

ATRION CORP
Form 10-Q
August 04, 2009

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 June 30, 2009

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).

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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 July 17, 2009 |
|---|--|
| Common stock, Par Value \$0.10 per share | 1,979,171 |

ATRION CORPORATION AND SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands, except per share amounts) | | | |
| Revenues | \$ 26,001 | \$ 24,242 | \$ 51,048 | \$ 48,844 |
| Cost of goods sold | 13,970 | 13,137 | 27,929 | 27,059 |
| Gross profit | 12,031 | 11,105 | 23,119 | 21,785 |
| Operating expenses: | | | | |
| Selling | 1,516 | 1,646 | 3,009 | 3,345 |
| General and administrative | 2,718 | 2,505 | 5,434 | 5,245 |
| Research and development | 760 | 823 | 1,531 | 1,610 |
| | 4,994 | 4,974 | 9,974 | 10,200 |
| Operating income | 7,037 | 6,131 | 13,145 | 11,585 |
| Other income: | | | | |
| Interest income | 127 | 49 | 229 | 85 |
| Other income | -- | 1 | 1 | 1 |
| | 127 | 50 | 230 | 86 |
| Income before provision for income taxes | 7,164 | 6,181 | 13,375 | 11,671 |
| Provision for income taxes | (2,507) | (2,046) | (4,584) | (3,880) |
| Net income | \$ 4,657 | \$ 4,135 | \$ 8,791 | \$ 7,791 |
| Income per basic share | \$ 2.35 | \$ 2.10 | \$ 4.45 | \$ 3.99 |
| Weighted average basic shares outstanding | 1,980 | 1,965 | 1,977 | 1,954 |
| Income per diluted share | \$ 2.30 | \$ 2.06 | \$ 4.37 | \$ 3.89 |
| Weighted average diluted shares outstanding | 2,021 | 2,005 | 2,012 | 2,004 |
| Dividends per common share | \$ 0.30 | \$ 0.24 | \$ 0.60 | \$ 0.48 |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| Assets | June 30, 2009 | December 31, 2008 |
|---|------------------|----------------------|
| | (in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,942 | \$ 12,056 |
| Short-term investments | 7,790 | 4,692 |
| Accounts receivable | 11,810 | 10,875 |
| Inventories | 18,786 | 20,169 |
| Prepaid expenses | 1,369 | 719 |
| Deferred income taxes | 596 | 596 |
| | 54,293 | 49,107 |
| Long-term investments | 4,420 | -- |
| Property, plant and equipment | 97,289 | 94,364 |
| Less accumulated depreciation and amortization | 43,779 | 40,994 |
| | 53,510 | 53,370 |
| Other assets and deferred charges: | | |
| Patents | 1,717 | 1,863 |
| Goodwill | 9,730 | 9,730 |
| Other | 1,211 | 1,283 |
| | 12,658 | 12,876 |
| | \$ 124,881 | \$ 115,353 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 6,151 | \$ 5,482 |
| Accrued income and other taxes | 690 | 731 |
| | 6,841 | 6,213 |
| Line of credit | -- | -- |
| Other non-current liabilities | 8,816 | 8,298 |
| Stockholders' equity: | | |
| Common shares, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares | 342 | 342 |

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| | | | | |
|--|----------|----------|----|---------|
| Paid-in capital | 19,975 | 19,130 | | |
| Accumulated other comprehensive loss | (533) | (533) | | |
| Retained earnings | 125,151 | 117,554 | | |
| Treasury shares, 1,441 at June 30, 2009 and 1,452 at December 31, 2008, at cost | (35,711) | (35,651) | | |
| Total stockholders' equity | 109,224 | 100,842 | | |
| | \$ | 124,881 | \$ | 115,353 |

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, | | |
|---|------------------------------|----------|----------|
| | 2009 | | 2008 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ | 8,791 | \$ 7,791 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 3,221 | 3,054 |
| Deferred income taxes | | 469 | 242 |
| Stock-based compensation | | 331 | 327 |
| Other | | -- | 37 |
| | | 12,812 | 11,451 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | | (935) | (2,515) |
| Inventories | | 1,383 | (2,844) |
| Prepaid expenses | | (650) | 316 |
| Other non-current assets | | 72 | (189) |
| Accounts payable and accrued liabilities | | 669 | 124 |
| Accrued income and other taxes | | (41) | 1,347 |
| Other non-current liabilities | | 49 | (98) |
| | | 13,359 | 7,593 |
| Cash flows from investing activities: | | | |
| Property, plant and equipment additions | | (3,215) | (3,515) |
| Purchases of investments | | (7,518) | -- |
| | | (10,733) | (3,515) |
| Cash flows from financing activities: | | | |
| Exercise of stock options | | 445 | 525 |
| Shares tendered for employees' taxes on stock-based compensation | | (70) | (870) |
| Tax benefit related to stock options | | 73 | 1,481 |
| Dividends paid | | (1,188) | (942) |
| | | (740) | 194 |
| Net change in cash and cash equivalents | | 1,886 | 4,272 |
| Cash and cash equivalents at beginning of period | | 12,056 | 3,531 |
| Cash and cash equivalents at end of period | \$ | 13,942 | \$ 7,803 |
| Cash paid for: | | | |

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| | | | | |
|--------------|----|-------|----|-----|
| Income taxes | \$ | 4,104 | \$ | 261 |
|--------------|----|-------|----|-----|

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

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

(1) Basis of Presentation

In the opinion of management, all adjustments necessary for a fair presentation of results of operations for the periods presented have been included in the accompanying unaudited consolidated financial statements of Atrion Corporation and its subsidiaries (the "Company"). Such adjustments consist of normal recurring items. The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and include the information and notes required by such instructions. Accordingly, the consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's 2008 Annual Report on Form 10-K.

(2) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by using the first-in, first-out method. The following table details the major components of inventories (in thousands):

| | June 30, 2009 | December 31, 2008 |
|-------------------|------------------|----------------------|
| Raw materials | \$ 7,766 | \$ 8,978 |
| Work in process | 4,598 | 4,579 |
| Finished goods | 6,422 | 6,612 |
| Total inventories | \$ 18,786 | \$ 20,169 |

(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, | |
|--|--|----------|------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands, except per share amounts) | | | |
| Net income | \$ 4,657 | \$ 4,135 | \$ 8,791 | \$ 7,791 |
| Weighted average basic shares outstanding | 1,980 | 1,965 | 1,977 | 1,954 |
| Add: Effect of dilutive securities | 41 | 40 | 35 | 50 |
| Weighted average diluted shares outstanding | 2,021 | 2,005 | 2,012 | 2,004 |
| Earnings per share: | | | | |
| Basic | \$ 2.35 | \$ 2.10 | \$ 4.45 | \$ 3.99 |
| Diluted | \$ 2.30 | \$ 2.06 | \$ 4.37 | \$ 3.89 |

Outstanding options that were not included in the diluted income per share calculation because their effect would be anti-dilutive totaled 16,000 shares for the three-month and six-month periods ended June 30, 2009 and 2008.

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

(4) Investments

As of June 30, 2009, the Company 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 assets as defined by SFAS 157, Fair Value Measurements. The Company considers as current assets those investments which will mature or are likely to be sold in the next 12 months. The remaining investments are considered non-current assets. The amortized cost and fair value of the Company's investments that are being accounted for as held-to-maturity securities, and the related gross unrealized gains and losses, were as follows as of June 30, 2009 (in thousands):

| | Cost | Gross Unrealized | | Fair Value |
|---|----------|------------------|--------|------------|
| | | Gains | Losses | |
| Short-term Investments: | | | | |
| Corporate bonds | \$ 4,154 | \$ 21 | —\$ | 4,175 |
| Bank certificates of deposit | 3,006 | — | — | 3,006 |
| Municipal tax-exempt bonds | 630 | — | — | 630 |
| Short-term investment securities held to maturity | \$ 7,790 | \$ 21 | —\$ | 7,811 |
| Long-term Investments | | | | |
| Corporate bonds | \$ 4,420 | \$ 25 | \$ (5) | \$ 4,440 |

At June 30, 2009, the length of time until maturity for the short-term securities ranged from two to nine months. At June 30, 2009, the length of time until maturity for the long-term securities ranged from 19 to 26 months.

(5) Subsequent Events

Effective the third quarter of 2009, the Company has implemented Statement of Financial Accounting Standards No. 165, Subsequent Events, ("FAS 165"). FAS 165 provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this statement did not have a material impact on the Company's consolidated financial statements. The Company evaluated all events or transactions that occurred after June 30, 2009 up through August 4, 2009, the date the Company issued these financial statements. During this period the Company did not have any material recognizable subsequent events.

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

(6) Pension Benefits

The components of net periodic pension cost for the Atrion Corporation Cash Balance Plan (the "Plan") are as follows (in thousands):

| | Three Months ended June 30, | | Six Months ended June 30, | |
|----------------------------------|--------------------------------|-------------|------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ -- | \$ -- | \$ -- | \$ -- |
| Interest cost | 54 | 56 | 108 | 112 |
| Expected return on assets | (54) | (55) | (108) | (110) |
| Prior service cost amortization | -- | -- | -- | -- |
| Actuarial loss | 8 | 8 | 16 | 16 |
| Net periodic pension cost | \$ 8 | \$ 9 | \$ 16 | \$ 18 |

In September 2007, the Company terminated the Plan. Participants accrued pension benefits through December 31, 2007, but did not accrue any additional benefits under the Plan after that date. However, participants will continue to earn interest credits on their account balances until the Plan has settled all its obligations with respect to termination. The Company believes that the Plan is adequately funded to cover its settlement obligations. The Company will recognize its remaining net unrecognized actuarial loss as a settlement loss at the final pay out. The final pay out for the Plan termination will likely occur in the second half of 2009 after all regulatory approvals are received.

(7) Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP concluded that instruments containing rights to nonforfeitable dividends granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocations in computing basic earnings per share (EPS) under the two-class method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, with prior period retrospective application. The Company's adoption of this FSP on January 1, 2009 had no material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued three new FSP's relating to fair value accounting; FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, and FSP FAS 107-1/APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. These FSPs impact certain aspects of fair value measurement and related disclosures. The provisions of these FSPs are effective beginning in the second quarter of 2009. The Company's adoption of these FSP's had no material effect on the Company's consolidated financial statements.

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

In June 2009, the FASB approved the FASB Accounting Standards Codification (the “Codification”) as the single source of authoritative nongovernmental U.S. GAAP to be launched on July 1, 2009. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is effective for the Company in the interim period ending September 30, 2009 and the Company does not expect the adoption to have a material impact on the Company’s consolidated financial statements.

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

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

Overview

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

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

The Company's strategy is to provide a broad selection of products in the areas of its expertise. Research and development efforts are focused on improving current products and developing highly-engineered products that meet customer needs and have the potential for broad market applications and significant sales. Proposed new products may be subject to regulatory clearance or approval prior to commercialization and the time period for introducing a new product to the marketplace can be unpredictable. The Company also focuses on controlling costs by investing in modern manufacturing technologies and controlling purchasing processes. The Company has been successful in consistently generating cash from operations and has used that cash to reduce indebtedness, to fund capital expenditures, to repurchase stock and to pay dividends.

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

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

For the three months ended June 30, 2009, the Company reported revenues of \$26.0 million, operating income of \$7.0 million and net income of \$4.7 million, up 7 percent, 15 percent and 13 percent, respectively, from the three months ended June 30, 2008. For the six months ended June 30, 2009, the Company reported revenues of \$51.0 million, operating income of \$13.1 million and net income of \$8.8 million, up 5 percent, 13 percent and 13 percent, respectively, from the six months ended June 30, 2008.

Over the past ten years, the Company has achieved meaningful annual increases in operating revenues, operating income, net income from continuing operations and diluted earnings per share from continuing operations. During this ten-year period, the Company has been able to achieve this growth even during declines in economic activity. The United States and world economies have recently deteriorated at an unprecedented pace. This resulting decline in global demand makes it difficult to make accurate predictions for 2009 results. The Company expects to achieve at least modest growth in diluted earnings per share for the second half of 2009 as compared to the second half of 2008, but is unable to predict at what level.

Results for the three months ended June 30, 2009

Consolidated net income totaled \$4.7 million, or \$2.35 per basic and \$2.30 per diluted share, in the second quarter of 2009. This is compared with consolidated net income of \$4.1 million, or \$2.10 per basic and \$2.06 per diluted share, in the second quarter of 2008. The income per basic share computations are based on weighted average basic shares outstanding of 1,979,797 in the 2009 period and 1,964,700 in the 2008 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,021,473 in the 2009 period and 2,004,924 in the 2008 period.

Consolidated revenues of \$26.0 million for the second quarter of 2009 were 7 percent higher than revenues of \$24.2 million for the second quarter of 2008. This increase was generally attributable to higher sales volumes and increased prices.

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

| | Three Months ended June 30, | |
|----------------|--------------------------------|-----------|
| | 2009 | 2008 |
| Fluid Delivery | \$ 9,493 | \$ 8,648 |
| Cardiovascular | 7,279 | 7,116 |
| Ophthalmology | 5,596 | 3,588 |
| Other | 3,633 | 4,890 |
| Total | \$ 26,001 | \$ 24,242 |

Cost of goods sold of \$14.0 million for the second quarter of 2009 was \$833,000 higher than in the comparable 2008 period. The primary contributor to this increase for the second quarter of 2009 was increased sales volume partially offset by improved manufacturing efficiencies. The Company's cost of goods sold in the second quarter of 2009 was 53.7 percent of revenues compared with 54.2 percent of revenues in the second quarter of 2008.

Gross profit of \$12.0 million in the second quarter of 2009 was \$926,000, or 8 percent, higher than in the comparable 2008 period. The Company's gross profit percentage in the second quarter of 2009 was 46.3 percent of revenues compared with 45.8 percent of revenues in the second quarter of 2008. The increase in gross profit percentage in the 2009 period compared to the 2008 period was primarily related to improved product mix and improved manufacturing efficiencies.

The Company's second quarter 2009 operating expenses of \$5.0 million were \$20,000 higher than the operating expenses for the second quarter of 2008. This increase was comprised of a \$212,000 increase in General and Administrative (G&A) expenses, largely offset by a \$130,000 decrease in selling (Selling) expenses and a \$62,000 decrease in Research and Development (R&D) expenses. The increase in G&A expenses for the second quarter of 2009 was principally attributable to increased compensation partially offset by reduced travel and outside services. The decrease in Selling expenses for the second quarter of 2009 was primarily related to decreased compensation, promotion, and travel-related expenses partially offset by an increase in bad debt expense. The decrease in R&D costs was primarily related to reduced new product testing costs for new products which are currently under development and evaluation. Operating income in the second quarter of 2009 increased \$906,000, to \$7.0 million, a 15 percent increase over operating income in the quarter ended June 30, 2008. Operating income was 27 percent of revenues in the second quarter of 2009 compared to 25 percent of revenues in the second quarter of 2008. The major contributors to the operating income improvement in the second quarter of 2009 were the previously mentioned increase in gross

profit partially offset by the slight increase in operating expenses.

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Income tax expense for the second quarter of 2009 was \$2.5 million compared to income tax expense of \$2.0 million for the same period in the prior year. The effective tax rate for the second quarter of 2009 was 35.0 percent, compared with 33.1 percent for the second quarter of 2008. The increase in the effective tax rate for 2009 is primarily a result of benefits from tax incentives for R&D expenditures being a smaller percentage of taxable income and an increase in state income taxes. The Company expects the effective tax rate for the remainder of 2009 to be within a range of 33.0 to 34.0 percent.

Results for the six months ended June 30, 2009

Consolidated net income totaled \$8.8 million, or \$4.45 per basic and \$4.37 per diluted share, in the first six months of 2009. This is compared with consolidated net income of \$7.8 million, or \$3.99 per basic and \$3.89 per diluted share, in the first six months of 2008. The income per basic share computations are based on weighted average basic shares outstanding of 1,976,860 in the 2009 period and 1,954,050 in the 2008 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 2,012,179 in the 2009 period and 2,004,006 in the 2008 period.

Consolidated revenues of \$51.0 million for the first six months of 2009 were 5 percent higher than revenues of \$48.8 million for the first six months of 2008. This increase was generally attributable to higher sales volumes and increased prices.

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

| | Six Months ended | |
|----------------|------------------|-----------|
| | 2009 | 2008 |
| Fluid Delivery | \$ 18,149 | \$ 16,896 |
| Cardiovascular | 14,491 | 14,584 |
| Ophthalmology | 10,530 | 7,368 |
| Other | 7,878 | 9,996 |
| Total | \$ 51,048 | \$ 48,844 |

Cost of goods sold of \$27.9 million for the first six months of 2009 was \$870,000 higher than in the comparable 2008 period. The primary contributor to this increase for the first six months of 2009 was increased sales volume partially offset by improved manufacturing efficiencies. The Company's cost of goods sold in the first six months of 2009 was 54.7 percent of revenues compared with 55.4 percent of revenues in the first six months of 2008.

Gross profit of \$23.1 million in the first six months of 2009 was \$1.3 million, or 6 percent, higher than in the comparable 2008 period. The Company's gross profit percentage in the first six months of 2009 was 45.3 percent of revenues compared with 44.6 percent of revenues in the first six months of 2008. The increase in gross profit percentage in the 2009 period compared to the 2008 period was primarily related to improved product mix and improved manufacturing efficiencies.

The Company's first six months 2009 operating expenses of \$10.0 million were \$226,000 lower than the operating expenses for the first six months of 2008. This decrease was comprised of a \$336,000 decrease in Selling expenses and a \$79,000 decrease in R&D expenses partially offset by a \$189,000 increase in G&A expenses. The decrease in Selling expenses for the first six months of 2009 was primarily related to decreased compensation, promotion, outside services, and travel-related expenses partially offset by an increase in bad debt expense. The decrease in R&D costs was primarily related to reduced prototype expenses. The increase in G&A expenses for the first six months of 2009 was principally attributable to increased compensation partially offset by decreased travel-related expenses. Operating income in the first six months of 2009 increased \$1.6 million, to \$13.1 million, a 13 percent increase over operating income in the six months ended June 30, 2008. Operating income was 26 percent of revenues in the first six months of 2009 compared to 24 percent of revenues in the first six months of 2008. The previously mentioned increase in gross profit coupled with the decrease in operating expenses were the major contributors to the operating income improvement in the first six months of 2009.

Income tax expense for the first six months of 2009 was \$4.6 million compared to income tax expense of \$3.9 million for the same period in the prior year. The effective tax rate for the first six months of 2009 was 34.3 percent, compared with 33.2 percent for the first six months of 2008. The increase in the effective tax rate for 2009 is primarily a result of benefits from tax incentives for R&D expenditures being a smaller percentage of taxable income and an increase in state income taxes. The Company expects the effective tax rate for the remainder of 2009 to be within a range of 33.0 to 34.0 percent.

Liquidity and Capital Resources

The Company has a \$25.0 million revolving credit facility (the "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 the Company, plus one percent. The Company had no outstanding borrowings under its Credit Facility at June 30, 2009 or at December 31, 2008. 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 the Company's liquidity or capital resources. At June 30, 2009, the Company was in compliance with all financial covenants and had \$25.0 million available for borrowing under the Credit Facility. The Company believes 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 the Company. If that bank were unable to provide such funds, the Company believes that such inability would not impact the Company's ability to fund operations.

At June 30, 2009, the Company had \$26.2 million in cash and cash equivalents and short-term and long-term investments, an increase of \$9.4 million from December 31, 2008. The principal contributor to this increase was the cash generated by operating activities of \$13.4 million, which was partially offset by payments for acquisitions of property, plant, and equipment of \$3.2 million and the payment of dividends of \$1.2 million

As of June 30, 2009, the Company had working capital of \$47.5 million, including \$13.9 million in cash and cash equivalents. The \$4.6 million increase in working capital during the first six months of 2009 was primarily related to increases in cash and short-term investments partially offset by decreases to inventories and an increase in accounts payable and accrued liabilities. The decrease in inventories was primarily related to the Company's consumption of raw materials purchased in 2008 under a program to hedge against future price increases. The increase in accounts payable and accrued liabilities is primarily related to routine amounts due to suppliers partially offset by reductions in accrued compensation.

Cash flows from operating activities generated \$13.4 million for the six months ended June 30, 2009 as compared to \$7.6 million for the six months ended June 30, 2008. The 2009 increase was primarily attributable to increased operational results, and more favorable cash requirements for working capital related to inventories and accounts receivables, as compared to the 2008 period. During the first six months of 2009, the Company expended \$3.2 million for the addition of property and equipment and \$7.5 million for short-term and long-term investments. During the first six months of 2009, stock option activities generated \$448,000 of cash and the Company paid dividends of \$1.2 million.

Although the recent distress in the financial markets and the global economy in general has not had a significant impact on the Company's liquidity, the Company continues to monitor the financial markets and general global economic conditions. In the current credit and financial markets, many companies are finding it difficult to gain access to capital resources. In spite of the current economic conditions, the Company believes that its \$21.7 million in cash, cash equivalents and short-term investments, \$4.4 million in long-term investments, cash flows from operations and available borrowings of up to \$25.0 million under the Company's Credit Facility will be sufficient to fund the Company's cash requirements for at least the foreseeable future. The Company believes that its strong financial position would allow it to access equity or debt financing should that be necessary and its capital resources should not be materially impacted by the current economic crisis. Additionally, the Company believes that its cash and cash equivalents, short-term investments and long-term investments, as a whole, will continue to increase in 2009.

Forward-Looking Statements

Statements in this Management's Discussion and Analysis that are forward-looking are based upon current expectations, and actual results may differ materially. Therefore, the inclusion of such forward-looking information should not be regarded as a representation by the Company that the objectives or plans of the Company would be achieved. Such statements include, but are not limited to, the Company's expectations regarding the Company's ability to achieve at least modest growth in diluted earnings per share for the second half of 2009, the effective tax rate for the remainder of 2009, the Company's ability to fund its cash requirements for the foreseeable future with its current assets, long-term investments, cash flow and borrowings under the Credit Facility, the Company's access to equity and debt financing, the impact of the current economic crisis on the Company's capital resources and the increase in cash, cash equivalents, short-term investments and long-term investments in 2009. Words such as "anticipates," "believes," "expects," "estimated" and variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements contained herein involve numerous risks and uncertainties, and there are a number of factors that could cause actual results or future events to differ materially, including, but not limited to, the following: changing economic, market and business conditions; acts of war or terrorism; the effects of governmental regulation; the impact of competition and new technologies; slower-than-anticipated introduction of new products or implementation of marketing strategies; implementation of new manufacturing processes or implementation of new information systems; the Company's ability to protect its intellectual property; changes in the prices of raw materials; changes in product mix; intellectual property and product liability claims and product recalls; the ability to attract and retain qualified personnel; and the loss of, or any material reduction in sales to, any significant customers. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic review which may cause the Company to alter its marketing, capital expenditures or other budgets, which in turn may affect the Company's results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the quarter ended June 30, 2009, the Company did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in the Company's 2008 Annual Report on Form 10-K.

Item 4. Controls and Procedures

4.

The Company's management, with the participation of the Company's Chief Executive Officer and its Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2009. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. There were no changes in the Company's internal control over financial reporting for the quarter ended June 30, 2009 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes to Risk Factors disclosed in our annual report on Form 10-K for the year ended December 31, 2008.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its 2009 Annual Meeting of Stockholders on May 21, 2009 at its offices in Allen, Texas. At such meeting, the Company's stockholders ratified the appointment of Grant Thornton LLP as independent accountants with 1,764,438 shares voted for ratification, 4,360 voted against, 98 abstentions and no broker non-votes. The voting with respect to the nominees for election as directors was as follows:

| Nominee | Votes For | Votes Withheld |
|---------------------|-----------|----------------|
| Hugh J. Morgan, Jr. | 1,720,136 | 48,761 |

The terms of the following directors continued after the meeting: Roger F. Stebbing, John P. Stupp, Jr., Ronald N. Spaulding, and Emile A. Battat.

Item 6. Exhibits

| | Exhibit Number | Description |
|--|-------------------|--|
| | <u>31.1</u> | Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer |
| | <u>31.2</u> | Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer |
| | <u>32.1</u> | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes – Oxley Act Of 2002 |
| | <u>32.2</u> | 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: August 3, 2009

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

Date: August 3, 2009

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