

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2009

Commission File No. 000-22166

AETRIUM INCORPORATED

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-1439182

(I.R.S. Employer Identification No.)

2350 Helen Street, North St. Paul, Minnesota

(Address of principal executive offices)

55109

(Zip Code)

(651) 770-2000

(Registrant's telephone number including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by a checkmark 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, \$.001 par value,
outstanding on October 19, 2009

10,598,131

AETRIUM INCORPORATED

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

AETRIUM INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	<u>ASSETS</u>	
	September 30, 2009 (Unaudited)	December 31, 2008
Current assets:		
Cash and cash equivalents	\$ 10,459	\$ 11,629
Accounts receivable, net	873	1,539
Inventories	8,005	9,162
Deferred income taxes	127	127
Other current assets	569	298
Total current assets	<u>20,033</u>	<u>22,755</u>
Property and equipment:		
Furniture and fixtures	521	521
Equipment	1,174	1,204
	<u>1,695</u>	<u>1,725</u>
Less accumulated depreciation and amortization	<u>(1,582)</u>	<u>(1,582)</u>
Property and equipment, net	<u>113</u>	<u>143</u>
Deferred income taxes	3,514	2,489
Other assets	54	215
Total assets	<u>\$ 23,714</u>	<u>\$ 25,602</u>
	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 12
Trade accounts payable	323	571
Accrued compensation	337	286
Other accrued liabilities	379	633
Total current liabilities	<u>1,039</u>	<u>1,502</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.001 par value; shares authorized: 30,000,000; shares issued and outstanding: 10,598,131 at September 30, 2009 and December 31, 2008	11	11
Additional paid-in capital	64,150	63,665
Accumulated deficit	<u>(41,486)</u>	<u>(39,576)</u>
Total shareholders' equity	<u>22,675</u>	<u>24,100</u>
Total liabilities and shareholders' equity	<u>\$ 23,714</u>	<u>\$ 25,602</u>

The accompanying notes are an integral part of the consolidated financial statements.

AETRIUM INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 3,028	\$ 5,509	\$ 5,964	\$ 14,366
Cost of goods sold	1,648	2,669	3,747	7,290
Gross profit	1,380	2,840	2,217	7,076
Operating expenses:				
Selling, general and administrative	1,282	1,760	3,612	4,958
Research and development	647	751	1,651	2,275
Total operating expenses	1,929	2,511	5,263	7,233
Income (loss) from operations	(549)	329	(3,046)	(157)
Interest income, net	29	71	113	274
Income (loss) before income taxes	(520)	400	(2,933)	117
Income tax benefit (expense)	182	(148)	1,023	(43)
Net income (loss)	\$ (338)	\$ 252	\$ (1,910)	\$ 74
Income (loss) per share:				
Basic	\$ (0.03)	\$ 0.02	\$ (0.18)	\$ 0.01
Diluted	\$ (0.03)	\$ 0.02	\$ (0.18)	\$ 0.01
Weighted average common shares outstanding:				
Basic	10,598	10,592	10,598	10,577
Diluted	10,598	10,630	10,598	10,705

The accompanying notes are an integral part of the consolidated financial statements.

AETRIUM INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(in thousands)

	Nine months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (1,910)	\$ 74
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	51	72
Share-based compensation expense	485	371
Deferred income taxes	(1,025)	43
Changes in assets and liabilities:		
Accounts receivable	666	2,056
Inventories	1,157	(1,328)
Other current assets	(263)	(30)
Other assets	2	56
Trade accounts payable	(248)	(324)
Accrued compensation	51	(179)
Other accrued liabilities	(182)	(330)
Net cash provided by (used in) operating activities	(1,216)	481
Cash flows from investing activities:		
Purchase of property and equipment	(21)	(40)
Collection of note receivable	79	65
Net cash provided by investing activities	58	25
Cash flows from financing activities:		
Payments on long-term debt	(12)	(33)
Proceeds from exercise of stock options	—	56
Repurchase of shares in connection with exercise of stock options	—	(88)
Net cash used in financing activities	(12)	(65)
Net increase (decrease) in cash and cash equivalents	(1,170)	441
Cash and cash equivalents at beginning of period	11,629	12,105
Cash and cash equivalents at end of period	\$ 10,459	\$ 12,546

The accompanying notes are an integral part of the consolidated financial statements.

AETRIUM INCORPORATED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated balance sheet at December 31, 2008 has been derived from our audited financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments (consisting only of normal, recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the operating results to be expected for the full year or any future period. We evaluated our financial statements for subsequent events through October 27, 2009, the date the financial statements were issued.

The accompanying unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted, pursuant to such rules and regulations. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008.

2. NOTE RECEIVABLE

In connection with the sale of our Dallas operations to WEB Technology, Inc. (WEB) in 2006, we received a promissory note from WEB that provided for installment payments through December 2008. In July 2008, at WEB's request, the note was restructured to provide for installment payments through December 2010. The current portion of the note receivable balance is included in the caption "Other current assets" and the long-term portion is included in the caption "Other assets" in our consolidated balance sheet as follows (in thousands):

	September 30, 2009	December 31, 2008
Current portion - included in "Other current assets"	\$ 110	\$ 106
Long-term portion - included in "Other assets"	54	137
Total note receivable	<u>\$ 164</u>	<u>\$ 243</u>

3. SHARE-BASED COMPENSATION

Aetrium uses the fair value method to measure and recognize share-based compensation. We determine the fair value of share-based awards on the grant date using the Black-Scholes option valuation model. We also use the Black-Scholes model to determine the fair value of modifications to awards by determining and comparing the fair value of the modified award with the fair value of the award immediately before the modification.

On May 20, 2009 Aetrium shareholders approved the re-pricing of certain outstanding stock options that had been previously granted pursuant to our 2003 Stock Incentive Plan. The modified options were held by 48 option holders, including Aetrium officers, directors and employees. A total of 1,536,249 options with exercise prices ranging from \$3.095 to \$4.33 per share were modified to provide for exercise prices ranging from \$2.2175 to \$2.34 per share. The new exercise prices were determined based on a formula tied to the fair market value of our common stock on the modification date, which was \$1.34 per share. The fair value of the option modifications, using the Black-Scholes valuation model, was determined to be approximately \$117,000. Of this amount, approximately \$63,000 was related to vested options and was expensed in the quarter ended June

30, 2009. The remaining expense is being recognized over the remaining vesting periods of the applicable options.

In February 2009, pursuant to our 2003 Stock Incentive Plan, we granted a stock option to purchase 30,000 shares of our common stock at an exercise price of \$1.265 per share, the fair market value of the common stock on the date of the grant. The option vests in monthly increments over four years and will expire five years after the grant date. The fair value of the option was determined to be approximately \$14,000, which amount is being expensed over the four-year vesting period.

Also in February 2009, we modified the terms of vested options held by a former Aetrium director who retired in December 2008. The options were to expire ninety days following his retirement date. The options, which were "under water" on the modification date, were modified to extend the expiration dates to their respective original contract terms. The total fair value of the modifications was less than \$1,000.

Share-based compensation expense included in our consolidated statements of operations was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cost of goods sold	\$ 21	\$ 18	\$ 69	\$ 49
Selling, general and administrative	97	94	326	261
Research and development	27	23	90	61
Total share-based compensation expense	<u>\$ 145</u>	<u>\$ 135</u>	<u>\$ 485</u>	<u>\$ 371</u>

As of September 30, 2009, we had approximately \$0.8 million of unrecognized pretax share-based compensation expense, which is expected to be recognized over a weighted average period of 1.8 years.

4. INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during each period. Diluted income per share is computed by dividing net income by the weighted-average number of common shares and common equivalent shares outstanding during each period. Common equivalent shares include stock options using the treasury stock method. For loss periods, the computation of diluted loss per share excludes the impact of stock options because they would be antidilutive and diluted loss per share is therefore the same as basic loss per share. A reconciliation of the number of shares used in the computations of basic and diluted income (loss) per share follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Weighted average common shares outstanding	10,598	10,592	10,598	10,577
Potentially dilutive stock options	—	38	—	128
Weighted average common shares outstanding, assuming dilution	<u>10,598</u>	<u>10,630</u>	<u>10,598</u>	<u>10,705</u>

For the three and nine-month periods ended September 30, 2009, all stock options were excluded from the diluted computations because they would be antidilutive. For the three and nine-month periods ended September 30, 2008, options to purchase approximately 835,000 and 574,000 common shares, respectively, were excluded from the diluted computations because their exercise prices exceeded the average market value of our common stock for the periods and they would therefore be antidilutive to income per share. As of September 30, 2009, there were 1,729,021 outstanding stock options that could have potentially impacted diluted income per share.

5. RECENT ACCOUNTING PRONOUNCEMENTS

Effective with the quarter ended September 30, 2009, Aetrium adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 105, "Generally Accepted Accounting Principles" (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. The FASB will make all future changes to guidance in the Codification by issuing Accounting Standards Updates. The Codification also provides that rules and interpretive releases of the U. S. Securities and Exchange Commission (SEC) issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure so that users can more easily access authoritative accounting guidance. Therefore, we have updated all references to authoritative standards to be consistent with those set forth in the Codification. The adoption of ASC 105 had no impact on our consolidated financial position, results of operations or cash flows.

6. INVENTORIES

Inventories are comprised of the following (in thousands):

	September 30, 2009	December 31, 2008
Purchased parts and completed subassemblies	\$ 5,012	\$ 5,978
Work-in-process	775	456
Finished goods, including saleable demonstration equipment	2,218	2,686
Equipment shipped, subject to revenue deferral	—	42
Total inventories	<u>\$ 8,005</u>	<u>\$ 9,162</u>

7. OTHER ACCRUED LIABILITIES

Other accrued liabilities are comprised of the following (in thousands):

	September 30, 2009	December 31, 2008
Accrued commissions	\$ 33	\$ 75
Accrued warranty	82	115
Customer deposits and deferred revenue	42	61
Accrued severance and other related costs	—	102
Other	222	280
Total other accrued liabilities	<u>\$ 379</u>	<u>\$ 633</u>

Changes in accrued warranty are summarized below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Accrual balance, beginning of period	\$ 82	\$ 123	\$ 115	\$ 134
Accruals for warranties	33	117	18	221
Settlements made	(33)	(99)	(51)	(214)
Accrual balance, end of period	\$ 82	\$ 141	\$ 82	\$ 141

8. CREDIT AGREEMENT

Aetrium's \$2.0 million revolving credit line agreement with a bank expired on October 23, 2009. We are presently in discussions with the bank regarding a potential new line of credit agreement. However, there can be no assurances that we will be able to negotiate a new agreement with terms that are favorable to Aetrium or at all.

9. VACATED FACILITY AND RELATED LEASE OBLIGATION

In 2000, we vacated a leased facility in Poway, California. The lease expires on January 31, 2010. The facility is subleased to two independent parties with the sublease terms running concurrently with our remaining lease term. As of September 30, 2009, our obligation for the remaining four months of the lease term amounted to approximately \$212,000, of which approximately \$100,000 is expected to be covered by payments scheduled to be received from one of the subtenants. The second subtenant is in default on its sublease agreement as described below.

One of the subtenants in the Poway facility is in default under its sublease agreement with us for non-payment of rents. This subtenant has indicated that it received a substantial multi-year sales contract in late 2008 and commenced deliveries pursuant to the contract during 2009 but has not been able to pay us timely due to working capital constraints. In September 2009, we filed a legal action against the subtenant in the State of California and we will pursue recovery of all amounts due to us under the sublease agreement. As of September 30, 2009, we have recorded approximately \$224,000 in "Other current assets" in our consolidated balance sheet related to amounts owing from this subtenant. Based on our current assessment of the circumstances, we believe this amount will be realized and, therefore, no reserve is required at September 30, 2009. However, if we are unsuccessful in collecting amounts due to us from this subtenant, we may have to record charges in future periods. Our maximum exposure and potential charges we would have to record in the future amounts to approximately \$340,000 including the \$224,000 amount recorded at September 30, 2009 plus an estimated \$116,000 for unreimbursed costs we may incur over the remaining four months of the sublease term.

10. STOCK OPTION PLANS

The following table summarizes activity under our stock incentive plan for the nine months ended September 30, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2009	1,818,144	\$ 3.65		
Granted	30,000	1.27		
Forfeited	(10,500)	3.10		
Expired	(108,623)	4.70		
Outstanding, September 30, 2009	<u>1,729,021</u>	<u>\$ 2.34</u>	<u>2.3 years</u>	<u>\$ 28</u>
Exercisable, September 30, 2009	<u>1,145,513</u>	<u>\$ 2.37</u>	<u>2.0 years</u>	<u>\$ 4</u>

As explained in Note 3, on May 20, 2009 Aetrium shareholders approved the re-pricing of certain outstanding stock options. A total of 1,536,249 options with exercise prices ranging from \$3.095 to \$4.33 per share were modified to provide for exercise prices ranging from \$2.2175 to \$2.34 per share. The September 30, 2009 balances in the table above reflect the modified exercise prices of such options.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between Aetrium's closing stock price on September 30, 2009 and the option exercise price) of all in-the-money stock options that would have been received by the option holders had they exercised their options on September 30, 2009.

The following table summarizes information related to stock options outstanding at September 30, 2009, all of which are nonqualified options and expire five years after the grant date. Of the listed options, 279,500 options were fully exercisable when granted and 1,449,521 options become exercisable over four years from date of grant. The table reflects the re-pricing of certain options as described above:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.27	30,000	4.4 years	\$ 1.27	4,375	\$ 1.27
2.22 to 2.34	1,536,249	2.3 years	2.29	1,014,335	2.29
3.00 to 3.10	162,772	1.8 years	3.00	126,803	3.00
<u>\$ 1.27 to \$ 3.10</u>	<u>1,729,021</u>	<u>2.3 years</u>	<u>\$ 2.34</u>	<u>1,145,513</u>	<u>\$ 2.37</u>

11. INCOME TAXES

We recorded an income tax benefit of \$182,000 and \$1,023,000 for the three and nine months ended September 30, 2009, respectively, and income tax expense of \$148,000 and \$43,000 for the three and nine months ended September 30, 2008, respectively. The effective tax rates of approximately 35% and 37% for 2009 and 2008, respectively, were based on the estimated annual effective tax rate for the entire year and reflect primarily the federal statutory rate of 34% plus estimated net state income taxes. The tax rate used in future periods may change based on our estimates of future pretax income or loss and other factors.

We record the benefit we will derive in future accounting periods from tax losses and credits and deductible temporary differences as "deferred tax assets," which are included in the caption "Deferred income taxes" on our consolidated balance sheet. We record a valuation allowance to reduce the carrying value of our deferred tax assets if, based on all available evidence, it is more

likely than not that some or all of the deferred tax assets will not be realized. Prior to fiscal year 2007, we had provided a valuation allowance to fully reserve these assets. At December 31, 2007, we reduced the valuation allowance from approximately \$25.6 million to \$21.7 million based on our assessment of the realizability of our deferred tax assets at that date. Our recent operating results have been adversely impacted by the global economic crisis and semiconductor industry downturn that began in the second half of fiscal year 2008 and continued into fiscal year 2009. We incurred operating losses in the fourth quarter of fiscal year 2008 and in each of the first three quarters of fiscal year 2009. Accordingly, our net deferred tax assets increased from approximately \$2.3 million at September 30, 2008 to approximately \$3.6 million at September 30, 2009. Our assessment of the realizability of our net deferred tax assets at September 30, 2009 considered our future profit potential and other relevant factors, including our positive cumulative profit over the prior three years. Based on this assessment, we determined that there was not sufficient negative evidence to warrant an increase in the amount of the valuation allowance at September 30, 2009.

We will continue to assess the assumptions used to determine the amount of our valuation allowance in future periods. Although business conditions appear to have improved slightly and our operating loss decreased sequentially in the third quarter of 2009, the outlook for the remainder of the year is uncertain. Depending upon our fourth quarter 2009 operating results and our future outlook as of the end of 2009, we may have to increase our valuation allowance, which could have a material adverse impact on our results of operations. If we increase the valuation allowance, we would record additional income tax expense for an amount up to as much as the full carrying value of our net deferred tax assets.

Deferred tax assets, net of a \$21.7 million valuation allowance, are classified in our consolidated balance sheet as follows (in thousands):

	September 30, 2009	December 31, 2008
	<u> </u>	<u> </u>
Current assets	\$ 127	\$ 127
Noncurrent assets	3,514	2,489
Total net deferred tax assets	<u>\$ 3,641</u>	<u>\$ 2,616</u>

AETRIUM INCORPORATED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Aetrium designs, manufactures and markets a variety of electromechanical equipment used in the handling and testing of integrated circuits, or ICs, which constitute the highest revenue component of the semiconductor industry. Our primary focus is on high volume ICs and on the latest IC package designs. Our test handler products are purchased primarily by semiconductor manufacturers and their assembly and test subcontractors and are used in the test, assembly and packaging, or TAP, segment of semiconductor manufacturing. Our reliability test products are used to validate IC designs and monitor semiconductor wafer fabrication processes. Our products automate critical functions to improve manufacturing yield, raise quality levels, increase product reliability and reduce manufacturing costs.

As an equipment supplier to the semiconductor industry, Aetrium's results are driven primarily by worldwide demand for ICs, which in turn depends on end-user demand for electronic products. The demand for our products can fluctuate significantly from period to period due to the direct or indirect impact of numerous factors, including but not limited to changes in the supply and demand for ICs, changes in IC manufacturing capacity, advancements in industry technologies, changes in U.S. and worldwide economic conditions and competitive factors.

Business conditions in the TAP segment of the semiconductor equipment industry were generally weak in the first half of 2008 and deteriorated significantly in the second half of the year as the current global economic crisis evolved. As the end of the year approached, many IC manufacturers, including Aetrium's primary customers, made significant adjustments to their operations and reduced their capital expenditure plans in anticipation of significantly declining demand for ICs. In fourth quarter 2008, as it became clear that general economic and semiconductor industry business conditions may be weak for an extended period of time, we immediately took steps to reduce our expenses accordingly. We eliminated contract workers, terminated twelve employees, or 15% of our regular workforce, and reduced other operating expenses as well. In January 2009 we implemented wage reductions of 10% for all employees and up to 25% for our executive officers.

As expected, weak economic conditions and the semiconductor equipment industry slowdown continued into fiscal year 2009 and Aetrium's operating results have been affected accordingly. We experienced declining net sales and increasing losses in the first two quarters of the year. General economic and industry conditions appear to have improved somewhat in the third quarter of 2009 with signs of improving demand for our customers' products and improving equipment utilization, although it is not clear how much of this is due to a seasonal, pre-holiday pickup as opposed to a longer term positive trend. Our net sales increased to \$3.0 million in the quarter ended September 30, 2009 compared with \$1.2 million in the previous quarter. However, we expect business conditions to continue to be challenging through at least the remainder of the year. Any prolonged continuation or worsening of the industry slowdown will likely adversely impact our longer term operating results as well.

Critical Accounting Policies

Aetrium's critical accounting policies are discussed in our most recent Annual Report on Form 10-K for the year ended December 31, 2008.

Results of Operations

Net Sales. Net sales for the nine months ended September 30, 2009 were \$6.0 million compared with \$14.4 million for the same period in 2008, a 58% decrease. Net sales for the three months ended September 30, 2009 were \$3.0 million compared with \$5.5 million for the same period in 2008, a 45% decrease. Net sales in 2009 decreased across all our product lines as a result of the weak economic conditions and semiconductor equipment industry slowdown that began in 2008 and continued into 2009. Sales of test handlers were \$2.9 million in the first nine months of 2009 compared with \$9.2 million for the same period in 2008, a decrease of 69%. Sales of reliability test equipment products were \$1.2 million in the first nine months of 2009 compared with \$1.5 million in the same period in 2008, a decrease of 19%. Sales of change kits and spare parts were \$1.9 million in the first nine months of 2009 compared with \$3.6 million for the same period in 2008, a decrease of 49%.

Gross Profit. Aetrium's gross profit as a percentage of net sales can fluctuate based on a number of factors, including but not limited to the mix of products sold, distribution channel mix, price discounting, product maturity, inventory writedowns, and the utilization of manufacturing capacity associated with varying production levels. Gross profit was 37.2% of net sales in the nine months ended September 30, 2009 compared with 49.3% for the same period in 2008. Gross profit was 45.6% of net sales in the three months ended September 30, 2009 compared with 51.6% for the same period in 2008. Our gross margin decreased in 2009 primarily due to inefficiencies associated with significantly lower production and net sales levels.

Selling, General and Administrative. Selling, general and administrative expenses for the nine months ended September 30, 2009 were \$3.6 million compared with \$5.0 million for the comparable period in 2008, a 27% decrease. Compensation costs decreased \$0.7 million in 2009 primarily due to a workforce reduction implemented in December 2008, wage reductions for all employees implemented in January 2009 and the elimination of all profit-related incentives. Commissions expense, warranty expense and travel costs decreased \$0.1 million, \$0.2 million, and \$0.3 million, respectively, due primarily to lower sales and reduced sales and service activities. Selling, general and administrative expenses for the three months ended September 30, 2009 were \$1.3 million compared with \$1.8 million for the comparable period in 2008, a 27% decrease. The decrease in 2009 was due primarily to lower wages, commissions and travel costs.

Research and Development. Research and development expenses for the nine months ended September 30, 2009 were \$1.7 million compared with \$2.3 million for the comparable period in 2008, a 27% decrease. Compensation costs decreased \$0.2 million in 2009 primarily due to a workforce reduction implemented in December 2008, wage reductions for all employees implemented in January 2009 and the elimination of all profit-related incentives. Contract services decreased \$0.3 million as such costs were reduced in response to lower sales levels. Travel expenses decreased \$0.1 million due to cost containment efforts. Research and development expenses for the three months ended September 30, 2009 were \$0.6 million compared with \$0.8 million for the comparable period in 2008, a 14% decrease. The decrease in 2009 was due primarily to lower wages and travel costs. Research and development expenses represented 27.7% of total net sales for the nine month period ended September 30, 2009 compared with 15.8% of total net sales for the comparable period in 2008. New product development is an essential part of our strategy to gain market share. Over time, we expect to invest approximately 12% to 15% of our revenues in research and development, although we may exceed this range in periods of reduced revenues as was the case in fiscal year 2008 and the first nine months of 2009.

Interest Income, net. Interest income, net, amounted to \$113,000 and \$274,000 for the nine-month periods ended September 30, 2009 and 2008, respectively, and amounted to \$29,000 and \$71,000 for the three-month periods ended September 30, 2009 and 2008,

respectively. Interest income was lower in 2009 due to lower average invested cash balances and generally lower interest rates.

Income Taxes. We recorded an income tax benefit of \$182,000 and \$1,023,000 for the three and nine months ended September 30, 2009, respectively, and income tax expense of \$148,000 and \$43,000 for the three and nine months ended September 30, 2008, respectively. The effective tax rates of approximately 35% and 37% for 2009 and 2008, respectively, were based on the estimated annual effective tax rate for the entire year and reflect primarily the federal statutory rate of 34% plus estimated net state income taxes. The tax rate used in future periods may change based on our estimates of future pretax income or loss and other factors.

We record the benefit we will derive in future accounting periods from tax losses and credits and deductible temporary differences as “deferred tax assets,” which are included in the caption “Deferred income taxes” on our consolidated balance sheet. We record a valuation allowance to reduce the carrying value of our deferred tax assets if, based on all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Prior to fiscal year 2007, we had provided a valuation allowance to fully reserve these assets. At December 31, 2007, we reduced the valuation allowance from approximately \$25.6 million to \$21.7 million based on our assessment of the realizability of our deferred tax assets at that date. Our recent operating results have been adversely impacted by the global economic crisis and semiconductor industry downturn that began in the second half of fiscal year 2008 and continued into fiscal year 2009. We incurred operating losses in the fourth quarter of fiscal year 2008 and in each of the first three quarters of fiscal year 2009. Accordingly, our net deferred tax assets increased from approximately \$2.3 million at September 30, 2008 to approximately \$3.6 million at September 30, 2009. Our assessment of the realizability of our net deferred tax assets at September 30, 2009 considered our future profit potential and other relevant factors, including our positive cumulative profit over the prior three years. Based on this assessment, we determined that there was not sufficient negative evidence to warrant an increase in the amount of the valuation allowance at September 30, 2009.

We will continue to assess the assumptions used to determine the amount of our valuation allowance in future periods. Although business conditions appear to have improved slightly and our operating loss decreased sequentially in the third quarter of 2009, the outlook for the remainder of the year is uncertain. Depending upon our fourth quarter 2009 operating results and our future outlook as of the end of 2009, we may have to increase our valuation allowance, which could have a material adverse impact on our results of operations. If we increase the valuation allowance, we would record additional income tax expense for an amount up to as much as the full carrying value of our net deferred tax assets.

Financial Condition, Liquidity and Capital Resources

Cash and cash equivalents decreased by approximately \$1.2 million in the nine months ended September 30, 2009. We used \$1.2 million in cash to fund operating activities during this period. The major components of cash flows from operating activities were our net loss of \$1.9 million, a \$1.0 million increase in deferred income taxes, a \$0.3 million increase in other current assets, a \$0.2 million decrease in accounts payable and a \$0.2 million decrease in other accrued liabilities, partially offset by \$0.5 million in non-cash depreciation and share-based compensation expense, a \$0.7 million decrease in accounts receivable, and a \$1.2 million decrease in inventories. The increase in other current assets consists primarily of past due rents owing from a subtenant as described in Note 9 to our consolidated financial statements. Inventories and accounts payable decreased primarily due to significantly reduced inventory purchases in 2009 compared with the fourth quarter of 2008 in response to lower sales levels. The decrease in other accrued liabilities includes the payment of severance costs associated with a workforce reduction we implemented in December 2008 and a reduction in accrued warranty due to lower sales volume. Accounts receivable decreased primarily due to a significant decrease in net sales in the third quarter of 2009 compared with the fourth quarter of

2008. Net cash flows from investing activities and financing activities in the nine months ended September 30, 2009 were not significant.

Cash and cash equivalents increased by approximately \$0.4 million in the nine months ended September 30, 2008. We generated \$0.5 million in cash from operating activities during this period. The major components of cash flows from operating activities were our net income of \$0.1 million, \$0.4 million in non-cash depreciation and share-based compensation expense, and a \$2.1 million decrease in accounts receivable, partially offset by a \$1.3 million increase in inventories, a \$0.3 million decrease in accounts payable, a \$0.2 million decrease in accrued compensation, a \$0.2 million decrease in deferred revenue, and a \$0.1 million decrease in accrued no-charge equipment improvements. Accounts receivable decreased primarily due to a significant decrease in net sales in the third quarter of 2008 compared with the fourth quarter of 2007. Inventories increased due to selective increases of certain inventories in 2008 to meet anticipated customer delivery requirements, an increase in the number of demonstration equipment units used for new customer evaluations, and lower-than-anticipated net sales. Accounts payable decreased primarily due to reduced inventory purchases in the third quarter of 2008 compared with the fourth quarter of 2007. Accrued compensation decreased primarily due to lower profit-related incentives. Deferred revenue decreased to zero as revenue recognition criteria were satisfied for items that had been deferred at December 31, 2007 and there were no deferred revenue items at September 30, 2008. Accrued no-charge equipment improvements decreased due to the shipment of certain items accrued in prior periods. Net cash provided by investing activities in the nine months ended September 30, 2008 was not significant. Net cash used in financing activities in the nine months ended September 30, 2008 amounted to \$0.1 million, primarily related to the repurchase of shares of common stock in connection with stock option exercises.

Historically we have supported our capital expenditure and working capital needs with cash generated from operations and our existing cash and cash equivalents. We believe our cash and cash equivalents of \$10.4 million at September 30, 2009 will be sufficient to meet capital expenditure and working capital needs for at least the next twelve months. Our \$2 million revolving credit line agreement with a bank expired on October 23, 2009. We are presently in discussions with the bank regarding a new line of credit agreement. However, there can be no assurances that we will be able to negotiate a new agreement with terms that are favorable to Aetrium or at all.

As discussed above, worldwide economic conditions continue to be weak and it is not known how long the current downturn in the semiconductor industry may last. Although it appears that industry conditions have shown some improvement recently, a worsening or prolonged continuation of the current slowdown in our industry would likely adversely impact the demand for and prices of our products and adversely affect future cash flows. Also, we may acquire other companies, product lines or technologies that are complementary to our business, and our working capital needs may change as a result of such acquisitions.

Recent Accounting Pronouncements

Effective with the quarter ended September 30, 2009, Aetrium adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 105, "Generally Accepted Accounting Principles" (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. The FASB will make all future changes to guidance in the Codification by issuing Accounting Standards Updates. The Codification also provides that rules and interpretive releases of the U. S. Securities and Exchange Commission (SEC) issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure so that users can more easily access authoritative accounting

guidance. Therefore, we have updated all references to authoritative standards to be consistent with those set forth in the Codification. The adoption of ASC 105 had no impact on our consolidated financial position, results of operations or cash flows.

Item 4T. Controls and Procedures

Our Chief Executive Officer, our Chief Administrative Officer and our Treasurer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2009. Based on their evaluation, they concluded that our disclosure controls and procedures were effective and designed to give reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act was made known to them by others and was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. There was no change in our internal controls that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to affect, our internal controls over financial reporting.

AETRIUM INCORPORATED

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have not been any material changes to the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2008.

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

None.

Item 3. Defaults on Senior Securities

None.

Item 4. Submissions of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Administrative Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.3 Certification by Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

AETRIUM INCORPORATED

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.

AETRIUM INCORPORATED
(Registrant)

Date: October 27, 2009

By: /s/ Joseph C. Levesque
Joseph C. Levesque
Chairman of the Board and Chief Executive
Officer

Date: October 27, 2009

By: /s/ Paul H. Askegaard
Paul H. Askegaard
Treasurer (principal financial and
accounting officer)