FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1999-03-26** | Period of Report: **1998-09-30**
SEC Accession No. 0000897101-99-000271

FILER

AETRIUM INC
CIK:**908598**| IRS No.: **411439182** | State of Incorp.:**MN** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **000-22166** | Film No.: **99574485**
SIC: **3825** Instruments for meas & testing of electricity & elec signals

Mailing Address
2350 HELEN STREET
NORTH ST PAUL MN 55109

Business Address
2350 HELEN ST
NORTH ST PAUL MN 55109
6127041800

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

FORM 10-Q/A

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

For the quarterly period ended September 30, 1998

Commission File No. 000-22166

AETRIUM INCORPORATED
(Exact name of registrant as specified in its charter)

MINNESOTA	41-1439182
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2350 HELEN STREET, NO. ST. PAUL, MINNESOTA	55109
(Address of principal executive offices)	(Zip Code)

(651) 704-1800
(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 Exchange Act during the past 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 X NO ________

Number of shares of Common Stock, $.001 par value, outstanding as of November 6, 1998 9,568,308

AETRIUM INCORPORATED

INDEX

<TABLE>
<CAPTION>

</TABLE>

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AS RESTATED

AETRIUM INCORPORATED

CONSOLIDATED BALANCE SHEETS AS RESTATED

ASSETS

	September 30, 1998	December 31, 1997
	(Unaudited)	(Audited)
	(in thousands, except share data)	
Current Assets:		
Cash and cash equivalents	$ 18,416	$ 27,584
Accounts receivable, net	11,835	12,709
Inventories	14,557	16,785
Deferred taxes	2,417	784
Other current assets	1,523	615
Total current assets	48,748	58,477
Property and equipment:		
Furniture and fixtures	1,939	1,351
Equipment	5,941	5,282
	7,880	6,633
Less accumulated depreciation and		

amortization	(3,904)	(2,990)
Property and equipment, net	3,976	3,643
Noncurrent deferred taxes	6,539	4,951
Intangible and other assets, net	17,926	3,823
Total assets	$ 77,189	$ 70,894

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

CONSOLIDATED BALANCE SHEETS AS RESTATED

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>
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<S>	September 30, 1998 (Unaudited) <C>	December 31, 1997 (Audited) <C>
	(in thousands, except share data)	
Current liabilities:		
Trade accounts payable	$ 1,876	$ 2,611
Accrued compensation and commissions	2,088	2,250
Other accrued expenses	3,750	2,807
Income taxes payable	28	734
Total current liabilities	7,742	8,402
Shareholders' equity:		
Common stock, $.001 par value; 30,000,000 shares authorized; 9,568,308 and 8,786,740 shares issued and outstanding, respectively	10	9
Additional paid-in capital	61,119	46,562
Retained earnings	8,318	15,921
Total shareholders' equity	69,447	62,492
Total liabilities and shareholders' equity	$ 77,189	$ 70,894

</TABLE>

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and Restated)

<TABLE>
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	Three months ended September 30, 1998	Three months ended September 30, 1997	Nine months ended September 30, 1998	Nine months ended September 30, 1997
	(in thousands, except per share data)			
<S>	<C>	<C>	<C>	<C>
Net sales	$ 12,009	$ 18,683	$ 48,598	$ 45,540
Cost of goods sold	7,044	8,825	29,394	21,938
Gross profit	4,965	9,858	19,204	23,602
Operating expenses:				
Selling, general, and administrative	5,123	3,848	14,944	9,938
Research and development	3,214	2,969	9,691	7,421
Non-recurring charges	0	0	6,527	7,191
Total operating expenses	8,337	6,817	31,162	24,550
Income (loss) from operations	(3,372)	3,041	(11,958)	(948)
Other income, net	206	238	725	853
Income (loss) before income taxes	(3,166)	3,279	(11,233)	(95)
Provision for income taxes	950	(935)	3,630	109
Net income (loss)	$ (2,216)	$ 2,344	$ (7,603)	$ 14
Net income (loss) per common share:				
Basic	$ (.23)	$ .27	$ (.81)	$ .00
Diluted	$ (.23)	$ .26	$ (.81)	$ .00
Weighted average common shares outstanding:				
Basic	9,640	8,743	9,382	8,629
Diluted	9,640	9,064	9,382	8,894

</TABLE>

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and Restated)

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	Nine months ended September 30, 1998	Nine months ended September 30, 1997
	(in thousands)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ (7,603)	$ 14
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,195	809
Acquisition-related charges	3,900	7,191
Writedown of intangibles	2,080	0
Deferred taxes	(3,221)	(2,265)

Changes in assets and liabilities, net of effects of acquired businesses:		
Accounts receivable, net	3,111	(3,914)
Inventories	4,160	(3,730)
Other current assets	(908)	210
Trade accounts payable	(1,391)	1,759
Accrued compensation and commissions	(115)	516
Other accrued expenses	294	125
Income taxes payable	(551)	1,768
Net cash provided by operating activities	1,951	2,483
Cash flows from investing activities:		
Purchases of businesses and technology, net of cash acquired	(8,835)	(4,997)
Sale of short term investments	0	1,000
Purchase of property and equipment	(1,274)	(575)
Net cash used in investing activities	(10,109)	(4,572)
Cash flows from financing activities:		
Net proceeds from issuances of common stock	73	763
Repurchase of common stock	(1,083)	(874)
Principal payments on debt	0	(1,293)
Net cash used in financing activities	(1,010)	(1,404)
Net decrease in cash and cash equivalents	(9,168)	(3,493)
Cash and cash equivalents at beginning of period	27,584	34,756
Cash and cash equivalents at end of period	$ 18,416	$ 31,263

</TABLE>

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND RESTATEMENT

In the opinion of management, the accompanying unaudited restated consolidated financial statements include all adjustments necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented.

Certain footnote information has been condensed or omitted from these financial statements. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in Form 10-K for the year ended December 31, 1997.

On April 1, 1998, the company acquired substantially all of the assets and assumed certain liabilities of the Equipment Division ("Equipment Division") of WEB Technology, Inc. (see Note 4). The acquisition was recorded using the purchase method and, as required, the purchase price was allocated to the assets acquired and liabilities assumed. In connection therewith, the company hired an independent third party appraisal firm to value the intangible assets acquired, including in-process research and development ("IPR&D"). The estimated fair values of the intangible assets were determined using appraisal and valuation methods commonly used and considered appropriate at the time. Recently the Securities and Exchange

Commission ("SEC") has published its views regarding methods used to value intangible assets, including specific guidelines it feels should be used in determining the value of IPR&D.

Recently, the company re-engaged the appraisal firm to review the valuation of the WEB intangible assets in light of the new SEC guidance. The revaluation of the WEB intangible assets resulted in a reduction of the value of IPR&D and a corresponding net increase in capitalized goodwill and other intangibles such as developed technology, core technology, customer lists, and assembled workforce.

The impact of the revaluation on the company's financial statements was to reduce the amount of IPR&D expense (included in "Non-recurring Charges") in the second quarter of 1998 and to increase "Selling, General, and Administrative" expenses in the second and third quarters of 1998 for the additional amortization expense related to the capitalized intangible assets as follows (thousands, except per share amounts):

<TABLE>
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Statement of Operations	Three months ended Sept. 30, 1998		Nine months ended Sept. 30, 1998	
	As reported	Restated	As reported	Restated
<S>	<C>	<C>	<C>	<C>
Selling, general & administrative expenses	$ 4,905	$ 5,123	$ 14,490	$ 14,944
Non-recurring charges	0	0	14,656	6,527
Total operating expenses	8,119	8,337	38,837	31,162
Loss from operations	(3,154)	(3,372)	(19,633)	(11,958)
Loss before income taxes	(2,948)	(3,166)	(18,908)	(11,233)
Income tax benefit	884	950	6,075	3,630
Net Loss	(2,064)	(2,216)	(12,833)	(7,603)
Net loss per diluted share	$ (.21)	$ (.23)	$ (1.37)	$ (.81)

</TABLE>

1. BASIS OF PRESENTATION AND RESTATEMENT (CONTINUED)

Balance Sheet at Sept. 30, 1998	As reported	Restated
Intangible and other assets, net	$ 10,251	$ 17,926
Deferred taxes	11,401	8,956
Total assets	71,959	77,189
Retained earnings	3,088	8,318
Shareholders' equity	64,217	69,447
Total liabilities and Shareholders' equity	$ 71,959	$ 77,189

2. INVENTORIES

Inventories consist of the following:

	September 30, 1998	December 31, 1997
	(in thousands)	
Purchased parts and completed subassemblies	$ 7,405	$ 9,307
Work in process	4,906	5,488
Finished goods, including demonstration equipment	2,246	1,990
Total	$14,557	$16,785

3. NET INCOME (LOSS) PER COMMON SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of common shares and common stock equivalent shares outstanding during the period. Common stock equivalents include stock options using the treasury stock method. For the interim periods in which the company reported net losses, common stock equivalents have been excluded from the computations because they are antidilutive.

4. ACQUISITIONS

On April 1, 1998, the company acquired substantially all of the assets and assumed certain liabilities of the Equipment Division ("Equipment Division") of WEB Technology, Inc., a privately-held company that consisted of several business units in addition to the Equipment Division. The Equipment Division specializes in the design, development, manufacturing and marketing of a variety of electromechanical equipment used by the semiconductor industry to handle and test integrated circuits. The purchase price totaled $23,567,500 consisting of $7,835,000 in cash, 900,000 shares of Aetrium common stock valued at $15,412,500 and $320,000 of acquisition-related costs. The acquisition was accounted for as a purchase. The company's consolidated financial statements include the results of the Equipment Division's operations since April 1, 1998.

4. ACQUISITIONS (CONTINUED)

On April 1, 1997, the company acquired substantially all of the assets and assumed certain liabilities of Forward Systems Automation, Inc. ("FSA"), a privately held manufacturer of equipment for the semiconductor and electronic component industries. The purchase price totaled $9,132,869 consisting of $4,000,000 of cash, 186,000 shares of Aetrium common stock valued at $2,499,840, $250,000 of acquisition-related costs and $2,383,029 of assumed liabilities. The acquisition was accounted for as a purchase. The company's consolidated financial statements include the results of FSA's operations since April 1, 1997.

For each acquisition, a portion of the purchase price, as determined by third party appraisal, was allocated to intangible assets, including in-process research and development that had not reached technological feasibility and did not have alternative future uses. As required by generally accepted accounting principles, the values of the in-process research and development ($3,900,000 for the Equipment Division and $7,190,809 for FSA) were charged to operations in the second quarter of 1998 and 1997, respectively. These amounts are included in the caption "Non-recurring charges" in the accompanying Statements of Operations.

The following table presents the consolidated results of operations of the company on an unaudited pro forma basis as if the acquisitions of the Equipment Division and FSA had taken place at the beginning of each period (in thousands, except per share data):

<TABLE>
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Unaudited pro forma	Nine months ended Sept. 30, 1998	Nine months ended Sept. 30, 1997
<S>	<C>	<C>
Net sales	$51,592	$51,068
Net income (loss)	(5,035)	4,045
Net income (loss) per diluted share	$ (.52)	$ .41
Reported net income (loss) per diluted share before acquisition-related charges	$ (.56)	$ .57

</TABLE>

The acquisition-related charges of $3,900,000 in 1998 and $7,190,809 in 1997 are not reflected in the pro forma results above. The unaudited pro forma results of operations are for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of the periods presented or the results which may occur in the future.

5. COMMON STOCK

During the third quarter ended September 30, 1998, the company repurchased 135,000 shares of its common stock for approximately $869,000 in cash. These purchases were made pursuant to rights of first refusal agreements entered into with certain shareholders of WEB Technology Inc., in connection with the April 1, 1998 acquisition of the Equipment Division of WEB Technology, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

NET SALES. Net sales for the first nine months ended September 30, 1998, were $48.6 million, an increase of 7 percent from the same period of 1997. The 1998 results include the net sales of the product lines acquired in the acquisitions of FSA (in April 1997), the Advantek Handler Division (in October 1997), and the equipment business of WEB Technology (in April 1998). Net sales were $12.0 million for the quarter ended September 30, 1998, compared with $18.7 million for the comparable 1997 quarter, a decrease of 36 percent. The increase for the nine month period is primarily attributable to the inclusion of the net sales of the acquired product lines. The decline in the third quarter ended September 30, 1998, compared with the comparable quarter of 1997, primarily reflects the impact on net sales of a severe semiconductor industry recession. The decline in net sales also reflects the termination of a contract for the company's integrated circuit automation modules by a large OEM customer that discontinued that segment of its business.

GROSS PROFIT. Gross profit was 39.5 percent of net sales for the nine months ended September 30, 1998, including an inventory charge of $3.7 million related to the suspension of marketing efforts on certain older, less profitable products that was recorded in the second quarter ended June 30, 1998. Excluding the one-time charge, gross profit was 47.1 percent of net sales, compared with 51.8 percent for the same period of 1997. Gross profit was 41.3 percent of net sales for the quarter ended September 30, 1998, compared to 52.8 percent for the quarter ended September 30, 1997. The decrease in the gross margin, excluding the one-time costs, is primarily attributable to the inclusion of net sales of the product line acquired from Advantek and to underabsorbed manufacturing overhead due to lower net sales than in the same period of 1997.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses for the nine months ended September 30, 1998 were $14.9 million compared with $9.9 million for the comparable period in 1997, a 50 percent increase. Selling, general and administrative expenses for the quarter ended September 30, 1998 were $5.1 million, compared with $3.8 million in the comparable period of 1997, and $5.5 million for the quarter ended June 30, 1998. The increase in selling, general, and administrative expenses for the nine month period in 1998 is attributable to higher commissions expense on increased net sales, higher amortization expense related to acquired intangibles, and the inclusion of expenses to support recently acquired businesses. The decline in the third quarter ended September 30, 1998 from the second quarter ended June 30, 1998, reflects expense reduction actions taken in the second quarter, including a reduction in work force.

RESEARCH AND DEVELOPMENT. Research and development expenses were $9.7 million for the nine months ended September 30, 1998 compared with $7.4 million for the comparable period in 1997, a 31 percent increase. Research and development expenses were $3.2 million for the quarter ended September 30, 1998, compared with $3.0 million in the comparable period of 1997, and $3.5 million for the quarter ended June 30, 1998. The increase over the nine month period in 1998 is attributable to the expenses for continued development of the product lines acquired in 1997 and 1998. The decline in the third quarter ended September 30, 1998 from the second quarter ended June 30,

1998, reflects expense reduction actions taken in the second quarter, including a reduction in work force.

NON-RECURRING CHARGES. The company incurred non-recurring charges of $6.5 million in the quarter ended June 30, 1998. Of this amount, $3.9 million was in connection with the acquisition of the equipment business of WEB Technology, for that portion of the purchase price allocated to research and development projects that were in process at the time of acquisition but had not yet reached technological feasibility. The balance of the non-recurring charges during the quarter were for severance costs resulting from a reduction in work force and the write-off of certain capitalized technology. In connection with the FSA acquisition, $7.2 million related to in-process research and development was charged against income in the second quarter ended June 30, 1997, as the underlying research and development projects had not yet reached technological feasibility. See Note 4 to the unaudited consolidated financial statements.

OTHER INCOME, NET. Other income, net, which consists primarily of interest income from the investment of excess funds, amounted to $725,000 for the nine months ended September 30, 1998, which was a decline from $853,000 for the same period in 1997. Other income, net, amounted to $206,000 for the quarter ended September 30, 1998, compared to $238,000 for the same period of 1997.The decline in 1998 reflects primarily the decrease in invested funds due to the cash outlay of $7.8 million for the acquisition of the equipment business of WEB Technology in April 1998 and $4.2 million for the acquisition of the Advantek Handler Division in October 1997.

INCOME TAX EXPENSE (BENEFIT). Income tax expense (benefit) was provided for at an average effective rate of approximately 29% for the ninth months ended September 30, 1998, excluding the impact of non-recurring acquisition-related charges, compared with approximately 30% for the first nine months of 1997. The company's effective tax rate compares favorably with the Federal and state statutory rates primarily due to benefits associated with the company's Foreign Sales Corporation and research tax credits as well as the implementation of various tax planning strategies, including the investment of excess funds in tax exempt instruments.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The company has a $5.0 million line of credit agreement with Harris Trust and Savings Bank in Chicago, Illinois. Borrowings under this agreement are secured by receivables, inventories and general intangibles. Borrowing is limited to a percentage of eligible receivables and inventories. There were no line of credit advances outstanding as of September 30, 1998 or December 31, 1997.

The company had cash and cash equivalents of approximately $18.4 million at September 30, 1998. During the third quarter ended September 30, 1998, the company repurchased 135,000 shares of its common stock for approximately $869,000 in cash. These purchases were made pursuant to rights of first refusal agreements entered into with certain shareholders of WEB Technology Inc., in connection with the April 1, 1998 acquisition of the equipment business of WEB Technology, Inc.

The company believes its remaining cash balances of $18.4 million, funds generated from operations, and borrowings available under its credit facility will be sufficient to meet capital expenditure and working capital needs for at least 24 months. The company may acquire other companies, product lines or technologies that are complementary to the company's business, and the company's working capital needs may change as a result of such acquisitions.

BUSINESS RISKS AND UNCERTAINTIES

A number of risks and uncertainties exist which could impact the company's future operating results. These uncertainties include, but are not limited to, general economic conditions, competition, changes in rates of capital spending by semiconductor manufacturers, the company's success in developing new products and technologies, market acceptance of new products, risks and unanticipated costs associated with integrating acquired businesses, and other factors, including those set forth in the company's SEC filings, including its current report on Form 10-K for the year ended December 31, 1997.

YEAR 2000 ISSUES

Many existing computer programs use only two digits to identify a year in the date field, with the result that data referring to the year 2000 and subsequent years may be misinterpreted by these programs. If present in the computer applications of the company or third parties (such as customers, financial institutions, and suppliers) and not corrected, this problem may cause computer applications to fail or to create erroneous results and could cause a disruption in operations and have an adverse effect on the company's business and results of operations.

The company has adopted a formal plan to evaluate its readiness for the Year 2000 and address any deficiencies. The plan encompasses 1) information technology (IT) systems 2) non-IT systems 3) company products and 4) systems of third parties, including distributors and key suppliers.

INFORMATION TECHNOLOGY: The company's principal computer systems that it uses for financial accounting, manufacturing, inventory control, purchasing, sales administration, engineering, and other business functions have been determined to be substantially Year 2000 compliant. The company intends to monitor such principal computer systems throughout the balance of 1998 and 1999 for any Year 2000 issues.

NON-IT SYSTEMS: By the end of the second quarter of 1999, the company expects to have completed an evaluation of telephone systems, manufacturing equipment, facility heating and cooling systems, and other non-IT systems for Year 2000 readiness, and will promptly take remedial action as necessary.

COMPANY PRODUCTS: The company has completed a series of tests, utilizing industry standards, of the electronics systems of its products, including those product lines no longer being manufactured but remaining in use at customer sites, and has determined that the products should continue to operate according to specification after December 31, 1999.

KEY VENDORS AND SUPPLIERS: The company has initiated a survey of its key vendors and suppliers to assess their plans for bringing any non-compliant systems into Year 2000 compliance. Such study is expected to be completed by the end of the first quarter of 1999.

Substantially all of the effort to evaluate the company's Year 2000 readiness has been made using internal personnel, and therefore incremental expenses have been less than $50,000. The company believes it has achieved substantial compliance on Year 2000 issues on its principal computer systems in the course of normally planned computer hardware and software upgrades, and thus has not incurred any additional significant expense to date specifically to address Year 2000 issues. The company has not incurred

any material expenses in connection with its evaluation of non-IT systems, and does not expect material expenses in the future, although the evaluation of non-IT systems is not yet complete. The company has not incurred any material expenses to date in connection with the evaluation of its products and the status of its vendors and suppliers with respect to Year 2000 issues, and does not anticipate material expenses in the future, although the evaluation of key vendors' and suppliers' Year 2000 readiness is not yet complete.

Efforts on the company's Year 2000 readiness plan, as well as its consideration of contingency plans, are ongoing and will continue to evolve as new information becomes available. At this stage of the process, the Company believes that it is difficult to identify the cause of the most reasonably likely worst case Year 2000 scenario. The Company has not yet adopted any formal contingency plans, and will determine the need for such plans as part of its ongoing assessment of vendors and suppliers, products, and internal business systems. Due to the complexity and pervasiveness of the Year 2000 issue, and in particular the uncertainty regarding the Year 2000 compliance programs of third parties, no assurances can be given that there will not be material adverse effects on the company's business or its results from operations.

AETRIUM INCORPORATED

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None which the company believes will have a material adverse impact on its financial condition or results of operations.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

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Exhibit Number	Description	Method of Filing
3.1	The Company's Restated Articles of Incorporation, as amended.	Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 filed on June 23, 1993 (File No. 33-64962C).
3.2	Articles of Amendment to the Company's Articles of Incorporation, dated August 20, 1998.	Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on November 16, 1998 (File No. 000-22166).
27	Financial Data Schedule.	Filed herewith electronically.

</TABLE>

(b) Reports on Form 8-K

None.

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: March 24, 1999	By:	/s/ Joseph C. Levesque -- Joseph C. Levesque Chairman of the Board, President, and Chief Executive Officer
Date: March 24, 1999	By:	/s/ Darnell L. Boehm -- Darnell L. Boehm Chief Financial Officer, Secretary, and Director

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