

ATRION CORP
Form 10-Q
November 03, 2016

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, 2016

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 63-0821819
(State or Other Jurisdiction of Incorporation or Organization) (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 14, 2016
Common stock, Par Value \$0.10 per share	1,824,280

ATRION CORPORATION AND SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

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Item 1. Financial Statements

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Revenues	\$37,835	\$37,381	\$110,193	\$113,361
Cost of goods sold	20,211	18,997	57,789	57,668
Gross profit	17,624	18,384	52,404	55,693
Operating expenses:				
Selling	1,471	1,322	4,871	4,525
General and administrative	3,613	3,926	11,442	12,196
Research and development	1,564	1,563	4,576	4,792
	6,648	6,811	20,889	21,513
Operating income	10,976	11,573	31,515	34,180
Interest income	106	131	315	636
Other income (expense), net	1	--	(309)	--
	107	131	6	636
Income before provision for income taxes	11,083	11,704	31,521	34,816
Provision for income taxes	(3,469)	(3,905)	(9,511)	(11,941)
Net income	\$7,614	\$7,799	\$22,010	\$22,875
Net income per basic share	\$4.17	\$4.25	\$12.07	\$12.34
Weighted average basic shares outstanding	1,825	1,836	1,823	1,853
Net income per diluted share	\$4.10	\$4.19	\$11.86	\$12.19
Weighted average diluted shares outstanding	1,858	1,860	1,856	1,876
Dividends per common share	\$1.05	\$0.90	\$2.85	\$2.40

The accompanying notes are an integral part of these statements.

ATRION CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net Income	\$7,614	\$7,799	\$22,010	\$22,875
Other Comprehensive Income (Loss):				
Unrealized income (loss) on investments, net of tax (benefit) expense of (\$273), (\$59), (\$445) and \$238	(506)	109	(827)	442
Comprehensive Income	\$7,108	\$7,908	\$21,183	\$23,317

The accompanying notes are an integral part of these statements.

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

Assets	September 30, 2016	December 31, 2015
	(in thousands)	
Current assets:		
Cash and cash equivalents	\$23,747	\$28,346
Short-term investments	15,049	44
Accounts receivable	20,124	16,620
Inventories	30,056	29,771
Prepaid expenses and other current assets	2,180	2,934
Deferred income taxes	580	580
	91,736	78,295
Long-term investments	9,838	9,866
Property, plant and equipment	159,301	150,807
Less accumulated depreciation and amortization	93,618	87,493
	65,683	63,314
Other assets and deferred charges:		
Patents	2,005	2,193
Goodwill	9,730	9,730
Other	1,571	938
	13,306	12,861
Total assets	\$180,563	\$164,336
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$9,252	\$8,987
Accrued income and other taxes	1,734	329
	10,986	9,316
Line of credit	--	--
Other non-current liabilities	10,556	10,922
Stockholders' equity:		
Common stock, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares	342	342
Paid-in capital	37,197	35,945
Accumulated other comprehensive income (loss)	(544)	283
Retained earnings	236,300	219,516

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Treasury shares, 1,596 at September 30, 2016 and 1,596 at December 31, 2015, at cost	(114,274)	(111,988)
Total stockholders' equity	159,021	144,098
Total liabilities and stockholders' equity	\$180,563	\$164,336

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,	
	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	\$22,010	\$22,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,655	6,663
Deferred income taxes	(116)	66
Stock-based compensation	1,323	1,454
Bond impairment	345	--
Net change in accrued interest, premiums, and discounts on investments	(5)	33
Other	--	17
	30,212	31,108
Changes in operating assets and liabilities:		
Accounts receivable	(3,504)	(2,642)
Inventories	(285)	(1,180)
Prepaid expenses	754	1,932
Other non-current assets	(633)	(212)
Accounts payable and accrued liabilities	265	(105)
Accrued income and other taxes	1,405	837
Other non-current liabilities	195	745
	28,409	30,483
Cash flows from investing activities:		
Property, plant and equipment additions	(8,836)	(6,123)
Purchase of investments	(21,798)	--
Proceeds from sale of investments	210	--
Proceeds from maturities of investments	5,000	13,400
	(25,424)	7,277
Cash flows from financing activities:		
Shares tendered for employees' withholding taxes on stock-based compensation	(1,112)	(154)
Tax benefit related to stock-based compensation	--	150
Purchase of treasury stock	(1,276)	(30,698)
Dividends paid	(5,196)	(4,428)
	(7,584)	(35,130)

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Net change in cash and cash equivalents	(4,599)	2,630
Cash and cash equivalents at beginning of period	28,346	20,775
Cash and cash equivalents at end of period	\$23,747	\$23,405

Cash paid for:		
Income taxes	\$7,568	\$8,278

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

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares Outstanding	Amount	Shares	Amount				
Balances, December 31, 2015	1,824	\$342	1,596	\$(111,988)	\$35,945	\$283	\$219,516	\$144,098
Net income							22,010	22,010
Other comprehensive income (loss)						(827)		(827)
Stock-based compensation transactions	7		(7)	102	1,252			1,354
Shares surrendered in stock transactions	(3)		3	(1,112)				(1,112)
Purchase of treasury stock	(4)		4	(1,276)				(1,276)
Dividends							(5,226)	(5,226)
Balances, September 30, 2016	1,824	\$342	1,596	\$(114,274)	\$37,197	\$(544)	\$236,300	\$159,021

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, 2015 ("2015 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,	December 31,
	2016	2015
Raw materials	\$13,305	\$12,775
Work in process	7,528	6,557
Finished goods	9,223	10,439
Total inventories	\$30,056	\$29,771

(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,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Net income	\$7,614	\$7,799	\$22,010	\$22,875
Weighted average basic shares outstanding	1,825	1,836	1,823	1,853
Add: Effect of dilutive securities	33	24	33	23
Weighted average diluted shares outstanding	1,858			