole discretion, such interpretations and construction of the Plan to be final, binding and conclusive.

10.2 Meetings

The Committee shall hold meetings at such times and places as it may determine. Acts approved at a meeting by a majority of the members of the Committee or acts approved in writing by the unanimous consent of the members of the Committee shall be the valid acts of the Committee.

10.3 Discretion of Committee

The Committee shall from time to time at its discretion grant Awards pursuant to the terms of the Key Employee Plan and the Non-Qualified Plan. The Committee shall have plenary authority to determine the Optionees or Recipients (each a "Participant") to whom and the times at which Awards shall be granted, the number of Plan Shares to be covered by such grants and the price and other terms and conditions thereof, including a specification with respect to whether an Option is intended to be an ISO, subject, however, to the express provisions of the Key Employee Plan and compliance with Rule 16b-3(d) under the Exchange Act. In making any such determination, the Committee may take into account the nature of the Participant's services and responsibilities, the Participant's present and potential contribution to the Company's success and such other factors as it may deem relevant. The interpretation and construction by the Committee of any provision of the Plan or of any Award granted under it shall be final, binding and conclusive.

10.4 No Liability

No member of the Board of Directors or the Committee shall be personally liable for any action or determination with respect to the Plan or any Award thereunder, or for any act or omission of any other member of the Board of Directors or the Committee, including but not limited to the exercise of any power and discretion given to him under the Plan, except those resulting from (i) any breach of such person's duty of loyalty to the Company or its stockholders, (ii) acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law or (iii) any transaction from which such person derived an improper personal benefit.

10.5 Indemnification

In addition to such other rights of indemnification as he or she may have as a member of the Board of Directors or the Committee, and with respect to the administration of the Plan and the granting of Awards hereunder, each member of the Board of Directors and of the Committee shall be entitled to be indemnified by the Company to the fullest extent permitted by applicable law, for all expenses (including but not limited to reasonable attorneys' fees and expenses), judgments, fines and amounts paid in settlement reasonably incurred by him in connection with or arising out of any action, suit or proceeding with respect to the administration of the Plan or the granting of Awards hereunder (each a "Proceeding") in which he or she may be involved by reason of his being or having been a member of the Board of Directors or the Committee, whether or not he or she continues to be a member of the Board of Directors or the Committee at the time of the incurring of such expenses; provided however, that such indemnity shall not include any expenses incurred by such member of the Board of Directors or Committee in respect of any matter in which any settlement is effected in an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further that no right of indemnification under the provisions set forth herein shall be available to or accessible by any such member of the Committee unless within ten (10) days after institution of any such action, suit or proceeding he or she shall have offered the Company in writing the opportunity to handle and defend such action, suit or proceeding at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Board of Directors or the Committee and shall be in addition to all other rights to which such member of the Board of Directors or the Committee would be entitled to as a matter of law, contract or otherwise. Expenses (including attorneys' fees) incurred by a member of the Board of Directors or the Committee in defending any Proceeding may be paid by the Company in advance of the final disposition of such Proceeding upon receipt of an undertaking by or such person to repay all amounts advanced if it should be ultimately determined that such person is not entitled to be indemnified under this Article or otherwise, except that no such advance payment will be required if it is determined by the Board of Directors that there is a substantial probability that such person will not be able to repay the advance payments.

10.6 Adjustments on Changes in Common Stock

The aggregate number of shares of Common Stock as to which Awards may be granted under the Non-Qualified Plan and the Key Employee Plan, the number of Option Shares covered by each outstanding Option, the Option Price per Option Share specified in each outstanding Option and such other per-share factors affecting Awards under this Plan shall be appropriately adjusted in the event of a stock dividend, stock split or other increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of the Common Stock or other capital adjustment (not including the amendment of the Company's certificate of incorporation to authorize a greater number of shares of capital stock or the issuance of Common Stock on the conversion of other securities of the Company which are convertible into Common Stock) effected without receipt of consideration by the Company. The Board of Directors shall have the authority to determine the adjustments to be made under this Section and any such determination by the Board of Directors shall be final, binding and conclusive, provided that no adjustment shall be made which will cause an ISO to lose its status as such.

ARTICLE XI **MISCELLANEOUS**

11.1 Amendment of the Plan

The Board of Directors at any time, and from time to time, may terminate, suspend, amend or otherwise modify the Plan in such manner as it may deem advisable. Notwithstanding the foregoing, no amendment of the Key Employee Plan which would change the eligibility of employees or the class of employees eligible to receive an Award or increase the maximum number of shares as to which Awards may be granted will be effective unless such action is approved by the stockholders of the Company to the extent stockholder approval is necessary for the Plan to satisfy the requirements of Section 422 of the Code, Rule 16b-3, any applicable securities exchange listing requirements, or other applicable requirements.

11.2 Amendment of Awards

The Committee shall have the right to amend Awards hereunder issued to a Recipient, subject to the Recipient's consent if such amendment is not favorable to the Recipient, except that the consent of the Recipient shall not be required for any amendment made in the event of a Change of Control. Notwithstanding the foregoing, the Committee shall not take any of the following actions without the approval of a majority of the shares present in person or represented by proxy at a duly convened meeting and entitled to vote thereon: (i) reduce the exercise price of an outstanding Award, (ii) exchange an Award that has an exercise price that is greater than the Fair Market Value of a share for cash or shares or (iii) cancel an Award in exchange for a replacement Award.

11.3 Continued Employment

The grant of an Award pursuant to the Plan shall not be construed to imply or to constitute evidence of any agreement, express or implied, on the part of the Company to continue the employment of the Participant or the service as a member of the Board of Directors, as a consultant or in any other capacity, as the case may be, with the Company or any of its Affiliates.

11.4 Withholding of Taxes

Whenever the Company proposes or is required to issue or transfer any shares of Common Stock pursuant to an Award hereunder, the Company shall have the right to (a) require the Recipient or transferee to remit to the Company an amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery or transfer of any certificate or certificates for such shares, or (b) take whatever action it deems necessary to protect its interests, including withholding a portion of such shares.

Adopted BOD: 7/29/20

inTEST CORPORATION

**Restricted Stock
Award Agreement
for**

We are pleased to advise you that inTEST Corporation (the "Company") hereby grants to you under the inTEST Corporation Third Amended and Restated 2014 Stock Plan (the "Plan"), an award of restricted stock ("Restricted Stock") with respect to _____ shares of Common Stock of the Company, subject to your signing this Agreement and the provisions hereof. This award incorporates and is subject in all respects to the applicable provisions of the Plan, a complete copy of which has been furnished to you and receipt of which you acknowledge by acceptance of the award. All capitalized terms not defined in this Agreement have the meaning given them in the Plan.

1. **Issuance of Shares.** Upon your execution and delivery of this Agreement and one or more instruments of transfer relating to all shares issuable pursuant to this Agreement (the "Shares"), you will be issued _____ Shares of Common Stock as of _____ (the "Grant Date"), subject to the terms, conditions and restrictions of this Agreement and the Plan. Such Shares shall be registered in your name, but the Company shall retain custody of any certificates issued for such Shares pending the vesting or forfeiture thereof. Upon the vesting of any such Shares, the Company shall deliver to you the certificates for such Shares.

2. **Vesting.**
 - (i) Shares of Common Stock issued to you under this Agreement shall vest according to the following schedule:
_____.

 - (ii) In the event that you become entitled to a fractional Share, such fractional Share shall not vest unless and until the participant becomes entitled to such number of fractional Shares as shall be equal in sum to a whole Share.

3. **Conditions to Vesting.** As a condition to the vesting of Shares, all of the following conditions must be fully satisfied on the applicable vesting date:
 - (i) You must have been in the continuous employ of the Company or its Affiliates, or continuously engaged to provide services to the Company or its Affiliates, through and including the date of vesting, and no event shall have occurred which, with due notice or lapse of time, or both, would entitle the Company or its Affiliates to terminate your employment or engagement with the Company.

 - (ii) You must not be in breach or default of any obligation to the Company or its Affiliates, whether or not contained in any agreement with the Company or its Affiliates, or imposed by law.



4. **Death, Disability or Change of Control.** Shares of Common Stock issued under this Agreement shall become immediately and fully vested in the event: (i) you die; (ii) you incur a Disability; or (iii) a Change of Control occurs and (A) the Unrelated Person involved in such Change of Control does not assume or substitute your Award; (B) your employment is terminated by the Company without Cause within two years following the Change of Control; or (C) you terminate your employment for Good Reason following a Change of Control; *provided, however*, that you satisfy the requirements of Section 3 of this Agreement. For purposes of this Agreement, the term “Disability” shall mean a condition of total mental or physical incapacity for further performance of a person’s duty with the Company that the Committee determines, on the basis of competent medical evidence, is likely to be permanent and constitutes a “disability” within the meaning of section 22(e)(3) of the Internal Revenue Code.
 5. **Transferability.** The Shares of Common Stock issued to you under this Agreement shall not be transferable by you prior to the date such Shares become vested under the terms of this Agreement and the Plan.
 6. **Restrictive Legend.** Certificates for the Shares with respect to which the vesting requirements have not been met shall be inscribed with the following legend:

"The shares of stock evidenced by this certificate are subject to the terms and restrictions of a Restricted Stock Award Agreement. They are subject to forfeiture under the terms of that Agreement if they are transferred, sold, pledged, given, hypothecated, or otherwise disposed of, other than through death or disability. A copy of that Agreement is available from the Secretary of inTEST Corporation upon request."
 7. **Removal of Restrictive Legend.** When the vesting requirements on any Shares have been met, the Company shall cause a replacement stock certificate for those Shares, without the legend referred to in Section 6, to be issued and delivered to you, as soon as practicable.
 8. **No Right to Employment.** Neither the award of Shares pursuant to this Agreement nor any provision of this Agreement shall be construed (i) to give you any right to continued employment with the Company or (ii) as an amendment to your employment agreement, if any, with the Company or its Affiliates.
 9. **Forfeiture.** Shares of Common Stock issued to you under this Agreement not previously vested hereunder shall be forfeited as of the date your employment by, or engagement to provide services to, the Company and all affiliates thereof terminates. Following such a forfeiture, you shall have no rights whatsoever with respect to the Shares of Common Stock forfeited.
 10. **Voting, Dividend and Tender Offer Rights.** You shall have voting and tender offer rights with respect to Shares of Common Stock issued to you under this Agreement whether or not such Shares are vested or unvested. Cash dividends, however, shall accrue and be paid when the Shares underlying the award of Restricted Stock vest. Stock dividends shall be issued to you and shall become vested under the same terms and conditions as the Shares under the award of Restricted Stock to which they pertain.
-

11. **Withholding of Applicable Taxes.** It shall be a condition to the Company's obligation to deliver Common Stock to you pursuant to this Agreement that you pay, or make provision satisfactory to the Company for the payment of, any taxes (other than stock transfer taxes) the Company is obligated to collect with respect to the delivery of Common Stock under this Agreement, including any applicable federal, state, or local withholding or employment taxes.
12. **Amendment.** This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time, by written agreement between the Company and you.
13. **Governing Law.** This Agreement shall be construed in accordance with the laws of the State of Delaware.

[Signature Page Follows]

The undersigned hereby acknowledges this award of restricted stock on behalf of the Company.

inTEST CORPORATION

By: _____
Hugh T. Regan, Jr.
Secretary, Treasurer and Chief Financial Officer

Date: _____

To indicate your acceptance and agreement to this Restricted Stock Award, please execute and immediately return to the Company the enclosed duplicate original of this Agreement.

ACCEPTED AND AGREED TO:

Date:

inTEST CORPORATION

**Restricted Stock
Award Agreement
for**

We are pleased to advise you that inTEST Corporation (the "Company") hereby grants to you under the inTEST Corporation Third Amended and Restated 2014 Stock Plan (the "Plan"), an award of restricted stock ("Restricted Stock") with respect to _____ shares of Common Stock of the Company, subject to your signing this Agreement and the provisions hereof. This award incorporates and is subject in all respects to the applicable provisions of the Plan, a complete copy of which has been furnished to you and receipt of which you acknowledge by acceptance of the award. All capitalized terms not defined in this Agreement have the meaning given them in the Plan.

1. **Issuance of Shares.** Upon your execution and delivery of this Agreement and one or more instruments of transfer relating to all shares issuable pursuant to this Agreement (the "Shares"), you will be issued _____ Shares of Common Stock as of _____ (the "Grant Date"), subject to the terms, conditions and restrictions of this Agreement and the Plan. Such Shares shall be registered in your name, but the Company shall retain custody of any certificates issued for such Shares pending the vesting or forfeiture thereof. Upon the vesting of any such Shares, the Company shall deliver to you the certificates for such Shares.

 2. **Vesting.**
 - (i) Shares of Common Stock issued to you under this Agreement shall vest according to the following schedule:
_____.

 - (ii) In the event that you become entitled to a fractional Share, such fractional Share shall not vest unless and until the participant becomes entitled to such number of fractional Shares as shall be equal in sum to a whole Share.

 3. **Conditions to Vesting.** As a condition to the vesting of Shares, all of the following conditions must be fully satisfied on the applicable vesting date:
 - (i) You must have been continuously engaged to provide services to the Company or its Affiliates, through and including the date of vesting, and no event shall have occurred which, with due notice or lapse of time, or both, would entitle the Company or its Affiliates to terminate your engagement with the Company or its Affiliates.

 - (ii) You must not be in breach or default of any obligation to the Company or its Affiliates, whether or not contained in any agreement with the Company or its Affiliates, or imposed by law.
-

4. **Death, Disability or Change of Control.** Shares issued under this Agreement shall become immediately and fully vested in the event: (i) you die; (ii) you incur a Disability; or (iii) a Change of Control occurs; *provided, however*, that you satisfy the requirements of Section 3 of this Agreement. For purposes of this Agreement, the term "Disability" shall mean a condition of total mental or physical incapacity for further performance of a person's duty with the Company that the Committee determines, on the basis of competent medical evidence, is likely to be permanent and constitutes a "disability" within the meaning of section 22(e)(3) of the Internal Revenue Code.
5. **Transferability.** The Shares issued to you under this Agreement shall not be transferable by you prior to the date such Shares become vested under the terms of this Agreement and the Plan.
6. **Restrictive Legend.** Certificates for the Shares with respect to which the vesting requirements have not been met shall be inscribed with the following legend:

"The shares of stock evidenced by this certificate are subject to the terms and restrictions of a Restricted Stock Award Agreement. They are subject to forfeiture under the terms of that Agreement if they are transferred, sold, pledged, given, hypothecated, or otherwise disposed of, other than through death or disability. A copy of that Agreement is available from the Secretary of inTEST Corporation upon request."
7. **Removal of Restrictive Legend.** When the vesting requirements on any Shares have been met, the Company shall cause a replacement stock certificate for those Shares, without the legend referred to in Section 6, to be issued and delivered to you, as soon as practicable.
8. **No Right to Continued Service on the Board of Directors.** Neither the award of Shares pursuant to this Agreement nor any provision of this Agreement shall be construed to give you any right to continued service as a member of the Board of Directors.
9. **Forfeiture.** Shares issued to you under this Agreement not previously vested hereunder shall be forfeited as of the date your engagement to provide services to the Company and all Affiliates thereof terminates. Following such a forfeiture, you shall have no rights whatsoever with respect to the Shares forfeited.
10. **Voting, Dividend and Tender Offer Rights.** You shall have voting and tender offer rights with respect to Shares issued to you under this Agreement whether or not such Shares are vested or unvested. Any cash dividends, however, shall accrue and be paid when the Shares underlying the award of Restricted Stock vest. Stock dividends shall be issued to you and shall become vested under the same terms and conditions as the Shares under the award of Restricted Stock to which they pertain.
11. **Withholding of Applicable Taxes.** It shall be a condition to the Company's obligation to deliver Common Stock to you pursuant to this Agreement that you pay, or make provision satisfactory to the Company for the payment of, any taxes (other than stock transfer taxes) the Company is obligated to collect with respect to the delivery of Common Stock under this Agreement, including any applicable federal, state, or local withholding or employment taxes.
12. **Amendment.** This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time, by written agreement between the Company and you.
13. **Governing Law.** This Agreement shall be construed in accordance with the laws of the State of Delaware.

[Signature Page Follows]

The undersigned hereby acknowledges this award of restricted stock on behalf of the Company.

inTEST CORPORATION

By: _____
Hugh T. Regan, Jr.
Secretary, Treasurer and Chief Financial Officer

Date:

To indicate your acceptance and agreement to this Restricted Stock Award, please execute and immediately return to the Company the enclosed duplicate original of this Agreement.

ACCEPTED AND AGREED TO:

Date: _____

inTEST Corporation

Incentive Stock Option Agreement

inTEST Corporation, a Delaware corporation (“inTEST” or the “Company”), hereby grants to _____ (the “Optionee”) an option to purchase a total of _____ (_____) shares of the Common Stock (the “Option Shares”) of inTEST, at the price and on the terms and conditions set forth herein and in all respects subject to the terms, conditions and provisions of the inTEST Corporation Third Amended and Restated 2014 Stock Plan (the “Plan”) applicable to incentive options, which terms, conditions and provisions are hereby incorporated herein by reference. Unless the context herein otherwise requires, the capitalized terms not defined herein shall have the meaning provided in the Plan.

1. Nature of Option

This Option is intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”).

2. Term of Option

This Option is granted as of _____ (the “Date of Grant”) and it may not be exercised later than the close of business on _____ (the “Expiration Date”); however, this Option is subject to earlier termination as set forth in this Option Agreement and in the Plan.

3. Option Exercise Price

The Option exercise price (“Option Price”) is _____ (\$____) per Option Share.

4. Exercise of Option

This Option is exercisable during its term only in accordance with the terms, conditions and provisions of the Plan and this Option Agreement as follows:

- (i) Right to Exercise. This Option shall vest _____. The Optionee must be in the employ of inTEST or any of its Affiliates on such anniversary date in order for the Option to vest. This Option may be exercised, in whole or in part, up to the amount vested through the date of exercise to the extent not earlier exercised and otherwise in accordance with the terms, conditions and provisions of the Plan and this Option Agreement.
 - (ii) Method of Exercise. When exercisable, this Option shall be exercised only upon receipt by inTEST, in form and substance acceptable to inTEST, of (A) written notice of such exercise and (B) payment in full of the Option Price for the Option Shares to be purchased and any additional amount described in Section 13 below. Each such notice shall (A) specify the number of Option Shares to be purchased; (B) satisfy the securities law requirements set forth in the Plan; and (C) contain a statement by the Optionee acknowledging that the Option will not be treated as an incentive stock option for federal income tax purposes if the Option is exercised more than three (3) months after the termination of employment, or if the Option Shares are sold or otherwise disposed of within one (1) year of exercise or two (2) years from the Date of Grant.
 - (iii) Restrictions on Exercise. This Option may not be exercised if the issuance of the option Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or regulations or other laws or regulations. As a condition to the exercise of this Option, inTEST may require the Optionee to make any representations and warranties to inTEST as inTEST deems necessary or appropriate under any applicable law or regulation.
-

- (iv) *Acceleration of Option Vesting.* This Option shall immediately vest and be exercisable in the event: (A) the Optionee dies; (B) the Optionee incurs a Disability; or (C) a Change of Control occurs; and (1) the Unrelated Person involved in such Change of Control does not assume or substitute Awards granted under the Plan; (2) the Optionee's employment is terminated by the Unrelated Person within two years following the Change of Control other than for Cause; or (3) the Optionee resigns for Good Reason following a Change of Control. For purposes of this Option Agreement, the term "Disability" shall mean a condition of total mental or physical incapacity for further performance of a person's duty with the Company that the Committee determines, on the basis of competent medical evidence, is likely to be permanent and constitutes a "disability" within the meaning of section 22(e)(3) of the Internal Revenue Code.

5. Payment for Option Shares

The Optionee shall pay for the shares (i) in cash, (ii) by bank check payable to the order of inTEST or (iii) by such other mode of payment as inTEST may approve.

6. Transfer of Option Shares

Option Shares may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner without compliance with all applicable federal and state securities laws and regulations, and an appropriate legend referring to any restrictions on transfer and any other restrictions imposed herein or under the Plan may be endorsed on the certificates representing Option Shares.

7. Disqualifying Disposition

The Optionee shall notify inTEST if any Option Shares received upon exercise of this Option are sold, assigned, gifted, transferred or disposed of in any manner within one (1) year of exercise or two (2) years from the Date of Grant (a "Disqualifying Disposition"). In the event of a Disqualifying Disposition, the Optionee shall, upon request of inTEST, provide inTEST with the amount of any federal, state or local taxes that inTEST is required to withhold with respect to such Disqualifying Disposition. If inTEST does not withhold income taxes from the Optionee with respect to a Disqualifying Disposition, the Optionee shall timely pay all income taxes resulting from such Disqualifying Disposition, shall provide inTEST with such information as requested by inTEST to substantiate the payment of such taxes, and shall indemnify inTEST against penalties or other damages imposed upon inTEST for failure to withhold taxes, to the extent such penalties or damages could have been reduced or offset had the Optionee paid his or her income taxes attributable to the Disqualifying Disposition or are otherwise attributable to the Optionee's failure to pay his or her taxes.

8. Transfer of Option

This Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner, either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of the Optionee only by the Optionee. Subject to the foregoing, the terms of the Plan and the terms of this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

9. Termination of Options

This Option shall expire as set forth above and may not be exercised later than the Expiration Date. Notwithstanding the foregoing, this Option may not be exercised after the first to occur of the following:

- (i) five years from the Date of Grant, if on such date the Optionee owns directly or by attribution under the Code, shares possessing more than ten percent (10%) of the total combined voting power of all classes of stock of inTEST;
-

- (ii) the date set by the Board of Directors of inTEST (the “Board of Directors”) to be an accelerated expiration date after a finding by the Board of Directors that a change in the financial accounting treatment for options from that in effect on the date the Plan was adopted materially adversely affects inTEST or, in the determination of the Board of Directors, may materially adversely affect inTEST in the foreseeable future, provided the Board of Directors may take whatever action, including acceleration of any exercise provisions, it deems necessary should it make the determination referred to above;
- (iii) expiration of one (1) year from the date the Optionee's employment or service with inTEST (or any of its Affiliates) terminates for any reason other than if the Optionee has been discharged from employment with inTEST for Cause, in which case, this Option shall expire immediately; or
- (iv) in the event of a Change of Control, the Expiration Date of any Option which has vested may be accelerated to a date not earlier than thirty (30) days after notice of such acceleration is given to the Optionee, and any Option which has not vested may be terminated.

10. Amendment of Option

inTEST has the right to amend this Option, subject to the Optionee's consent if such amendment is not favorable to the Optionee, except that the consent of the Optionee shall not be required for any amendment made pursuant to the Plan.

11. Amendment of the Plan

Subject to certain restrictions contained in the Plan, the Board of Directors of inTEST may amend the Plan from time to time in such manner as it may deem advisable.

12. Continued Employment

The grant of this Option shall not be construed to imply or constitute evidence of any agreement, express or implied, on the part of inTEST to continue the employment of the Optionee with inTEST or any of its Affiliates.

13. Withholding of Taxes

If required by inTEST, the Optionee shall, as a condition to the exercise of the Option and the issuance of Option Shares or the transfer of the Option Shares, remit to inTEST the amount of any federal, state or local taxes, including FICA taxes and other employment taxes, required to be withheld or paid under applicable law. To the extent that such taxes are not collected upon the exercise of the Option, inTEST may withhold a portion of the Option Shares or take whatever other action it deems necessary to collect all required taxes due upon the exercise of the Option or transfer of the Option Shares.

14. Entire Agreement

This Option Agreement, together with the Plan, represents the entire agreement between the parties.

15. Governing Law

This Option Agreement shall be construed in accordance with the laws of the State of Delaware.

[Signature Page Follows]

IN WITNESS WHEREOF, inTEST executes this Option Agreement as of the day and year set forth above.

inTEST Corporation

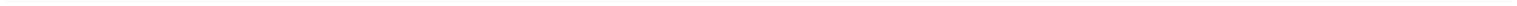
By: _____
Hugh T. Regan, Jr.
Secretary, Treasurer and Chief Financial Officer

ACKNOWLEDGMENT

The Optionee acknowledges receipt of a copy of the Plan and a copy of the Prospectus covering the Option Shares to be issued pursuant to the Plan, copies of which are attached hereto, and Optionee represents that he or she has read and is familiar with the terms, conditions and provisions thereof and hereby accepts the Option granted _____ subject to all the terms, conditions and provisions thereof. The Optionee hereby agrees to accept as binding, conclusive and final, all decisions or interpretations of the Board of Directors or the Committee upon any questions arising under the Plan.

Date: _____

Name:
Address:



NOTICE OF EXERCISE OF STOCK OPTION

To: inTEST Corporation
804 East Gate Drive, Suite 200
Mt. Laurel, NJ 08054
Attn: Chief Financial Officer

_____, 20__

In accordance with Section 4 of the Incentive Stock Option Agreement granted as of _____ (the "Option"), I hereby irrevocably elect to exercise the Option to purchase _____ Option Shares of the Common Stock of inTEST Corporation (the "Corporation") at the exercise price of _____ (\$____) per Option Share and deliver herewith a bank check payable to the order of the Corporation for the aggregate exercise price of \$_____.

I agree to notify the Chief Financial Officer of the Corporation at the address set forth above, or at such other address as the Corporation may designate in the future, in the event I sell, assign, gift, transfer or otherwise dispose of any of the Option Shares within one (1) year of exercise or two (2) years from the Date of Grant (a "Disqualifying Disposition").

I understand that any Disqualifying Disposition of the Option Shares will result in the Option not qualifying as an incentive stock option with respect to such Option Shares. If requested by the Corporation, I will provide the Corporation the amount of any taxes the Corporation is required to withhold as a result of a Disqualifying Disposition of Option Shares. Furthermore, the Option must be exercised within three (3) months following the termination of my employment with the Corporation in order to maintain the incentive stock option status with respect to Option Shares issuable upon such exercise.

Signature*: _____

Name*:

Address:

Phone:

* The signature and name should correspond exactly with the name on the first page of the Option.

inTEST Corporation

Non-Qualified Stock Option Agreement

inTEST Corporation, a Delaware corporation (“inTEST” or the “Company”), hereby grants to _____ (the “Optionee”) an option to purchase a total of _____ (_____) shares of the Common Stock (the “Option Shares”) of inTEST, at the price and on the terms and conditions set forth herein and in all respects subject to the terms, conditions and provisions of the inTEST Corporation Third Amended and Restated 2014 Stock Plan applicable to options granted pursuant to the Non-Qualified Plan (the “Plan”), which terms, conditions and provisions are hereby incorporated herein by reference. Unless the context herein otherwise requires, capitalized terms not defined herein shall have the meaning provided in the Plan.

1. Term of Option

This Option is granted as of _____ (the “Date of Grant”) and it may not be exercised later than the close of business on _____ (the “Expiration Date”); however, this Option is subject to earlier termination as set forth in this Option Agreement and in the Plan.

2. Option Exercise Price

The Option exercise price (“Option Price”) is _____ (\$_____) per Option Share.

3. Exercise of Option

This Option is exercisable during its term only in accordance with the terms, conditions and provisions of the Plan and this Option Agreement as follows:

- (i) Right to Exercise. This Option shall vest _____. The Optionee must be in the service of inTEST or any of its Affiliates on the date of such vesting in order for the Option to vest. This Option may be exercised, in whole or in part, up to the amount vested through the date of exercise to the extent not earlier exercised and otherwise in accordance with the terms, conditions and provisions of the Plan and this Option Agreement.
 - (ii) Method of Exercise. When exercisable, this Option shall be exercised only upon receipt by inTEST, in form and substance acceptable to inTEST, of (A) written notice of such exercise and (B) payment in full of the Option Price for the Option Shares to be purchased. Each such notice shall (A) specify the number of Option Shares to be purchased, and (B) satisfy the securities law requirements set forth in the Plan.
-

- (iii) Restrictions on Exercise. This Option may not be exercised if the issuance of the Option Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or regulations or other laws or regulations. As a condition to the exercise of this Option, inTEST may require the Optionee to make any representations and warranties to inTEST as inTEST deems necessary or appropriate under any applicable law or regulation.

4. Payment for Option Shares

The Optionee shall pay for the shares (i) in cash; (ii) by bank check payable to the order of inTEST; or (iii) by such other mode of payment as inTEST may approve.

5. Transfer of Option Shares

Option Shares may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner without compliance with all applicable federal and state securities laws and regulations, and an appropriate legend referring to any restrictions on transfer and any other restrictions imposed herein or under the Plan may be endorsed on the certificates representing Option Shares.

6. Transfer of Option

This Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner, either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of the Optionee only by the Optionee. Subject to the foregoing, the terms of the Plan and the terms of this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Termination of Options

This Option shall expire as set forth above and may not be exercised later than the Expiration Date. Notwithstanding the foregoing, this Option may not be exercised after the first to occur of the following:

- (i) the date set by the Board of Directors of inTEST (the "Board of Directors") to be an accelerated expiration date after a finding by the Board of Directors that a change in the financial accounting treatment for options from that in effect on the date the Plan was adopted materially adversely affects inTEST or, in the determination of the Board of Directors, may materially adversely affect inTEST in the foreseeable future, provided the Board of Directors may take whatever action, including acceleration of any exercise provisions, it deems necessary should it make the determination referred to above;
 - (ii) expiration of one (1) year from the date the Optionee's service with inTEST (or any of its Affiliates) terminates for any reason, other than for Cause, in which case this Option shall expire immediately; or
 - (iii) in the event of a Change of Control, the Expiration Date of any Option which has vested may be accelerated to a date not earlier than thirty (30) days after notice of such acceleration is given to the Optionee, and any Option which has not vested may be terminated.
-

8. Acceleration of Option

This Option shall immediately vest and be exercisable in the event (i) the Optionee dies, (ii) the Optionee incurs a Disability, or (iii) a Change of Control occurs and (A) the Unrelated Person involved in such Change of Control does not assume or substitute the Option; (B) the Optionee's service with the Company is terminated by the Unrelated Person within two years following the Change of Control other than for Cause; or (C) the Optionee resigns for Good Reason. For purposes of this Option Agreement, the term "Disability" shall mean a condition of total mental or physical incapacity for further performance of a person's duty with the Company that the Committee determines, on the basis of competent medical evidence, is likely to be permanent and constitutes a "disability" within the meaning of section 22(e)(3) of the Internal Revenue Code.

9. Amendment of Option

inTEST has the right to amend this Option, subject to the Optionee's consent if such amendment is not favorable to the Optionee, except that the consent of the Optionee shall not be required for any amendment made pursuant to the Plan.

10. Amendment of the Plan

Subject to certain restrictions contained in the Plan, the Board of Directors of inTEST may amend the Plan from time to time in such manner as it may deem advisable.

11. Continued Service

The grant of this Option shall not be construed to imply or constitute evidence of any agreement, express or implied, on the part of inTEST to continue the service of the Optionee with inTEST or any of its Affiliates.

12. Withholding of Taxes

If required by inTEST, the Optionee shall, as a condition to the exercise of the Option and the issuance of Option Shares or the transfer of the Option Shares, remit to inTEST the amount of any federal, state or local taxes, including FICA taxes and other employment taxes, required to be withheld or paid under applicable law. To the extent that such taxes are not collected upon the exercise of the Option, inTEST may withhold a portion of the Option Shares or take whatever other action it deems necessary to collect all required taxes due upon the exercise of the Option or transfer of the Option Shares.

13. Entire Agreement

This Option Agreement, together with the Plan, represents the entire agreement between the parties.

14. Governing Law

This Option Agreement shall be construed in accordance with the laws of the State of Delaware.

[Signature Page Follows]

IN WITNESS WHEREOF, inTEST executes this Option Agreement as of the day and year set forth above.

inTEST Corporation

By: _____
Hugh T. Regan, Jr.
Secretary, Treasurer and Chief Financial Officer

ACKNOWLEDGMENT

The Optionee acknowledges receipt of a copy of the Plan and a copy of the Prospectus covering the Option Shares to be issued pursuant to the Plan, copies of which are attached hereto, and Optionee represents that he or she has read and is familiar with the terms, conditions and provisions thereof and hereby accepts the Option granted _____ subject to all the terms, conditions and provisions thereof. The Optionee hereby agrees to accept as binding, conclusive and final, all decisions or interpretations of the Board of Directors or the Committee upon any questions arising under the Plan.

Date: _____

Name:
Address:



NOTICE OF EXERCISE OF STOCK OPTION

To: inTEST Corporation
804 East Gate Drive, Suite 200
Mt. Laurel, NJ 08054
Attn: Chief Financial Officer

_____, 20__

In accordance with Section 3 of the Non-Qualified Stock Option Agreement dated as of _____ (the "Option"), I hereby irrevocably elect to exercise the Option to purchase _____ Option Shares of the Common Stock of inTEST Corporation (the "Corporation") at the exercise price of _____ (\$____) per Option Share and deliver herewith a bank check payable to the order of the Corporation for the aggregate exercise price of \$_____.

Signature*: _____
Name*: _____
Address: _____
Phone: _____

* The signature and name should correspond exactly with the name on the first page of the Option.

CHANGE OF CONTROL AGREEMENT

Mr. Richard N. Grant, Jr.

RE: CHANGE OF CONTROL AGREEMENT

Dear Nick:

The Board of Directors (the “Board”) of inTEST Corporation (“inTEST”) hereby offers to you the benefits described below. If you desire to accept the benefits described below, you must sign the copy of this Change of Control Agreement (the “Agreement”) which is enclosed and return it to me on or before August 19, 2020.

1. TERM OF AGREEMENT.

This Agreement is effective immediately upon your acceptance as described above and will continue in effect as long as you are actively employed by inTEST, unless you and inTEST agree in writing to its termination or amendment.

2. TERMINATION COMPENSATION.

If your employment with inTEST is terminated without “Cause” (as defined in Section 6) at any time within two years following a “Change of Control” (as defined in Section 4), you will receive the “Termination Benefits” (as defined in Section 3). You will also receive the Termination Benefits if you terminate your employment for “Good Reason” (as defined in Section 5) at any time within two years following a Change of Control.

You are not entitled to receive the Termination Benefits if your employment is terminated by you or inTEST for any or no reason before a Change of Control occurs or more than two years after a Change of Control has occurred.

In order to receive the Termination Benefits, you must execute any release of claims that you may have pursuant to this Agreement (but not any other claims) that may be requested by inTEST.

The Termination Benefits will be paid to you under the terms and conditions hereof, without regard to whether you look for or obtain alternative employment following your termination of employment with inTEST.

3. **TERMINATION BENEFITS DEFINED.**

For purposes of this Agreement, the term “Termination Benefits” will mean and include the following:

- (a) For a period of one year from your termination (the “Benefit Period”), payment of a prorated portion of your then-current annualized salary (“Base Salary”) on the same basis that you were paid immediately prior to your termination;
- (b) Payment of any bonus, variable, or incentive compensation (the “Variable Component”) you would otherwise be eligible to receive for the year in which your termination occurs and for that portion of the following year which is included in the Benefit Period, such Variable Component to be calculated and paid as provided below; and
- (c) During the Benefit Period, continuation of coverage under the group benefit plans in which you participate immediately prior to your termination, including, without limitation, life, disability, accident and group health insurance benefits coverage for you and your eligible dependents (“Benefits”), such Benefits to be provided on substantially the same terms and conditions as they were provided immediately prior to your termination.

The Variable Component of your Termination Benefits will equal the sum of (i) the Variable Component to which you would have been entitled for the year during which your termination occurs (calculated after annualizing inTEST’s consolidated financial results through the date of termination if such Variable Component is based upon a percentage of profits) (the “Annual Amount”), and (ii) an amount equal to the product of (x) the Annual Amount times (y) a fraction the numerator of which is the number of days in the year following termination which is included in the Benefit Period and the denominator of which is 365 (the “Prorated Amount”). Both the Annual Amount and the Prorated Amount will be paid to you not later than March 15th of the year following your termination.

Notwithstanding the foregoing, if you terminate your employment for Good Reason, your Termination Benefits will be based upon the greater of (i) your Base Salary, Variable Component and Benefits immediately prior to your termination or (ii) your Base Salary, Variable Component and Benefits immediately prior to the Change of Control which gives rise to your right to receive Termination Benefits under this Agreement.

inTEST does not intend to provide duplicative Benefits. Consequently, Benefits otherwise receivable pursuant to this Section will be reduced or eliminated if and to the extent that you receive comparable Benefits from any other source (for example, another employer); provided, however, that you will have no obligation to seek, solicit or accept employment from another employer in order to receive such benefits.

4. CHANGE OF CONTROL DEFINED.

For purposes of this Agreement, a “Change of Control” will be deemed to have occurred upon the earliest to occur of the following events:

(a) Dissolution or Liquidation. The date the stockholders of inTEST (or the Board of Directors, if stockholder action is not required) approve a plan or other arrangement pursuant to which inTEST will be dissolved or liquidated;

(b) Sale of Assets. Upon approval of the stockholders of inTEST (or the Board of Directors, if stockholder action is not required), the date inTEST consummates a definitive agreement to sell or otherwise dispose of all or substantially all of the assets of inTEST to any “Unrelated Person” or “Unrelated Persons” (as defined below) acting in concert with one another. “Person” means any entity, person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act of 1934). “Unrelated Person” means any Person other than (1) inTEST or any of its Affiliates or any employee benefit plan (or related trust) sponsored or maintained by inTEST or any of its Affiliates or (2) any Person who, as of the date of this Agreement, is the beneficial owner of at least twenty percent (20%) of the outstanding Common Stock of inTEST. “Affiliates” means any entity in which inTEST owns, directly or indirectly, fifty percent (50%) or more of the voting equity;

(c) Merger or Consolidation. Upon approval of the stockholders of inTEST (or the Board of Directors, if stockholder action is not required) and the stockholders of the other constituent corporation (or its board of directors if stockholder action is not required), the date inTEST consummates a merger or consolidation of inTEST with or into such other corporation, and such other corporation is an Unrelated Person, other than a merger or consolidation of inTEST in which holders of shares of the Common Stock of inTEST immediately prior to the merger or consolidation will hold at least a majority of the ownership of common stock of the surviving corporation (and, if one class of common stock is not the only class of voting securities entitled to vote on the election of directors of the surviving corporation, a majority of the voting power of the surviving corporation’s voting securities) immediately after the merger or consolidation, which common stock (and, if applicable, voting securities) is to be held in substantially the same proportion as such holders’ ownership of the Common Stock of inTEST immediately before the merger or consolidation;

(d) Change in Beneficial Owner. The date any Unrelated Person will have become the beneficial owner of, or will have obtained voting control over, more than forty percent (40%) of the outstanding shares of the Common Stock of inTEST; or

(e) Change in Majority of the Board of Directors. The date individuals who, as of the date of this Agreement, constitute the Board of Directors of inTEST (the “Incumbent Directors”) cease for any reason to constitute a majority of the members of the Board; provided that any individual who becomes a director, after the date of this Agreement, whose election or nomination for election by inTEST’s stockholders was approved by a majority of the Incumbent Directors (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened “election contest” relating to the election of the directors of inTEST (as such terms are used in Rule 14a-11 under the Exchange Act), “tender offer” (as such term is used in Section 14(d) of the Exchange Act) or a proposed merger) will be deemed to be an Incumbent Director.

Notwithstanding any provision herein to the contrary, the filing of a proceeding for the reorganization of inTEST under Chapter 11 of the Federal Bankruptcy Code or any successor or other statute of similar import will not be deemed to be a Change of Control for purpose of this Agreement.

5. GOOD REASON DEFINED.

For purposes of this Agreement, the term “Good Reason” will mean and include the following situations:

- (a) any material adverse change in your status, responsibilities or Benefits;
- (b) any failure to nominate or elect you as President and Chief Executive Officer;
- (c) causing or requiring you to report to anyone other than the inTEST Board of Directors;
- (d) assignment to you of duties materially inconsistent with your position as President and Chief Executive Officer;
- (e) any reduction of your annual base salary or annual Variable Component (or, if applicable, a change in the formula for determining your annual Variable Component which would have the effect of reducing your annual Variable Component as it would otherwise have been calculated immediately prior to the Change of Control that gives rise to your right to receive Termination Benefits as provided in this Agreement) or other reduction in compensation or benefits, or
- (f) requiring you to be principally based at any office or location more than 30 miles from the current offices of inTEST in Mount Laurel, New Jersey.

6. CAUSE DEFINED.

For purposes of this Agreement, the term “Cause” will mean and include the following situations:

- (a) Your conviction by a court of competent jurisdiction of any criminal offense involving dishonesty or breach of trust or any felony or crime of moral turpitude;
- (b) Your violation of inTEST’s policies or the inTEST’s Code of Ethics;
- (c) Your commission of an act of fraud upon inTEST; or
- (d) Your willful refusal to perform the duties reasonably assigned to you by the Board of Directors of inTEST, which failure or breach continues for more than ten days (or such longer period, not in excess of 30 days, as may be required to cure such failure) after written notice thereof is given to you.

7. CEILING ON BENEFITS.

Under the “golden parachute” rules in the Internal Revenue Code (the “Code”) you will be subject to a twenty percent (20%) excise tax (over and above regular income tax) on any “excess parachute payment” that you receive following a Change of Control, and inTEST will not be permitted to deduct any such excess parachute payment. Very generally, compensation paid to you that is contingent upon a Change of Control will be considered a “parachute payment” if the present value of such consideration equals or exceeds three times your average annual compensation from inTEST for the five years prior to the Change of Control. If payments are considered “parachute payments,” then all such payments to you in excess of your base annual compensation will be considered “excess parachute payments” and will be subject to the twenty percent (20%) excise tax imposed under Section 4999 of the Code.

For example, if your base annual compensation was \$100,000, you could receive \$299,000 following a Change of Control without payment of any excise tax. If you received \$301,000 in connection with a Change of Control, however, the entire \$301,000 would be considered a parachute payment and \$201,000 of this amount would be considered an excess parachute payment subject to excise tax.

In order to avoid this excise tax and the related adverse tax consequences for inTEST, by signing this Agreement, you agree that the Termination Benefits payable to you under this Agreement will in no event exceed the maximum amount that can be paid to you without causing any portion of the amounts paid or payable to you by inTEST following a Change of Control, whether under this Agreement or otherwise, to be considered an “excess parachute payment” within the meaning of Section 280G(b) of the Code.

If inTEST believes that these rules will result in a reduction of the payments to which you are entitled under this Agreement, it will so notify you within 60 days following delivery of the “Notice of Termination” described in Section 8. If you wish to have such determination reviewed, you may, within 30 days of the date you are notified of a reduction of payments, ask that inTEST retain, at its expense, legal counsel, certified public accountants, and/or a firm of recognized executive compensation consultants (an “Outside Expert”) to provide an opinion concerning whether, and to what extent, your Termination Benefits must be reduced so that no amount payable to you by inTEST (whether under this Agreement or otherwise) will be considered an excess parachute payment.

The Outside Expert will be as mutually agreed by you and inTEST, provided that if we are not able to reach a mutual agreement, inTEST will select an Outside Expert, you will select an Outside Expert, and the two Outside Experts will select a third Outside Expert to provide the opinion required under this Section. The determination of the Outside Expert will be final and binding, subject to any contrary determination made by the Internal Revenue Service.

If inTEST believes that your Termination Benefits will exceed the limitation contained in this Section, it will only make payments to you, at the times stated above, in an amount that it believes may be paid without exceeding such limitation. The balance, if any, will then be paid after the opinion of the Outside Expert has been received.

If the amount paid to you by inTEST following a Change of Control is ultimately determined, pursuant to the opinion of the Outside Expert or by the Internal Revenue Service, to have exceeded the limitation contained in this Section, the excess must be repaid to the Company on the 90th day following demand.

In the event that the provisions of Sections 280G and 4999 of the Code are repealed without successor provisions, this Section will be of no further force or effect.

8. TERMINATION NOTICE AND PROCEDURE.

Any termination by inTEST or you of your employment during the two years immediately following a Change of Control will be communicated by written Notice of Termination to you if such Notice of Termination is delivered by inTEST and to inTEST if such Notice of Termination is delivered by you, all in accordance with the following procedures:

(a) The Notice of Termination will indicate the specific termination provision in this Agreement relied upon, if applicable, and will set forth in reasonable detail the facts and circumstances alleged to provide a basis for such termination.

(b) Any Notice of Termination by inTEST will be in writing signed by the Chairman of the Board of inTEST.

(c) If inTEST furnishes you with a Notice of Termination or if you furnish inTEST with a Notice of Termination, and no good faith dispute exists regarding such termination, then the date of your termination will be the date such Notice of Termination is deemed given pursuant to Section 11 of this Agreement.

(d) If inTEST in good faith furnishes you with a Notice of Termination for Cause and you in good faith notify inTEST that a dispute exists concerning such termination within the 15-day period following your receipt of such notice, you may elect to continue your employment during such dispute. If it is thereafter determined that (i) Cause did exist, the date of your termination will be the earlier of (A) the date on which the dispute is finally determined or (B) the date of your death or permanent disability; or (ii) Cause did not exist, your employment will continue as if inTEST had not delivered its Notice of Termination and there will be no termination arising out of such notice.

(e) If you in good faith furnish a Notice of Termination for Good Reason and inTEST notifies you that a dispute exists concerning the termination within the 15-day period following inTEST's receipt of such notice, you may elect to continue your employment during such dispute. If it is thereafter determined that (i) Good Reason did exist, your date of termination will be the earlier of (A) the date on which the dispute is finally determined or (B) the date of your death or permanent disability; or (ii) Good Reason did not exist, your employment will continue after such determination as if you had not delivered the Notice of Termination asserting Good Reason. If Good Reason is determined to exist, your salary, Variable Component and Benefits prior to such determination will be no less than your salary, Variable Component and benefits immediately prior to the Change of Control which gives rise to your right to receive Termination Benefits as provided in this Agreement.

(f) If you do not elect to continue employment pending resolution of a dispute regarding a Notice of Termination, and it is finally determined that the reason for termination set forth in such Notice of Termination did not exist, if such notice was delivered by you, you will be deemed to have voluntarily terminated your employment other than for Good Reason and if delivered by inTEST, inTEST will be deemed to have terminated you without Cause.

9. SUCCESSORS.

inTEST will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of inTEST or any of its subsidiaries to expressly assume and agree to perform this Agreement in the same manner and to the same extent that inTEST would be required to perform it if no such succession had taken place. Failure of inTEST to obtain such assumption and agreement prior to the effectiveness of any such succession will be a breach of this Agreement and will entitle you to compensation in the same amount and on the same terms to which you would be entitled hereunder if you terminate your employment for Good Reason following a Change of Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective will be deemed the date of your termination. As used in this agreement "inTEST" shall include any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law or otherwise.

10. BINDING AGREEMENT.

This Agreement will inure to the benefit of and be enforceable by you and your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder had you continued to live, all such amounts, unless otherwise provided herein, will be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

11. NOTICES.

For purposes of this Agreement, notices and all other communications provided for in this Agreement will be in writing and will be deemed to have been duly given when personally delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to you at the last address you have filed in writing with inTEST or, in the case of inTEST, at its main office, attention of the Chairman of the Board of Directors, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address will be effective only upon receipt.

12. MISCELLANEOUS.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and inTEST. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of Delaware without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code will be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder will be paid net of any applicable withholding required under federal, state or local law. The obligations of inTEST that arise prior to the expiration of this Agreement will survive the expiration of the term of this Agreement.

13. VALIDITY.

The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

14. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

15. EXPENSES AND INTEREST.

If a good faith dispute arises with respect to the enforcement of your rights under this Agreement or if any arbitration or legal proceeding will be brought in good faith to enforce or interpret any provision contained herein, or to recover damages for breach hereof, and you are the prevailing party, you will recover from inTEST any reasonable attorneys' fees and necessary costs and disbursements incurred as a result of such dispute or legal proceeding, and prejudgment interest on any money judgment obtained by you calculated at the rate of interest announced by J.P. Morgan Chase Bank, New York, or its successor, from time to time as its prime rate from the date that payments to you should have been made under this Agreement. It is expressly provided that inTEST will in no event recover from you any attorneys' fees, costs, disbursements or interest as a result of any dispute or legal proceeding involving inTEST and you.

16. PAYMENT OBLIGATIONS ABSOLUTE.

inTEST's obligation to pay you the Termination Benefits in accordance with the provisions herein will be absolute and unconditional and will not be affected by any circumstances; provided, however, that inTEST may apply amounts payable under this Agreement to any debts owed to inTEST by you on the date of your termination. All amounts payable by inTEST in accordance with this Agreement will be paid without notice or demand. If inTEST has paid you more than the amount to which you are entitled under this Agreement, inTEST will have the right to recover all or any part of such overpayment from you or from whomsoever has received such amount.

17. ENTIRE AGREEMENT.

This Agreement sets forth the entire agreement between you and inTEST concerning the subject matter discussed in this Agreement and supersedes all prior agreements, promises, covenants, arrangements, communications, representations, or warranties, whether written or oral, by any officer, employee or representative of inTEST. Any prior agreements or understandings with respect to the subject matter set forth in this Agreement are hereby terminated and canceled.

18. LITIGATION.

Any action or claim at law or equity arising under or related to this Agreement will be brought only in the Superior Court of New Jersey or in the United States District Court for the District of New Jersey, and the parties hereto hereby consent to personal jurisdiction and venue in said courts.

19. COMPLIANCE WITH CODE SECTION 409A.

For purposes of this Agreement, your termination of employment shall mean your "separation from service" as defined under Code Section 409A. Each payment under this Agreement that is determined to be subject to Section 409A shall be treated as a separate payment. In no event may you, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. Notwithstanding any provision of this Agreement to the contrary, if you are a "specified employee" (as defined in Section 409A of the Code) as of your "separation from service" (as defined in Section 409A of the Code), then the payment of any amounts payable hereunder that are subject to Section 409A of the Code shall be postponed in compliance with Section 409A (without any reduction in such payments ultimately paid or provided to you) until the first payroll date that occurs after the date that is six (6) months following your "separation from service." Any such postponed payments shall be paid in a lump sum to you on the first payroll date that occurs after the date that is six (6) months following your "separation from service." If you die during the postponement period prior to the payment of the postponed amount, the amounts withheld on account of Section 409A shall be paid to your estate within sixty (60) days after the date of your death.

If you would like to participate in this special benefits program, please sign and return the extra copy of this letter which is enclosed.

Sincerely,

/s/ Joseph W. Dews IV
Joseph W. Dews IV
Chairman of the Board

Date: August 11, 2020

ACCEPTANCE

I hereby accept the offer to participate in this special benefits program and I agree to be bound by all of the provisions noted above.

/s/ Richard N. Grant, Jr.
Richard N. Grant, Jr.

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 12, 2020

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

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of inTEST Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. 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 12, 2020

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

inTEST CORPORATION

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

In connection with the Quarterly Report of inTEST Corporation (the "Company") on Form 10-Q for the period ended September 30, 2020 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 12, 2020

/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, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh T. Regan, Jr., Secretary, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 12, 2020

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