

**Aetrium Incorporated**  
**Second Quarter 2011 Earnings**  
**July 20, 2011**

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to the Aetrium Incorporated Second Quarter 2011 Earnings Conference Call. During today's presentation all participants will be in a listen-only mode. Following the presentation the conference will be open for questions. If you have a question, please press the star followed by the one on your touchtone phone. For Operator assistance at any time, press star zero.

I would now like to turn the conference over to our host, Doug Hemer. Please go ahead.

**Doug Hemer:** Thank you, Alicia, and thanks to you listeners for attending our second quarter 2011 results teleconference. With me is John Pollock, our President and Chief Executive Officer.

Our press release went out shortly after 3pm this afternoon and includes our financials and I hope you've had a chance to download those. We'll start this conference by reviewing second-quarter results and then we will review the balance sheet. John will then recap the quarter and discuss business trends and developments, and after that we will 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 10K filed with the Securities and Exchange Commission. And now let's turn to the results for our second quarter.

Revenue for the second quarter was \$3,319,000, above our first quarter 2011 revenue of \$1,860,000, but below second-quarter 2010 revenue of \$5,016,000. The eight site test handler evaluation by one of our largest customers that we expected to conclude in the second quarter has not yet concluded. As a result, orders for our  $V_{\max}$  test handler that we expected to receive and fill in the second quarter from that customer have not yet been issued and our revenue fell short of the guidance we previously provided for the quarter. John will talk more about general market conditions as well as that handler evaluation in his comments.

Gross profit for the quarter was \$1,211,000 or 36.5% of revenue. This compares to a gross profit margin of 55.9% in first quarter of 2011 and a gross profit margin of 47.7% in the second quarter of 2010. The decrease in gross margin as compared to first quarter of 2011 was due primarily to product mix.

The decrease in gross margin as compared to second quarter of 2010 was due primarily to unabsorbed overhead on the lower revenue level.

Operating expenses were \$1,819,000 in the second quarter. This was relatively flat to operating expenses of \$1,782,000 in the first quarter of 2011 and down substantially from operating expenses of \$2,376,000 in the second quarter of last year. Reduced operating expenses from last year was due to lower commissions on lower revenue, lower other selling expense resulting from reduced headcount and less travel, and lower research and development expense.

Our second quarter operating expenses included research and development expenditures of \$626,000. This was up slightly from R&D expenditures of \$603,000 in first-quarter of 2011 and down from \$813,000 in the second quarter of last year. The decrease from second quarter of last year was due primarily to decreased contract services and reduced materials. Second-quarter R&D expenditures represented 18.9% of our revenue, which is above our long-term revenue objectives of 12 to 15% and is due to the lower revenue for the quarter. As we've said before, we will spend above our long-term objectives in low revenue periods, such is the second quarter, in order to maintain critical product development momentum.

Our second-quarter operating expenses included depreciation expense of \$15,000 and we had \$72,000 of stock-based compensation expense. In the second quarter of last year we also had depreciation expense of \$15,000 and we had stock-based compensation expense of \$138,000. We have no amortization expense.

Our net loss for the second quarter of 2011 was \$599,000, or six cents per share on weighted average shares outstanding of 10,781,000 shares. This compares to a net loss of \$730,000 or seven cents per share in the first quarter of 2011, and a net profit of \$94,000, or one cent per diluted share in the second quarter last year.

Now, let's review the balance sheet.

Our balance sheet at the end of the second quarter was as follows: cash of \$7.8 million; accounts receivable of \$1.2 million; inventory of \$8.3 million; total current assets of \$17.4 million; total assets of the 17.6 million. We had total liabilities of \$1.9 million, and working capital of \$15.9 million. We have no long-term debt and our shareholders' equity stands at \$15.7 million.

Our cash flow was breakeven for the quarter. The neutral cash flow resulted primarily from our net loss being offset by a decrease in inventories of about \$600,000. Our receivable days outstanding was at 33 days, which is well within

our objectives and reflects those delayed orders on systems we had expected to ship late in the quarter.

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

**John Pollock:** Thank you, Doug. We had an improved quarter from several viewpoints. We gained acceptance and recognized revenue on the  $V_{\max}$  handlers shipped to our largest customer, thus, significantly increasing our second-quarter revenue over first quarter. Despite lower than expected revenues, we were break even on cash flow.

We shipped a MEMS pressure appliance for use with our quad site handler to an existing customer for our tire pressure sensor application. MEMS is the acronym for micro electro-mechanical system and they are tiny mechanical devices that are built on a semiconductor chip, typically measured in micrometers. MEMS are increasingly being employed in a number of strategic applications, including switches, pressure and temperature and vibration sensors, accelerometers, and even pacemakers. In the second half, we will be exploring additional MEMS pressure opportunities that could be available to us.

We continue to perform well in several evaluations of our equipment at various customer sites. Our efforts associated with the  $V_{\max}$  evaluation at our largest customer have been completed. We are now waiting while they compile the results into a final report in order to make a decision on how they will proceed in going forward. We expect to hear the results later in the quarter.

In July we shipped the  $V_{\max}$  leaded application handler to a top 10 analog semiconductor manufacturer to start another strategic evaluation this quarter. We are anticipating a short evaluation with the completion in the fourth quarter.

Our focused sales efforts on expanding the number of  $V_{\max}$  evaluations in parallel is providing results, with two more customers discussing the possibilities of committing resources to evaluations in the fourth quarter of this year. Three reliability test evaluations for our new high current electro-migration reliability tester module are progressing well and could be completed this quarter. These memory and analog device applications would be new applications at existing customers.

We are pleased with the quick progress of our ultrahigh accuracy electromigration evaluation with our recent new top five IDM customer. The evaluation is moving into a second round of data test sampling and analysis of the customer structures.

Our reliability product line continues to progress well as we received a follow on order in July for a new wafer level TDDB application from a second location of our new top five IDM customer. This is an example of how a successful

evaluation can lead to follow on orders at different facility sites within the same customer. Additionally, we received an order from a third location of an existing top five foundry customer for multiple module types, including a new module application. This is solid progress as we expand our offerings at new facility locations within our very broad existing customer base.

With these positive results, our confidence in the strength of our current product offerings remain high, and we are excited about the interest of our customers and our new gravity handler and reliability tester module.

Consumer discretionary spending continues to be the primary driver for the electronics industry which, in turn, drives semiconductor unit growth. IC Insights recently indicated in a June research bulletin that global cell phone shipments are on a pace to set a new record high in 2011 with more than 1.5 billion shipments expected. This would be a 9% growth over 2010. The report noted that surging shipments of smart phones, and their associated high semiconductor content, are forecasted to have a significant impact on the IC market. Smart phones specifically accounted for about 25% of total cell phone shipments in the first quarter of 2011, compared with 16% of total cell phone shipments the same quarter a year earlier. In 2011, total smart phone shipments are forecasted to grow 60% to 440 million units.

IC Insights released another research bulletin in June, indicating the automotive semiconductor market is gearing up for a strong year because the expanding effect of technology in automobiles is having a greater impact than originally expected. Consequently, IC Insights has raised its 2011 forecast to 15% year-over-year growth for average semiconductor dollar content per automobile. Growth drivers include the convergence of communications, entertainment and safety. A specific safety example is tire pressure sensors. In Europe this will be a requirement on all new cars sold after November 1, 2011. According to IC Insights this is bound to boost the application of tire pressure monitoring systems as they did when the US instituted the requirement in 2006.

Overall, IC Insights continues to forecast IC unit growth with strong third and fourth quarter shipments in 2011. The McClean report 2011 second quarter webcast went on to indicate 20% growth in capital spending year-over-year, with semiconductor capital spending as a percent and semiconductor sales remaining in the high teens. This forecast by IC Insights is more optimistic than other forecasters like Gartner and SEMI who presented at Semicon West this past week and suggested lower double digit growth in capital spending.

Aetrium's performance in the third quarter will largely be dependent on global macro economic impacts, any orders placed by our largest customer, other new order timing, product configuration, and the percentage of orders that can be booked and shipped in the quarter. Therefore, the results for the third quarter have a potential range that is difficult to accurately predict.

We intend to stay watchful and responsive to any rapid or unexpected change in the IC industry metrics, and we believe the long-term prospects of Aetrium remain strong.

Thank you for listening to our comments, and will now turn the call over to any questions you may have.

**Operator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. As a reminder, if you have a question please press star followed by the one on your touchtone phone. If you need to withdraw your question, press the star followed by the two and if you are using speaker equipment today, you'll need to lift your handset before making your selection.

Once again, for any questions at this time please press star one. One moment please for our first question.

Our first question comes from the line of Art Tiddens with Astraea. Please go ahead.

**Art Tiddens:** Hi, Doug. Hi, John.

**Doug Hemer:** Hi, Art.

**John Pollock:** Hi Art.

**Art Tiddens:** A couple of things. This forever ongoing evaluation with your largest customer, it sounds like they placed some orders in the quarter. Is that correct?

**Doug Hemer:** They placed orders actually in first quarter.

**Art Tiddens:** Okay.

**Doug Hemer:** And that's notwithstanding that they have not announced the results of their evaluation, but I think they needed to get started on some of this equipment if they were going to make progress on migrating to eight site testing, and those are the machines that then, subsequently, were accepted and became part of our revenue.

**Art Tiddens:** Okay, so your foot is in the door and I assume the valuation is, I think last time we talked, the shoot-out was down to you and one competitor. Is that right?

**Doug Hemer:** That's what we believe. It started out with three of us, the three major players in the gravity arena, and we believe that one of those competitors and is no longer really under serious consideration.

**Art Tiddens:** And it's hard to have a feel, or it's nothing you can talk about as to whether you think you'll win the evaluation or whether you'll be lead or second?

**Doug Hemer:** Well, we've been very pleased with the performance of our machine. Our machine has outperformed our expectations, beginning with a year ago when we were evaluated for leadless devices, and it continued to perform very well this winter and spring as we were evaluated for leaded packages. So we feel very good about the way our equipment is performing. It's performing above our specs, and our specs are in some regards significantly above the last generation of equipment.

**Art Tiddens:** Okay. So when the results come out, I assume, if you win it you'd get a large number of orders, and if you didn't win it you get maybe some orders as backup?

**John Pollock:** I think that's one thing that we're not 100% sure of, how they'll do that. I think they will, looking forward, have two suppliers. I don't think they will just have one. We're not sure right now if they will have a dominant and a backup or split it even.

**Art Tiddens:** Okay.

**John Pollock:** We believe that the orders in the first quarter were split even, so there is a possibility that could be the method they choose going forward, but we really don't know.

**Art Tiddens:** Okay, and the way we'll know how it turns out is just in terms of order announcements by you, I assume?

**John Pollock:** Correct.

**Art Tiddens:** Okay. Okay. And if I can ask another question, you talk a lot about, and we all do, about how smart phones is kind of the growth part of, and mobile devices, are the growth part of the chip business, and I was wondering is there any way at all to quantify what percentage of your business might be with smart phones say, or this automotive part? Or, is that the wrong way to look at this?

**John Pollock:** No, I think it's difficult to quantify. I think what we can try and say is every iPhone, iPad, tablet type device wants to try and have longer battery life. Some of the devices we test, some of our customers are trying to help

battery monitoring capability. When you look at some of the other digital filtering that they have going on, we do some of those types of devices with customers. So it depends which customer we have and which customer is on an iPad or an iPhone or someone else's tablet or cell phone. So, that's a way of looking at it. But we really provide analog capability, which is typically the larger quantity devices you will find in an iPhone or an iPad, iTablet, or mobile device like a laptop.

**Art Tiddens:** Okay. And the last question, you must have some backlog going into this quarter from unfilled orders from your largest customer. Is that a fair guess?

**Doug Hemer:** Well, we, as we said in the press release, the big customer, because they have not concluded their evaluation, have basically been keeping their orders on hold.

**Art Tiddens:** Okay. Okay. That's right.

**Doug Hemer:** They just haven't been issuing orders, and we don't know how long that might continue.

**Art Tiddens:** All right.

**Doug Hemer:** We did have, in addition to the three  $V_{max}$ 's that we took into revenue, they did also order a leaded package application  $V_{max}$ . Again, that was either late first quarter or early second quarter.

**John Pollock:** It was in April, yes.

**Doug Hemer:** But those four machines are the only machines that that customer has been ordering, subject to the, a like or lesser number from that one competitor that is still in the race.

**Art Tiddens:** Okay. Okay, I'll let someone else have a turn. Thanks very much.

**Doug Hemer:** Thank you, Art.

**John Pollock:** Thank you, Art.

**Operator:** Thank you. Our next question comes from the line of Marc Wakefield, a private investor. Please go ahead.

**Marc Wakefield:** Yes. Hi, John. Hi, Doug.

**Doug Hemer:** Hi Marc.

**John Pollock:** Hi Marc.

**Marc Wakefield:** You mentioned that you are starting to do some work with MEMS chips. Is that right?

**John Pollock:** That's correct.

**Marc Wakefield:** Now, that's a big market obviously since accelerometers, etc., are all in smart phones and tablets and everything else, and I notice that Maxim just made a, I don't know how big it was, but they just made an acquisition of a company in that area also. How big an opportunity do you think this is, and how is your equipment set up to take advantage of some of that? There are a lot of big players in there now.

**John Pollock:** You're right. There are a lot of big players. We have a focus on what we're calling pressure sensing as a MEMS application, and you're right, there's accelerometers and a lot of other types of MEMS capability that's been put into semiconductor devices. We've chosen to enter the market in the area we feel comfortable with. It's a first step and it's pressure sensing, and the one that we saw as a larger opportunity is tire pressure sensing, as I said in the report, with Europe having that as a mandate coming at the end of this year. So we'll be looking at players in that market and trying to address it. It becomes a little bit different when you have to do shake, rattle, and roll over temperature, and that is some of the other things that are in that MEMS market that could be opportunities, but right now we'll focus strictly on pressure.

**Marc Wakefield:** Okay. Now a lot of the equipment makers, large and small, as well as some of the IC makers themselves, they were talking about somewhat of a stall recently. Have you seen evidence of that, and do you think that might be part of why your largest customer has held off on making a decision?

**John Pollock:** I think there might have been a couple questions. I'll try to address the first one. When I was at Semicon West last week there was a discussion by several of the analysts from like Credit Suisse and Citi, and Barclays and others. The slowdown that was talked about was pointed toward PCs hitting a soft spot or a slowdown. I think there's a lot of cross currents. I think I read a recent article earlier in the month, last week, earlier this month, in DigiTimes that talked about HP trying to increase the number of laptops for third quarter, so I think it's how you want to extrapolate some data. I think it has been a little slow in the PC market. I don't know if people were looking towards tablets as an alternative. I think tablets, some of the articles we've read and some of the things we are monitoring talk about RIM, and Acer, and others looking to decrease their annual forecast in tablets for the year. Maybe people are extrapolating that softness, and maybe there's some inventory based on that. But right now I think there's a lot of cross current on what is happening as far as

some of the slowdown potential from the electronic side. As far as Maxim, I think was your second question, does it affect them? I think they all have devices that are capable of going into computers and PCs, so, yes, that could have some effect. I don't know that I could speak on behalf of which computers that Maxim has its devices in, whether it's Dell, or HP, or some of the tablets, so it's hard for me to do anything but look at the public advice or guidance that Maxim provides to the world. But at the same time, you know, cell phones are growing and driving the market, so I think there's still a strong unit demand and we still see the forecasting from SEMI, from Gartner, from IC Insights still having strong growth for the year, which would imply strong growth in the second half.

**Marc Wakefield:** Right. It sounds like there's basically two camps, and one is if you do business with Apple and one is if you don't, and if you don't, except maybe for the Android operating system, it sounds like the smart phone, it sounds like you're not doing too well. Now, Maxim does do business with, I believe, with Apple and, I guess, do you get an idea from your customers of that type of breakdown? Some are doing well and others are more questionable whether they deal with Apple or not?

**John Pollock:** You mean as far as tablets? Is that your question?

**Marc Wakefield:** Well, between tablets and smartphones.

**John Pollock:** I don't think we get a breakdown knowing exactly which one is going. They like to keep a lot of that information relatively within their camps. We get to see types of devices, and we get to have some indication knowing what they're running, but we don't have a good sense, or at least not shared with us, that says this product on our handler is going to a, into a RIM phone or into an Apple phone, or into an Apple iPad, or into an Acer or Motorola tablet or things like that. We know that we are probably doing battery monitoring type devices, but we don't know which particular device that is going in typically.

**Marc Wakefield:** Okay. Going back to the MEMS a second, you're taking a small step. What were you saying again as far as, you know, what you might do, as far as going beyond the small step you're taking now?

**John Pollock:** I think what we'd like to do is, we're working with an existing customer to get the application in place, and move forward with them. Once that's successful, and we think that will be shortly, we will look to try at the same time look at different applications for pressure sensing capabilities, tire pressure being one that we're focused on. There are other applications that you can get into, navigation, or weather, or stuff that use pressure sensors. So, we'll be looking at people who do that, trying to find where our application is, and we'll try to grow the business through pressure first. That would be our focus in this back half of this year. Then we'll look to see what we think the market is and what the investment would be in our R&D to go and try and provide other capabilities that

you talked about, being a much broader market. And again, those can be accelerometers, where we have to shake them or roll them, and we may have to go to temperature and things like that. And that's another effort for us to look at, but I wouldn't see us looking at it this year.

**Marc Wakefield:** Okay. How do you feel right now as far as the growth prospects? It sounds like it was starting to come on fairly strongly potentially in being a larger piece of the whole thing compared to, you know, as far as compared to handlers, so how do you—what is your feeling now for in terms of reliability?

**John Pollock:** Well, I like the evaluations we're doing at existing customers and our broadening through their other sites and how we're addressing their new technology and how we've gained some new customers yet this year. So we have a focus and effort on that product line to grow it, and I think doing evaluations at existing and new customers, and having new modules, the high current EM, and trying to get the ultrahigh accuracy, both addressing the line shrinkage and bumped wafers, or bumped die, are the right types of things that will provide us growth in that product line.

**Marc Wakefield:** Okay, and I assume you don't feel comfortable at this point going out on a limb like you did last quarter in terms of projection on revenue or anything?

**John Pollock:** I would always like to give you guidance if I thought I could give you meaningful guidance. Right now, with the cross current and just how fluid the world is, and one of the examples is Samsung, who one week has slowed down in their capital spending, and then they talk about the next week the potential to be back up again. It's difficult for us to give you meaningful guidance, and I need to be able to give meaningful guidance for you, and right now I think that's difficult to do.

**Marc Wakefield:** Right. Now, Doug, you there?

**Doug Hemer:** Yes.

**Marc Wakefield:** I was just wondering, I thought I saw in a filing towards the end of the last year that you may be leaving at the end of the year. Is that happening?

**Doug Hemer:** I'm certainly looking at retiring in the not-too-distant future.

**Marc Wakefield:** Okay. Would there be any—would that mean any changes that you, either that you know of at this point in terms of the structure or what?

**Doug Hemer:** Well, we haven't quite decided just how to replace me. I mean we have strong people within the company who are already providing a lot of, what comes out of my mouth really.

**Marc Wakefield:** Uh-huh.

**Doug Hemer:** I actually serve a few different roles here. I think it'll be a combination of bringing somebody in to fill some of those roles and probably using some of our outside service providers for some of the other things.

**Marc Wakefield:** Okay. I guess what difference does it make when you have just CAO is it, just the size of the company when you're basically a chief administrative officer and sort of run a whole bunch of things, or you bring in a CFO, or, you know, what might happen in terms of that, and does it make a difference, I guess?

**Doug Hemer:** Well, our CFO is Paul Askegaard. He's been with us for 25 years, and is extremely well versed in all aspects of finance and has been doing a terrific job for us for a long time. How I happened to fill the role I did is out of circumstances that are fairly specific to our company. But I think any company of our size necessarily has people wearing a number of hats at the top. Generally, what we did was, I had the supporting side and Joe Levesque and now John Pollock had the operating side. So, we'll continue to operate in that fashion, it'll just be those supporting roles will be filled in part as they are now and in part as we find the right kind of replacement.

**Marc Wakefield:** Okay. John, do you have the handlers on this order that was expected to close and now goes into the third quarter instead? Do you have them sitting in inventory if you win that, or do you have to make them, or what?

**John Pollock:** As we talked last quarter, we do have  $V_{\max}$  inventory that would be able to respond to what we believe is their short-term need, and we believe we could build up quickly enough additional  $V_{\max}$ s and provide them any additional capacity that might be a little bit longer out in the quarter. So, we have some inventory, as we talked, to be able to do multiple evaluations on the  $V_{\max}$ , which is what we're trying to do right now, and support some orders that would come from our largest customer.

**Marc Wakefield:** Okay. So basically it's mostly fairly new stuff you have there. It's not like the write downs of older inventory again. Is that right?

**John Pollock:** We have some inventory that goes across our two site and our four site and our eight site machines. We still have customers talking to us, and as we sold this past quarter, our V8 four site machine and our V16 eight site. So, we do have some inventory associated with those products. Right now, our focus has been selling our existing customers with some of the needs they have

with those products they already have in production, and trying to grow the customer base with our new  $V_{\max}$  improved performance and capability handler.

**Marc Wakefield:** Okay. Thanks a lot, and I hope Maxim finally makes a decision. It's getting a little bit, a little bit long now.

**Doug Hemer:** We share that.

**John Pollock:** It has been a long time. Thank you, Marc.

**Marc Wakefield:** Okay.

**Operator:** Thank you. Ladies and gentlemen, if there are any remaining questions please press the star one on your touchtone phone at this time. As a reminder, if you're using speaker equipment today you'll need to lift your handset before making your selection.

Our next question comes from the line of Tom Duxbury with Archer. Please go ahead.

**Tom Duxbury:** Hi, Doug. Hi, John.

**Doug Hemer:** Hi, Tom.

**John Pollock:** Hi, Tom.

**Tom Duxbury:** Say, I just want to give you a quick, Intel did raise their outlook for the 2011 spending up from 16 to 16.4 billion from 15.5 to 15.9, and capital expenditures went up from 10.1 to 10.9 billion from 9.8 to 10.6 billion. So I thought I'd just give you that quick take that happened literally while your call was going on. So that looks good. And then, could you give me, I know obviously we have your large customer evaluation we think is going to be completed at any point now here, actually the decision. Could you recap all the other  $V_{\max}$  evaluations and any reliability test evaluations, and then just give a quick timeframe estimate as to, you know, a timing of when they could be done?

**John Pollock:** Sure. I'll go back to some of the stuff I had in my earlier comments. We just shipped in July a  $V_{\max}$  to another top 10 analog. We are in the process of getting that installed and ready to start, and we expect it to complete in the fourth quarter. We have some other people we're talking to that are showing interest, but we don't have anything booked yet, but they're talking to us about possibly evaluations of our  $V_{\max}$  in fourth-quarter. So, those are the ones we're trying to put in place besides the one we just finished with our largest customer.

**Tom Duxbury:** Okay.

**John Pollock:** When I look at reliability, we talked about having three of them right now with our high current EM. Those we think that they could be completed in this quarter. We've been running some data already at the end of last quarter and we believe that the customer is liking that data, and is wanting to run some more tests to look at some more data. So those could be completed and provide us opportunities either towards the end of third quarter or into fourth-quarter. And then we continue to have an ultra high accuracy evaluation, a fourth one in our reliability test group that we're working on with one of our new large customers and they are on another round of second data there. My guess is that one could be a little farther out compared to the high current EM, but we would believe that because all of these in the reliability side are new technologies, that they have the opportunity by year-end to have become orders.

**Tom Duxbury:** Okay. Good. Thanks. That's what I need. That's what I'm looking for.

**John Pollock:** Okay.

**Doug Hemer:** Thanks, Tom.

**Tom Duxbury:** Thank you.

**Operator:** Thank you. I show no further questions in the queue at this time. I'd like to turn the conference back to management for closing remarks.

**Doug Hemer:** Thanks, Alicia, and thanks to all of you for participating in this phone call and we look forward to communicating with you at a later date.

**Operator:** Ladies and gentlemen, this concludes the Aetrium Incorporated Second Quarter 2011 Earnings Conference Call. Thank you for your participation. You may now disconnect.