FORM 10-Q/A

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

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AETRIUM INC

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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 June 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 August 6, 1998 9,703,308

AETRIUM INCORPORATED

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS AS RESTATED

AETRIUM INCORPORATED

CONSOLIDATED BALANCE SHEETS AS RESTATED

ASSETS

	June 30, 1998	December 31, 1997
	(Unaudited)	(Audited)
	(in thousands, except share data)	
Current Assets:		
Cash and cash equivalents	$ 19,258	$ 27,584
Accounts receivable, net	14,131	12,709
Inventories	15,554	16,785
Deferred taxes	2,417	784
Other current assets	417	615
Total current assets	51,777	58,477
Property and equipment:		
Furniture and fixtures	1,537	1,351

Equipment	6,080	5,282
	7,617	6,633
Less accumulated depreciation and amortization	(3,502)	(2,990)
Property and equipment, net	4,115	3,643
Noncurrent deferred taxes	6,473	4,951
Intangible and other assets, net	18,430	3,823
Total assets	$ 80,795	$ 70,894

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

CONSOLIDATED BALANCE SHEETS AS RESTATED

LIABILITIES AND SHAREHOLDERS' EQUITY

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<S>	June 30, 1998 (Unaudited) <C>	December 31, 1997 (Audited) <C>
	(in thousands, except share data)	
Current liabilities:		
Trade accounts payable	$ 2,148	$ 2,611
Accrued compensation and commissions	2,745	2,250
Other accrued expenses	3,369	2,807
Income taxes payable	0	734
Total current liabilities	8,262	8,402
Shareholders' equity:		
Common stock, $.001 par value; 30,000,000 shares authorized; 9,703,308 and 8,786,740 shares issued and outstanding, respectively	10	9
Additional paid-in capital	61,989	46,562
Retained earnings	10,534	15,921
Total shareholders' equity	72,533	62,492
Total liabilities and shareholders' equity	$ 80,795	$ 70,894

</TABLE>

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and restated)

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	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
	(in thousands, except per share data)			
<S>	<C>	<C>	<C>	<C>
Net sales	$ 16,108	$ 14,921	$ 36,589	$ 26,857
Cost of goods sold	12,152	7,295	22,350	13,113
Gross profit	3,956	7,626	14,239	13,744
Operating expenses:				
Selling, general, and administrative	5,491	3,224	9,821	6,090
Research and development	3,528	2,474	6,477	4,452
Non-recurring charges	6,527	7,191	6,527	7,191
Total operating expenses	15,546	12,889	22,825	17,733
Loss from operations	(11,590)	(5,263)	(8,586)	(3,989)
Other income, net	214	303	519	615
Loss before income taxes	(11,376)	(4,960)	(8,067)	(3,374)
Provision for income taxes	3,606	1,520	2,680	1,044
Net loss	$ (7,770)	$ (3,440)	$ (5,387)	$ (2,330)
Net loss per common share:				
Basic	$ (.80)	$ (.40)	$ (.58)	$ (.27)
Diluted	$ (.80)	$ (.40)	$ (.58)	$ (.27)
Weighted average common shares outstanding:				
Basic	9,704	8,683	9,250	8,572
Diluted	9,704	8,683	9,250	8,572

</TABLE>

See accompanying notes to the consolidated financial statements.

AETRIUM INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and restated)

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	Six months ended June 30, 1998	Six months ended June 30, 1997
	(in thousands)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ (5,387)	$ (2,330)
Adjustments to reconcile net loss to net cash provided by operating activities:		

Depreciation and amortization	1,289	504
Acquisition-related charges	3,900	7,191
Write-off of intangibles	2,080	0
Deferred taxes	(3,155)	(2,265)
Changes in assets and liabilities, net of effects of acquired businesses:		
Accounts receivable, net	815	(3,454)
Inventories	3,163	(2,656)
Other current assets	198	111
Trade accounts payable	(1,118)	2,863
Accrued compensation and commissions	5	(169)
Other accrued expenses	450	(122)
Income taxes payable	(579)	903
Net cash provided by operating activities	1,661	576
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	(1,011)	(329)
Net cash used in investing activities	(9,846)	(4,326)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	73	439
Repurchase of common stock, primarily related to exercise of stock options	(214)	(439)
Principal payments on debt	0	(1,293)
Net cash used in financing activities	(141)	(1,293)
Net decrease in cash and cash equivalents	(8,326)	(5,043)
Cash and cash equivalents at beginning of period	27,584	34,756
Cash and cash equivalents at end of period	$ 19,258	$ 29,713

</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") for the quarter and to increase "Selling, General, and Administrative" expenses 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 June 30, 1998		Six months ended June 30, 1998	
	As reported	Restated	As reported	Restated
<S>	<C>	<C>	<C>	<C>
Selling, general & administrative expenses	$ 5,255	$ 5,491	$ 9,585	$ 9,821
Non-recurring charges	14,656	6,527	14,656	6,527
Total operating expenses	23,439	15,546	30,718	22,825
Loss from operations	(19,483)	(11,590)	(16,479)	(8,586)
Loss before income taxes	(19,269)	(11,376)	(15,960)	(8,067)
Income tax benefit	6,117	3,606	5,191	2,680
Net Loss	(13,152)	(7,770)	(10,769)	(5,387)
Net loss per diluted share	$ (1.36)	$ (.80)	$ (1.16)	$ (.58)

</TABLE>

1. BASIS OF PRESENTATION AND RESTATEMENT (CONTINUED)

Balance Sheet at June 30, 1998	As reported	Restated
Intangible and other assets, net	$10,537	$18,430
Deferred taxes	11,401	8,890
Total assets	75,413	80,795

Retained earnings	5,152	10,534
Shareholders' equity	67,151	72,533
Total liabilities and Shareholders' equity	$75,413	$80,795

2. INVENTORIES

Inventories consist of the following:

	June 30, 1998	December 31, 1997
	(in thousands)	
Purchased parts and completed subassemblies	$7,807	$ 9,307
Work in process	5,556	5,488
Finished goods, primarily demonstration equipment	2,191	1,990
Total	$15,554	$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. Since the company reported net losses for the interim periods presented herein, 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):

	Six months ended	
Unaudited pro forma	June 30, 1998	June 30, 1997
Net sales	$39,583	$30,416
Net income (loss)	(2,819)	1,906
Net income (loss) per diluted share	$ (.29)	$ .19
Reported net income (loss) per diluted share before acquisition-related charges	$ (.32)	$ .32

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.

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

RESULTS OF OPERATIONS

NET SALES. Net sales for the six months ended June 30, 1998, were $36.6 million, an increase of 36 percent from the same period of 1997. The 1998 results include the net sales of FSA (acquired in April 1997), the Advantek Handler Division (acquired in October 1997), and the equipment business of WEB Technology (acquired in April 1998). Net sales were $16.1 million for the quarter ended June 30, 1998, compared with $14.9 million for the comparable 1997 quarter, an 8% increase. The increase is primarily attributable to the inclusion of the net sales of the acquired operations.

GROSS PROFIT. Gross profit was 38.9 % of net sales for the six months ended June 30, 1998, including an inventory charge of $3.7 million related primarily to the suspension of marketing efforts on certain older, less profitable products. Excluding the one-time charge, gross profit was 49 % of net sales, compared with 51.2 % for the same period of 1997. Gross profit was 24.6 % of net sales for the quarter ended June 30, 1998, including the unusual $3.7 million charge, and 47.5 % excluding the unusual charge. This compares with

51.1 % for the quarter ended June 30, 1997. Excluding the one-time charge of $3.7 million, the decrease in the gross margin in 1998 is primarily attributable to the inclusion of sales of the product line acquired from Advantek; the significant increase in the sales mix to more pick-and-place test handlers which tend to have lower margins than gravity-feed test handlers; and the costs associated with the production ramp of new products. These factors are partially offset by improving gross margins on environmental test products and the inclusion of relatively high-margin sales of the product line recently acquired from WEB Technology.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses for the six months ended June 30, 1998 were $9.8 million compared with $6.1 million for the comparable period in 1997, a 61% increase. Selling, general and administrative expenses for the quarter ended June 30, 1998 were $5.5 million compared with $3.2 million for the comparable period in 1997, a 70% increase. The increase 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.

RESEARCH AND DEVELOPMENT. Research and development expenses were $6.5 million for the six months ended June 30, 1998 compared with $4.5 million for the comparable period in 1997, a 44% increase. Research and development expenses were $3.5 million for the quarter ended June 30, 1998 compared with $2.5 million for the comparable period in 1997, a 40% increase. The increase in 1998 is attributable to the inclusion of expenses for continued development of the product lines acquired in 1997 and 1998, including expenditures required to complete the research and development projects that were in process at the time of each acquisition. Research and development expenses represented 21.9% of net sales for the quarter ended June 30, 1998.

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 related to the acquisition of the Equipment Division 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 $519,000 for the six months ended June 30, 1998 which was a decline from the $615,000 for the same period in 1997 due to lower average levels of invested funds. Other income, net, amounted to $214,000 for the quarter ended June 30, 1998, compared to $303,000 for the same period of 1997. The decline reflects the decrease in invested funds due to the cash outlay of $7.8 million for the acquisition of the equipment business of WEB Technology.

INCOME TAX EXPENSE (BENEFIT). Income tax expense (benefit) was provided for at an effective rate of 28.0% for the quarter and six months ended June 30, 1998 which was comparable to the rate used for fiscal year 1997 excluding the impact of non-recurring acquisition-related charges. The 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 June 30, 1998 or December 31, 1997.

In the quarter ended June 30, 1998, the company disbursed approximately $7.8 million in connection with the acquisition of the equipment business of WEB Technology, Inc. The company believes its remaining cash balances of approximately $19.3 million as of June 30, 1998, 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 its 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 evaluated its principal computer systems and has determined that they are substantially Year 2000 compliant. The company has completed a series of tests 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 they should continue to operate according to specification after January 1, 2000. The company has initiated discussions with its key suppliers to determine whether they have any Year 2000 issues. The company has not incurred any material expenses to date in connection with this evaluation, and does not anticipate material expenses in the future, depending upon the status of its suppliers with respect to this issue.

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

None.

Item 3. Defaults on Senior Securities

None.

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

On May 19, 1998 the company held its Annual Shareholder Meeting at which the following matters were voted upon.

1. The share holders elected the following individuals to serve as members of the Board of Directors:

	Votes for	Votes Withheld
Joseph C. Levesque	7,946,788	20,444
Darnell L. Boehm	7,946,038	21,194
Terrence W. Glarner	7,946,153	21,079
Andrew J. Greenshields	7,946,528	20,704
Douglas L. Hemer	7,945,838	21,394
Terrance J. Nagel	7,946,253	20,979

2. The shareholders also approved an amendment to the company's Restated Articles of Incorporation to increase the number of the company's authorized shares of common stock, $.001 par value, from 16,000,000 to 30,000,000 shares.

	Votes for	Votes Against	Votes Withheld
Amendment to Restated Articles of Incorporation	7,800,627	145,442	21,163

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exh 27 - Financial Data Schedule.

(b) Reports on Form 8-K

On April 15, 1998, the company filed a Form 8-K relating to the purchase of substantially all of the assets of the Equipment Division ("Equipment Division") of WEB Technology, Inc. on April 1, 1998 pursuant to an Asset Purchase Agreement which was executed on March 20, 1998. On June 15, 1998, the company filed an amendment to the Form 8-K on Form 8-K/A that contained (i) audited historical financial statements of the Equipment Division for the year ended December 31, 1997, (ii) unaudited historical financial statements of the Equipment Division for the three months ended March 31, 1998, and (iii) pro forma consolidated financial statements as of March 31, 1998, for the year ended December 31, 1997, and for the three months ended March 31, 1998.

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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