

ATRION CORP  
Form 10-Q  
November 06, 2015

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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 September 30, 2015

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 mark 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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark 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 o      Accelerated filer x      Non-accelerated filer o      Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

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

| Title of Each Class                      | Number of Shares Outstanding at<br>October 13, 2015 |
|--|---|
| Common stock, Par Value \$0.10 per share | 1,823,614   |

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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  
(Unaudited)

|   | Three Months Ended                       |          | Nine Months Ended |           |
|---|--|----------|-------------------|-----------|
|   | September 30,                            |          | September 30,     |           |
|   | 2015                                     | 2014     | 2015              | 2014      |
|   | (In thousands, except per share amounts) |          |                   |           |
| Revenues                                    | \$37,381                                 | \$36,625 | \$113,361         | \$108,069 |
| Cost of goods sold                          | 18,997                                   | 18,587   | 57,668            | 55,234    |
| Gross profit                                | 18,384                                   | 18,038   | 55,693            | 52,835    |
| Operating expenses:                         |  |          |                   |           |
| Selling                                     | 1,322                                    | 1,440    | 4,525             | 4,642     |
| General and administrative                  | 3,926                                    | 4,151    | 12,196            | 12,465    |
| Research and development                    | 1,563                                    | 1,221    | 4,792             | 3,545     |
|   | 6,811                                    | 6,812    | 21,513            | 20,652    |
| Operating income                            | 11,573                                   | 11,226   | 34,180            | 32,183    |
| Interest income                             | 131                                      | 240      | 636               | 904       |
| Other income, net                           | --                                       | 12       | --                | 13        |
|   | 131                                      | 252      | 636               | 917       |
| Income before provision for income taxes    | 11,704                                   | 11,478   | 34,816            | 33,100    |
| Provision for income taxes                  | (3,905 )                                 | (3,793 ) | (11,941 )         | (11,332 ) |
| Net income                                  | \$7,799                                  | \$7,685  | \$22,875          | \$21,768  |
| Net income per basic share                  | \$4.25                                   | \$3.94   | \$12.34           | \$11.08   |
| Weighted average basic shares outstanding   | 1,836                                    | 1,949    | 1,853             | 1,964     |
| Net income per diluted share                | \$4.19                                   | \$3.91   | \$12.19           | \$10.99   |
| Weighted average diluted shares outstanding | 1,860                                    | 1,966    | 1,876             | 1,980     |
| Dividends per common share                  | \$0.90                                   | \$0.75   | \$2.40            | \$2.03    |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2015                                | 2014    | 2015                               | 2014     |
|  | (In thousands)                      |         |                                    |          |
| Net Income   | \$7,799                             | \$7,685 | \$22,875                           | \$21,768 |
| Other Comprehensive Income:  |                                     |         |                                    |          |
| Unrealized income on investments, net of tax expense of \$59, \$0, \$238 and \$0 | 109                                 | --      | 442                                | --       |
| Comprehensive Income   | \$7,908                             | \$7,685 | \$23,317                           | \$21,768 |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Unaudited)

|   | September<br>30,<br>2015 | December<br>31,<br>2014 |
|---|--------------------------|-------------------------|
|   | (in thousands)           |                         |
| Assets  |                          |                         |
| Current assets:   |                          |                         |
| Cash and cash equivalents   | \$23,405                 | \$20,775                |
| Short-term investments  | 114                      | 3,084                   |
| Accounts receivable   | 19,604                   | 16,962                  |
| Inventories   | 29,202                   | 28,022                  |
| Prepaid expenses and other current assets   | 2,788                    | 4,720                   |
| Deferred income taxes   | 573                      | 573                     |
|   | 75,686                   | 74,136                  |
| Long-term investments   | 12,145                   | 21,760                  |
| Property, plant and equipment   | 147,728                  | 142,171                 |
| Less accumulated depreciation and amortization  | 85,486                   | 79,655                  |
|   | 62,242                   | 62,516                  |
| Other assets and deferred charges:  |                          |                         |
| Patents   | 2,256                    | 2,538                   |
| Goodwill  | 9,730                    | 9,730                   |
| Other   | 877                      | 834                     |
|   | 12,863                   | 13,102                  |
| <b>Total assets</b>   | <b>\$162,936</b>         | <b>\$171,514</b>        |
| Liabilities and Stockholders' Equity  |                          |                         |
| Current liabilities:  |                          |                         |
| Accounts payable and accrued liabilities  | \$9,374                  | \$9,479                 |
| Accrued income and other taxes  | 1,294                    | 457                     |
|   | 10,668                   | 9,936                   |
| Line of credit  | --                       | --                      |
| Other non-current liabilities   | 13,057                   | 12,008                  |
| Stockholders' equity:   |                          |                         |
| Common stock, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares | 342                      | 342                     |
| Paid-in capital   | 35,542                   | 33,940                  |
| Accumulated other comprehensive income/(loss)   | 197                      | (245 )                  |
| Retained earnings   | 215,118                  | 196,706                 |
| Treasury shares, 1,595 at September 30, 2015 and 1,507 at December 31, 2014, at cost    | (111,988 )               | (81,173 )               |
| <b>Total stockholders' equity</b>   | <b>139,211</b>           | <b>149,570</b>          |



|  |           |           |
|--|-----------|-----------|
| Total liabilities and stockholders' equity | \$162,936 | \$171,514 |
|--|-----------|-----------|

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

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2015                               | 2014      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$22,875                           | \$21,768  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 6,663                              | 6,696     |
| Deferred income taxes   | 66                                 | (1,463 )  |
| Stock-based compensation  | 1,454                              | 1,836     |
| Net change in accrued interest, premiums, and discounts<br>on investments         | 33                                 | 242       |
| Other   | 17                                 | 30        |
|   | 31,108                             | 29,109    |
| Changes in operating assets and liabilities:                                      |                                    |           |
| Accounts receivable   | (2,642 )                           | (4,235 )  |
| Inventories   | (1,180 )                           | (2,142 )  |
| Prepaid expenses  | 1,932                              | (371 )    |
| Other non-current assets  | (212 )                             | (70 )     |
| Accounts payable and accrued liabilities  | (105 )                             | 1,380     |
| Accrued income and other taxes  | 837                                | 37        |
| Other non-current liabilities   | 745                                | (448 )    |
|   | 30,483                             | 23,260    |
| Cash flows from investing activities:   |                                    |           |
| Property, plant and equipment additions   | (6,123 )                           | (8,641 )  |
| Purchase of investments   | --                                 | (19,375 ) |
| Proceeds from maturities of investments   | 13,400                             | 19,375    |
|   | 7,277                              | (8,641 )  |
| Cash flows from financing activities:   |                                    |           |
| Shares tendered for employees' withholding taxes on stock-based compensation      | (154 )                             | (377 )    |
| Tax benefit related to stock-based compensation                                   | 150                                | 160       |
| Purchase of treasury stock  | (30,698 )                          | (12,065 ) |
| Dividends paid  | (4,428 )                           | (3,975 )  |
|   | (35,130 )                          | (16,257 ) |
| Net change in cash and cash equivalents   | 2,630                              | (1,638 )  |
| Cash and cash equivalents at beginning of period                                  | 20,775                             | 28,559    |
| Cash and cash equivalents at end of period  | \$23,405                           | \$26,921  |

Cash paid for:

|              |         |          |
|--------------|---------|----------|
| Income taxes | \$8,278 | \$13,393 |
|--------------|---------|----------|

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

ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited)

|   | Common Stock          |        | Treasury Stock |             | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive | Retained<br>Earnings | Total     |
|---|-----------------------|--------|----------------|-------------|----------------------------------|---------------------------------------|----------------------|-----------|
|   | Shares<br>Outstanding | Amount | Shares         | Amount      |                                  | Income<br>(Loss)                      |                      |           |
| Balances, December<br>31, 2014                  | 1,913                 | \$342  | 1,507          | \$(81,173 ) | \$33,940                         | \$ (245 )                             | \$196,706            | \$149,570 |
| Net income                                      |                       |        |                |             |                                  |                                       | 22,875               | 22,875    |
| Other<br>comprehensive<br>income                |                       |        |                |             |                                  | 442                                   |                      | 442       |
| Tax benefit from<br>stock-based<br>compensation |                       |        |                |             | 150                              |                                       |                      | 150       |
| Stock-based<br>compensation<br>transactions     | 1                     |        | (1 )           | 37          | 1,452                            |                                       |                      | 1,489     |
| Shares<br>surrendered in stock<br>transactions  |                       |        |                | (154 )      |                                  |                                       |                      | (154 )    |
| Purchase of<br>treasury stock                   | (89 )                 |        | 89             | (30,698 )   |                                  |                                       |                      | (30,698 ) |
| Dividends                                       |                       |        |                |             |                                  |                                       | (4,463 )             | (4,463 )  |
| Balances, September<br>30, 2015                 | 1,825                 | \$342  | 1,595          | \$(111,988) | \$35,542                         | \$ 197                                | \$215,118            | \$139,211 |

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, 2014 ("2014 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):

|                   | September<br>30,<br>2015 | December<br>31,<br>2014 |
|-------------------|--------------------------|-------------------------|
| Raw materials     | \$12,734                 | \$12,575                |
| Work in process   | 7,394                    | 5,600                   |
| Finished goods    | 9,074                    | 9,847                   |
| Total inventories | \$29,202                 | \$28,022                |

## (3) Income per share

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

|   | Three Months Ended                       |         | Nine Months         |          |
|---|--|---------|---------------------|----------|
|   | September 30,                            |         | Ended September 30, |          |
|   | 2015                                     | 2014    | 2015                | 2014     |
|   | (in thousands, except per share amounts) |         |                     |          |
| Net income                                  | \$7,799                                  | \$7,685 | \$22,875            | \$21,768 |
| Weighted average basic shares outstanding   | 1,836                                    | 1,949   | 1,853               | 1,964    |
| Add: Effect of dilutive securities          | 24                                       | 17      | 23                  | 16       |
| Weighted average diluted shares outstanding | 1,860                                    | 1,966   | 1,876               | 1,980    |
| Earnings per share:                         |  |         |                     |          |
| Basic                                       | \$4.25                                   | \$3.94  | \$12.34             | \$11.08  |
| Diluted                                     | \$4.19                                   | \$3.91  | \$12.19             | \$10.99  |



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

Incremental shares from stock options and restricted stock units were included in the calculation of weighted average diluted shares outstanding using the treasury stock method. There were no dilutive securities representing shares of common stock for the quarters ended September 30, 2015 and 2014 that were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive.

(4) Investments

As of September 30, 2015, 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 and are all considered to be held-to-maturity securities. 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, and the related gross unrealized gains and losses, were as follows as of September 30, 2015 (in thousands):

|                                | Cost    | Gross Unrealized |            | Fair Value |
|--------------------------------|---------|------------------|------------|------------|
|                                |         | Gains            | Losses     |            |
| <b>Short-term Investments:</b> |         |                  |            |            |
| Corporate bonds                | \$114   | \$--             | \$--       | \$114      |
| <b>Long-term Investments</b>   |         |                  |            |            |
| Corporate bonds                | \$7,966 | \$               | \$(2,186 ) | \$5,780    |

The above long-term corporate bonds represent investments in two issuers. One of these securities has experienced a decline in value since its acquisition date in the fourth quarter of 2014. This decline relates to a changed outlook due to major economic declines in its industry. The total carrying value of this investment is reviewed quarterly for changes in circumstances or the occurrence of events that suggest our investment may not be recoverable. We currently expect full recovery of our amortized cost in this security based on our assessment of the credit quality of the underlying collateral and credit support available to the issuer. Based on our evaluation of the creditworthiness of the issuer and because we do not intend to sell the investment, nor is it likely that we would be required to sell this investment, before recovery of its amortized cost base, which may be maturity, none of the unrealized loss is considered to be other than temporary.

At September 30, 2015, the length of time until maturity of these securities ranged from 39 to 50 months. None of the above investments has been in a loss position for more than twelve months.

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

The cost and fair value of our investments that are being accounted for as available-for-sale securities, and the related gross unrealized gain reflected in accumulated other comprehensive income, were as follows as of the dates shown below (in thousands):

|                           | Cost    | Gross Unrealized |        | Fair value |
|---------------------------|---------|------------------|--------|------------|
|                           |         | Gains            | Losses |            |
| As of September 30, 2015: |         |                  |        |            |
| Long-term Investments:    |         |                  |        |            |
| Equity investments        | \$3,876 | \$303            | \$--   | \$4,179    |

(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 instrumentation and disposables used in dialysis and 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 highly-engineered products that meet customer needs and have the potential for broad market applications and significant sales. 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;
- Manufacturing products to exacting quality standards; and
- Preserving and fostering a collaborative and entrepreneurial culture.

For the three months ended September 30, 2015, we reported revenues of \$37.4 million, operating income of \$11.6 million and net income of \$7.8 million, up 2 percent, 3 percent and 2 percent, respectively, from the three months ended September 30, 2014. For the nine months ended September 30, 2015, we reported revenues of \$113.4 million, operating income of \$34.2 million and net income of \$22.9 million, up 5 percent, 6 percent and 5 percent, respectively, from the nine months ended September 30, 2014.

Results for the three months ended September 30, 2015

Consolidated net income totaled \$7.8 million, or \$4.25 per basic and \$4.19 per diluted share, in the third quarter of 2015. This is compared with consolidated net income of \$7.7 million, or \$3.94 per basic and \$3.91 per diluted share, in the third quarter of 2014. The income per basic share computations are based on weighted average basic shares

outstanding of 1,836,000 in the 2015 period and 1,949,000 in the 2014 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,860,000 in the 2015 period and 1,966,000 in the 2014 period.

Consolidated revenues of \$37.4 million for the third quarter of 2015 were 2 percent higher than revenues of \$36.6 million for the third quarter of 2014. This increase was primarily attributable to higher sales volumes.

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

|                | Three Months ended<br>September 30, |          |
|----------------|-------------------------------------|----------|
|                | 2015                                | 2014     |
| Fluid Delivery | \$15,743                            | \$14,839 |
| Cardiovascular | 11,930                              | 10,434   |
| Ophthalmology  | 4,199                               | 5,560    |
| Other          | 5,509                               | 5,792    |
| Total          | \$37,381                            | \$36,625 |

Cost of goods sold of \$19.0 million for the third quarter of 2015 was \$410,000 higher than in the comparable 2014 period. The primary contributors to the increase in our cost of goods sold were increased sales, increased manufacturing support personnel costs and increased repairs which were partially offset by the impact of continued cost improvement projects. Our cost of goods sold in the third quarter of 2015 was 50.8 percent of revenues compared with 50.7 percent of revenues in the third quarter of 2014.

Gross profit of \$18.4 million in the third quarter of 2015 was \$346,000, or 2 percent, higher than in the comparable 2014 period. Our gross profit percentage in the third quarter of 2015 was 49.2 percent of revenues compared with 49.3 percent of revenues in the third quarter of 2014. The decrease in gross profit percentage in the 2015 period compared to the 2014 period was primarily related to increased manufacturing support costs mentioned above partially offset by the impact of continued cost improvement initiatives.

Our third quarter 2015 operating expenses of \$6.8 million were level with those of the third quarter of 2014 as a \$118,000 decrease in Selling expenses and a \$225,000 decrease in General and Administrative, or G&A, expenses were offset by a \$342,000 increase in Research and Development, or R&D, expenses. The decrease in Selling expenses for the third quarter of 2015 was primarily related to reduced commissions, compensation, outside services and miscellaneous expense partially offset by increased promotion and advertising. The decrease in G&A expenses for the third quarter of 2015 was principally attributable to decreased outside services and compensation. The increase in R&D costs was primarily related to increased supplies, compensation and outside services.

Operating income in the third quarter of 2015 increased \$347,000 to \$11.6 million, a 3 percent increase from our operating income in the quarter ended September 30, 2014. Operating income was 31 percent of revenues in both the third quarter of 2015 and the third quarter of 2014.

Income tax expense for the third quarter of 2015 was \$3.9 million compared to income tax expense of \$3.8 million for the same period in the prior year. The effective tax rate for the third quarter of 2015 was 33.4 percent, compared with 33.1 percent for the third quarter of 2014.

#### Results for the nine months ended September 30, 2015

Consolidated net income totaled \$22.9 million, or \$12.34 per basic and \$12.19 per diluted share, in the first nine months of 2015. This is compared with consolidated net income of \$21.8 million, or \$11.08 per basic and \$10.99 per diluted share, in the first nine months of 2014. The income per basic share computations are based on weighted average basic shares outstanding of 1,853,000 in the 2015 period and 1,964,000 in the 2014 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,876,000 in the 2015 period and 1,980,000 in the 2014 period.

Consolidated revenues of \$113.4 million for the first nine months of 2015 were 5 percent higher than revenues of \$108.1 million for the first nine months of 2014. This increase was primarily attributable to higher sales volumes.

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

|                | Nine Months ended<br>September 30, |                   |
|----------------|------------------------------------|-------------------|
|                | 2015                               | 2014              |
| Fluid Delivery | \$47,971                           | \$44,808          |
| Cardiovascular | 35,534                             | 32,300            |
| Ophthalmology  | 14,505                             | 15,850            |
| Other          | 15,351                             | 15,111            |
| <b>Total</b>   | <b>\$ 113,361</b>                  | <b>\$ 108,069</b> |

Cost of goods sold of \$57.7 million for the first nine months of 2015 was \$2.4 million higher than in the comparable 2014 period. The primary contributors to the increase in our cost of goods sold were increased sales and increased costs for manufacturing support personnel, supplies and utilities which were partially offset by the impact of continued cost improvement projects and improved manufacturing efficiencies. Our cost of goods sold in the first nine months of 2015 was 50.9 percent of revenues compared with 51.1 percent of revenues in the first nine months of 2014.

Gross profit of \$55.7 million in the first nine months of 2015 was \$2.9 million, or 5.2 percent, higher than in the comparable 2014 period. Our gross profit percentage in the first nine months of 2015 was 49.1 percent of revenues compared with 48.9 percent of revenues in the first nine months of 2014. The increase in gross profit percentage in the 2015 period compared to the 2014 period was primarily related to the impact of continued cost improvement initiatives and improved manufacturing efficiencies partially offset by increased manufacturing costs mentioned above.

Our operating expenses of \$21.5 million in the first nine months 2015 were \$861,000 higher than the operating expenses for the first nine months of 2014. This increase was attributable to a \$1.2 million increase in R&D expenses partially offset by a \$117,000 decrease in Selling expenses and a \$269,000 decrease in G&A expenses. The increase in R&D costs was primarily related to increased outside services, compensation and supplies. The decrease in Selling expenses for the first nine months of 2015 was principally attributable to decreased outside services, commissions and compensation partially offset by increased promotion and advertising. The decrease in G&A expenses for the first nine months of 2015 was principally attributable to decreased compensation and outside services partially offset by increased amortization expense.

Operating income in the first nine months of 2015 increased \$2.0 million to \$34.2 million, a 6 percent increase from our operating income in the nine months ended September 30, 2014. Operating income was 30 percent of revenues in both the first nine months of 2015 and the first nine months of 2014.

Income tax expense for the first nine months of 2015 was \$11.9 million compared to income tax expense of \$11.3 million for the same period in the prior year. The effective tax rate for the first nine months of 2015 was 34.3 percent, compared with 34.2 percent for the first nine months of 2014. We expect the effective tax rate for the remainder of 2015 to be approximately 34.5 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. Effective June 11, 2015, our revolving credit facility was amended to extend the date until which the lender is obligated to make advances under the revolving line of credit to October 1, 2021 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 September 30, 2015 or at December 31, 2014. The credit facility contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At September 30, 2015, we were in compliance with all financial covenants. We believe that 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. If that bank were unable to provide such funds, we believe that such inability would not impact our ability to fund operations.

At September 30, 2015, we had a total of \$35.7 million in cash and cash equivalents, short-term investments and long-term investments, a decrease of \$10.0 million from December 31, 2014. The principal contributor to this decrease was the purchase of treasury stock partially offset by operating results.

Cash flows from operating activities of \$30.5 million for the nine months ended September 30, 2015 were primarily comprised of net income plus the net effect of non-cash expenses. During the first nine months of 2015, we expended \$6.1 million for the addition of property and equipment, \$30.7 million for treasury stock and \$4.4 million for dividends. During the same period, maturities of investments generated \$13.4 million.

At September 30, 2015, we had working capital of \$65.0 million, including \$23.4 million in cash and cash equivalents and \$114,000 in short-term investments. The \$818,000 increase in working capital during the first nine months of 2015 was primarily related to increases in cash and cash equivalents, accounts receivable and inventories. This increase was partially offset by decreases in short-term investments and prepaid expenses and by increases in accrued income and other taxes. The increase in accounts receivable was primarily related to increased revenues for the third quarter of 2015. The increase in inventories was primarily related to increased stocking levels to support revenues. The net decrease in cash and short-term investments was primarily related to purchases of treasury stock. The decrease in prepaid expenses was primarily attributable to federal income tax payments. The increase in accrued income and other taxes is primarily related to income and property taxes.

We believe that our \$35.7 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 that our strong financial position would allow us to access equity or debt financing should that be necessary. 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 2015.

#### 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 effective tax rate for the remainder of 2015, our ability to fund our cash requirements for the foreseeable future with our current assets, long-term investments, cash flow and borrowings under the credit facility, the impact that the inability of the bank providing the credit facility to provide funds thereunder would have on our ability to fund operations, our access to equity and debt financing, and the increase in cash, cash equivalents, and investments in the remainder of 2015. 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 September 30, 2015, we did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in our 2014 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 September 30, 2015. 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 September 30, 2015 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 2014 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 September 30, 2015.

| Period                     | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Program (1) |
|----------------------------|---|------------------------------------|--|--|
| 7/1/2015 through 7/31/2015 | -   | -                                  | -  | 249,590  |
| 8/1/2015 through 8/31/2015 | 4,100                                     | \$376.48                           | 4,100  | 245,490  |
| 9/1/2015 through 9/30/2015 | 10,708                                    | \$381.22                           | 10,708   | 234,782  |
| Total                      | 14,808                                    | \$379.91                           | 14,808   | 234,782  |

(1) On May 21, 2015, our Board of Directors approved a new stock repurchase program pursuant to which we can repurchase up to 250,000 shares of our common stock from time to time in open market or privately-negotiated transactions. Our new 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

|                 |  |
|-----------------|--|
| <u>31.1</u>     | Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer  |
| <u>31.2</u>     | Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer  |
| <u>32.1</u>     | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes – Oxley Act Of 2002 |
| <u>32.2</u>     | 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<br>XBRL | Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF<br>XBRL | Taxonomy Extension Definition Linkbase Document  |

101.LAB  
XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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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: November 5, 2015

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

Date: November 5, 2015

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

Exhibit Index

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