Aetrium, Incorporated
Fourth Quarter 2011 and Year End Earnings
February 9, 2012

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Aetrium Incorporated Fourth Quarter 2011 and Year End Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. If you have a question, please press the star, followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star, followed by the two. If you're using speaker equipment today, please lift the handset before making your selection. This conference is being recorded today, Thursday the 9th of February, 2012.

I'd like to now hand the conference over to Mr. Douglas Hemer, Chief Administrative Officer. Please go ahead, sir.

Douglas Hemer: Thank you, Lorenzo, and thanks to all of you for attending our fourth quarter 2011 results teleconference. With me is Joe Levesque, our President and Chief Executive Officer.

Our press release went out shortly after 3:00 p.m. this afternoon and, hopefully, you will have had a chance to download those. We'll start this conference by reviewing fourth quarter and year end results, and then we'll review the balance sheet, and then Joe will recap the quarter and the year and discuss business trends and developments. After that, we'll answer your questions.

Before we begin, I'd like to remind everyone that certain matters discussed on this conference call are forward-looking statements, and as such, they are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties are highlighted in the press release and in our Form 10-K filed with the Securities and Exchange Commission.

First, let's recap the results for the year. We had revenues of $9,009,000 in 2011. That was down from our revenues of $16,258,000 in 2010. Our gross margins for 2011 were 31.1%, down from 42.1% in 2010, which was due primarily to unabsorbed overhead and our 2011 revenue levels and higher charges for inventory obsolescence in 2011.

Our net loss for 2011 was $4,748,000, or $0.44 per share, which compares to a net loss for 2010 of $1,902,000, or $0.18 per share. Our net loss for 2011 included severance charges of $473,000, charges for inventory obsolescence of $1,131,000, and those items were partially offset by a

Minnesota refundable tax credit of $70,000. The 2011 charges for excess and obsolete inventory resulted from our analysis that the future sales of some of our legacy handler products would be reduced as a result of the current industry downturn being forecasted to extend at least through the first quarter of this year. Without these items, our net loss for the year would have been $3,214,000, or $0.30 per share.

Our net loss in 2010 includes charges of $423,000 for inventory obsolescence and $588,000 for deferred compensation, those items being offset, in part, by a credit of $190,000 on a settlement of a claim against a sub-tenant of a discontinued facility. The 2010 inventory obsolescence charge was due to discontinuance of our pick-and-place handler line, changes in customer requirements, finalization of the Vmax product design. The deferred compensation charge represents retirement benefits finalized in the fourth quarter of last year for Joe Levesque and me. Without these items, our net loss for the year of 2010 would have been $1,081,000, or $0.10 per share.

Now let's turn to the quarter just ended. In the fourth quarter, we had revenue of $2,371,000. That was an increase from our third quarter revenue of $1,459,000, as well as fourth quarter of 2010 revenue of $1,667,000. The increase of Q4 2011 was due primarily to increased reliability test product sales. Joe will talk more about general market conditions in his comments.

Gross profit for the quarter was $1,222,000, or 51.5% of revenue. This compares to gross profit deficit of 46% in third quarter of 2011 and a gross profit margin of 10.6% in the fourth quarter of 2010. Our product mix in the fourth quarter was favorable to third quarter of this year as well as fourth quarter of last year, and in addition, we had less unabsorbed overhead on the higher revenues.

Our operating expenses were $1,829,000 in the fourth quarter. This compares to operating expenses of $2,158,000 in the third quarter of 2011 and $2,415,000 in the fourth quarter of last year. The decrease from third quarter operating expenses was due primarily to wage reductions relating to the workforce reduction that we took in September of last year, lower contract engineering, lower engineering materials, and the $70,000 tax credit that I mentioned previously. The decrease from fourth quarter of last year resulted primarily from deferred compensation charges in 2010 and lower engineering materials this year, offset somewhat by higher commissions this year.

Our fourth quarter operating expenses included R&D expenditures of $345,000. This was down from R&D expenditures of $913,000 in the third quarter of 2010—2011 and also from engineering expenses of $672,000 in the fourth quarter of last year. The decrease from third quarter was due primarily to a workforce reduction charge, reduced employees, as well as contract labor, and again, the $70,000 research credit that we took this quarter. The decrease in fourth quarter of last year was due primarily to lower wages and materials, as well as lower contract services and the $70,000 credit, again, that we took this quarter. Our R&D expenditures for the quarter represented 15% of our revenue, which is within our long-term revenue objectives of 12 to 15%, was due in part to the $70,000 tax credit that we took against our R&D expenditures this quarter. As we have said before, we will spend above our long-term objectives in low revenue periods such as this fourth quarter in order to maintain critical product development momentum.

Our fourth quarter operating expenses included depreciation expense of $17,000, and we had $55,000 of stock-based compensation expense. In the fourth quarter of 2010, we had depreciation expenses of $20,000 and stock-based compensation expense of $116,000. We have no amortization expense.

Our net loss for the fourth quarter of 2010—or of 2011 was $602,000, or $0.06 per share on weighted average shares outstanding of 10,781,000 shares. This compares to a net loss of $2,817,000, or $0.26 per diluted share in third quarter of 2011, and a net loss of $2,223,000, or $0.21 per share in the fourth quarter of 2010.

And now let's turn to the balance sheet. As of the end of the fourth quarter, our balance sheet consisted of cash of $10 million—excuse me, of $5 million, accounts receivable of $1.3 million, inventory of $7.7 million, which gave us total current assets of $14.1 million, total assets of $14.3 million. Our total liabilities as of the end of the year were $1.8 million, and we had working capital of $12.6 million. We have no long-term debt, and our shareholders' equity stands at $12.4 million. We experienced negative cash flow of about $1.3 million in the fourth quarter. The use of cash resulted primarily from our net loss of $600,000 and an increase in accounts receivable of about $700,000. Our receivables increased due to the higher sales volume and timing of shipments in the fourth quarter as compared to the third quarter of 2010. Our accounts receivable days outstanding was at 51 days at December 31st, which is well within our internal objectives for this metric.

And now I'd like to turn the conference over to Joe for his comments.

Joe Levesque: Thank you, Doug. Good afternoon, everyone. Generally speaking, the IC industry in 2011 is likely to be remembered as a year of struggles for the industry, amid economic malaise, declining consumer confidence, corporate confidence, natural disasters causing supply chain disruption. Certainly the performance of the IC industry and its equipment suppliers were below the expectations of industry forecasters. The number of ICs shipped in 2011 decreased in the fourth quarter. It'll remain flat for the year, amid continued poor economic conditions in the U.S. and as other economies including the EU and Japan weaken further.

In the fourth quarter, the industry giant, Texas Instruments, cited weak demand across a wide range of their markets. It was soon joined by other IC suppliers citing deterioration in their revenues in the fourth quarter. We expect IC demand will continue to be soft in the first half of 2012 before heating up again in the second half, primarily being driven by the demand for mobile applications. Even though our products sell to the same industry, the dynamics of our target markets for our product offerings proved to be very different during the quarter and the year. Test handler sales in Q4 and in 2012 were negatively impacted by the weak demand for ICs, and the expansion of off-site evaluations at some key customers reflecting their current lack of urgency in needing to add new handling equipment.

Our reliability tester sales in Q4 and again in 2012 were a bright spot for us, and buoyed by the growing number of new and/or refitted wafer fabs dedicated to advanced geometries and needing new reliability tester modules to address their new designs. For example, the competition is heating up in the logic foundry (ph) segment, with both PSMC (ph) and Samsung projecting spending of $7 billion or more. And the battle for second place gets hotter as Samsung may succeed in passing both UMC and Global Foundries in capacity of logic devices. We are currently involved in customer evaluations of our most recent generation reliability test modules at two very large U.S. companies, specifically for use on advanced device geometries. During the year, we were able to book and ship multiple reliability test systems equipped with our newest modules for application on advanced device geometries for several significant customers on a global basis.

In the fourth quarter alone, we recognized revenues of multiple reliability testers from a leading and globally positioned IC foundry consortium with facilities in Asia, Europe and the U.S. That was a conquest for us. We continue to be involved in our on-site handler evaluation at significant high volume IC manufacturers. They expect actually to increase the number of on-site evaluations as 2012 progresses. We've added to our number of available evaluation units to support that strategic plan to broaden our customer base.

Our management efforts remain committed to keeping Aetrium sized correctly for the changing market conditions. It's being focused on our strengths. We recently restructured our product management in January of 2012, and we've followed that up with reductions and reassignments in our workforce to better address the very different market dynamics and marketing strategies of our products. Our marketing efforts for test handlers continue to be sharply focused on near-term revenue opportunities for higher volume IC packages and on advanced device geometries for our reliability tester, both with emphasis on large key accounts. Our R&D spending decreased in the fourth quarter but remained focused on advanced device geometries for, again, high volume IC packagers, and we believe that our current and planned products have us uniquely repositioned for future growth.

Our customers seem uncertain about the short-term economic outlook, and we expect they will stay cautious in the short term when adding new IC test handlers, while continuing to spend aggressively on new reliability testers. Currently, we can find little consensus among industry forecasters relating to the IC shipments or IC equipment sales, other than saying that the first half of 2012 is expected to remain slow, followed by a sharp increase in the second half. We expect that our first quarter revenues will be very dependent upon new orders that are both booked and shipped during the quarter.

Conditions in the IC industry remain very unsettled and our visibility remains unclear. We feel we lack sufficient data to provide additional or more detailed forward-looking guidance at the current time.

In summary, overall the fourth quarter of 2011 and for the year proved to be very disappointing as IC demand weakened and the industry contracted in the last half. Bookings for both existing and potential test handler customers were weaker than anticipated for second half. One bright spot was on bookings to revenues for our new generation reliability test products, especially for new accounts were stronger than expected. Our customers are clearly more cautious about their short-term prospects in the uncertain financial climate in their long-term prospects. We expect the success we have achieved with our current customer base can and will be leveraged and result in increased acceptance by a broader base of customers as 2012 progresses.

The prevailing sentiment is that the IC industry in 2012 is going to be stronger in the second half. We agree with that sentiment. We see the real potential for strong long-term growth and strengthening other activity in our future periods. We believe the industry in general is currently being managed very conservatively, and we believe that inventory levels and production capacity will be brought closer to balance in the second half of 2012 and continue to be managed very closely. We intend to stay alert and responsive to any rapid or unexpected change in industry metrics, and we're managing Aetrium accordingly. We do remain enthusiastic about our current product offerings. They have potential for acceptance by a broader and growing customer base and the long-term prospects for both the IC industry and our Company.

And with that, Lorenzo, we'll be glad to take questions.

Operator: Thank you, sir. We will now begin the question and answer session. As a reminder, if you have a question, please press the star, followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star, followed by the two. And if you're using speaking equipment, you will need to lift the handset before making your selection. One moment please.

And our first question is from the line of Mike Masciorini of Wells Fargo Advisors. Please go ahead, sir.

Mike Masciorini: Hi, guys.

Joe Levesque: Hi, Mike.

Douglas Hemer: Hello.

Mike Masciorini: Hi. You know, I'm—I read a lot of these press releases on these earnings calls, and to give you a feel for a few of the here, Teradyne, this is their recent release. We saw an upturn in customers' orders on our system on a chip business and in all lines of our systems test group in the fourth quarter, dah dah dah dah dah; the new order increase is driven by very strong demand for this and that. And then Cohu, through (inaudible) SEMI reported that orders for the backend semiconductor equipment were essentially flat during the four months ending December, recent comments from certain semiconductor equipment IC companies suggest that a bottom has been reached and that business conditions are expected to improve as we move past the lunar new year. Recently, we are seeing increased customer activity, particularly for automotive and customer—consumer applications. And then Rudolph Technology, our backend macro defect inspection market growth is currently driven by technology buys for sophisticated advanced packaging such as grid arrays, 3D to device stacking, all requiring more process monitoring. This backend market is projected to show one of the largest semiconductor cap ex spending increases in the next few years.

And I read these things and I see growth, and then I just keep hearing, like, now it's like the first half of this year is going to be depressing or something like that. And so, I know that they're in—everyone's in different markets and you guys are in different markets, but it just seems like it's a never ending story.

Joe Levesque: Right. (Cross talking).

Mike Masciorini: In the meantime, the severance pay for last year was over 5% of your sales. You know, I mean, we're down to $5 million in cash. I'm just kind of wondering where we're going to be six months from now.

Douglas Hemer: Sure. We hope that we'll be in much better shape. But some of the comments that you just talked about are consistent with what we're seeing. The technology buys are always something that tend to ameliorate any kind of a downturn in the market. The basic fundamentals of a downturn of a market are pretty fundamental to everybody. I think what we'll see as the reporting season—this reporting season goes on is more of what we have seen with companies like TI and Intel projecting lower sales for first quarter. And while a few companies have, in addition to the ones that you mentioned, have (cross talking).

Mike Masciorini: I know you mentioned before that the first quarter traditionally is like the lowest quarter, is that right?

Douglas Hemer: First quarter is seasonally down.

Mike Masciorini: Right.

Douglas Hemer: Typically. I think (cross talking).

Mike Masciorini: But then why wouldn't necessarily second quarter and when—and who are the others that are predicting further revenue declines in the first quarter? I mean, a lot of the people I read are thinking—a lot of the analysts are thinking that the SMH Index is up 14% for the year, and a lot of people—analysts are predicting that the bottom is kind of in and things should be looking up. I mean, six months (cross talking).

Douglas Hemer: Yes. If you look at the semiconductor companies and their outlooks for first quarter, you'll find that more companies are indicating a down quarter for first quarter than there are companies that are indicating an up quarter. And actually, we were hoping that we would find a first quarter that would be—even would be good because it's typically down, but we had a down fourth quarter. Everybody knows that there's been a down fourth quarter.

One of the things that we're fighting is on—particularly on the handler side, is getting the companies back up to where they were more than a year ago. The total amount of semiconductors produced as of about mid-last year was almost getting back up to where it was in third quarter of 2010. Third quarter of this 2011 flattened out, the production did not increase, might have decreased some in third quarter and certainly has decreased in fourth quarter. And unfortunately for us, that means that companies have to increase their revenues in production up—back up to where they were before you'll see general capacity requirements. I don't have an explanation for Teradyne, other than its bookings were significantly above I believe both its revenues for Q4 of 2011 as well as first quarter of 2012, so it's getting advanced bookings. How it gets it done, I'm not quite sure but I wish I was there myself.

Mike Masciorini: Yes, because they're saying their first quarter they're projecting revenue, like, the midpoint 380 and they did less than 300, you know, in the fourth quarter, or what have you. So, but that's (cross talking). I mean, 5 million in cash, at what point—I mean, how do you deal with that? I mean, I don't understand. I know you're cutting costs, but you can only do that so much. I mean, what's the game plan? I…

Douglas Hemer: Well, we are watching our expenses. We think that the 5 million in cash gives us plenty of leeway to see this downturn through and see our revenue position advance. What we're doing on revenues, as Joe was talking about, we're working on evaluations to expand our customer base so that we're prepared to work with them as their revenues get up to a place where capacity buys become necessary again for them (cross talking).

Mike Masciorini: Like, what percentage increase in their revenues would they have to get up to where they're then needing to add capacity? I mean, how much higher from where they are now do they have to get to (inaudible).

Douglas Hemer: Yes. I would—it's in the single—I would say it's in the single digits, because you had people generally at about the same place they were in Q3 of 2010, as I said, in terms of general production of semiconductor chips. And it was back up there pretty much in third quarter, so what we have to do first is make up for the losses in fourth quarter, generally across the board, and that's our bogey, really. We think it's going to take through this quarter certainly, and into second quarter to do it because we don't think that there will be overall much growth in revenue production for the semiconductor industry in the first quarter.

Mike Masciorini: All right.

Joe Levesque: Yes, there—we have two different products; one is being driven by volume of ICs manufactured. You have a situation where there is no growth and you're actually below previous high, it's going to be a while before people add handlers for capacity. Now you'll sell some equipment because of technology change. Somebody might be changing from a two-site handler to an eight-site handler, and we'll see some of that business. Our other product is a technology product, and as I said in my talk, we've seen some very uplifting business there; we think we're very well positioned for that. It's just that the visibility in the marketplace right now is extremely blurry and nobody is—nobody that we're talking to anyway is stretching themselves in terms of how excited they are about the first quarter and the second quarter at this point in time.

Mike Masciorini: Okay. That's it, thanks.

Joe Levesque: Thank you.

Douglas Hemer: Thank you, Mike.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press the star, followed by the one at this time. Again, if you're using speaker equipment, please lift the handset before pressing the numbers.

Our next question is from the line of Marc Wakefield, a private investor. Please go ahead, sir.

Marc Wakefield: Yes, hi, gentlemen.

Joe Levesque: Hi.

Douglas Hemer: Hi.

Marc Wakefield: Yes, I also heard from a number of the analog IC makers that they seem to see—saw a trend where the last couple of months things were—seemed to be picking up particularly, even if they didn't notice it in the annual report and Q4 that as they go through—went through December and then into January, things are picking up. Are you saying that that's not something you would see at all on the handler side for quite a while, or what?

Joe Levesque: No, actually, you know, we believe they are picking up. We think that the fourth quarter was a pretty bad quarter for them. But they're not back to where they were mid-year through last year, is the problem. One of our biggest customers just reported that they're running roughly 75% of their capacity.

Douglas Hemer: And that was one of the companies—that's Maxim, and that's one of the companies who was saying that they were seeing an increase in bookings in December as well as January. And Linear Tech was another one in our space who is making the same sort of comment, and those are very encouraging comments.

Marc Wakefield: Absolutely.

Douglas Hemer: But they are against a backdrop of a very significant reduction in revenues in the fourth quarter, and as Joe said, that has Maxim at 70% capacity. Companies, until they get up toward 90%, are not in any hurry to add to their capacity.

Marc Wakefield: Do you think Maxim is not going to be—is no longer eager to add to the increased site handlers right now, or…?

Joe Levesque: They are not in a position to do that; they're still in an evaluation mode for equipment. That's been a long-term thing and I think it's clear that there's just no urgency on their part to make decisions on equipment because they really don't need the equipment at the present time.

Marc Wakefield: Mm-hmm. Now, it sounded like you're saying that the reliability testing area has been picking up and is steadier. Is that—if I'm correct about that, is this a trend, and is this becoming a bigger piece compared to handlers, or what?

Joe Levesque: Well, the two products have different market dynamics certainly. One's being driven by volume; the other's being driven by a change of technology. Our reliability tester we believe is very much in alignment with where the industry is going right now from a device perspective. The advanced geometries that the industry's going through, shrinking geometries, and different insulators and the like are driving the need for new physics and new physics means new reliability equipment. Over the last year, year and a half, we developed a series of new modules for those advanced device technologies. We've gone through evaluation at a number of sites, and we're quite excited about the potential. We think the product is right in the mainstream of where the industry's going.

Marc Wakefield: Mm-hmm. Now, do these still carry significant, or at least somewhat larger margins than handlers?

Joe Levesque: At this point in time, they're our highest margin products.

Marc Wakefield: Okay. And where do things stand now in terms of a CEO search?

Douglas Hemer: We're in process. We're in the process of defining what our next steps are in terms of organizing the Company so that we know what we have to offer somebody and we know what we're looking for to offer to them. We've taken some steps recently and have had a press release on that, and some reorganization we've done within the Companies to, we think, better position our product areas on both sides to go forward. So, it's a process.

Marc Wakefield: Okay. Does the consolidation weakness in the industry help in terms of getting candidates that prefer (ph) to go with a small company that might not have otherwise done so, or is that possible, or…?

Douglas Hemer: Well, we haven't seen any consolidations that have brought us—brought anyone in particular to mind, but we—going through our—the normal channels to try to identify people who might fit well.

Marc Wakefield: Okay. Now, I'm not sure what—you were just hinting something, but I'm just curious now. If you did have the new CEO, do you see the Company basically pretty much will stay set the way it is now with the handlers and the reliability testers, or is it possible with some new management team there might be other areas to move into, or is the Company pretty much set where it is right now and is likely to be in the future?

Douglas Hemer: Well, we've never liked our position to be a small micro cap Company publicly held, and we've always been open to avenues that would get us out of that position. That certainly could be in expanding our product lines to grow in that way, and it could be through partnering up with somebody else. We've always been open to those types of opportunities, and we'll continue to try to posture ourselves to be available to those kinds of opportunities.

Marc Wakefield: Okay. That's it. Thank you.

Joe Levesque: Thank you.

Douglas Hemer: Thank you, Marc.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please the star, followed by the one.

Mr. Hemer, we have no further questions at this time.

Douglas Hemer: Okay. Thank you very much for attending with us on this teleconference, and we look forward to talking to you, any of you and all of you soon.

Operator: Ladies and gentlemen, this does conclude the Aetrium Incorporated Fourth Quarter 2011 and Year End Earnings Conference Call. I'd like to thank you for your participation and you may now disconnect.