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ATRION CORP  
Form 10-Q  
November 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 September 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.

| Title of Each Class                      | Number of Shares Outstanding at<br>October 17, 2012 |
|------------------------------------------|-----------------------------------------------------|
| Common stock, Par Value \$0.10 per share | 2,013,789                                           |



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<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                             | 2012                                | 2011     | 2012                               | 2011      |
| (In thousands, except per share amounts)    |                                     |          |                                    |           |
| Revenues                                    | \$30,637                            | \$30,457 | \$90,565                           | \$92,185  |
| Cost of goods sold                          | 15,742                              | 15,161   | 47,168                             | 44,882    |
| Gross profit                                | 14,895                              | 15,296   | 43,397                             | 47,303    |
| Operating expenses:                         |                                     |          |                                    |           |
| Selling                                     | 1,301                               | 1,220    | 4,208                              | 4,056     |
| General and administrative                  | 3,164                               | 3,294    | 10,033                             | 10,627    |
| Research and development                    | 753                                 | 778      | 2,569                              | 2,083     |
|                                             | 5,218                               | 5,292    | 16,810                             | 16,766    |
| Operating income                            | 9,677                               | 10,004   | 26,587                             | 30,537    |
| Interest income                             | 411                                 | 325      | 1,060                              | 993       |
| Other income                                | --                                  | 1        | 2                                  | 3         |
|                                             | 411                                 | 326      | 1,062                              | 996       |
| Income before provision for income taxes    | 10,088                              | 10,330   | 27,649                             | 31,533    |
| Provision for income taxes                  | (2,829 )                            | (3,556 ) | (8,914 )                           | (10,883 ) |
| Net Income                                  | 7,259                               | 6,774    | 18,735                             | 20,650    |
| Other comprehensive income, net of tax:     |                                     |          |                                    |           |
| None                                        | --                                  | --       | --                                 | --        |
| Comprehensive income                        | \$7,259                             | \$6,774  | \$18,735                           | \$20,650  |
| Income per basic share                      | \$3.60                              | \$3.35   | \$9.30                             | \$10.22   |
| Weighted average basic shares outstanding   | 2,014                               | 2,023    | 2,015                              | 2,020     |
| Income per diluted share                    | \$3.59                              | \$3.33   | \$9.24                             | \$10.17   |
| Weighted average diluted shares outstanding | 2,022                               | 2,033    | 2,028                              | 2,031     |
| Dividends per common share                  | \$0.56                              | \$0.49   | \$1.54                             | \$1.33    |

The accompanying notes are an integral part of these statements.

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

|                                                                                          | September<br>30,<br>2012 | December<br>31,<br>2011 |
|------------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Assets                                                                                   |                          |                         |
| Current assets:                                                                          |                          |                         |
| Cash and cash equivalents                                                                | \$22,341                 | \$24,590                |
| Short-term investments                                                                   | 16,354                   | 20,279                  |
| Accounts receivable                                                                      | 14,579                   | 11,223                  |
| Inventories                                                                              | 24,512                   | 24,582                  |
| Prepaid expenses                                                                         | 1,490                    | 2,313                   |
| Deferred income taxes                                                                    | 755                      | 755                     |
|                                                                                          | 80,031                   | 83,742                  |
| Long-term investments                                                                    | 23,501                   | 10,336                  |
| Property, plant and equipment                                                            | 121,825                  | 114,975                 |
| Less accumulated depreciation and amortization                                           | 62,918                   | 58,605                  |
|                                                                                          | 58,907                   | 56,370                  |
| Other assets and deferred charges:                                                       |                          |                         |
| Patents                                                                                  | 877                      | 999                     |
| Goodwill                                                                                 | 9,730                    | 9,730                   |
| Other                                                                                    | 814                      | 718                     |
|                                                                                          | 11,421                   | 11,447                  |
|                                                                                          | \$173,860                | \$161,895               |
| Liabilities and Stockholders' Equity                                                     |                          |                         |
| Current liabilities:                                                                     |                          |                         |
| Accounts payable and accrued liabilities                                                 | \$8,665                  | \$9,208                 |
| Accrued income and other taxes                                                           | 970                      | 835                     |
|                                                                                          | 9,635                    | 10,043                  |
| Line of credit                                                                           | --                       | --                      |
| Other non-current liabilities                                                            | 13,712                   | 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                                                                          | 28,531                   | 25,452                  |
| Retained earnings                                                                        | 169,228                  | 153,618                 |
| Treasury shares, 1,406 at September 30, 2012 and 1,404                                   | (47,588 )                | (40,898 )               |

at December 31, 2011, at cost

|                            |           |           |
|----------------------------|-----------|-----------|
| Total stockholders' equity | 150,513   | 138,514   |
|                            | \$173,860 | \$161,895 |

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, |           |
|--------------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                      | 2012                               | 2011      |
|                                                                                      | (in thousands)                     |           |
| Cash flows from operating activities:                                                |                                    |           |
| Net income                                                                           | \$18,735                           | \$20,650  |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |                                    |           |
| Depreciation and amortization                                                        | 5,563                              | 4,861     |
| Deferred income taxes                                                                | 1,097                              | 1,725     |
| Stock-based compensation                                                             | 1,106                              | 758       |
| Net change in accrued interest, premiums, and discounts on investments               | 556                                | 320       |
|                                                                                      | 27,057                             | 28,314    |
| Changes in operating assets and liabilities:                                         |                                    |           |
| Accounts receivable                                                                  | (3,356 )                           | (2,134 )  |
| Inventories                                                                          | 70                                 | (6,022 )  |
| Prepaid expenses                                                                     | 823                                | (417 )    |
| Other non-current assets                                                             | (96 )                              | 52        |
| Accounts payable and accrued liabilities                                             | (543 )                             | 3,353     |
| Accrued income and other taxes                                                       | 135                                | 749       |
| Other non-current liabilities                                                        | (723 )                             | (107 )    |
|                                                                                      | 23,367                             | 23,788    |
| Cash flows from investing activities:                                                |                                    |           |
| Property, plant and equipment additions                                              | (7,978 )                           | (8,138 )  |
| Purchase of investments                                                              | (21,545 )                          | (9,723 )  |
| Proceeds from maturities of investments                                              | 11,750                             | 6,290     |
|                                                                                      | (17,773 )                          | (11,571 ) |
| Cash flows from financing activities:                                                |                                    |           |
| Shares tendered for employees' taxes on stock-based compensation                     | (1,065 )                           | (78 )     |
| Issuance of treasury stock                                                           | 153                                | --        |
| Purchase of treasury stock                                                           | (4,756 )                           | (1,513 )  |
| Tax benefit related to stock-based compensation                                      | 929                                | 79        |
| Dividends paid                                                                       | (3,104 )                           | (2,688 )  |
|                                                                                      | (7,843 )                           | (4,200 )  |
| Net change in cash and cash equivalents                                              | (2,249 )                           | 8,017     |
| Cash and cash equivalents at beginning of period                                     | 24,590                             | 10,670    |
| Cash and cash equivalents at end of period                                           | \$22,341                           | \$18,687  |

Cash paid for:

|              |         |         |
|--------------|---------|---------|
| Income taxes | \$6,471 | \$9,037 |
|--------------|---------|---------|

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):

|                   | September 30,<br>2012 | December 31,<br>2011 |
|-------------------|-----------------------|----------------------|
| Raw materials     | \$ 9,782              | \$ 9,074             |
| Work in process   | 5,794                 | 4,843                |
| Finished goods    | 8,936                 | 10,665               |
| Total inventories | \$ 24,512             | \$ 24,582            |

(3) Income per share

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

|                                             | Three Months Ended September, 30<br>2012 | 2011     | Nine Months Ended September 30,<br>2012 | 2011      |
|---------------------------------------------|------------------------------------------|----------|-----------------------------------------|-----------|
|                                             | (in thousands, except per share amounts) |          |                                         |           |
| Net income                                  | \$ 7,259                                 | \$ 6,774 | \$ 18,735                               | \$ 20,650 |
| Weighted average basic shares outstanding   | 2,014                                    | 2,023    | 2,015                                   | 2,020     |
| Add: Effect of dilutive securities          | 8                                        | 10       | 13                                      | 11        |
| Weighted average diluted shares outstanding | 2,022                                    | 2,033    | 2,028                                   | 2,031     |
| Earnings per share:                         |                                          |          |                                         |           |
| Basic                                       | \$ 3.60                                  | \$ 3.35  | \$ 9.30                                 | \$ 10.22  |
| Diluted                                     | \$ 3.59                                  | \$ 3.33  | \$ 9.24                                 | \$ 10.17  |



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 5,901 and 2,271 shares of common stock for the quarters ended September 30, 2012 and 2011, respectively, 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, 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 September 30, 2012 ( in thousands):

|                         | Cost      | Gross Unrealized |        | Fair Value |
|-------------------------|-----------|------------------|--------|------------|
|                         |           | Gains            | Losses |            |
| Short-term Investments: |           |                  |        |            |
| Corporate bonds         | \$ 16,354 | \$ 120           | \$ -   | \$ 16,474  |
| Long-term Investments   |           |                  |        |            |
| Corporate bonds         | \$ 23,501 | \$ 369           | \$ 39  | \$ 23,831  |

At September 30, 2012, the length of time until maturity of these securities ranged from one to 31 months.

(5) Income Taxes

Our effective tax rate for the third quarter of 2012 was 28.0 percent as compared with 34.4 percent for the third quarter of 2011. Our effective tax rate for the first nine months of 2012 was 32.2 percent, compared with 34.5 percent for the same period of 2011. The decrease in our effective tax rate for both the third quarter and the first nine months of 2012 was primarily related to a favorable adjustment to an uncertain tax position related to income tax credits claimed for research and development following the conclusion, in September 2012, of an Internal Revenue Service examination of our United States federal income tax returns for 2006, 2007 and 2008.

(6) 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 and entrepreneurial culture.

For the three months ended September 30, 2012, we reported revenues of \$30.6 million, operating income of \$9.7 million and net income of \$7.3 million, up 1 percent, down 3 percent and up 7 percent, respectively, from the three months ended September 30, 2011. For the nine months ended September 30, 2012, we reported revenues of \$90.6 million, operating income of \$26.6 million and net income of \$18.7 million, down 2 percent, 13 percent and 9 percent, respectively, from the nine months ended September 30, 2011.

Results for the three months ended September 30, 2012

Consolidated net income totaled \$7.3 million, or \$3.60 per basic and \$3.59 per diluted share, for the three months ended September 30, 2012. This is compared with consolidated net income of \$6.8 million, or \$3.35 per basic and \$3.33 per diluted share, for the three months ended September 30, 2011. The income per basic share computations are based on weighted average basic shares outstanding of 2,014,000 in the 2012 period and 2,023,000 in the 2011 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,022,000 in the 2012 period and 2,033,000 in the 2011 period.

Consolidated revenues of \$30.6 million for the third quarter of 2012 were 1 percent higher than revenues of \$30.5 million for the third quarter of 2011. This increase was primarily related to increased revenues from our fluid delivery product line partially offset by reduced sales to a large ophthalmology customer with which we have a long-term contract that had accumulated too large of an inventory of our products in 2011.

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

|                | Three Months Ended<br>September 30, |           |
|----------------|-------------------------------------|-----------|
|                | 2012                                | 2011      |
| Fluid Delivery | \$ 13,160                           | \$ 11,137 |
| Cardiovascular | 8,481                               | 8,983     |
| Ophthalmology  | 3,934                               | 5,337     |
| Other          | 5,061                               | 5,000     |
| Total          | \$ 30,636                           | \$ 30,457 |

Cost of goods sold of \$15.7 million for the third quarter of 2012 was \$581,000 higher than in the comparable 2011 period. Our cost of goods sold for the three months ended September 30, 2012 was 51.4 percent of revenues compared with 49.8 percent of revenues for the three months ended September 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 \$14.9 million for the three months ended September 30, 2012 was \$401,000, or 3 percent, lower than in the comparable 2011 period. Our gross profit percentage for the three months ended September 30, 2012 was 48.6 percent of revenues compared with 50.2 percent of revenues for the three months ended September 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 third quarter 2012 operating expenses of \$5.2 million were \$74,000 lower than the operating expenses for the third quarter of 2011. This decrease was comprised of a \$130,000 decrease in General and Administrative, or G&A, expenses, a \$25,000 decrease in Research and Development, or R&D, expenses partially offset by an \$81,000 increase in Selling expenses. The decrease in G&A expenses for the third quarter of 2012 was primarily related to reduced outside services partially offset by costs of new hires. The decrease in R&D costs was primarily related to decreased supplies and outside services partially offset by increased compensation. The increase in Selling expenses for the third quarter of 2012 was principally attributable to increased commissions and increased promotion and advertising.

Operating income for the three months ended September 30, 2012 decreased \$327,000 to \$9.7 million, a 3 percent decrease from operating income in the quarter ended September 30, 2011. Operating income was 32 percent of revenues for the three months ended September 30, 2012 compared to 33 percent of revenues for the three months ended September 30, 2011. The major contributor to the decrease in operating income for the third quarter of 2012 was the increase in cost of goods sold.

Income tax expense for the third quarter of 2012 was \$2.8 million compared to income tax expense of \$3.6 million for the same period in the prior year. The effective tax rate for the third quarter of 2012 was 28.0 percent as compared with 34.4 percent for the third quarter of 2011. The decrease in our effective tax rate for the third quarter of 2012 was primarily related to a favorable adjustment to an uncertain tax position related to income tax credits claimed for research and development following the conclusion, in September 2012, of an Internal Revenue Service examination of our United States federal income tax returns for 2006, 2007 and 2008. We expect the effective tax rate for the remainder of 2012 to be within a range of 33.5 to 34.5 percent.

#### Results for the nine months ended September 30, 2012

Consolidated net income totaled \$18.7 million, or \$9.30 per basic and \$9.24 per diluted share, for the nine months ended September 30, 2012. This is compared with consolidated net income of \$20.7 million, or \$10.22 per basic and \$10.17 per diluted share, for the nine months ended September 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 2,020,000 in the 2011 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,028,000 in the 2012 period and 2,031,000 in the 2011 period.

Consolidated revenues of \$90.6 million for the first nine months of 2012 were 2 percent lower than revenues of \$92.2 million for the first nine months of 2011. This decrease was primarily related to reduced sales to a large ophthalmology customer with which we have a long-term contract that had accumulated too large of an inventory of our products in 2011.

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

|                | Nine months Ended<br>September 30, |           |
|----------------|------------------------------------|-----------|
|                | 2012                               | 2011      |
| Fluid Delivery | \$ 37,934                          | \$ 35,354 |
| Cardiovascular | 27,306                             | 25,614    |
| Ophthalmology  | 11,245                             | 16,288    |
| Other          | 14,080                             | 14,929    |
| Total          | \$ 90,565                          | \$ 92,185 |

Cost of goods sold of \$47.2 million for the first nine months of 2012 was \$2.3 million higher than in the comparable 2011 period. Our cost of goods sold for the nine months ended September 30, 2012 was 52.1 percent of revenues compared with 48.7 percent of revenues for the nine months ended September 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 \$43.4 million for the nine months ended September 30, 2012 was \$3.9 million, or 8 percent, lower than in the comparable 2011 period. Our gross profit percentage for the nine months ended September 30, 2012 was 47.9 percent of revenues compared with 51.3 percent of revenues for the nine months ended September 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 nine months of 2012 of \$16.8 million were \$44,000 higher than the operating expenses for the same period of 2011. This increase was comprised of a \$486,000 increase in R&D expenses and a \$152,000 increase in Selling expenses partially offset by a \$594,000 decrease in G&A expenses. The increase in R&D costs was primarily related to increased headcount, supplies, outside services and depreciation. The increase in Selling expenses for the first nine 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 nine months of 2012 was principally attributable to decreased outside services partially offset by increased compensation.

Operating income for the nine months ended September 30, 2012 decreased \$3.9 million to \$26.6 million, a 13 percent decrease from operating income for the nine months ended September 30, 2011. Operating income was 29 percent of revenues for the nine months ended September 30, 2012 compared to 33 percent of revenues for the nine months ended September 30, 2011. The major contributor to the decrease in operating income for the first nine months of 2012 was the previously mentioned decrease in shipments and increase in costs of goods sold.

Income tax expense for the first nine months of 2012 was \$8.9 million compared to income tax expense of \$10.9 million for the same period in the prior year. The effective tax rate for the first nine months of 2012 was 32.2 percent compared with 34.5 percent for the same period of 2011. The decrease in our effective tax rate for the first nine months of 2012 was primarily related to a favorable adjustment to an uncertain tax position related to income tax credits claimed for research and development following the conclusion, in September 2012, of an Internal Revenue Service examination of our United States federal income tax returns for 2006, 2007 and 2008. We expect the effective tax rate for the remainder of 2012 to be within a range of 33.5 and 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. 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 September 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 September 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 also believe that we would be able to fund our operations even if that bank were unable to provide such funds.

At September 30, 2012, we had a total of \$62.2 million in cash and cash equivalents, short-term investments and long-term investments, an increase of \$7.0 million from December 31, 2011. The principal contributor to this increase was the cash generated by operating activities.

Cash flows from operating activities generated \$23.4 million for the nine months ended September 30, 2012 as compared to \$23.8 million for the nine months ended September 30, 2011. The decrease in the 2012 period was primarily attributable to decreased operating 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 nine months of 2012, we expended \$8.0 million for the addition of property and equipment, \$21.5 million for investments, \$4.8 million for treasury stock and \$3.1 million for dividends. During that same period, maturities of investments generated \$11.8 million.

At September 30, 2012, we had working capital of \$70.4 million, including \$22.3 million in cash and cash equivalents and \$16.4 million in short-term investments. The \$3.3 million decrease in working capital during the first nine 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 purchases of treasury stock, property, plant and equipment and purchases of long-term investments.

We believe that our \$62.2 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. 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 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, 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 September 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 September 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 September 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 6. Exhibits

Exhibit Description  
Number

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

101.LAB XBRL 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: November 7, 2012

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

Date: November 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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