ATRION CORP
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[ x ]
Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 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.

Number of Shares Outstanding at

| Title of Each Class | July 15, 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands, except per share amounts) | | | |
| Revenues | $36,143 | $37,655 | $72,358 | $75,979 |
| Cost of goods sold | 18,928 | 18,871 | 37,578 | 38,671 |
| Gross profit | 17,215 | 18,784 | 34,780 | 37,308 |
| Operating expenses: | | | | |
| Selling | 1,664 | 1,682 | 3,400 | 3,203 |
| General and administrative | 3,880 | 4,313 | 7,829 | 8,271 |
| Research and development | 1,597 | 1,669 | 3,012 | 3,228 |
| | 7,141 | 7,664 | 14,241 | 14,702 |
| Operating income | 10,074 | 11,120 | 20,539 | 22,606 |
| Interest income | 85 | 328 | 208 | 505 |
| Other income (expense), net | 36 | -- | (309) | -- |
| Income before provision for income taxes | 10,195 | 11,448 | 20,438 | 23,111 |
| Provision for income taxes | (2,745) | (3,974) | (6,042) | (8,036) |
| Net income | $7,450 | $7,474 | $14,396 | $15,075 |
| Net income per basic share | $4.09 | $4.04 | $7.90 | $8.10 |
| Weighted average basic shares outstanding | 1,822 | 1,850 | 1,823 | 1,862 |
| Net income per diluted share | $4.02 | $3.99 | $7.76 | $8.00 |
| Weighted average diluted shares outstanding | 1,853 | 1,872 | 1,855 | 1,884 |
| Dividends per common share | $0.90 | $0.75 | $1.80 | $1.50 |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Net Income | $7,450 | $7,474 | $14,396 | $15,075 |
| Other Comprehensive Income (Loss): | | | | |
| Unrealized income (loss) on investments, net of tax (benefit) expense of ($136), $117, ($172) and $179 | (252) | 218 | (321) | 333 |
| Comprehensive Income | $7,198 | $7,692 | $14,075 | $15,408 |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| Assets | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | $30,817 | $28,346 |
| Short-term investments | 6 | 44 |
| Accounts receivable | 18,833 | 16,620 |
| Inventories | 31,167 | 29,771 |
| Prepaid expenses and other current assets | 3,815 | 2,934 |
| Deferred income taxes | 580 | 580 |
| | 85,218 | 78,295 |
| Long-term investments | 10,617 | 9,866 |
| Property, plant and equipment | 155,772 | 150,807 |
| Less accumulated depreciation and amortization | 91,483 | 87,493 |
| | 64,289 | 63,314 |
| Other assets and deferred charges: | | |
| Patents | 2,068 | 2,193 |
| Goodwill | 9,730 | 9,730 |
| Other | 1,067 | 938 |
| | 12,865 | 12,861 |
| Total assets | $172,989 | $164,336 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $7,576 | $8,987 |
| Accrued income and other taxes | 660 | 329 |
| | 8,236 | 9,316 |
| Line of credit | -- | -- |
| Other non-current liabilities | 11,167 | 10,922 |
| Stockholders' equity: | | |
| Common stock, par value $0.10 per share; authorized10,000 shares, issued 3,420 shares | 342 | 342 |
| Paid-in capital | 36,945 | 35,945 |
| Accumulated other comprehensive income (loss) | (38) | 283 |
| Retained earnings | 230,611 | 219,516 |

| | | |
|---|---|---|
| Treasury shares,1,596 at June 30, 2016 and 1,582 at December 31, 2015, at cost | (114,274) | (111,988) |
| Total stockholders' equity | 153,586 | 144,098 |
| Total liabilities and stockholders' equity | $172,989 | $164,336 |

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | $14,396 | $15,075 |
| Adjustments to reconcile net income tonet cash provided by operating activities: | | |
| Depreciation and amortization | 4,442 | 4,503 |
| Deferred income taxes | 225 | 524 |
| Stock-based compensation | 1,081 | 1,054 |
| Bond impairment | 345 | -- |
| Net change in accrued interest, premiums, and discounts on investments | 38 | 106 |
| Other | -- | 17 |
| | 20,527 | 21,279 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,213) | (4,286) |
| Inventories | (1,396) | 569 |
| Prepaid expenses | (881) | 1,766 |
| Other non-current assets | (130) | (263) |
| Accounts payable and accrued liabilities | (1,411) | (1,091) |
| Accrued income and other taxes | 331 | (117) |
| Other non-current liabilities | 193 | 65 |
| | 15,020 | 17,922 |
| Cash flows from investing activities: | | |
| Property, plant and equipment additions | (5,292) | (4,658) |
| Purchase of investments | (6,799) | -- |
| Proceeds from sale of investments | 210 | -- |
| Proceeds from maturities of investments | 5,000 | 13,400 |
| | (6,881) | 8,742 |
| Cash flows from financing activities: | | |
| Shares tendered for employees' withholding taxes on stock-based compensation | (1,112) | (155) |
| Tax benefit related to stock-based compensation | -- | 150 |
| Purchase of treasury stock | (1,276) | (25,072) |
| Dividends paid | (3,280) | (2,782) |
| | (5,668) | (27,859) |

| | | |
|---|---|---|
| Net change in cash and cash equivalents | 2,471 | (1,195) |
| Cash and cash equivalents at beginning of period | 28,346 | 20,775 |
| Cash and cash equivalents at end of period | $30,817 | $19,580 |
| | | |
| Cash paid for: | | |
| Income taxes | $5,860 | $5,138 |

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 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares Outstanding | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
| Balances, December 31, 2015 | 1,824 | $342 | 1,596 | $(111,988) | $35,945 | $283 | $219,516 | $144,098 |
| Net income | | | | | | | 14,396 | 14,396 |
| Other comprehensive income (loss) | | | | | | (321) | | (321) |
| Stock-based compensation transactions | 7 | | (7) | 102 | 1,000 | | | 1,102 |
| Shares surrendered in stock transactions | (3) | | 3 | (1,112) | | | | (1,112) |
| Purchase of treasury stock | (4) | | 4 | (1,276) | | | | (1,276) |
| Dividends | | | | | | | (3,301) | (3,301) |
| Balances, June 30, 2016 | 1,824 | $342 | 1,596 | $(114,274) | $36,945 | $(38) | $230,611 | $153,586 |

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):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $13,629 | $12,775 |
| Work in process | 7,278 | 6,557 |
| Finished goods | 10,260 | 10,439 |
| Total inventories | $31,167 | $29,771 |

(3) Income per share
The following is the computation for basic and diluted income per share:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in thousands, except per share amounts) | | | |
| Net income | $7,450 | $7,474 | $14,396 | $15,075 |
| Weighted average basic shares outstanding | 1,822 | 1,850 | 1,823 | 1,862 |

| | | | | |
|---|---|---|---|---|
| Add: Effect of dilutive securities | 31 | 22 | 32 | 22 |
| Weighted average diluted shares outstanding | 1,853 | 1,872 | 1,855 | 1,884 |
| Earnings per share: | | | | |
| Basic | $4.09 | $4.04 | $7.90 | $8.10 |
| Diluted | $4.02 | $3.99 | $7.76 | $8.00 |

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

Incremental shares from stock options and restricted stock units were included in the calculation of weighted average diluted shares outstanding using the treasury stock method. Dilutive securities representing 41 and 15 shares of common stock for the quarters ended June 30, 2016 and 2015, respectively, were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive.

(4) Investments

As of June 30, 2016, we held an investment that is required to be measured for disclosure purposes at fair value on a recurring basis. This investment is considered Level 2 investment and is considered to be a held-to-maturity security. We consider as current assets those investments which will mature in the next 12 months. The remaining investments are considered non-current assets. The amortized cost and fair value of our investments, and the related gross unrealized gains and losses, were as follows as of June 30, 2016 (in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Short-term Investments: | | | | |
| Corporate bonds | $6 | $-- | $-- | $6 |
| Long-term Investments | | | | |
| Corporate bonds | $5,000 | $19 | $-- | $5,019 |

The amortized cost and fair value of our investments, and the related gross unrealized gains and losses, were as follows as of December 31, 2015 (in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Short-term Investments: | | | | |
| Corporate bonds | $44 | $-- | $-- | $44 |
| Long-term Investments | | | | |
| Corporate bonds | $5,555 | $-- | $(30) | $5,525 |

The above long-term corporate bond represents investment in one issuer at June 30, 2016. At June 30, 2016, the length of time until maturity of this security is 60 months.

During the second quarter of 2016 we sold a long-term corporate bond for which we had taken impairment charges during the fourth quarter of 2015 and first quarter of 2016. This bond was sold at a small gain.

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

The cost and fair value of our Level 1 investments that are being accounted for as available-for-sale securities, and the related gross unrealized gain reflected in accumulated other comprehensive income, were as follows as of the dates shown below (in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair value |
|---|---|---|---|---|
| As of June 30, 2016: | | | | |
| Long-term Investments: | | | | |
| Equity investments | $5,675 | $-- | $(58) | $5,617 |

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair value |
|---|---|---|---|---|
| As of December 31, 2015: | | | | |
| Long-term Investments: | | | | |
| Equity investments | $3,876 | $435 | $-- | $4,311 |

(5) Patents and Licenses

Purchased patents and licenses paid for the use of other entities' patents are amortized over the useful life of the patent or license. The following tables provide information regarding patents and licenses (dollars in thousands):

| June 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|
| Weighted Average Original Life (years) | Gross Carrying Amount | Accumulated Amortization | Weighted Average Original Life (years) | Gross Carrying Amount | Accumulated Amortization |

| | | | | | |
|---|---|---|---|---|---|
| 15.67 | $13,840 | $11,772 | 15.67 | $13,840 | $11,647 |

Aggregate amortization expense for patents and licenses was $63,000 and $152,000 for the three months ended June 30, 2016 and 2015, respectively, and $125,000 and $219,000 for the six months ended June 30, 2016 and 2015, respectively.

Estimated future amortization expense for each of the years set forth below ending December 31 is as follows (in thousands):

| | |
|---|---|
| 2017 | $155 |
| 2018 | $123 |
| 2019 | $123 |
| 2020 | $119 |
| 2021 | $119 |

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

(6) Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Stock Compensation (Topic718): Improvements to Employee Share-Based Payment Accounting. The objective of this update is to simplify several aspects of the accounting for employee share-based payments. Under this guidance all excess tax benefits (“windfalls”) and deficiencies (“shortfalls”) related to employee stock compensation are recognized within income tax expense. Under prior guidance windfalls were recognized to paid-in capital and shortfalls were only recognized to the extent they exceeded the pool of windfall tax benefits. The ASU also requires companies to classify cash flows resulting from employee share-based payments, including the additional tax benefits or expenses related to the vesting or settlement of share-based awards, as cash flows from operating activities. These items were previously included as cash flows from financing activities. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We elected to adopt ASU 2016-09 during the second quarter of 2016 and are therefore required to report the impacts as though the ASU had been adopted on January 1, 2016. As a result of the adoption, a tax benefit of $623,000 was recorded in the second quarter of 2016 reflecting the excess tax benefits. The adoption also impacted the computation of diluted shares outstanding for all 2016 reporting periods. First quarter of 2016 net income per diluted share was restated to $3.74 from $3.76. There was no restatement necessary for cash flows from operating activities or cash flows from financing activities in the previous 2016 period. The adoption was on a prospective basis and therefore had no impact on prior years.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the new guidance to determine the impact it may have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17) which requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by this guidance. ASU 2015-17 is effective for annual and interim periods beginning after December 15, 2016 but early application is permitted and the guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We do not anticipate a material impact on our consolidated financial statements at the time of adoption of this new standard.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in United States Generally Accepted Accounting Principles when it becomes effective. In July 2015, the FASB voted to delay the effective date of ASU 2014-09 by one year, making it effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted as of the original effective date. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the impact of ASU 2014-09 on our consolidated financial statements.

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 and valves and inflation devices used in marine and aviation safety products.

Our products are used in a wide variety of applications by numerous customers. We encounter competition in all of our markets and compete primarily on the basis of product quality, price, engineering, customer service and delivery time.
Our strategy is to provide a broad selection of products in the areas of our expertise. Research and development efforts are focused on improving current products and developing highly-engineered products that meet customer needs and have the potential for broad market applications and significant sales. Proposed new products may be subject to regulatory clearance or approval prior to commercialization and the time period for introducing a new product to the marketplace can be unpredictable. We also focus on controlling costs by investing in modern manufacturing technologies and controlling purchasing processes. We have been successful in consistently generating cash from operations and have used that cash to reduce indebtedness, to fund capital expenditures, to repurchase stock and to pay dividends.
Our strategic objective is to further enhance our position in our served markets by:

- Focusing on customer needs;
- Expanding existing product lines and developing new products;
- Manufacturing products to exacting quality standards; and
- Preserving and fostering a collaborative and entrepreneurial culture.

For the three months ended June 30, 2016, we reported revenues of $36.1 million and operating income of $10.1 million, down 4 percent and 9 percent, respectively, from the three months ended June 30, 2015. Net income for each of the two quarterly periods was $7.5 million. For the six months ended June 30, 2016, we reported revenues of $72.4 million, operating income of $20.5 million and net income of $14.4 million, down 5 percent, 9 percent and 5 percent, respectively, from the six months ended June 30, 2015.

Results for the three months ended June 30, 2016

Consolidated net income totaled $7.5 million, or $4.09 per basic and $4.02 per diluted share, in the second quarter of 2016. This is compared with consolidated net income of $7.5 million, or $4.04 per basic and $3.99 per diluted share, in the second quarter of 2015. The income per basic share computations are based on weighted average basic shares outstanding of 1,822,000 in the 2016 period and 1,850,000 in the 2015 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,853,000 in the 2016 period and 1,872,000 in the 2015 period.

Consolidated revenues of $36.1 million for the second quarter of 2016 were 4 percent lower than revenues of $37.7 million for the second quarter of 2015. Revenues were negatively impacted by the strong U.S. dollar in our international markets, as well as by the commoditization of an ophthalmic product.

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

| | Three Months ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Fluid Delivery | $14,921 | $16,334 |
| Cardiovascular | 12,546 | 11,668 |
| Ophthalmology | 4,560 | 5,107 |
| Other | 4,116 | 4,546 |
| Total | $36,143 | $37,655 |

Cost of goods sold of $18.9 million for the second quarter of 2016 was flat as compared to the second quarter of 2015. The impact of decreased sales was offset by increased manufacturing costs. Increased manufacturing support personnel costs, increased supplies and increased repairs were partially offset by reduced utilities, the impact of continued cost improvement projects and the suspension of the medical device excise tax. In December 2015, as part of the Omnibus Appropriations Act, collection of the medical device excise tax was suspended for 2016 and 2017. Our cost of goods sold in the second quarter of 2016 was 52.4 percent of revenues compared with 50.1 percent of revenues in the second quarter of 2015.

Gross profit of $17.2 million in the second quarter of 2016 was $1.6 million, or 9 percent, lower than in the comparable 2015 period. Our gross profit percentage in the second quarter of 2016 was 47.6 percent of revenues compared with 49.9 percent of revenues in the second quarter of 2015. The decrease in gross profit percentage in the 2016 period compared to the 2015 period was primarily related to increased manufacturing support costs mentioned above.

Our second quarter 2016 operating expenses of $7.1 million were $523,000 lower than the operating expenses for the second quarter of 2015. This decrease was attributable to a $72,000 decrease in Research and Development, or R&D, expenses and an $18,000 decrease in Selling expenses along with a $433,000 decrease in General and Administrative, or G&A, expenses. The decrease in R&D costs was primarily related to decreased outside services partially offset by increased compensation costs and increased supplies. The decrease in Selling expenses for the second quarter of 2016 was primarily related to decreased promotion, advertising, depreciation and miscellaneous expenses partially offset by increased outside services and compensation. The decrease in G&A expenses for the second quarter of 2016 was principally attributable to decreased compensation, amortization and travel.

Operating income in the second quarter of 2016 decreased $1.0 million to $10.1 million, a 9 percent decrease from our operating income in the quarter ended June 30, 2015. Operating income was 28 percent of revenues in the second quarter of 2016 and 30 percent of revenues in the second quarter of 2015.

Income tax expense for the second quarter of 2016 was $2.7 million compared to income tax expense of $4.0 million for the same period in the prior year. The effective tax rate for the second quarter of 2016 was 26.7 percent, compared with 34.7 percent for the second quarter of 2015. The second quarter of 2016 had a benefit of $623,000 from the early adoption of Accounting Standards Update 2016-09 regarding the accounting for employee share-based compensation. The adoption was on a prospective basis and therefore had no impact on prior years. We expect the effective tax rate for the remainder of 2016 to be approximately 33.0 percent.

Results for the six months ended June 30, 2016

Consolidated net income totaled $14.4 million, or $7.90 per basic and $7.76 per diluted share, in the first six months of 2016. This is compared with consolidated net income of $15.1 million, or $8.10 per basic and $8.00 per diluted share, in the first six months of 2015. The income per basic share computations are based on weighted average basic shares outstanding of 1,823,000 in the 2016 period and 1,862,000 in the 2015 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,855,000 in the 2016 period and 1,884,000 in the 2015 period.

Consolidated revenues of $72.4 million for the first six months of 2016 were 5 percent lower than revenues of $76.0 million for the first six months of 2015. Revenues were negatively impacted by the strong U.S. dollar in our international markets, as well as by the commoditization of an ophthalmic product.

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

| | Six Months ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Fluid Delivery | $30,610 | $32,228 |
| Cardiovascular | 24,259 | 23,604 |
| Ophthalmology | 8,031 | 10,306 |
| Other | 9,458 | 9,841 |
| Total | $72,358 | $75,979 |

Cost of goods sold of $37.6 million for the first six months of 2016 was $1.1 million lower than in the comparable 2015 period. The primary contributors to the decrease in our cost of goods sold were decreased sales, the impact of continued cost improvement initiatives and the suspension of the medical device excise tax partially offset by increased manufacturing support personnel costs, increased supplies and increased repairs. Our cost of goods sold in the first six months of 2016 was 51.9 percent of revenues compared with 50.9 percent of revenues in the first six months of 2015.

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Gross profit of $34.8 million in the first six months of 2016 was $2.5 million, or 7 percent, lower than in the comparable 2015 period. Our gross profit percentage in the first six months of 2016 was 48.1 percent of revenues compared with 49.1 percent of revenues in the first six months of 2015. The decrease in gross profit percentage in the 2016 period compared to the 2015 period was primarily related to the increased manufacturing costs mentioned above.

Our first six months 2016 operating expenses of $14.2 million were $461,000 lower than the operating expenses for the first six months of 2015. This decrease was comprised of a $216,000 decrease in R&D expenses, a $442,000 decrease in G&A expenses partially offset by a $197,000 increase in Selling expenses. The decrease in R&D costs was primarily related to decreased outside services partially offset by increased supplies and compensation. The decrease in G&A expenses for the first six months of 2016 was principally attributable to decreased compensation, amortization and travel costs partially offset by increased outside services. The increase in Selling expenses is primarily related to increased promotion, advertising, compensation and outside services partially offset by reduced depreciation and miscellaneous expenses.

Operating income in the first six months of 2016 decreased $2.1 million to $20.5 million, a 9 percent decrease from our operating income in the six months ended June 30, 2015. Operating income was 28 percent of revenues in the first six months of 2016 and 30 percent of revenues in the first six months of 2015.

Income tax expense for the first six months of 2016 was $6.0 million compared to income tax expense of $8.0 million for the same period in the prior year. The effective tax rate for the first six months of 2016 was 29.6 percent, compared with 34.8 percent for the first six months of 2015. The first six months of 2016 had a benefit of $623,000 from the early adoption of Accounting Standards Update 2016-09 regarding the accounting for employee share-based compensation. The adoption was on a prospective basis and therefore had no impact on prior years.

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. The bank is obligated to make advances under the revolving line of credit until October 1, 2021 and, assuming an event of default is not then existing, we can convert outstanding advances under the revolving line of credit at any time until October 1, 2021 to term loans with a term of up to two years. We had no outstanding borrowings under our credit facility at June 30, 2016 or at December 31, 2015. The credit facility contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At June 30, 2016, we were in compliance with all financial covenants. We believe that the bank providing the credit facility is highly-rated and that the entire $40.0 million under the credit facility is currently available to us. If that bank were unable to provide such funds, we believe that such inability would not impact our ability to fund operations.

At June 30, 2016, we had a total of $41.4 million in cash and cash equivalents, short-term investments and long-term investments, an increase of $3.2 million from December 31, 2015. The principal contributor to this increase was operating results.

Cash flows from operating activities of $15.0 million for the six months ended June 30, 2016 were primarily comprised of net income plus the net effect of non-cash expenses. During the first six months of 2016, we expended $5.3 million for the addition of property and equipment, $6.8 million for the purchase of investments, $1.3 million for treasury stock and $3.3 million for dividends. During the same period, maturities and sales of investments generated $5.2 million.

At June 30, 2016, we had working capital of $76.9 million, including $30.8 million in cash and cash equivalents and $6,000 in short-term investments. The $8.0 million increase in working capital during the first six months of 2016 was primarily related to increases in cash and cash equivalents, accounts receivable and inventories along with decreases in accounts payable and accrued liabilities. This increase was partially offset by increases in accrued income and other taxes. The net increase in cash and short-term investments was primarily related to operating results. The increase in accounts receivable was primarily related to increased revenues for the second quarter of 2016 as compared to the fourth quarter of 2015. The increase in inventories was primarily related to higher safety stock levels necessary to support anticipated revenues. The decrease in accounts payable and accrued liabilities was primarily attributable to accrued compensation.

We believe that our $41.4 million in cash, cash equivalents, short-term investments and long-term investments, along with cash flows from operations and available borrowings of up to $40.0 million under our credit facility, will be sufficient to fund our cash requirements for at least the foreseeable future. We believe that our strong financial position would allow us to access equity or debt financing should that be necessary. Additionally, we believe that our cash and cash equivalents, short-term investments and long-term investments, as a whole, will continue to increase during the remainder of 2016.

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 2016, our ability to fund our cash requirements for the foreseeable future with our current assets, long-term investments, cash flow and borrowings under the credit facility, the impact that the inability of the bank providing the credit facility to provide funds thereunder would have on our ability to fund operations, the impact of the restrictive covenants in our credit facility on our liquidity and capital resources; our access to equity and debt financing, and the increase in cash, cash equivalents, and investments in the remainder of 2016. Words such as "expects," "believes," "anticipates," "intends," "should," "plans," and variations of such words and similar expressions are inte 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 June 30, 2016, we did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in our 2015 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 June 30, 2016. 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 June 30, 2016 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 2015 Form 10-K.

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 |
| 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 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Atrion Corporation
(Registrant)

Date: August 8, 2016 By: /s/ David A. Battat
David A. Battat
Chief Executive Officer

Date: August 8, 2016 By: Jeffery Strickland
Jeffery Strickland
Vice President and
Chief Financial Officer
(Principal Accounting and Financial Officer)

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