Aetrium Incorporated
Third Quarter 2011 Earnings
October 25, 2011

Operator: Good day, ladies and gentlemen, thank you for standing by. Welcome to the Aetrium Incorporated Third Quarter 2011 Earnings Conference Call. During today's presentation all parties 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, and please press star zero for Operator assistance at any time. For participants using speaker equipment, it will be necessary to pick up your handset before making your selection. This conference is being recorded today, Tuesday, October 25, 2011.

And I would now like to turn the conference over to Douglas Hemer, Chief Administrative Officer. Please go ahead, sir.

Douglas Hemer: Thank you, Brittany (sp?), and thanks to you listeners for attending our third quarter 2011 results teleconference. With me is John Pollock, our President and Chief Executive Officer.

Our press release went out shortly after 3 o'clock this afternoon, Central Time. It included our financials, and I hope you've had a chance to download those. We'll start this conference by reviewing third 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'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. 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. And now let's turn to the third quarter results.

Revenue for the third quarter was $1,459,000. That was below our second quarter of 2011 revenue of $3,319,000, as well as below our third quarter of 2010 revenue of $4,957,000. Our revenue was substantially impacted by the slowdown in the semiconductor industry that began in the second quarter and continued into the third. John will talk more about general market conditions in his comments.

Our cost of goods for the quarter exceeded revenues by $666,000 which gave us a gross profit margin of a negative 45.6%. Our cost of goods included a charge of $1,116,000 for excess and obsolete inventory and a charge of $57,000 for a workforce reduction we implemented at the end of the quarter. Without these charges, our gross profit margin would have been 34.7%. This compares to a gross profit margin of 36.5% in the second quarter of 2011 and a gross profit margin of 46% in the third quarter of 2010. As compared to the other two quarters, our gross profit margin for the third quarter was negatively impacted by unabsorbed overhead on the lower revenue level, which was offset partially by a more favorable product mix. The charge for excess and obsolete inventory resulted from our analysis that our future sales of some of our legacy handler products would be reduced as a result of the current industry downturn being forecasted now to extend at least through the first quarter of next year. These deteriorating industry conditions also prompted us to reduce our workforce by 15% at the end of the quarter, resulting in the workforce reduction charge I referenced just a minute ago.

Our operating expenses were $2,158,000 in the third quarter compared to operating expenses of $1,819,000 in the second quarter of 2011 and operating expenses of $2,274,000 in the third quarter of last year. Included in our operating expenses for this quarter was a charge of $211,000 for our workforce reduction. Without that charge, operating expenses were about $130,000 higher than in the second quarter, primarily due to increased engineering expenses. Reduced operating expenses from last year was due to lower commissions on lower revenue, lower other selling expense resulting from reduced head count and less travel, and lower research and development expense, net of the workforce reduction charge.

Our third quarter operating expenses included R&D expenditures of $913,000. This was up from R&D expenditures of $626,000 in the second quarter of 2011, and $841,000 in the third quarter of last year. The decrease—or the increase, rather, from the second quarter of this year was due primarily to a workforce reduction charge of $141,000, as well as an increase in materials. Third quarter R&D expenditures represent 63% of our revenue, which is well above our long-term revenue objectives of 12 to 15%, and is due to the lower revenue for the quarter as well as the workforce reduction charge. As we have said before, we will spend above our long-term objectives in low revenue periods such as the third quarter in order to maintain critical product development momentum.

Our third quarter operating expenses included depreciation expense of about $21,000, and we had $60,000 of stock-based compensation expense. In the third quarter of last year, we had depreciation expense of $15,000, and stock-based compensation expense of $102,000. We have no amortization expense.

Our net loss for the third quarter of 2011 was $2,817,000, or $0.26 per share on weighted average shares outstanding of $10,781,000. This compares to a net loss of $599,000 or $0.06 per share in the second quarter of 2011, and a net profit of $25,000 in the third quarter of last year. Our net loss for this quarter included the $1,116,000 charge for excess and obsolete inventory that I discussed earlier, and a total charge of $268,000 for our workforce reduction, which together contributed $0.13 per share to our loss. And now, let's review the balance sheet.

Our balance sheet as of the end of the third quarter was as follows: cash of $6.3 million; accounts receivable of $600,000; inventory of $7.6 million; for total current assets of $14.6 million and total assets of $14.7 million. We had total liabilities of $1.7 million and working capital of $13 million. We have no long-term debt, and our shareholders equity stands at $13 million.

We used approximately $1.5 million in cash in the third quarter. This included primarily our net loss of $2.8 million offset by about $1.2 million of non-cash expenses, including primarily the $1.1 million charge for excess and obsolete inventory.

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

John Pollock: Thank you, Doug. We responded quickly to increasing worldwide economic uncertainty that has contributed to slowing demand for our semiconductor, and we reduced our expenses late in the third quarter. We reduced our expense structure by more than $1 million annually. We were able to achieve this expense reduction while still maintaining an organization that could support our growth strategy of multiple new evaluations and respond accordingly to any quick industry demand uptick in 2012.

Despite the macroeconomic turbulence, we had a number of positive activities in the third quarter, as we continued to execute upon our growth strategy, with our products being well received with new and existing customers. Bookings increased quarter over quarter, which resulted in a higher backlog entering the fourth quarter than we had at the beginning of our third quarter. Our reliability test products contributed significantly to the increase in backlog.

We are pleased with the quick progress of our ultra high accuracy electromigration evaluation with our recently acquired new top-five IDM customer. The evaluation is in its final stages, and we believe this customer will place an order for systems in the fourth quarter. At the same time, we have already received orders from two separate locations with one of our existing large, longstanding customers. Our sales efforts to promote the capability of this ultra high accuracy electro-migration module (inaudible) aggressive linewidth strength bound to at least 10 nanometers has generated interest of three more existing customers in Europe and Asia. Our new modules continue to be sound examples of our reliability team executing upon our strategy, as we expand our state-of-the-art offerings at very large and prominent IDMs and foundries around the world for the most advanced wafer technologies being implemented.

We proved our new high-current electromigration module in evaluations at three customers and through a purchase system at a fourth customer. These high-current electromigration modules are used in applications such as bump wafer level packages. A number of other customers have indicated interest in purchasing these modules as they adopt this emerging packaging capability. Currently, additional bookings for these modules are being pushed out due to industry conditions.

We are anticipating gaining acceptance of our MEMS pressure appliance for the use with our V8 quad-site test handler by the end of the fourth quarter. MEMS, or micro electro-mechanical systems, are tiny mechanical devices that are built onto semiconductor chips typically measured in micrometers. They are increasingly being employed in a number of strategic applications, including switches, pressure, temperature and vibration sensors, accelerometers and even pacemakers. Our MEMS customer purchased another V8 quad-site test handler from us late in the quarter, which we believe will ultimately be upgraded to be a MEMS ready in the future.

We completed the installation of a Vmax weighted application handler at a top-10 analog semiconductor manufacturer earlier this month, allowing us to start production testing for this strategic evaluation. Our goal of completing this evaluation this quarter will be dependent on that customer's ability to have adequate supply of untested semiconductor devices available throughout the quarter. Initial data recorded by our handler in production depicts the same superior performance we witnessed with the evaluation of our Vmax handler at our largest customer.

As we mentioned last quarter, our efforts associated with the Vmax test handler evaluation at our largest customer has been completed. We have been in discussions with senior corporate management concerning how they will proceed going forward. Although we anticipated their placing orders late in the third quarter, it appears orders are more likely to be placed in the fourth quarter, and it's still uncertain to us how or when they may eventually proceed in placing orders.

Looking ahead, our focused sales efforts to expand the number of Vmax evaluations in parallel are ongoing at two customers who are discussing the possibilities of committing resources to new evaluations. Our customer is an existing top-10 analog IDM customer, and the other one is an existing top-five OSAT (sp?) a contract house customer. Interests of both of these customers have emerged from ongoing discussions on handling solutions for their small (inaudible) package applications. We are prepared and able to support both evaluations and anticipate these evaluations could be in place first quarter of 2012.

With these many positive results within both product lines, and continued interest from our customers, we are excited about the strength of our current product offering, and we are energized from the interest of our customers in our new gravity Vmax handler and reliability tester module.

SEMI, our trade organization, announced last week that orders for back-end semiconductor equipment were down 16.5% in September, after being down more than 17% in August, and down more than 11% in July. Given these current conditions, we are continuing forward cautiously and intend to stay watchful in response of any rapid or unexpected changes in the IC industry metrics.

Aetrium's performance in the fourth quarter will continue to be largely dependent on global macroeconomic impact, 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, revenue results for the fourth quarter, although anticipated to be better than third quarter based upon a stronger backlog, have a potential range that is difficult to accurately predict in this unsettled global environment. Our outlook for the short term is cautious; yet we believe the long-term prospect for Aetrium remains very strong.

We will be participating in upcoming investor conferences over the next several months. On Thursday this week, October 27th, we will be in New York at the Houlihan Lokey conference. On November 8th, we will be participating at the AeA TechAmerica conference in San Diego, California. We welcome the opportunity to meet and talk with you at these events. The exact date, time and locations will be published in the news section on our website. Thank you for listening to our comments, and we'll now turn the call over for questions you may have.

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 would like to withdraw your question, please press the star followed by the two, and if you are using speaker equipment, you will need to lift the handset before making your selection.

Once again, that's star one to ask a question. One moment please.

And once again, ladies and gentlemen, if you would like to ask a question, please press the star followed by the one on your touchtone phone. If you are using speaker equipment, you will need to pick up the handset before making your selection.

And our first question comes from the line of Marc Wakefield, private investor. Please go ahead.

Marc Wakefield: Yes, hi gentlemen.

Douglas Hemer: Hi.

John Pollock: Hi, Marc.

Marc Wakefield: Yes, hi. Listen, what I wanted to ask you was, I don't know if you heard about this ECRI, Economic Cycle Research Institute. They are a private economic forecaster in New York who the institution is paying six figures for, and they, frankly, never had a wrong call when they occasionally and carefully make a recession call, which they did a few weeks ago. I think they're probably going to be right, so what I wanted to know is basically if the sector, I think the sector is probably going to do poor through much of 2012. What else would you do under those circumstances, since you're already practically down to at least where cash was in terms of the stock price? Is there any way of maintaining shareholder value under poor conditions for awhile?

Douglas Hemer: Well, we have to see what the future brings. We have taken some actions recently, as we outlined, to reduce our operating structure to help us weather whatever the downturn turns out to be. We will continue to look at that so that we can try to minimize the impact of the downturn on us as we continue in a period of low revenue. It's hard for us to look very far out because we just don't have the visibility, and we've heard a lot of different kinds of forecasts coming from a lot of different people. We have not heard of ECRI. I hope they're wrong this time.

Marc Wakefield: Well, it would be the first time, but hopefully. Do you, and I know you've always been open for potential acquisition, and I don't know with the market cap down so low now, I always thought that when (inaudible) going to—whoever it was, I've forgotten now—that, you know, you'd probably be a good fit at some point, possibly for Dover (sp?) for this. Is that something that has ever come up? Or, is it something you would look at with the stock price and market cap so ridiculously low at this point?

Douglas Hemer: Well, it would depend on the opportunity; but in our area, all of our peers are generally being treated fairly negatively, or at low values, and so we believe that we are at the lower end of the metrics for our peer group. But, as the peer group is at a low point in metrics, it certainly invites a possibility of consolidating into another company in our space.

Marc Wakefield: Mm-hmm. Because, like, because even—I mean the market cap is so low now that, frankly, it could be picked up for next to nothing which would still, for even a fairly relatively used premium. So, if things are going to be—my concern is this, is that it seems like the only thing (inaudible) the stock price on the recent fall, and this was before even we've had any possible recession, is that it seems to be your cash level which was sitting around 8 million, and your market cap which was—right, I'm sorry, your cash which was—your market cap has basically got down to your cash at about $0.80 with the stock price. And now, I see your cash has dropped below 7. If conditions do get rough, I'm just not sure what there would be to put any other floor on the price at this point.

Douglas Hemer: I don't pretend to know that. Again, we're doing the best we can to preserve our operating capital and preserve our cash position and we'll continue to focus on that. Again, right now our sector is not being treated well on the—as an investment, and we're not sure how that's going to change going forward. But, in terms, generally, of being open to a strategic alliance, like being consolidated into another company, we've always been open to that possibility.

Marc Wakefield: Yes, well that would be good if you could do something in that respect because, frankly, it's—you know, otherwise the decent-size shareholders (inaudible) with the stocks and liquidity can't make any kind of a move, anyway. Okay, thank you then.

Douglas Hemer: Yes, thank you.

John Pollock: Thank you, Marc.

Marc Wakefield: Okay.

Operator: Thank you. Ladies and gentlemen, if there are any further questions, please press the star followed by the one on your touchtone phone at this time.

I am showing no further questions in the queue. Please continue.

Douglas Hemer: Okay, thank you, Brittany, and thanks to all of you for listening in with us. We look forward to talking again with you soon.

Operator: Thank you. Ladies and gentlemen, this concludes our teleconference program for today. We thank you for your participation. You may now disconnect.