

ATRION CORP  
Form 10-Q  
November 04, 2010

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, 2010

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 October 15, 2010
Common stock, Par Value \$0.10 per share	2,011,657



ATRION CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

<u>PART I. Financial Information</u>	2
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Income (Unaudited)</u> <u>For the Three and Nine months Ended September 30, 2010</u> <u>and 2009</u>	3
<u>Consolidated Balance Sheets (Unaudited)</u> <u>September 30, 2010 and December 31, 2009</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>For the Nine months Ended September 30, 2010 and 2009</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	14
<u>Item 4. Controls and Procedures</u>	14
<u>PART II. Other Information</u>	14
<u>Item 1. Legal Proceedings</u>	14
<u>Item 1A. Risk Factors</u>	14
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	15
<u>Item 6. Exhibits</u>	15
<u>SIGNATURES</u>	16

PART I

FINANCIAL INFORMATION

2

---

## Item 1. Financial Statements

ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(in thousands, except for per share amounts)			
Revenues	\$27,156	\$25,192	\$81,939	\$76,240
Cost of goods sold	14,180	13,973	43,908	41,902
Gross profit	12,976	11,219	38,031	34,338
Operating expenses:				
Selling	1,312	1,357	4,076	4,367
General and administrative	2,901	2,635	8,684	8,069
Research and development	760	661	2,050	2,191
	4,973	4,653	14,810	14,627
Operating income	8,003	6,566	23,221	19,711
Interest income	315	162	689	391
Other income	2	--	2	1
	317	162	691	392
Income before provision for income taxes	8,320	6,728	23,912	20,103
Provision for income taxes	(2,920 )	(2,268 )	(8,384 )	(6,852 )
Net Income	\$5,400	\$4,460	\$15,528	\$13,251
Income per basic share	\$2.68	\$2.25	\$7.69	\$6.70
Weighted average basic shares outstanding	2,017	1,980	2,019	1,978
Income per diluted share	\$2.66	\$2.20	\$7.65	\$6.57
Weighted average diluted shares outstanding	2,029	2,028	2,031	2,017
Dividends per common share	\$0.42	\$0.36	\$7.14	\$0.96

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

ATRION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

Assets	September 30, 2010	December 31, 2009
	(in thousands)	
Current Assets:		
Cash and cash equivalents	\$ 9,851	\$ 20,694
Short-term investments	6,672	4,230
Accounts receivable	13,007	11,026
Inventories	18,442	18,675
Prepaid expenses	1,215	981
Deferred income taxes	596	596
	49,783	56,202
Long-term investments	24,448	11,477
Property, plant and equipment	102,133	99,862
Less accumulated depreciation and amortization	51,753	46,721
	50,380	53,141
Other assets and deferred charges:		
Patents	1,317	1,520
Goodwill	9,730	9,730
Other	790	679
	11,837	11,929
	\$ 136,448	\$ 132,749
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,932	\$ 6,125
Accrued income and other taxes	1,387	557
	9,319	6,682
Line of credit	--	--
Other non-current liabilities	9,303	9,336
Stockholders' equity:		
Common shares, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares	342	342
Paid-in capital	23,442	20,356
Retained earnings	132,793	131,769
Treasury shares, 1,408 at September 30, 2010 and 1,440 at December 31, 2009, at cost	(38,751 )	(35,736 )

Edgar Filing: ATRION CORP - Form 10-Q

Total stockholders' equity	117,826	116,731
	\$ 136,448	\$ 132,749

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

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

	Nine Months Ended September 30	
	2010	2009
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 15,528	\$ 13,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,457	5,126
Deferred income taxes	56	771
Stock-based compensation	464	500
	21,505	19,648
Changes in operating assets and liabilities:		
Accounts receivable	(1,981 )	(788 )
Inventories	233	1,303
Prepaid expenses	(234 )	(375 )
Other non-current assets	(111 )	186
Accounts payable and accrued liabilities	1,807	996
Accrued income and other taxes	830	(86 )
Other non-current liabilities	(89 )	(31 )
	21,960	20,853
Cash flows from investing activities:		
Property, plant and equipment additions	(2,492 )	(5,430 )
Purchase of investments	(19,212 )	(15,550 )
Proceeds from maturities of investments	4,000	4,000
Net change in accrued interest on investments	(201 )	(155 )
	(17,905 )	(17,135 )
Cash flows from financing activities:		
Exercise of stock options	343	459
Shares tendered for employees' taxes on stock-based compensation	(501 )	(122 )
Tax benefit related to stock options	1,096	102
Purchase of treasury stock	(1,407 )	--
Dividends paid	(14,429 )	(1,900 )
	(14,898 )	(1,461 )
Net change in cash and cash equivalents	(10,843 )	2,257
Cash and cash equivalents at beginning of period	20,694	12,056
Cash and cash equivalents at end of period	\$ 9,851	\$ 14,313
Cash paid for:		



Edgar Filing: ATRION CORP - Form 10-Q

Income taxes	\$ 6,735	\$ 6,394
--------------	----------	----------

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

5

---

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, 2009 ("2009 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, 2010	December 31, 2009
Raw materials	\$ 8,502	\$ 8,541
Work in process	4,575	4,078
Finished goods	5,365	6,056
Total inventories	\$ 18,442	\$ 18,675

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

## (3) Income per share

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

	Three months ended September, 30		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands, except per share amounts)			
Net income	\$ 5,400	\$ 4,460	\$ 15,528	\$ 13,251
Weighted average basic shares outstanding	2,017	1,980	2,019	1,978
Add: Effect of dilutive securities	12	48	12	39
Weighted average diluted shares outstanding	2,029	2,028	2,031	2,017
Earnings per share:				
Basic	\$ 2.68	\$ 2.25	\$ 7.69	\$ 6.70
Diluted	\$ 2.66	\$ 2.20	\$ 7.65	\$ 6.57

Incremental shares from stock options, unvested restricted stock, restricted stock units and deferred stock units were included in the calculation of weighted average diluted shares outstanding using the treasury stock method. Dilutive securities representing 16 and 32 shares of common stock for the three and nine month periods ended September 30, 2009 and 2010, 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, 2010, 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, 2010 ( in thousands):

	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Short-term Investments				
Corporate bonds	\$ 6,672	\$ 158	\$ —	\$ 6,830
Long-term Investments				
Corporate bonds	\$ 24,448	\$ 753	\$ —	\$ 25,201

At September 30, 2010, the length of time until maturity of these securities ranged from 4 to 23 months.



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

(5) Income Taxes

The effective tax rate for the third quarter of 2010 was 35.1 percent, compared with 33.7 percent for the third quarter of 2009. The effective tax rate for the nine months ended September 30, 2010 was 35.1 percent, compared with 34.1 percent for the nine months ended September 30, 2009. The increase in the effective tax rate for the 2010 periods is primarily a result of the unavailability of tax incentives for research and development, or R&D, expenditures in 2010 and an increase in state income taxes in the 2010 periods. Legislation to extend the tax incentives for R&D expenditures for 2010 is currently under consideration by the United States Congress.

(6) Recent Accounting Pronouncements

From time to time, new accounting standards updates applicable to us are issued by the 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, contract manufacturing 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, or R&D, efforts are focused on improving current products and developing highly-engineered products that meet customer needs and have the potential for 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;  
Maintaining a culture of controlling cost; and  
Preserving and fostering a collaborative, entrepreneurial management structure.

For the three months ended September 30, 2010, we reported revenues of \$27.2 million, operating income of \$8.0 million and net income of \$5.4 million, up 8 percent, 22 percent and 21 percent, respectively, from the three months ended September 30, 2009. For the nine months ended September 30, 2010, we reported revenues of \$81.9 million, operating income of \$23.2 million and net income of \$15.5 million, up 7 percent, 18 percent and 17 percent, respectively, from the nine months ended September 30, 2009.

Results for the three months ended September 30, 2010

Consolidated net income totaled \$5.4 million, or \$2.68 per basic and \$2.66 per diluted share, in the third quarter of 2010. This is compared with consolidated net income of \$4.5 million, or \$2.25 per basic and \$2.20 per diluted share, in the third quarter of 2009. The income per basic share computations are based on weighted average basic shares outstanding of 2,017,000 in the 2010 period and 1,980,000 in the 2009 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,029,000 in the 2010 period and 2,028,000 in the 2009 period.



Consolidated revenues of \$27.2 million for the third quarter of 2010 were 8 percent higher than revenues of \$25.2 million for the third quarter of 2009. This increase was generally attributable to higher sales volumes.

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

	Three Months ended September 30,	
	2010	2009
Fluid Delivery	\$ 9,981	\$ 9,535
Cardiovascular	7,488	6,948
Ophthalmology	5,120	4,418
Other	4,567	4,291
Total	\$ 27,156	\$ 25,192

Cost of goods sold of \$14.2 million for the third quarter of 2010 was \$207,000 higher than in the comparable 2009 period. The primary contributor to this increase was higher sales volume. Our cost of goods sold in the third quarter of 2010 was 52.2 percent of revenues compared with 55.5 percent of revenues in the third quarter of 2009.

Gross profit of \$13.0 million in the third quarter of 2010 was \$1.8 million, or 16 percent, higher than in the comparable 2009 period. Our gross profit percentage in the third quarter of 2010 was 47.8 percent of revenues compared with 44.5 percent of revenues in the third quarter of 2009. The increase in gross profit percentage in the 2010 period compared to the 2009 period was primarily related to improved product mix and cost improvement initiatives.

Our third quarter 2010 operating expenses of \$5.0 million were \$320,000 higher than the operating expenses for the third quarter of 2009. This increase was comprised of a \$99,000 increase in R&D expenses and a \$266,000 increase in General and Administrative, or G&A, expenses partially offset by a \$45,000 decrease in Selling expenses. The increase in R&D costs was primarily related to increased expenses for prototypes and development supplies partially offset by reduced compensation and outside services expenses. The increase in G&A expenses for the third quarter of 2010 was principally attributable to increased compensation. The decrease in Selling expenses for the third quarter of 2010 was primarily related to decreased compensation, advertising and promotion expenses partially offset by increased travel costs.

Operating income in the third quarter of 2010 increased \$1.4 million to \$8.0 million, a 22 percent increase over operating income in the quarter ended September 30, 2009. Operating income was 29 percent of revenues in the third quarter of 2010 compared to 26 percent of revenues in the third quarter of 2009. The major contributor to the operating income improvement in the third quarter of 2010 was the previously mentioned increase in gross profit.



Interest income in the third quarter of 2010 increased to \$315,000 as compared to \$162,000 in the same period in the prior year as a result of increased levels of investments. Income tax expense for the third quarter of 2010 was \$2.9 million compared to income tax expense of \$2.3 million for the same period in the prior year. The effective tax rate for the third quarter of 2010 was 35.1 percent, compared with 33.7 percent for the third quarter of 2009. The increase in the effective tax rate for the 2010 period is primarily a result of the unavailability of tax incentives for R&D expenditures in 2010 and an increase in state income taxes in the 2010 period. We expect the effective tax rate for the remainder of 2010 to be within a range of 35.0 to 36.0 percent, assuming no extension of tax incentives for R&D expenditures applicable to that period by the United States Congress.

#### Results for the nine months ended September 30, 2010

Consolidated net income totaled \$15.5 million, or \$7.69 per basic and \$7.65 per diluted share, in the first nine months of 2010. This is compared with consolidated net income of \$13.3 million, or \$6.70 per basic and \$6.57 per diluted share, in the first nine months of 2009. The income per basic share computations are based on weighted average basic shares outstanding of 2,019,000 in the 2010 period and 1,978,000 in the 2009 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,031,000 in the 2010 period and 2,017,000 in the 2009 period.

Consolidated revenues of \$81.9 million for the first nine months of 2010 were 7 percent higher than revenues of \$76.2 million for the first nine months of 2009. This increase was generally attributable to higher sales volumes.

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

	Nine Months ended September 30,	
	2010	2009
Fluid Delivery	\$ 30,264	\$ 27,685
Cardiovascular	23,525	21,439
Ophthalmology	14,091	14,948
Other	14,059	12,168
Total	\$ 81,939	\$ 76,240

Cost of goods sold of \$43.9 million for the first nine months of 2010 was \$2.0 million higher than in the comparable 2009 period. The primary contributor to this increase was higher sales volume. Our cost of goods sold in the first nine months of 2010 was 53.6 percent of revenues compared with 55.0 percent of revenues in the first nine months of 2009.

Gross profit of \$38.0 million in the first nine months of 2010 was \$3.7 million, or 11 percent, higher than in the comparable 2009 period. Our gross profit percentage in the first nine months of 2010 was 46.4 percent of revenues compared with 45.0 percent of revenues in the first nine months of 2009. The increase in gross profit percentage in the 2010 period compared to the 2009 period was primarily related to improved product mix and cost improvement initiatives.

Our operating expenses for the first nine months of 2010 of \$14.8 million were \$183,000 higher than the operating expenses for the first nine months of 2009. This increase was comprised of a \$615,000 increase in G&A expenses partially offset by a \$291,000 decrease in Selling expenses and a \$141,000 decrease in R&D expenses. The increase in G&A expenses for the first nine months of 2010 was principally attributable to increased compensation, increased outside services expenses and increased taxes. The decrease in Selling expenses for the first nine months of 2010 was primarily related to decreased compensation expense. The decrease in R&D costs was primarily related to reduced outside services and compensation expenses partially offset by increased expenses for prototypes and development supplies.

Operating income in the first nine months of 2010 increased \$3.5 million to \$23.2 million, an 18 percent increase over operating income in the nine months ended September 30, 2009. Operating income was 28 percent of revenues in the first nine months of 2010 compared to 26 percent of revenues in the first nine months of 2009. The major contributor to the operating income improvement in the first nine months of 2010 was the previously mentioned increase in gross profit.

Interest income for the nine months ended September 30, 2010 increased \$298,000 over the same period in 2009 primarily as a result of increased levels of investments. Income tax expense for the first nine months of 2010 was \$8.4 million compared to income tax expense of \$6.9 million for the same period in the prior year. The effective tax rate for the first nine months of 2010 was 35.1 percent, compared with 34.1 percent for the first nine months of 2009. The increase in the effective tax rate for the 2010 period is primarily a result of the unavailability of tax incentives for R&D expenditures in 2010 and an increase in state income taxes in the 2010 period.

#### Liquidity and Capital Resources

We have a \$25.0 million revolving credit facility with a money center bank to 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. We had no outstanding borrowings under our credit facility at September 30, 2010 or at December 31, 2009. The credit facility, which expires November 12, 2012, and may be extended under certain circumstances, contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At September 30, 2010, we were in compliance with all financial covenants and had \$25.0 million available for borrowing under the credit facility. We believe that the bank providing the credit facility is highly-rated and that the entire \$25.0 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, 2010, we had \$41.0 million in cash and cash equivalents, short-term and long-term investments, an increase of \$4.6 million from December 31, 2009. The principal contributor to this increase was cash of \$22.0 million generated by operating activities during the nine months ended September 30, 2010 partially offset by dividends of \$14.4 million paid during that period. Included in the \$14.4 million paid for dividends was \$12.1 million in special cash dividends paid in January 2010.

As of September 30, 2010, we had working capital of \$40.5 million, including \$9.9 million in cash and cash equivalents. The \$9.1 million decrease in working capital during the first nine months of 2010 was primarily related to a decrease in cash and an increase in accounts payable and accrued liabilities and income and other taxes partially offset by an increase in short-term investments and accounts receivable. The decrease in cash was primarily related to the funding of \$14.4 million of dividends, including the \$12.1 million special cash dividend paid during the first quarter of 2010, the \$2.4 million increase in short-term investments and the \$13.0 million increase in long-term investments partially offset by cash generated from operations. The increase in accounts receivable was primarily related to the increase in revenues for the third quarter of 2010 as compared with the fourth quarter of 2009.

Cash flows from operating activities generated \$22.0 million for the nine months ended September 30, 2010 as compared to \$20.9 million for the nine months ended September 30, 2009. The increase in the 2010 period was primarily attributable to increased operational results as compared to the 2009 period. During the first nine months of 2010, we expended \$2.5 million for the addition of property and equipment. Maturities of investments generated \$4.0 million during the first nine months of 2010. We expended \$19.2 million for the purchase of investments during this period. We repurchased 9,995 shares of our common stock for approximately \$1.4 million during the first nine months of 2010. Stock option activities in the first nine months of 2010 generated \$938,000 of cash, and we paid dividends of \$14.4 million during that period. Included in the \$14.4 million paid for dividends was \$12.1 million in special cash dividends paid in January 2010.

We believe that our \$41.0 million in cash, cash equivalents, short-term investments and long-term investments, along with cash flows from operations and available borrowings of up to \$25.0 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 and our capital resources should not be materially impacted by the current economic climate. 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 2010.

#### Forward-Looking Statements

Statements in this Management's Discussion and Analysis 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 expectations regarding the effective tax rate for the remainder of 2010, 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 availability of funds under our 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, the impact of the current economic climate on our capital resources and the increase in cash, cash equivalents, and investments in the remainder of 2010. 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, 2010, we did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in our 2009 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, 2010. Based upon this evaluation, the 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, 2010 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 2009 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, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
7/1/2010 through 7/31/2010	1,631	\$ 141.18	1,631	66,469
8/1/2010 through 8/31/2010	6,875	\$ 140.26	6,875	59,594
9/1/2010 through 9/30/2010	1,489	\$ 142.27	1,489	58,105
Total	9,995	\$ 140.71	9,995	58,105

- (1) We have a program that was announced in April 2000 to purchase in open market or privately negotiated transactions up to 200,000 shares. The program has no expiration date but may be terminated at any time by the Board of Directors.

## Item 6. Exhibits

Exhibit Number	Description
31.1	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
31.2	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes – Oxley Act Of 2002
32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes – Oxley Act Of 2002

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 4, 2010

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

Date: November 4, 2010

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