

ATRION CORP
Form 10-Q
May 08, 2008

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 March 31, 2008

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
o

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.

Title of Each Class	Number of Shares Outstanding at April 30, 2008
---------------------	---

Edgar Filing: ATRION CORP - Form 10-Q

Common stock, Par Value \$0.10 per share

1,960,535

ATRION CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

<u>PART I. Financial Information</u>	2
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income (Unaudited) For the Three months Ended March 31, 2008 and 2007</u>	3
<u>Consolidated Balance Sheets (Unaudited) March 31, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited) For the Three months Ended March 31, 2008 and 2007</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	11
Item 4. <u>Controls and Procedures</u>	11
<u>PART II. Other Information</u>	12
Item 1. <u>Legal Proceedings</u>	12
Item 1A. <u>Risk Factors</u>	12
Item 6. <u>Exhibits and Reports on Form 8-K</u>	12
<u>SIGNATURES</u>	13

Table of Contents

PART I

FINANCIAL INFORMATION

Table of Contents

Item 1. Financial Statements

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
	2008	2007
	(in thousands, except per share amounts)	
Revenues	\$ 24,602	\$ 23,037
Cost of goods sold	13,922	13,377
Gross profit	10,680	9,660
Operating expenses:		
Selling	1,699	1,651
General and administrative	2,740	2,616
Research and development	787	656
	5,226	4,923
Operating income	5,454	4,737
Other income:		
Interest income	36	9
Interest expense	--	(141)
	36	(132)
Income before provision for income taxes	5,490	4,605
Provision for income taxes	(1,834)	(1,469)
Net income	\$ 3,656	\$ 3,136
Income per basic share	\$ 1.89	\$ 1.68
Weighted average basic shares outstanding	1,937	1,872
Income per diluted share	\$ 1.83	\$ 1.59
Weighted average diluted shares outstanding	2,003	1,975
Dividends per common share	\$ 0.24	\$ 0.20

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

Table of Contents

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

Assets	March 31, 2008 (in thousands)	December 31, 2007
Current assets:		
Cash and cash equivalents	\$ 5,270	\$ 3,531
Accounts receivable	12,270	9,601
Inventories	17,977	17,387
Prepaid expenses	771	1,483
Other	607	607
	36,895	32,609
Property, plant and equipment	91,749	89,736
Less accumulated depreciation and amortization	36,797	35,686
	54,952	54,050
Other assets and deferred charges:		
Patents	1,932	2,011
Goodwill	9,730	9,730
Other	956	913
	12,618	12,654
	\$ 104,465	\$ 99,313
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,581	\$ 6,349
Accrued income and other taxes	28	515
	7,609	6,864
Line of credit	--	--
Other non-current liabilities	7,017	7,007
Stockholders' equity:		
Common shares, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares	342	342
Paid-in capital	18,445	15,790
Accumulated other comprehensive loss	(486)	(486)
Retained earnings	107,205	104,021
Treasury shares, 1,459 at March 31, 2008 and 1,509 at December 31, 2007, at cost	(35,667)	(34,225)
Total stockholders' equity	89,839	85,442

\$	104,465	\$	99,313
----	---------	----	--------

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

4

Table of Contents

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

	Three months Ended March 31,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 3,656	\$ 3,136
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,497	1,305
Deferred income taxes	134	67
Stock-based compensation	113	55
Other	37	--
	5,437	4,563
Changes in operating assets and liabilities:		
Accounts receivable	(2,668)	(536)
Inventories	(590)	(93)
Prepaid expenses	789	1,000
Other non-current assets	(43)	(91)
Accounts payable and current liabilities	1,232	350
Accrued income and other taxes	(486)	1,161
Other non-current liabilities	(124)	--
Net cash provided by continuing operations	3,547	6,354
Cash flows from investing activities:		
Property, plant and equipment additions	(2,357)	(1,478)
Cash flows from financing activities:		
Line of credit advances	--	6,104
Line of credit repayments	--	(11,001)
Exercise of stock options	497	204
Taxes paid on cashless exercise of stock options	(870)	--
Tax benefit related to stock options	1,393	168
Dividends paid	(471)	(377)
	549	(4,902)
Net change in cash and cash equivalents	1,739	(26)
Cash and cash equivalents at beginning of period	3,531	333
Cash and cash equivalents at end of period	\$ 5,270	\$ 307
Cash paid for:		
Interest (net of capitalization)	\$ --	\$ 158
Income taxes	\$ 64	\$ (760)

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

Table of Contents

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

(1) Basis of Presentation

In the opinion of management, all adjustments necessary for a fair presentation of results of operations for the periods presented have been included in the accompanying unaudited consolidated financial statements of Atrion Corporation and its subsidiaries (the "Company"). Such adjustments consist of normal recurring items. The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and include the information and notes required by such instructions. Accordingly, the consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's 2007 Annual Report on Form 10-K.

(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):

	March 31, 2008	December 31, 2007
Raw materials	\$ 7,817	\$ 7,452
Work in process	5,003	4,513
Finished goods	5,157	5,422
Total inventories	\$ 17,977	\$ 17,387

(3) Income per share

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

	March 31, 2008	Three months ended March 31, 2007
	(in thousands, except per share amounts)	
Net Income	\$ 3,656	\$ 3,136
Weighted average basic shares outstanding	1,937	1,872
Add: Effect of dilutive securities	66	103
Weighted average diluted shares outstanding	2,003	1,975
Income per share:		
Basic	\$ 1.89	\$ 1.68
Diluted	\$ 1.83	\$ 1.59

There were no outstanding options to purchase shares of common stock that were not included in the diluted income per share calculations because their effect would be anti-dilutive for the three-months ended March 31, 2008 and 2007.

Table of Contents

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

(4) Pension Benefits

The components of net periodic pension cost for the Atrion Corporation Cash Balance Plan (the “Plan”) are as follows for the three months ended March 31, 2008 and March 31, 2007 (in thousands):

	Three Months ended March 31,	
	2008	2007
Service cost	\$ --	\$ 65
Interest cost	56	80
Expected return on assets	(55)	(123)
Prior service cost amortization	--	(9)
Actuarial loss	8	15
Net periodic pension cost	\$ 9	\$ 28

In September 2007, the Company terminated the Plan. Participants accrued pension benefits through December 31, 2007, but will not accrue any additional benefits under the Plan after that date. However, participants will continue to earn interest credits on their account balances until the Plan has settled all its obligations with respect to termination. The Company believes that the Plan is adequately funded to cover its settlement obligations. The final payout for the Plan termination will likely occur in early 2009 after all regulatory approvals are received.

(5) Recent Accounting Pronouncements

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard (“SFAS”) No. 157, “Fair Value Measurements”. This standard addresses how companies should measure fair value when they are required to use a fair-value measure for recognition or disclosure purposes under GAAP. The adoption of this standard did not have a material effect on the Company’s financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value with changes in fair value reported in earnings. In addition, it requires disclosures related to an entity’s election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS No. 159 was effective for the Company beginning January 1, 2008. The adoption of this standard did not have a material impact on the Company’s financial condition, results of operations or cash flows. In addition, the Company did not choose to report additional assets and liabilities at fair value other than those required to be accounted at fair value prior to the adoption of SFAS No. 159.

From time to time, new accounting pronouncements applicable to the Company are issued by the FASB or other standards setting bodies, which the Company will adopt as of the specified effective date. Unless otherwise discussed, the Company believes the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial statements upon adoption.

Table of Contents

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

Overview

The Company designs, develops, manufactures, sells and distributes products and components, primarily for the medical and healthcare industry. The Company markets components to other equipment manufacturers for incorporation in their products and sells finished devices to physicians, hospitals, clinics and other treatment centers. The Company's medical products primarily serve the fluid delivery, cardiovascular, and ophthalmology markets. The Company's other medical and non-medical products include instrumentation and disposables used in dialysis, contract manufacturing and valves and inflation devices used in marine and aviation safety products.

The Company's products are used in a wide variety of applications by numerous customers. The Company encounters competition in all of its markets and competes primarily on the basis of product quality, price, engineering, customer service and delivery time.

The Company's strategy is to provide a broad selection of products in the areas of its 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. The Company also focuses on controlling costs by investing in modern manufacturing technologies and controlling purchasing processes. The Company has been successful in consistently generating cash from operations and has used that cash to reduce indebtedness, to fund capital expenditures, to repurchase stock and to pay dividends.

The Company's strategic objective is to further enhance its position in its served markets by:

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

For the three months ended March 31, 2008, the Company reported revenues of \$24.6 million, operating income of \$5.5 million and net income of \$3.7 million, up 7 percent, 15 percent and 17 percent, respectively, from the three months ended March 31, 2007.

Results for the three months ended March 31, 2008

Consolidated net income totaled \$3.7 million, or \$1.89 per basic and \$1.83 per diluted share, in the first quarter of 2008. This is compared with consolidated net income of \$3.1 million, or \$1.68 per basic and \$1.59 per diluted share, in the first quarter of 2007. The income per basic share computations are based on weighted average basic shares outstanding of 1,936,767 in the 2008 period and 1,872,346 in the 2007 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,002,989 in the 2008 period and 1,975,133 in the 2007 period.

Table of Contents

Consolidated revenues of \$24.6 million for the first quarter of 2008 were 7 percent higher than revenues of \$23.0 million for the first quarter of 2007. These increases were generally attributable to higher sales volumes.

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

	Three Months ended March 31,	
	2008	2007
Fluid Delivery	\$ 8,249	\$ 7,215
Cardiovascular	7,467	6,051
Ophthalmology	3,779	4,654
Other	5,107	5,117
Total	\$ 24,602	\$ 23,037

Cost of goods sold of \$13.9 million for the first quarter of 2008 was 4 percent higher than in the comparable 2007 period. Increased sales volume and increased manufacturing overhead costs were the primary contributors to the increase in cost of goods sold for the first quarter of 2008.

Gross profit of \$10.7 million in the first quarter of 2008 was \$1.0 million, or 11 percent, higher than in the comparable 2007 period. The Company's gross profit percentage in the first quarter of 2008 was 43.4 percent of revenues compared with 41.9 percent of revenues in the first quarter of 2007. The increase in gross profit percentage in the 2008 period compared to the 2007 period was primarily related to improved product mix and improved manufacturing efficiencies.

The Company's first quarter 2008 operating expenses of \$5.2 million were \$303,000 higher than the operating expenses for the first quarter of 2007. This increase was comprised of a \$48,000 increase in selling (Selling) expenses, a \$124,000 increase in General and Administrative (G&A) expenses and a \$131,000 increase in Research and Development (R&D) expenses. The increase in Selling expenses for the first quarter of 2008 was primarily related to increased travel-related expenses. The increase in G&A expenses for the first quarter of 2008 was principally attributable to increased compensation and benefit costs partially offset by lower costs for outside services. The increase in R&D costs was primarily related to prototype expenses, new product testing costs and increased compensation and outside services. Operating income in the first quarter of 2008 increased \$717,000, to \$5.5 million, a 15 percent increase over operating income in the quarter ended March 31, 2007. Operating income was 22.2 percent of revenues in the first quarter of 2008 compared to 20.6 percent of revenues in the first quarter of 2007. The previously mentioned increase in gross profit partially offset by the increase in operating expenses were the major contributors to the operating income improvement in the first quarter of 2008.

Table of Contents

The Company had no interest expense for the first quarter of 2008 due to the retirement of outstanding debt in the third quarter of 2007. Interest expense was \$141,000 for the 2007 period and was attributable to borrowings related to a new Company facility. Income tax expense for the first quarter of 2008 was \$1.8 million compared to income tax expense of \$1.5 million for the same period in the prior year. The effective tax rate for the first quarter of 2008 was 33.4 percent compared with 31.9 percent for the first quarter of 2007. The higher effective income tax rate for the first quarter of 2008 is primarily a result of benefits from tax incentives for exports and R&D expenditures being a smaller percentage of taxable income in 2008 than in 2007.

Liquidity and Capital Resources

At March 31, 2008, the Company had cash and cash equivalents of \$5.3 million compared with \$3.5 million at December 31, 2007. The Company had no outstanding borrowings under its \$25.0 million revolving credit facility ("Credit Facility") at March 31, 2008 and December 31, 2007. The Credit Facility, which expires November 12, 2009, and may be extended under certain circumstances, contains various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources. At March 31, 2008, the Company was in compliance with all financial covenants.

As of March 31, 2008, the Company had working capital of \$29.3 million, including \$5.3 million in cash and cash equivalents. The \$3.5 million increase in working capital during the first three months of 2008 was primarily related to increases in cash, accounts receivable, inventories, and a decrease in accrued income and other taxes partially offset by increases in accounts payable and accrued liabilities and decreased prepaid expenses. The increase in accounts receivable during the first three months of 2008 was primarily related to the increase in revenues for the first quarter of 2008 as compared to the fourth quarter of 2007. The change in inventories is related to increased stocking levels necessary to support current operations. The increase in accounts payable and accrued liabilities was primarily related to increased purchases during the end of the first quarter of 2008. Cash flows from operating activities generated \$3.5 million for the three months ended March 31, 2008 as compared to \$6.4 million for the three months ended March 31, 2007. The 2008 decrease was primarily attributable to decreased accrued income and other taxes and increased accounts receivable as compared to the 2007 period. During the first three months of 2008, the Company expended \$2.4 million for the addition of property and equipment. During the first three months of 2008, stock option activities generated \$1.0 million of cash and the Company paid dividends of \$471,000.

The Company believes that its existing cash and cash equivalents, cash flows from operations, borrowings available under the Company's credit facility, supplemented, if necessary, with equity or debt financing, which the Company believes would be available, will be sufficient to fund the Company's cash requirements for the foreseeable future.

Table of Contents

Forward-Looking Statements

The statements in this Management's Discussion and Analysis that are forward-looking are based upon current expectations, and actual results may differ materially. Therefore, the inclusion of such forward-looking information should not be regarded as a representation by the Company that the objectives or plans of the Company would be achieved. Such statements include, but are not limited to, the Company's expectations regarding future liquidity and capital resources. Words such as "anticipates," "believes," "expects," "estimated" 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; the Company's ability to protect its 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 the Company to alter its marketing, capital expenditures or other budgets, which in turn may affect the Company's results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the quarter ended March 31, 2008, the Company did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in the Company's 2007 Annual Report on Form 10-K.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and its Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2008. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. There were no changes in the Company's internal control over financial reporting for the quarter ended March 31, 2008 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes to Risk Factors disclosed in our annual report on Form 10-K for the year ended December 31, 2007.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Deferred Compensation Plan For Non-Employee Directors (As amended and restated as of March 5, 2008)

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

(b) Reports on Form 8-K

On February 25, 2008, the Company filed a report on Form 8-K with the SEC regarding the public dissemination of a press release announcing its financial results for the fourth quarter and year ended December 31, 2007 (Item 12).

Table of Contents

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: May 8, 2008

/s/ Emile A. Battat
Emile A. Battat
Chairman and
Chief Executive Officer

Date: May 8, 2008

/s/ Jeffery Strickland
Jeffery Strickland
Vice President and
Chief Financial Officer