

ATRION CORP  
Form 10-Q  
August 07, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2012

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition Period from to

Commission File Number 0-10763

Atrion Corporation  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

63-0821819  
(I.R.S. Employer  
Identification No.)

One Allentown Parkway, Allen, Texas 75002  
(Address of Principal Executive Offices) (Zip Code)

(972) 390-9800  
(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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  No

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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| Title of Each Class                      | Number of Shares Outstanding at<br>July 20, 2012 |
|--|--|
| Common stock, Par Value \$0.10 per share | 2,013,789  |

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ATRION CORPORATION AND SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

## Item 1. Financial Statements

ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
(Unaudited)

|   | Three Months Ended                       |          | Six Months Ended |          |
|---|--|----------|------------------|----------|
|   | June 30,                                 |          | June 30,         |          |
|   | 2012                                     | 2011     | 2012             | 2011     |
|   | (In thousands, except per share amounts) |          |                  |          |
| Revenues                                    | \$30,689                                 | \$31,139 | \$59,929         | \$61,728 |
| Cost of goods sold                          | 16,016                                   | 14,684   | 31,427           | 29,721   |
| Gross profit                                | 14,673                                   | 16,455   | 28,502           | 32,007   |
| Operating expenses:                         |  |          |                  |          |
| Selling                                     | 1,465                                    | 1,341    | 2,907            | 2,836    |
| General and administrative                  | 3,397                                    | 3,949    | 6,868            | 7,333    |
| Research and development                    | 844                                      | 728      | 1,817            | 1,305    |
|   | 5,706                                    | 6,018    | 11,592           | 11,474   |
| Operating income                            | 8,967                                    | 10,437   | 16,910           | 20,533   |
| Interest income                             | 359                                      | 342      | 649              | 668      |
| Other income                                | --                                       | --       | 2                | 2        |
|   | 359                                      | 342      | 651              | 670      |
| Income before provision for income taxes    | 9,326                                    | 10,779   | 17,561           | 21,203   |
| Provision for income taxes                  | (3,227 )                                 | (3,760 ) | (6,085 )         | (7,326 ) |
| Net Income                                  | 6,099                                    | 7,019    | 11,476           | 13,877   |
| Other comprehensive income, net of tax:     |  |          |                  |          |
| None  | --                                       | --       | --               | --       |
| Comprehensive income                        | \$6,099                                  | \$7,019  | \$11,476         | \$13,877 |
| Income per basic share                      | \$3.03                                   | \$3.48   | \$5.70           | \$6.88   |
| Weighted average basic shares outstanding   | 2,016                                    | 2,019    | 2,015            | 2,018    |
| Income per diluted share                    | \$3.02                                   | \$3.46   | \$5.67           | \$6.84   |
| Weighted average diluted shares outstanding | 2,019                                    | 2,030    | 2,023            | 2,030    |
| Dividends per common share                  | \$0.49                                   | \$0.42   | \$0.98           | \$0.84   |

The accompanying notes are an integral part of these statements.



ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(In thousands)

|  | June 30,<br>2012 | December<br>31,<br>2011 |
|--|------------------|-------------------------|
| Assets   |                  |                         |
| Current assets:  |                  |                         |
| Cash and cash equivalents  | \$8,395          | \$24,590                |
| Short-term investments   | 17,377           | 20,279                  |
| Accounts receivable  | 14,921           | 11,223                  |
| Inventories  | 24,899           | 24,582                  |
| Prepaid expenses   | 2,218            | 2,313                   |
| Deferred income taxes  | 755              | 755                     |
|  | 68,565           | 83,742                  |
| Long-term investments  | 27,665           | 10,336                  |
| Property, plant and equipment  | 120,127          | 114,975                 |
| Less accumulated depreciation and amortization   | 61,658           | 58,605                  |
|  | 58,469           | 56,370                  |
| Other assets and deferred charges:   |                  |                         |
| Patents  | 918              | 999                     |
| Goodwill   | 9,730            | 9,730                   |
| Other  | 799              | 718                     |
|  | 11,447           | 11,447                  |
|  | \$ 166,146       | \$ 161,895              |
| Liabilities and Stockholders' Equity   |                  |                         |
| Current liabilities:   |                  |                         |
| Accounts payable and accrued liabilities   | \$8,010          | \$9,208                 |
| Accrued income and other taxes   | 466              | 835                     |
|  | 8,476            | 10,043                  |
| Line of credit   | --               | --                      |
| Other non-current liabilities  | 13,666           | 13,338                  |
| Stockholders' equity:  |                  |                         |
| Common shares, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares | 342              | 342                     |
| Paid-in capital  | 28,146           | 25,452                  |
| Retained earnings  | 163,104          | 153,618                 |
| Treasury shares, 1,406 at June 30, 2012 and 1,404 at December 31, 2011, at cost          | (47,588 )        | (40,898 )               |
| Total stockholders' equity   | 144,004          | 138,514                 |

\$166,146      \$161,895

The accompanying notes are an integral part of these financial statements.

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ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2012                         | 2011      |
|   | (In thousands)               |           |
| Cash flows from operating activities:   |                              |           |
| Net income  | \$11,476                     | \$13,877  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Depreciation and amortization   | 3,562                        | 3,163     |
| Deferred income taxes   | 315                          | 1,395     |
| Stock-based compensation  | 729                          | 461       |
| Net change in accrued interest, premiums, and discounts on investments            | 368                          | 361       |
|   | 16,450                       | 19,257    |
| Changes in operating assets and liabilities:                                      |                              |           |
| Accounts receivable   | (3,698 )                     | (3,314 )  |
| Inventories   | (317 )                       | (3,688 )  |
| Prepaid expenses  | 95                           | (1,730 )  |
| Other non-current assets  | (81 )                        | 18        |
| Accounts payable and accrued liabilities  | (1,198 )                     | 2,738     |
| Accrued income and other taxes  | (369 )                       | 255       |
| Other non-current liabilities   | 13                           | 58        |
|   | 10,895                       | 13,594    |
| Cash flows from investing activities:   |                              |           |
| Property, plant and equipment additions   | (5,580 )                     | (5,519 )  |
| Purchase of investments   | (21,545 )                    | (9,723 )  |
| Proceeds from maturities of investments   | 6,750                        | 2,400     |
|   | (20,375 )                    | (12,842 ) |
| Cash flows from financing activities:   |                              |           |
| Shares tendered for employees' taxes on stock-based compensation                  | (1,065 )                     | --        |
| Issuance of treasury stock  | 153                          | --        |
| Purchase of treasury stock  | (4,756 )                     | --        |
| Tax benefit related to stock-based compensation                                   | 929                          | 19        |
| Dividends paid  | (1,976 )                     | (1,697 )  |
|   | (6,715 )                     | (1,678 )  |
| Net change in cash and cash equivalents   | (16,195 )                    | (926 )    |
| Cash and cash equivalents at beginning of period                                  | 24,590                       | 10,670    |
| Cash and cash equivalents at end of period  | \$8,395                      | \$9,744   |
| Cash paid for:  |                              |           |
| Income taxes  | \$4,597                      | \$6,893   |

The accompanying notes are an integral part of these financial statements.

ATRION CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Atrion Corporation and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these statements include all adjustments necessary to present a fair statement of our consolidated results of operations, financial position and cash flows. Operating results for any interim period are not necessarily indicative of the results that may be expected for the full year. Preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes. Actual results could differ from those estimates. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011 ("2011 Form 10-K"). References herein to "Atrion," the "Company," "we," "our," and "us" refer to Atrion Corporation and its subsidiaries.

(2) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by using the first-in, first-out method. The following table details the major components of inventories (in thousands):

|                   |    | June 30,<br>2012 | 2011 | December 31,<br>2011 |
|-------------------|----|------------------|------|----------------------|
| Raw materials     | \$ | 9,726            | \$   | 9,074                |
| Work in process   |    | 6,079            |      | 4,843                |
| Finished goods    |    | 9,094            |      | 10,665               |
| Total inventories | \$ | 24,899           | \$   | 24,582               |

(3) Income per share

The following is the computation for basic and diluted income per share:

|   | Three Months Ended<br>June, 30           |          | Six Months Ended<br>June 30, |           |
|---|--|----------|------------------------------|-----------|
|   | 2012                                     | 2011     | 2012                         | 2011      |
|   | (in thousands, except per share amounts) |          |                              |           |
| Net income                                  | \$ 6,099                                 | \$ 7,019 | \$ 11,476                    | \$ 13,877 |
| Weighted average basic shares outstanding   | 2,016                                    | 2,019    | 2,015                        | 2,018     |
| Add: Effect of dilutive securities          | 3  | 11       | 8                            | 12        |
| Weighted average diluted shares outstanding | 2,019                                    | 2,030    | 2,023                        | 2,030     |
| Earnings per share:                         |  |          |                              |           |
| Basic                                       | \$ 3.03                                  | \$ 3.48  | \$ 5.70                      | \$ 6.88   |

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|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Diluted | \$ 3.02 | \$ 3.46 | \$ 5.67 | \$ 6.84 |
|---------|---------|---------|---------|---------|

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ATRION CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Incremental shares from stock options, unvested restricted stock and stock units were included in the calculation of weighted average diluted shares outstanding using the treasury stock method. Dilutive securities representing 6,322 and 6,711 shares of common stock for the quarters ended June 30, 2011 and 2012, respectively, were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive.

(4) Investments

As of June 30, 2012, we held certain investments that are required to be measured for disclosure purposes at fair value on a recurring basis. These investments are considered Level 2 investments. We consider as current assets those investments which will mature in the next 12 months. The remaining investments are considered non-current assets. The amortized cost and fair value of our investments that are being accounted for as held-to-maturity securities, and the related gross unrealized gains and losses, were as follows as of June 30, 2012 ( in thousands):

|                                | Cost      | Gross Unrealized |        | Fair Value |
|--------------------------------|-----------|------------------|--------|------------|
|                                |           | Gains            | Losses |            |
| <b>Short-term Investments:</b> |           |                  |        |            |
| Corporate bonds                | \$ 17,377 | \$ 86            | \$ -   | \$ 17,463  |
| <b>Long-term Investments</b>   |           |                  |        |            |
| Corporate bonds                | \$ 27,665 | \$ 133           | \$ 210 | \$ 27,588  |

At June 30, 2012, the length of time until maturity of these securities ranged from two to 34 months.

(5) Recent Accounting Pronouncements

From time to time, new accounting standards updates applicable to us are issued by the Financial Accounting Standards Board, or FASB, which we will adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of recently issued standards updates that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We develop and manufacture products primarily for medical applications. We market components to other equipment manufacturers for incorporation in their products and sell finished devices to physicians, hospitals, clinics and other treatment centers. Our medical products primarily serve the fluid delivery, cardiovascular, and ophthalmology markets. Our other medical and non-medical products include valves and inflation devices used in marine and aviation safety products.

Our products are used in a wide variety of applications by numerous customers. We encounter competition in all of our markets and compete primarily on the basis of product quality, price, engineering, customer service and delivery time.

Our strategy is to provide a broad selection of products in the areas of our expertise. Research and development efforts are focused on improving current products and developing new highly-engineered products that meet customer needs and serve niche markets with meaningful sales potential. Proposed new products may be subject to regulatory clearance or approval prior to commercialization and the time period for introducing a new product to the marketplace can be unpredictable. We also focus on controlling costs by investing in modern manufacturing technologies and controlling purchasing processes. We have been successful in consistently generating cash from operations and have used that cash to reduce indebtedness, to fund capital expenditures, to repurchase stock and to pay dividends.

Our strategic objective is to further enhance our position in our served markets by:

- Focusing on customer needs;
- Expanding existing product lines and developing new products;
- Maintaining a culture focused on quality and efficiency; and
- Preserving and fostering a collaborative, entrepreneurial management structure.

For the three months ended June 30, 2012, we reported revenues of \$30.7 million, operating income of \$9.0 million and net income of \$6.1 million, down 1 percent, 14 percent and 13 percent, respectively, from the three months ended June 30, 2011. For the six months ended June 30, 2012, we reported revenues of \$59.9 million, operating income of \$16.9 million and net income of \$11.5 million, down 3 percent, 18 percent and 17 percent, respectively, from the six months ended June 30, 2011.

### Results for the three months ended June 30, 2012

Consolidated net income totaled \$6.1 million, or \$3.03 per basic and \$3.02 per diluted share, for the three months ended June 30, 2012. This is compared with consolidated net income of \$7.0 million, or \$3.48 per basic and \$3.46 per diluted share, for the three months ended June 30, 2011. The income per basic share computations are based on weighted average basic shares outstanding of 2,016,000 in the 2012 period and 2,019,000 in the 2011 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,019,000 in the 2012 period and 2,030,000 in the 2011 period.



Consolidated revenues of \$30.7 million for the second quarter of 2012 were 1 percent lower than revenues of \$31.1 million for the second quarter of 2011. This decrease was primarily related to reduced sales to a large customer with which we have a long-term contract that had accumulated too large of an inventory of one of our products in 2011 partially offset by increased revenues from our fluid delivery and cardiovascular product lines.

Revenues by product line were as follows (in thousands):

|                | Three Months Ended<br>June 30, |                  |
|----------------|--------------------------------|------------------|
|                | 2012                           | 2011             |
| Fluid Delivery | \$ 13,394                      | \$ 12,490        |
| Cardiovascular | 9,515                          | 8,222            |
| Ophthalmology  | 3,653                          | 5,407            |
| Other          | 4,127                          | 5,020            |
| <b>Total</b>   | <b>\$ 30,689</b>               | <b>\$ 31,139</b> |

Cost of goods sold of \$16.0 million for the second quarter of 2012 was \$1.3 million higher than in the comparable 2011 period. Our cost of goods sold for the three months ended June 30, 2012 was 52.2 percent of revenues compared with 47.2 percent of revenues for the three months ended June 30, 2011. The primary contributors to the increase in our cost of goods sold as a percent of revenue were product mix, higher depreciation expense and lower manufacturing efficiencies in one product line partially offset by the impact of continued cost improvement initiatives.

Gross profit of \$14.7 million for the three months ended June 30, 2012 was \$1.8 million, or 11 percent, lower than in the comparable 2011 period. Our gross profit percentage for the three months ended June 30, 2012 was 47.8 percent of revenues compared with 52.8 percent of revenues for the three months ended June 30, 2011. The decrease in gross profit percentage in the 2012 period compared to the 2011 period was primarily related to product mix, higher depreciation expense and lower manufacturing efficiencies partially offset by continued cost improvements.

Our second quarter 2012 operating expenses of \$5.7 million were \$312,000 lower than the operating expenses for the second quarter of 2011. This decrease was comprised of a \$552,000 decrease in General and Administrative, or G&A, expenses partially offset by a \$116,000 increase in Research and Development, or R&D, expenses and a \$124,000 increase in Selling expenses. The decrease in G&A expenses for the second quarter of 2012 was primarily related to reduced outside services. The increase in R&D costs was primarily related to increased headcount, supplies and outside services. The increase in Selling expenses for the second quarter of 2012 was principally attributable to increased commissions, travel, compensation, promotion and advertising.

Operating income for the three months ended June 30, 2012 decreased \$1.5 million to \$9.0 million, a 14 percent decrease from operating income in the quarter ended June 30, 2011. Operating income was 29 percent of revenues for the three months ended June 30, 2012 compared to 34 percent of revenues for the three months ended June 30, 2011. The major contributor to the decrease in operating income for the second quarter of 2012 was the previously mentioned decrease in sales. We continue to expect that our customer's inventory correction will taper off as the year progresses, with full year 2012 showing an overall decline in operating income of approximately 10% as compared to 2011.



Income tax expense for the second quarter of 2012 was \$3.2 million compared to income tax expense of \$3.8 million for the same period in the prior year. The effective tax rate for the second quarter of 2012 was 34.6 percent as compared with 34.9 percent for the second quarter of 2011. We expect the effective tax rate for the remainder of 2012 to be within a range of 34.0 to 35.0 percent.

#### Results for the six months ended June 30, 2012

Consolidated net income totaled \$11.5 million, or \$5.70 per basic and \$5.67 per diluted share, for the six months ended June 30, 2012. This is compared with consolidated net income of \$13.9 million, or \$6.88 per basic and \$6.84 per diluted share, for the six months ended June 30, 2011. The income per basic share computations are based on weighted average basic shares outstanding of 2,015,000 in the 2012 period and 2,018,000 in the 2011 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,023,000 in the 2012 period and 2,030,000 in the 2011 period.

Consolidated revenues of \$59.9 million for the first six months of 2012 were 3 percent lower than revenues of \$61.7 million for the first six months of 2011. This decrease was primarily related to reduced sales to a large customer with which we have a long-term contract that had accumulated too large of an inventory of one of our products in 2011.

Revenues by product line were as follows (in thousands):

|                | Six Months Ended<br>June 30, |           |
|----------------|------------------------------|-----------|
|                | 2012                         | 2011      |
| Fluid Delivery | \$ 24,774                    | \$ 24,217 |
| Cardiovascular | 18,825                       | 16,631    |
| Ophthalmology  | 7,311                        | 10,951    |
| Other          | 9,019                        | 9,929     |
| Total          | \$ 59,929                    | \$ 61,728 |

Cost of goods sold of \$31.4 million for the first six months of 2012 was \$1.7 million higher than in the comparable 2011 period. Our cost of goods sold for the six months ended June 30, 2012 was 52.4 percent of revenues compared with 48.1 percent of revenues for the six months ended June 30, 2011. The primary contributors to the increase in our cost of goods sold as a percent of revenue were product mix, higher depreciation expense and lower manufacturing efficiencies in one product line partially offset by the impact of continued cost improvement initiatives.

Gross profit of \$28.5 million for the six months ended June 30, 2012 was \$3.5 million, or 11 percent, lower than in the comparable 2011 period. Our gross profit percentage for the six months ended June 30, 2012 was 47.6 percent of revenues compared with 51.9 percent of revenues for the six months ended June 30, 2011. The decrease in gross profit percentage in the 2012 period compared to the 2011 period was primarily related to product mix, higher depreciation expense and lower manufacturing efficiencies partially offset by continued cost improvements.

Operating expenses for the first six months of 2012 of \$11.6 million were \$118,000 higher than the operating expenses for the same period of 2011. This increase was comprised of a \$512,000 increase in R&D expenses and a \$71,000 increase in Selling expenses partially offset by a \$465,000 decrease in G&A expenses. The increase in R&D costs was primarily related to increased headcount, supplies and outside services. The increase in Selling expenses for the first six months of 2012 was primarily related to increased commissions, compensation, promotion and advertising partially offset by reduced outside services and other miscellaneous expenses. The decrease in G&A expenses for the first six months of 2012 was principally attributable to decreased outside services.

Operating income for the six months ended June 30, 2012 decreased \$3.6 million to \$16.9 million, an 18 percent decrease from operating income for the six months ended June 30, 2011. Operating income was 28 percent of revenues for the six months ended June 30, 2012 compared to 33 percent of revenues for the six months ended June 30, 2011. The major contributor to the decrease in operating income for the first six months of 2012 was the previously mentioned decrease in shipments.

Income tax expense for the first six months of 2012 was \$6.1 million compared to income tax expense of \$7.3 million for the same period in the prior year. The effective tax rate for the first six months of 2012 was 34.7 percent, compared with 34.6 percent for the same period of 2011. We expect the effective tax rate for the remainder of 2012 to be within a range of 34.0 to 35.0 percent.

#### Liquidity and Capital Resources

We have a \$40.0 million revolving credit facility with a money center bank that can be utilized for the funding of operations and for major capital projects or acquisitions, subject to certain limitations and restrictions. Borrowings under the credit facility bear interest that is payable monthly at 30-day, 60-day or 90-day LIBOR, as selected by us, plus one percent. From time to time prior to October 1, 2016 and assuming an event of default is not then existing, we can convert outstanding advances under the revolving line of credit to term loans with a term of up to two years. We had no outstanding borrowings under our credit facility at June 30, 2012 or at December 31, 2011. The credit facility contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At June 30, 2012, we were in compliance with all covenants. We believe the bank providing the credit facility is highly-rated and that the entire \$40.0 million under the credit facility is currently available to us. We believe that we would be able to fund our operations even if that bank were unable to provide such funds.

At June 30, 2012, we had a total of \$53.4 million in cash and cash equivalents, short-term investments and long-term investments, a decrease of \$1.8 million from December 31, 2011. The principal contributors to this decrease were the purchase of treasury stock and investment in property, plant and equipment.

Cash flows from operating activities generated \$10.9 million for the six months ended June 30, 2012 as compared to \$13.6 million for the six months ended June 30, 2011. The decrease in the 2012 period was primarily attributable to decreased operational results as compared to the 2011 period and increased cash requirements for working capital items, specifically accounts receivable, accounts payable and accrued liabilities for the 2012 period. During the first six months of 2012, we expended \$5.6 million for the addition of property and equipment, \$21.5 million for investments, \$4.8 million for treasury stock and \$2.0 million for dividends. During that same period, maturities of investments generated \$6.8 million.

At June 30, 2012, we had working capital of \$60.1 million, including \$8.4 million in cash and cash equivalents and \$17.4 million in short-term investments. The \$13.6 million decrease in working capital during the first six months of 2012 was primarily related to decreases in cash and cash equivalents and short-term investments partially offset by decreases in accounts payable and accrued liabilities and increases to accounts receivable. The net decrease in cash and short-term investments was primarily related to reductions in accounts payable and accrued liabilities, purchases of treasury stock and purchases of long-term investments.

We believe that our \$53.4 million in cash, cash equivalents, short-term investments and long-term investments, along with cash flows from operations and available borrowings of up to \$40.0 million under our credit facility will be sufficient to fund our cash requirements for at least the foreseeable future. We believe our strong financial position would allow us to access equity or debt financing should that be necessary and our capital resources should not be materially impacted by the current economic environment. Additionally, we believe that our cash and cash equivalents, short-term investments and long-term investments, as a whole, will continue to increase during the remainder of 2012.

#### Forward-Looking Statements

Statements in this Management's Discussion and Analysis and elsewhere in this Quarterly Report on Form 10-Q that are forward-looking are based upon current expectations, and actual results or future events may differ materially. Therefore, the inclusion of such forward-looking information should not be regarded as a representation by us that our objectives or plans will be achieved. Such statements include, but are not limited to, our operating income for 2012, our effective tax rate for the remainder of 2012, our ability to fund our cash requirements for the foreseeable future with our current assets, long-term investments, cash flow and borrowings under our credit facility, our ability to fund our operations even if the bank providing our credit facility were unable to provide funds thereunder, our access to equity and debt financing, the impact of the current economic environment on our capital resources and the increase in cash, cash equivalents, and investments in the remainder of 2012. Words such as "expects," "believes," "anticipates," "intends," "should," "plans," and variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements contained herein involve numerous risks and uncertainties, and there are a number of factors that could cause actual results or future events to differ materially, including, but not limited to, the following: changing economic, market and business conditions; acts of war or terrorism; the effects of governmental regulation; the impact of competition and new technologies; slower-than-anticipated introduction of new products or implementation of marketing strategies; implementation of new manufacturing processes or implementation of new information systems; our ability to protect our intellectual property; changes in the prices of raw materials; changes in product mix; intellectual property and product liability claims and product recalls; the ability to attract and retain qualified personnel; and the loss of, or any material reduction in sales to, any significant customers. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic review which may cause us to alter our marketing, capital expenditures or other budgets, which in turn may affect our results of operations and financial condition.



Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the quarter ended June 30, 2012, we did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in our 2011 Form 10-K.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2012. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting for the quarter ended June 30, 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in claims or litigation that arise in the normal course of business. We are not currently a party to any legal proceedings which, if decided adversely, would have a material adverse effect on our business, financial condition, or results of operations.

Item 1A. Risk Factors

There were no material changes to the risk factors disclosed in our 2011 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information with respect to our purchases of our common stock during each of the three months in the period ended June 30, 2012.

| Period                     | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|----------------------------|-------------------------------------|------------------------------|--|--|
| 4/1/2012 through 4/30/2012 | -                                   | -                            | -  | 182,000  |
| 5/1/2012 through 5/31/2012 | 2,417                               | \$ 200.74                    | 2,417  | 179,583  |
| 6/1/2012 through 6/30/2012 | 11,155                              | \$ 201.22                    | 11,155   | 168,428  |
| Total                      | 13,572                              | \$ 201.13                    | 13,572   | 168,428  |

(1) All shares shown in this column were purchased in open-market transactions.

(2) On August 16, 2011, our Board of Directors approved a new stock repurchase program pursuant to which we can repurchase up to 200,000 shares of our common stock from time to time in open market or privately-negotiated transactions. This stock repurchase program has no expiration date but may be terminated by our Board of Directors at any time.

## Item 6. Exhibits

| Exhibit Number | Description  |
|----------------|--|
| 31.1           | Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer  |
| 31.2           | Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer  |
| 32.1           | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes - Oxley Act Of 2002 |
| 32.2           | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes - Oxley Act Of 2002 |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   |

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101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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.

Atrion Corporation  
(Registrant)

Date: August 7, 2012

By: /s/ David A. Battat  
David A. Battat  
President and  
Chief Executive Officer

Date: August 7, 2012

By: /s/ Jeffery Strickland  
Jeffery Strickland  
Vice President and  
Chief Financial Officer  
(Principal Accounting and  
Financial Officer)



Exhibit Index

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