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ATRION CORP  
Form 10-K  
March 14, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Fiscal Year Ended December 31, 2013

☐ 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 of incorporation or organization)                           | (I.R.S. Employer Identification No.) |
| One Allentown Parkway,   |                                      |
| Allen, Texas   | 75002                                |
| (Address of principal executive offices)                           | (ZIP code)                           |
| Registrant's telephone number, including area code: (972) 390-9800 |                                      |

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

|                               |   |
|-------------------------------|---|
| Title of Class                | Name of Each Exchange on Which Registered |
| Common Stock, \$.10 Par Value | NASDAQ                                    |

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes ☐ No ☒

Indicate by check mark 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 mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes ☐ No ☒

The aggregate market value of the voting Common Stock held by nonaffiliates of the Registrant as of, June 30, 2013, the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$345,521,557 based on the \$218.71 closing price reported for such date on the NASDAQ Global Select Market.

Number of shares of Common Stock outstanding at February 12, 2014: 1,984,605

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference information from the Company's definitive proxy statement relating to the 2014 annual meeting of stockholders, to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

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ATRION CORPORATION

FORM 10-K

ANNUAL REPORT TO  
THE SECURITIES AND EXCHANGE COMMISSION  
FOR THE YEAR ENDED DECEMBER 31, 2013

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ATRION CORPORATION

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ANNUAL REPORT TO  
THE SECURITIES AND EXCHANGE COMMISSION  
FOR THE YEAR ENDED DECEMBER 31, 2013

PART I

ITEM 1. BUSINESS.

General

Atrion Corporation and its subsidiaries ("we," "our," "us," "Atrion," or the "Company") develop and manufacture products primarily for medical applications. Our medical products range from fluid delivery devices to ophthalmic and cardiovascular products.

Our fluid delivery products accounted for 39 percent, 41 percent and 38 percent of net revenues for 2013, 2012 and 2011, respectively. These products include proprietary valves that promote infection control and needle safety. We have developed a wide variety of luer syringe check valves and one-way valves designed to fill, hold and release controlled amounts of fluids or gasses on demand for use in various intubation, catheter and other applications. We also make tubing clamps in a variety of materials and colors that are compatible with various grades of tubing and sterilization processes and produce specialized intravenous sets for use in numerous applications including anesthesia and oncology.

Our cardiovascular products accounted for 30 percent of our net revenues for each of 2013 and 2012 and 29 percent of 2011 net revenues. At the core of our cardiovascular products is the MPS2® Myocardial Protection System, or MPS2, a proprietary technology that delivers essential fluids and medications to the heart during open-heart surgery. The MPS2 integrates key functions relating to the delivery of solutions to the heart, such as varying the rate and ratio of oxygenated blood, crystalloid, potassium and other additives, and controlling temperature, pressure and other variables to allow simpler, more flexible management of this process, indicating improved patient outcomes. The MPS2 is the only device used in open-heart surgery that allows for the mixing of drugs into the bloodstream without diluting the blood. The MPS2 employs advanced pump, temperature control and microprocessor technologies and includes a line of disposable products. We also develop and manufacture other cardiovascular products such as cardiac surgery vacuum relief valves; silicone vessel loops for retracting and occluding vessels in minimally invasive surgical procedures; inflation devices for balloon catheter dilation, stent deployment and fluid dispensing; as well as products used in heart bypass surgery to make a precision opening in the heart for attachment of the bypass vessels.

Our ophthalmic products accounted for 16 percent, 13 percent and 17 percent of our net revenues for 2013, 2012 and 2011, respectively. We are a leading manufacturer of contact lens disinfection cases. We also manufacture a proprietary line of balloon catheters used in the treatment of nasolacrimal duct obstruction in children and adults. Nasolacrimal duct obstruction can cause a condition called epiphora, or chronic tearing. People affected by this condition experience excessive and uncontrollable tearing and often encounter infection as a result of nasolacrimal blockage.

Our other medical and non-medical products accounted for 15 percent of our net revenues for 2013 and 16 percent of our net revenues for each of 2012 and 2011. One of these product lines consists of instrumentation and associated

disposables used to measure the activated clotting time of blood. In addition, we manufacture and sell a line of products designed for safe needle and scalpel blade containment. We are also the leading manufacturer of inflation systems and valves used in marine and aviation safety products. We manufacture inflation systems and valves for products such as life vests, life rafts, inflatable boats, survival equipment, and other inflatable structures. We also produce one-way and two-way pressure relief valves for use on electronics cases, munitions cases, pressure vessels, transportation container cases, escape slides, and many other medical and non-medical applications.

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## Marketing and Major Customers

We market components to other equipment manufacturers for incorporation in their products and sell finished devices to physicians, hospitals, clinics and other treatment centers. We sell our products through a sales force which consists of direct sales personnel, independent sales representatives and distributors. Our sales managers also work closely with major customers in designing and developing products to meet customer requirements.

Our net revenues from sales to customers outside the United States totaled approximately 42 percent of our net revenues for each of 2013, 2012 and 2011. Our international sales are made to various manufacturers and through distributors in over 60 countries. Revenues from sales to customers in Canada totaled approximately 11 percent of our net revenues for each of 2013 and 2012 and 15 percent of our net revenues for 2011. Additional information about our revenues from customers in and outside of the United States over the past three years is set forth in Part II, Item 8 of this Form 10-K.

We offer customer service, training and education, and technical support such as field service, spare parts, maintenance and repair for certain of our products. We periodically advertise our products in trade journals, routinely attend and participate in industry trade shows throughout the United States and internationally, and sponsor scientific symposia as a means of disseminating product information. We may provide supportive literature on the benefits of our products.

## Manufacturing

Our medical products and other components are produced at facilities in Florida, Alabama and Texas. The facilities in Alabama and Florida both utilize plastic injection molding and specialized assembly as their primary manufacturing processes. Our other manufacturing processes consist of the assembly of standard and custom component parts, including the assembly of electronic components, and the testing of completed products.

We are subject to the Quality System Regulation, or QSR, of the United States Food and Drug Administration, or FDA, which requires manufacturers of medical devices to adhere to certain design testing, quality control, documentation and other quality assurance procedures during the manufacturing process. We devote significant attention to quality assurance. Our quality assurance measures begin with the suppliers which participate in our supplier quality assurance program. These measures continue at the manufacturing level where many components are assembled in a clean room environment designed and maintained to reduce product exposure to particulate matter. Products are tested throughout the manufacturing process for adherence to specifications. Most finished products are then shipped to outside processors for sterilization by radiation or ethylene oxide gas. After sterilization, the products are quarantined and tested before they are shipped to customers.

Skilled workers are required for the manufacturing of our products, and we believe that additional workers with these skills are readily available in the areas where our plants are located.

Our medical device operations are BS EN ISO13485:2012 certified and are subject to FDA jurisdiction. Our non-medical device operations are ISO9001-2008 certified.

## Research and Development

A well-targeted research and development program is an essential part of our activities, and we are currently engaged in a number of research and development projects. The objective of this program is to develop new products in our current product lines, improve current products and develop new product lines. The Company expects to continue additional research and development in 2014 in all these areas.





Our consolidated research and development expenditures for 2013, 2012 and 2011 were \$4,288,000, \$3,766,000 and \$2,868,000, respectively.

#### Sources and Availability of Raw Materials

The principal raw materials that we use in our products are resins. Our ability to operate profitably is dependent, in large part, on the availability and pricing of these resins. The resins we use are derived from petroleum and natural gas, and the prices fluctuate substantially as a result of changes in petroleum and natural gas prices, demand and the capacity of the companies that produce these resins to meet market needs. Instability in the world markets for petroleum and natural gas could adversely affect the availability and pricing of these resins.

We contract with various suppliers to provide the component parts necessary to assemble our products. Almost all of these components are available from a number of different suppliers, although certain components are purchased from single sources that manufacture these components using our tooling. We believe that there are satisfactory alternative sources for single-sourced components, although a sudden disruption in supply from one or more of these suppliers could adversely affect our ability to deliver finished products on time. We own the molds used for production of nearly all our components. Consequently, in the event of supply disruption, we should be able to fabricate our own components or contract with another supplier, albeit after a possible delay in the production process.

#### Patents and License Agreements

Our commercial success is dependent, in part, on our ability to continue to develop patentable products, to preserve our trade secrets and to operate without infringing or violating the proprietary rights of third parties. We currently have 501 active patents and patent applications pending on products that are either being sold or are in development. We pay royalties to outside parties for four patents. All of these patents and patents pending relate to products currently being sold by us or to products in evaluation stages. Our patents expire at various times over the next 20 years.

We have developed technical knowledge which, although non-patentable, we consider to be significant in enabling us to compete. However, the proprietary nature of such knowledge may be difficult to protect. We have entered into agreements with key employees prohibiting them from disclosing any of our confidential information or trade secrets. In addition, these agreements also provide that any inventions or discoveries relating to our business by these individuals will be assigned to us and become our sole property.

The medical device industry is characterized by extensive intellectual property litigation, and companies in that industry sometimes use intellectual property litigation to gain a competitive advantage. Intellectual property litigation, regardless of outcome, is often complex and expensive, and the outcome of this litigation is generally difficult to predict.

#### Competition

Depending on the product and the nature of the project, we compete on the basis of our ability to provide engineering and design expertise, quality, service, product and price. As such, successful competitors must have technical strength, responsiveness and scale. We believe that our expertise and reputation for quality medical products have allowed us to compete favorably with respect to each such factor and to maintain long-term relationships with our customers.

In many of our markets, we compete with numerous other companies in the sale of healthcare products. These markets are dominated by established manufacturers that have broader product lines, greater distribution capabilities, substantially greater capital resources and larger marketing, research and development staffs and facilities than ours.

Many of these competitors offer broader product lines within the specific product market and in the general field of medical devices and supplies. Broad product lines give many of our cardiovascular and fluid delivery competitors the ability to negotiate exclusive, long-term medical device supply contracts and, consequently, the ability to offer comprehensive pricing of their competing products. By offering a broader product line in the general field of medical devices and supplies, competitors may also have a significant advantage in marketing competing products to group purchasing organizations, Health Maintenance Organizations, or HMOs, and other managed care organizations that are increasingly seeking to reduce costs through centralization of purchasing functions. Furthermore, innovations in surgical techniques, product design or functions, or medical practices could have the effect of reducing or eliminating market demand for one or more of our products. In addition, our competitors may use price reductions to preserve market share in their product markets.

We design products for a customer or potential customer prior to entering into long-term development and manufacturing agreements with that customer. Because these products are somewhat limited in number and normally are only a component of the ultimate product sold by our customers, we are dependent on our ability to meet the quality requirements of those major healthcare companies and must continually be attentive to the need to manufacture such products at competitive prices and in compliance with strict manufacturing standards. Additionally, we are dependent on our customer's success in the marketing of the ultimate product sold. We also compete in the market for inflation devices used in marine and aviation equipment.

## Government Regulation

### Products

The manufacture and sale of medical products are subject to regulation by numerous United States governmental authorities, principally the FDA, and corresponding foreign agencies. The research and development, manufacturing, promotion, marketing and distribution of medical products in the United States are governed by the Federal Food, Drug and Cosmetic Act, or FDCA, and the regulations promulgated thereunder. All manufacturers of medical devices must register with the FDA and list all medical devices manufactured by them. The list must be updated annually. Our medical products subsidiaries and certain of our customers are subject to inspection by the FDA for compliance with such regulations and procedures and our medical products manufacturing facilities are subject to regulation by the FDA.

The FDA has traditionally pursued a rigorous enforcement program to ensure that regulated entities comply with the FDCA. The FDA has recently been increasing its scrutiny of the medical device industry, and the government is expected to continue to scrutinize the industry closely. A company not in compliance may face a variety of regulatory actions, including warning letters, product detentions, device alerts, mandatory recalls or field corrections, product seizures, total or partial suspension of production, injunctive actions or civil penalties and criminal prosecutions of the company or responsible employees, officers and directors. We and certain of our customers are subject to these inspections.

The FDA sets forth rules, which are available to the public, for the approval of medical devices. The process of obtaining FDA approval for new devices can take several months to several years depending on the type of application required for a particular device. Furthermore, the process of obtaining FDA approval can be expensive and uncertain. Even if granted, FDA approval may include significant limitations on the indicated uses for which a product may be marketed. FDA enforcement policy strictly regulates the promotion of approved medical devices. Product approvals can be withdrawn for failure to comply with regulatory requirements or the occurrence of unforeseen problems following initial marketing. We are also subject to regulation in certain foreign countries where we sell our products. Some of the regulations in these countries that are applicable to our products are similar to those of the FDA.

Certain aviation and marine safety products are also subject to regulation by the United States Coast Guard and the Federal Aviation Administration and similar organizations in foreign countries which regulate the safety of marine and aviation equipment.

## Healthcare Regulations

In the United States, healthcare providers, including hospitals and physicians, that purchase medical products for treatment of their patients generally rely on third-party payors, principally Medicare, Medicaid and private health insurance plans, to reimburse all or a part of the costs and fees associated with the procedures performed using these products.

Reimbursement systems in international markets vary significantly by country and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis. Many international markets have government-managed healthcare systems that control reimbursement for new products and procedures. In most markets, there are private insurance systems as well as government-managed systems. Market acceptance of our products in international markets depends, in part, on the availability and level of reimbursement.

Medicare and Medicaid reimbursement for hospitals is generally based on a fixed amount for a patient based upon that patient's specific diagnosis. Because of this fixed reimbursement method, hospitals may seek to reduce the costs they incur in treating Medicare and Medicaid patients. Frequently, reimbursement is reduced to reflect the availability of a new procedure or technique, and as a result hospitals are generally willing to implement new cost saving technologies before these downward adjustments take effect. Likewise, because the rate of reimbursement for physicians who perform certain procedures has been and may in the future be reduced, physicians may seek greater cost efficiency in treatment to minimize any negative impact of reduced reimbursement. Third-party payors may challenge the prices charged for medical products and services and may deny reimbursement if they determine that a device was not used in accordance with cost-effective treatment methods as determined by the payor, was experimental or was used for an unapproved application.

In March 2010, comprehensive healthcare reform legislation in the form of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively known as the "Affordable Care Act") was enacted. Among other provisions, this legislation imposes a 2.3 percent excise tax on the sale in the United States of certain medical devices by the manufacturer, producer or importer after December 31, 2012. This excise tax applies to approximately 30 percent of our product revenue generated in the United States. During 2013, we remitted \$530,000 related to this excise tax. The Physician Payment Sunshine Act, which was included in the Affordable Care Act, imposes new reporting and disclosure requirements on device and drug manufacturers for any "transfer of value" made or distributed to prescribers and other healthcare providers. Manufacturers were required to begin data collection on August 1, 2013 and are required to report such data to the Centers for Medicare and Medicaid Services by March 31, 2014. Various healthcare reform proposals have also emerged at the state level.

We anticipate that Congress, state legislatures and the private sector will continue to review and assess healthcare reform, including alternative healthcare delivery and payment systems. We cannot predict what impact the adoption or modification of any federal or state healthcare reform measures, including the Affordable Care Act, and state healthcare reform, future private sector reform or market forces may have on our business.

We are subject to various federal and state laws targeting fraud and abuse in the healthcare industry. Violation of these laws can result in significant penalties, imprisonment and exclusion from Medicare, Medicaid and other federal healthcare programs. Government officials have focused recent enforcement efforts on, among other things, sales and marketing activities of pharmaceutical, medical device and other healthcare companies.

## Product Liability and Insurance

The design, manufacture and marketing of products of the types we produce entail an inherent risk of product liability claims. A problem with one of our products could result in product liability claims or a recall of, or safety alert or advisory notice relating to, the product. We have product liability insurance in amounts that we believe are adequate.

## Advisory Board

Several physicians and other healthcare professionals serve as our clinical advisors. These clinical advisors have assisted in the identification of the market need for some of our products. Members of our management and scientific and technical staff from time to time consult with these clinical advisors to better understand the technical and clinical requirements of current and future products. We anticipate that these clinical advisors will continue to play a role in our development activities.

Certain of the clinical advisors are employed by academic institutions and may have commitments to, or consulting or advisory agreements with, other entities that may limit their availability to advise us. The clinical advisors may also serve as consultants to other medical device companies. Our clinical advisors are not expected to devote more than a small portion of their time in providing services to us.

## People

At January 31, 2014, we had 485 full-time employees. We are proud that many of our employees have tenures with us ranging from 10 to 36 years.

## Available Information

Our website address is [www.atrioncorp.com](http://www.atrioncorp.com). We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission, or SEC. These filings are also available at [www.sec.gov](http://www.sec.gov).

## ITEM 1A. RISK FACTORS.

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial, or that we have not predicted, may also harm our business operations or adversely affect us.

- Our sales could decline materially if we lost business from one or more of our larger customers or a significant number of our smaller customers.

Our sales are generally made under open short-term purchase orders or purchase contracts. Customers with purchase orders could reduce their volumes, or cease purchasing our products, with minimal notice. Customers having purchase contracts may elect not to renew those contracts at expiration or the contracts may be renewed on terms less favorable to us. The loss of, or material reduction in orders by, one or more of our larger customers or a significant number of our smaller customers could have a material adverse effect on our business, financial condition and results of operations.

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Our business is dependent on the price and availability of resins and our ability to pass on resin price increases to our customers.

The principal raw materials that we use in our products are polyethylene, polypropylene and polyvinyl chloride resins. Our ability to operate profitably is dependent, in large part, on the availability and pricing of these resins. The resins we use are derived from petroleum and natural gas; therefore, prices fluctuate substantially as a result of changes in petroleum and natural gas prices, demand and the capacity of the companies that produce these products to meet market needs. Instability in the world markets for petroleum and natural gas could adversely affect the prices of these raw materials and their availability.

Our ability to maintain profitability is heavily dependent upon our ability to pass through to our customers the full amount of any increase in raw material costs. If resin prices increase and we are not able to fully pass on the increases to our customers, our results of operations and our financial condition will be adversely affected.

- Product liability claims could adversely affect our financial condition and results of operations.

We may be subject to product liability claims involving claims of personal injury or property damage. Our product liability insurance coverage may not be adequate to cover the cost of defense and the potential award in the event of a claim. A product liability claim, regardless of its merit or outcome, could result in significant legal defense costs. Also, a well-publicized actual or perceived problem with one or more of our products could adversely affect our reputation and reduce the demand for our products.

- The loss of a key supplier of raw materials could lead to increased costs and lower profit margins.

The loss of a key supplier would force us to purchase raw materials in the open market, which may be at higher prices, until we could secure another source and such higher prices may not allow us to remain competitive. If we are unable to obtain raw materials in sufficient quantities, we may not be able to manufacture our products. Even if we were able to replace one of our raw material suppliers through another supply arrangement, there is no assurance that the terms that we enter into with such alternate supplier will be as favorable as the supply arrangements that we currently have.

- Any losses we incur as a result of our exposure to the credit risk of our customers could harm our results of operations.

We monitor individual customer payment capability in granting credit arrangements, seek to limit credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. As we have grown our revenue and customer base, our exposure to credit risk has increased. Any material losses as a result of customer defaults could harm and have an adverse effect on our business, operating results and financial condition.

- Our success is measured in part by our ability to develop patentable products, to preserve our trade secrets and operate without infringing or violating the proprietary rights of third parties.

Others may challenge the validity of any patents issued to us, and we could encounter legal and financial difficulties in enforcing our patent rights against infringers. In addition, there can be no assurance that other technologies cannot or will not be developed or that patents will not be obtained by others which would render our patents less valuable or obsolete. Our patents expire at various times over the next 20 years. Once patents expire, some customers may not continue to purchase from us, opting for competitive copies instead. If we do not develop and launch new products prior to the expiration of patents for our existing products, our sales and profits could decline substantially.

We have developed technical knowledge which, although non-patentable, we consider to be significant in enabling us to compete. However, the proprietary nature of such knowledge may be difficult to protect.

The medical device industry is characterized by extensive intellectual property litigation, and companies in the medical products industry sometimes use intellectual property litigation to gain a competitive advantage. Intellectual property litigation, regardless of outcome, is often complex and expensive, and the outcome of this litigation is generally difficult to predict. An adverse determination in any such proceeding could subject us to significant liabilities to third parties or require us to seek licenses from third parties or pay royalties that may be substantial. Furthermore, there can be no assurance that necessary licenses would be available to us on satisfactory terms or at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing or selling certain of our products, which could have a material adverse effect on our business, financial condition and results of operations.





- International patent protection is uncertain.

Patent law outside the United States is uncertain and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect our intellectual property rights to the same extent as United States laws. We may participate in opposition proceedings to determine the validity of our or our competitors' foreign patents, which could result in substantial costs and diversion of our efforts.

- New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new product or service could have a significant impact on the effectiveness of our system of internal control. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

- Some of our competitors have significantly greater resources than we do, and it may be difficult for us to compete against them.

In many of our markets, we compete with numerous other companies that have substantially greater financial resources and engage in substantially more research and development activities than we do. Furthermore, innovations in surgical techniques or medical practices could have the effect of reducing or eliminating market demand for one or more of our products.

Some of the markets in which we compete are dominated by established manufacturers that have broader product lines, greater distribution capabilities, substantially larger marketing, research and development staffs and facilities than we do. Many of these competitors offer broader product lines within the specific product market and in the general field of medical devices and supplies. Broad product lines give many of our cardiovascular and fluid delivery competitors the ability to negotiate exclusive, long-term medical device supply contracts and, consequently, the ability to offer comprehensive pricing of their competing products. By offering a broader product line in the general field of medical devices and supplies, competitors may also have a significant advantage in marketing competing products to group purchasing organizations. In addition, our competitors may use price reductions to preserve market share in their product markets.

- We are subject to substantial governmental regulation and our failure to comply with applicable governmental regulations could subject us to numerous penalties, any of which could adversely affect our business.

We are subject to numerous governmental regulations relating to, among other things, our ability to sell our products, third-party reimbursement and Medicare and Medicaid fraud and abuse. If we do not comply with applicable governmental regulations, governmental authorities could do one or more of the following:

- impose fines and penalties on us;
- prevent us from manufacturing our products;
- bring civil or criminal charges against us;
- delay the introduction of our new products into the market;
- recall or seize our products;
- exclusion from participation in Medicare and Medicaid and other federal healthcare programs;
- disrupt the manufacture or distribution of our products;
- or
- withdraw or deny approvals for our products.

Any one of these actions could materially adversely affect our revenues and profitability and harm our reputation.

- We will be unable to sell our products if we fail to comply with regulations.

To manufacture our products commercially, we must comply with governmental regulations that govern design controls, quality systems and documentation policies and procedures, including continued compliance with QSR. The FDA and equivalent foreign governmental authorities periodically inspect our manufacturing facilities and the manufacturing facilities of our Original Equipment Manufacturer, or OEM, medical device customers. If we or our OEM

medical device customers fail to comply with these manufacturing regulations, including meeting reporting obligations to the FDA, or fail any FDA inspections, marketing or distribution of our products may be prevented or delayed, which would negatively impact our business.

- Our products are subject to product recalls even after receiving regulatory clearance or approval, and any such recalls would negatively affect our financial performance and could harm our reputation.

Any of our products may be found to have significant deficiencies or defects in design or manufacture. The FDA and similar governmental authorities in other countries have the authority to require the recall of any such defective product. A government-mandated or voluntary recall could occur as a result of component failures, manufacturing errors or design defects. We do not maintain insurance to cover losses incurred as a result of product recalls. Any product recall would divert managerial and financial resources and negatively affect our financial performance, and could harm our reputation with customers and end-users.

- We may not receive regulatory approvals for new product candidates or for modifications of existing products or approvals may be delayed.

Regulation by governmental authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of our proposed products and in our ongoing research and product development activities. Any failure to receive the regulatory approvals necessary to commercialize our product candidates, or the subsequent withdrawal of any such approvals, would harm our business. Additionally, modification of our existing products may require regulatory approval. The process of obtaining these approvals and the subsequent compliance with federal and state statutes and regulations require spending substantial time and financial resources. If we fail to obtain or maintain, or encounter delays in obtaining or maintaining, regulatory approvals, it could adversely affect the marketing of any products we develop or modify, our ability to receive product revenues, and our liquidity and capital resources.



- We rely on technology to operate our business and any failure of these systems could harm our business.

We rely heavily on communications and information technology systems to conduct our business, enhance customer service and increase employee productivity. Some of these systems are vulnerable to interruption by fire, power loss, system malfunction, computer viruses, cyber-attacks and similar events. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, inventory, manufacturing and other systems. There is no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed by our policies and procedures that are intended to safeguard our systems. The occurrence of any failures, interruptions or security breaches of our information technology systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, and expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. In addition, security breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information belonging to us, our customers, our suppliers or our employees, which may result in significant costs and other adverse consequences.

- We sell many of our products to healthcare providers that rely on Medicare, Medicaid and private health insurance plans to reimburse the costs associated with the procedures performed using our products and these third party payors may deny reimbursement for use of our products.

We are dependent, in part, upon the ability of healthcare providers to obtain satisfactory reimbursement from third-party payors for medical procedures in which our products are used. Third-party payors may deny reimbursement if they determine that a prescribed product has not received appropriate regulatory clearances or approvals, is not used in accordance with cost-effective treatment methods as determined by the payor, or is experimental, unnecessary or inappropriate. Failure by hospitals and other users of our products to obtain reimbursement from third-party payors, or adverse changes in government and private third-party payors' policies toward reimbursement for procedures utilizing our products, could have a material adverse effect on the Company's business, financial condition and results of operations. Major third-party payors for medical services in the United States and other countries continue to work to contain healthcare costs. The introduction of cost containment incentives, combined with closer scrutiny of healthcare expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to charges for services performed. Further implementation of legislative or administrative reforms to the United States or international reimbursement systems in a manner that significantly reduces reimbursement for procedures using our products or denies coverage for such procedures may result in hospitals or physicians substituting lower cost products or other therapies for our products which, in turn, would have an adverse effect on our business, financial condition and results of operations. Additionally, uncertainty about whether and how changes may be implemented could also have a negative impact on the demand for our products.

- Healthcare policy changes, including the Affordable Care Act, may have a material adverse effect on our business, financial condition and results of operations.

The Affordable Care Act makes changes that may significantly impact the medical device industry. One of the principal aims of the Affordable Care Act is to expand health insurance coverage to millions of Americans who are uninsured. The consequences of a significant coverage expansion on the sales of our products are unknown and speculative at this point.

The Affordable Care Act, as well as other federal or state health care reform measures that may be adopted in the future, could have a material adverse effect on our industry generally and our ability to develop or market our products successfully. The 2.3 percent excise tax imposed by the Affordable Care Act on sales in the United States of certain medical devices has resulted in decreased profits to us. Also, the expansion of the government's role in the United States healthcare industry may result in a further decrease in profits to us, lower reimbursement by payors for our products, and reduced medical procedure volumes, all of which may adversely affect our business, financial condition

and results of operations.

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- We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities we engage in can be intense, and we may not be able to hire qualified people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We utilize distributors for a portion of our sales, which subjects us to risks that could harm our business. We have strategic relationships with a number of distributors for sales of our products. To the extent that we rely on distributors, our success will depend on the efforts of others over whom we may have little or no control. If these strategic relationships are terminated and not replaced, our revenues could be adversely affected. Also, we may be named as a defendant in litigation against our distributors related to sales of our products by them.

Severe weather, natural disasters, acts of war or terrorism or other external events could significantly impact our business. We currently conduct all our development, manufacturing and management at three locations. Severe weather, natural disasters, acts of war or terrorism and other adverse external events at any one or more of these locations could have a significant impact on our ability to conduct business. We have the ability to transfer certain products from a facility affected by such events, but doing so would be expensive. Our disaster recovery policies and procedures may not be effective and the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. The insurance we maintain may not be adequate to cover our losses.

Our sales and operations are subject to the risks of doing business internationally. A substantial portion of our sales occur outside the United States, and we are increasing our presence in international markets. Sales outside the United States subject us to many risks, such as:

- economic or political problems that disrupt foreign healthcare payment systems;
- the imposition of governmental controls;
- less favorable intellectual property or other applicable laws;
- protectionist laws and business practices that favor local competitors;
- the inability to obtain any necessary foreign regulatory or pricing approvals of products in a timely manner;
- changes in tax laws and tariffs;
- receivables may be more difficult to collect; and
- longer payment cycles.

Our operations and marketing practices are also subject to regulation and scrutiny by the governments of the other countries in which we operate. In addition, the Foreign Corrupt Practices Act, or FCPA, prohibits United States companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. In certain countries, the healthcare professionals we regularly interact with may meet the definition of a foreign official for purposes of the FCPA. Additionally, we are subject to other United States laws in our international operations. Failure to comply with domestic or foreign laws could result in various adverse consequences, including possible delay in approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, and the imposition of civil or criminal sanctions.

- We may lose revenues, market share and profits due to exchange rate fluctuations related to our international business.

Fluctuations in exchange rates may affect the prices that our international customers are willing to pay and may put us at a price disadvantage compared to other competitors. Potentially volatile shifts in exchange rates may negatively affect our financial condition and operations. Because payments from our international customers are received primarily in United States dollars, an increase in the value of the United States dollar relative to foreign currencies could make our products less competitive or less affordable, and therefore adversely affect our sales, in international markets.

- We may experience fluctuations in our quarterly operating results.

We have historically experienced, and may continue to experience, fluctuations in our quarterly operating results. These fluctuations are due to a number of factors, many of which are outside our control, and may result in volatility of our stock price. Future operating results will depend on many factors, including:

- demand for our products;
- pricing decisions, and those of our competitors, including decisions to increase or decrease prices;
- regulatory approvals for our products;
- timing and levels of spending for research and development, sales and marketing;
- timing and market acceptance of new product introductions by us or our competitors;
- development or expansion of business infrastructure in new clinical and geographic markets;
- tax rates in the jurisdictions in which we operate;
- shipping delays or interruptions;
- customer credit holds;
- timing and recognition of certain research and development milestones and license fees; and
- ability to control our costs;

- Our stock price can be volatile.

Stock price volatility may make it more difficult for our stockholders to sell their common stock when they want and at prices they find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- perceptions in the marketplace regarding the Company and our competitors;
- new technology used, or services offered, by competitors;
- trading by funds with high-turnover practices or strategies;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

Additionally, our public float is small which can result in large fluctuations in stock price during periods with increased selling or buying activity. General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

- If we make acquisitions or divestitures, we could encounter difficulties that harm our business.

We may acquire companies, products or technologies that we believe to be complementary to our business. If we do so, we may have difficulty integrating the acquired personnel, operations, products or technologies and we may not realize the expected benefits of any such acquisition. In addition, acquisitions may dilute our earnings per share, disrupt our ongoing business, distract our management and employees and increase our expenses, any of which could harm our business. We may also sell a business or product line. Any divestiture may result in significant write-offs, which could have a material adverse effect on our business, financial condition or results of operations. Divestitures could also involve additional risks, including difficulties in separation of operations, services and personnel, the diversion of management's attention from other operations and the potential loss of key personnel.

- Political and economic conditions could materially and adversely affect our revenue and results of operations. Our business may be affected by a number of factors that are beyond our control such as general geopolitical economic and business conditions, conditions in the financial markets, and changes in the overall demand for our products. A severe or prolonged economic downturn could adversely affect our customers' financial condition and the levels of business activity of our customers. Uncertainty about current global political or economic conditions could cause businesses to postpone spending in response to tighter credit, negative financial news or declines in income or asset values, which could have a material negative effect on the demand for our products.

The recent economic recession and the uncertainty in global economic conditions resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity, currency and fixed income markets. Although conditions have improved, uncertainty about current global economic conditions continues to pose a risk as customers may postpone spending in response to restraints on credit or uncertainties regarding demand for their products or services. There could be additional effects on our business from these economic developments including the insolvency of key suppliers or their inability to obtain credit, the inability of our customers to pay for or obtain credit to finance purchases of our products and increased pressure to reduce the prices of our products.

Turbulence in the United States and international markets and economies could have a material adverse impact on our business, operating results and financial condition. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, which could materially adversely affect our business and results of operations.

- Conflict minerals regulations may cause us to incur additional expenses and could limit the supply and increase the cost of metals used in manufacturing our products.

The SEC has adopted new rules establishing additional disclosure and reporting requirements regarding the use of specified minerals, or conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. These new rules require us to determine, disclose and report whether or not such conflict minerals originate from the Democratic Republic of the Congo or an adjoining country, the first such report is due on May 31, 2014. These new rules could affect our ability to source certain materials used in our products at competitive prices and could impact the availability of certain minerals used in the manufacture of our products. As there may be only a limited number of suppliers of "conflict free" minerals, we cannot be sure that we will be able to obtain necessary conflict free minerals in sufficient quantities or at competitive prices. Our customers may require that our products be free of conflict minerals, and our revenues and margins may be harmed if we are unable to procure conflict free minerals at a reasonable price, or at all, or are unable to pass through any increased costs associated with



meeting these demands. Additionally, we may face reputational challenges with our customers if we are unable to verify sufficiently the origins of all minerals used in our products through our due diligence procedures. We may also face challenges with government regulators and our customers and suppliers if we are unable to verify sufficiently that the metals used in our products are conflict free. There may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as cost related to possible changes to products, processes, or sources of supply as a consequence of such verification and disclosure requirements.

- If we fail to manage our exposure to financial and securities market risk successfully, our operating results could be adversely impacted.

We are exposed to financial market risks, including changes in interest rates, credit markets and prices of marketable equity and fixed-income securities. We do not use derivative financial instruments for speculative or trading purposes or to mitigate our investment risks.

The primary objective of our investment activities is to preserve principal and maintain adequate liquidity while at the same time maximizing yields without significantly increasing risk. To achieve this objective, our marketable investments are primarily investment grade, liquid, fixed-income securities and money market instruments denominated in United States dollars. The Company's cash-equivalents and investments may be subject to adverse changes in market value.

- Provisions in our governing documents and Delaware law may discourage or prevent a change of control, which could cause our stock price to decline and prevent attempts by our stockholders to replace or remove our current management.

Our certificate of incorporation and bylaws contain provisions that may discourage, delay or prevent a change in the ownership of the Company or a change in our management. In addition, our Board of Directors has adopted a rights plan which is intended to provide our Board of Directors with flexibility in addressing any takeover attempt and give it an opportunity to negotiate a transaction that maximizes stockholder value. However, the rights plan could delay or prevent a change in control of us even if the change in control would generally be beneficial to our stockholders. We are also subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding common stock. Although a delay or prevention of a change of control transaction or of changes in our Board of Directors could be effective in improving stockholder value, they also carry a risk of causing the market price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own three facilities comprising approximately 398,000 square feet, and the 97 acres on which they are situated, in Texas, Alabama and Florida. Administrative, engineering, manufacturing and warehouse operations are conducted at each facility, and our corporate headquarters are located at our Texas facility.

ITEM 3. LEGAL PROCEEDINGS.

We have no pending legal proceedings of the type described in Item 103 of Regulation S-K.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

Executive Officers of the Company

| Name               | Age | Title  |
|--------------------|-----|--|
| Emile A Battat     | 75  | Chairman of the Company and Chairman of Halkey-Roberts Corporation, one of our subsidiaries  |
| David A. Battat    | 44  | President and Chief Executive Officer of the Company, President of Halkey-Roberts and Chairman of all other subsidiaries                         |
| Jeffery Strickland | 55  | Vice President and Chief Financial Officer, Secretary and Treasurer of the Company and Vice President or Secretary-Treasurer of all subsidiaries |

Messrs. David Battat and Strickland currently serve as officers of the Company and all subsidiaries. Mr. Emile Battat currently serves as an officer of the Company and Halkey-Roberts Corporation ("Halkey-Roberts"). The officers of the Company and our subsidiaries are elected annually by the respective Boards of Directors of the Company and our subsidiaries at the first meeting of such Boards of Directors held after the annual meetings of stockholders of such entities. The next meetings of the stockholders of the Company and our subsidiaries are expected to be held in May 2014 and the Boards of Directors of the Company and our subsidiaries are expected to meet promptly thereafter. Accordingly, the terms of office of the current officers of the Company and our subsidiaries are anticipated to expire in May 2014.

There are no arrangements or understandings between any officer and any other person pursuant to which the officer was elected. The only family relationships between any of our executive officers or directors are that Mr. David Battat is the son of Mr. Emile Battat.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officers during the past ten years.

Brief Account of Business Experience During the Past Five Years

Mr. Emile Battat has been a director of the Company since 1987 and has served as Chairman of the Board of the Company since January 1998. He has served as Chairman of Halkey-Roberts since October 1998. He served as Chief Executive Officer of the Company and Chairman or President of all subsidiaries from October 1998 until May 2011



Mr. David Battat has been President and Chief Executive Officer of the Company and Chairman of all subsidiaries with the exception of Halkey-Roberts since May 2011. He has been President of Halkey-Roberts since January 2006. He served as the Company's President and Chief Operating Officer from May 2007 until May 2011 and from February 2005 until December 2005 he served as Vice President - Business Development and General Counsel at Halkey-Roberts.

Mr. Strickland has served as Vice President and Chief Financial Officer, Secretary and Treasurer of the Company since February 1, 1997 and has served as Vice President or Secretary-Treasurer for all the Company's subsidiaries since January 1997. Mr. Strickland was employed by the Company or our subsidiaries in various other positions from September 1983 through January 1997.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the NASDAQ Global Select Market (Symbol ATRI). As of February 25, 2014, we had approximately 3,300 stockholders, including beneficial owners holding shares in nominee or "street name." The high and low sales prices as reported by NASDAQ for each quarter of 2012 and 2013 are shown below.

|                    |    |        |           |
|--------------------|----|--------|-----------|
| Year Ended         |    |        |           |
| December 31, 2012: |    |        |           |
|                    |    | High   | Low       |
| First Quarter      | \$ | 261.98 | \$ 197.11 |
| Second Quarter     | \$ | 235.70 | \$ 195.78 |
| Third Quarter      | \$ | 226.99 | \$ 202.01 |
| Fourth Quarter     | \$ | 223.00 | \$ 185.16 |
| Year Ended         |    |        |           |
| December 31, 2013: |    |        |           |
|                    |    | High   | Low       |
| First Quarter      | \$ | 210.99 | \$ 186.00 |
| Second Quarter     | \$ | 222.74 | \$ 186.37 |
| Third Quarter      | \$ | 261.00 | \$ 217.00 |
| Fourth Quarter     | \$ | 299.00 | \$ 252.50 |

We pay regular quarterly cash dividends on our common stock. We have increased our quarterly cash dividend payments in September of each of the past seven years. The quarterly dividend was increased to \$.24 per share in September of 2007, to \$.30 per share in September of 2008, to \$.36 per share in September of 2009, to \$.42 in September of 2010, to \$.49 in September of 2011, to \$.56 in September of 2012 and to \$.64 in September 2013. On December 10, 2012 we made special cash dividend payments to stockholders of \$10.00 per share. We paid dividends totaling \$4.8 million to our stockholders in 2013.

We have a Rights Plan which is intended to protect the interests of stockholders in the event of a hostile attempt to take over the Company. The rights, which are not presently exercisable and do not have any voting powers, represent the right of our stockholders to purchase at a substantial discount, upon the occurrence of certain events, shares of our common stock or of an acquiring company involved in a business combination with us. This plan, which was adopted in August 2006, expires in August 2016.

During the year ended December 31, 2013, we did not sell any equity securities that were not registered under the Securities Act of 1933.



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 December 31, 2013.

| Period                       | Total Number of Shares Purchased (1) | 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 (2) |
|------------------------------|--------------------------------------|------------------------------|--|--|
| 10/1/2013 through 10/31/2013 | -                                    | -                            | -  | 146,871  |
| 11/1/2013 through 11/30/2013 | 2,295                                | \$ 271.86                    | 2,295  | 144,576  |
| 12/1/2013 through 12/31/2013 | 15,804                               | \$ 283.90                    | 15,804   | 128,772  |
| Total                        | 18,099                               | \$ 282.38                    | 18,099   | 128,772  |

- (1) All shares shown in this column were purchased in open-market and private transactions.
- (2) On August 16, 2011, our Board of Directors approved a new stock repurchase program pursuant to which we can repurchase up to 200,000 shares of our common stock from time to time in open market or privately-negotiated transactions. This stock repurchase program has no expiration date but may be terminated by our Board of Directors at any time.

The stock performance graph set forth in our 2013 Annual Report to Stockholders is incorporated by reference herein and is included in Exhibit 13.1 to this Form 10-K. However, the stock performance graph is not to be deemed to be “soliciting material” or to be “filed” with the SEC or subject to the liabilities of Section 18 under the Securities Exchange Act of 1934. In addition, it shall not be deemed incorporated by reference by any statement that incorporates this Form 10-K by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference.

## ITEM 6. SELECTED FINANCIAL DATA.

## Selected Financial Data

(In thousands, except per share amounts)

|   | 2013      | 2012      | 2011      | 2010      | 2009       |
|---|-----------|-----------|-----------|-----------|------------|
| Operating Results for the Year ended December 31, |           |           |           |           |            |
| Revenues  | \$131,993 | \$119,062 | \$117,704 | \$108,569 | \$100,643  |
| Operating income                                  | 37,944    | 33,626    | 38,168    | 30,977    | 25,004 (a) |
| Net income  | 26,582    | 23,629    | 26,038    | 20,952    | 16,843 (a) |
| Depreciation and amortization                     | 8,592     | 7,610     | 6,544     | 7,041     | 7,163      |
| Per Share Data:                                   |           |           |           |           |            |
| Net income per diluted share                      | 13.18     | 11.66     | 12.82     | 10.32     | 8.36 (a)   |
| Cash dividends per common share                   | 2.40      | 12.10     | 1.82      | 10.56     | 1.32       |
| Average diluted shares outstanding                | 2,017     | 2,027     | 2,031     | 2,030     | 2,015      |
| Financial Position at December 31,                |           |           |           |           |            |
| Total assets                                      | 172,066   | 155,810   | 161,895   | 134,652   | 132,749    |
| Long-term debt                                    | -         | -         | -         | -         | -          |

(a) Included a non-cash charge for the settlement of a pension plan termination that subtracted \$1.0 million from operating income, \$643,000 from net income and \$0.32 from net income per diluted share.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

## Overview

We develop and manufacture products primarily for medical applications. We market components to other equipment manufacturers for incorporation in their products and sell finished devices to physicians, hospitals, clinics and other treatment centers. Our medical products primarily serve the fluid delivery, cardiovascular, and ophthalmology markets. Our other medical and non-medical products include valves and inflation devices used in marine and aviation safety products. In 2013, approximately 42 percent of our sales were outside the United States.

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 serve niche markets with meaningful sales potential. Proposed new products may be subject to regulatory clearance or approval prior to commercialization and the time period for introducing a new product to the marketplace can be unpredictable. We also focus on controlling costs by investing in modern manufacturing technologies and controlling purchasing processes. We have been successful in consistently generating cash from operations and have used that cash to reduce or eliminate indebtedness, to fund capital expenditures, to make investment purchases, 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 year ended December 31, 2013, we reported revenues of \$132.0 million, operating income of \$37.9 million and net income of \$26.6 million.

## Results of Operations

Our net income was \$26.6 million, or \$13.22 per basic and \$13.18 per diluted share, in 2013, compared to net income of \$23.6 million, or \$11.72 per basic and \$11.66 per diluted share, in 2012 and net income of \$26.0 million, or \$12.90 per basic and \$12.82 per diluted share, in 2011. Revenues were \$132.0 million in 2013, compared with \$119.1 million in 2012 and \$117.7 million in 2011. The 11 percent revenue increase in 2013 over 2012 and 1 percent revenue increase in 2012 over 2011 were generally attributable to higher sales volumes. Increases in revenues in 2012 in our fluid delivery and cardiovascular product lines were largely offset by reduced ophthalmology sales to a large customer with which we have a long-term contract that had accumulated too large of an inventory of one of our products in 2011.

Annual revenues by product lines were as follows (in thousands):

|                | 2013       | 2012       | 2011       |
|----------------|------------|------------|------------|
| Fluid Delivery | \$ 51,289  | \$ 49,060  | \$ 45,274  |
| Cardiovascular | 40,182     | 36,021     | 34,072     |
| Ophthalmology  | 20,736     | 15,717     | 19,581     |
| Other          | 19,786     | 18,264     | 18,777     |
| Total          | \$ 131,993 | \$ 119,062 | \$ 117,704 |

Our cost of goods sold was \$68.9 million in 2013, \$62.9 million in 2012 and \$57.7 million in 2011. Higher sales volume was the primary contributor to the increase in cost of goods sold in 2013 over 2012. Product mix, higher depreciation expense and lower manufacturing efficiencies offset by the impact of continued cost improvement initiatives were the primary contributors to the 10 percent increase in cost of goods sold for 2012 over 2011.

Gross profit in 2013 was \$63.1 million compared with \$56.1 million in 2012 and \$60.0 million in 2011. Our gross profit was 48 percent of revenues in 2013, 47 percent of revenues in 2012 and 51 percent of revenues in 2011. The increase in gross profit percentage in 2013 over 2012 was primarily related to a product mix that was more favorable than 2012's product mix, improvements in manufacturing efficiencies and the impact of cost-savings projects partially offset by the new 2.3 percent excise tax on the sale of certain medical devices in the United States. The decrease in gross profit percentage in 2012 from the prior year was primarily due to a less favorable product mix and reduced manufacturing capacity utilization.

Operating expenses were \$25.1 million in 2013 compared with \$22.5 million in 2012 and \$21.8 million in 2011. Research and development, or R&D expenses increased \$522,000 in 2013 as compared to 2012 primarily related to increased costs for supplies, outside services and compensation, partially offset by decreased travel costs. R&D expenses consist primarily of salaries and other related expenses of our R&D personnel as well as costs associated with regulatory matters. In 2013, selling expenses increased \$524,000 primarily related to increased outside services, compensation, commissions and promotional expenses. Selling expenses consist primarily of salaries, commissions

and other related expenses for sales and marketing personnel, marketing, advertising and promotional expenses. General and administrative, or G&A, expenses increased \$1.6 million in 2013 as compared to 2012 primarily related to increased compensation and outside services. G&A expenses consist primarily of salaries and other related expenses of administrative, executive and financial personnel and outside professional fees.

In 2012 increases in selling expenses and increases in R&D expenses were partially offset by decreases in G&A expenses. R&D expenses increased \$898,000 in 2012 as compared to 2011 primarily related to increased costs for compensation, supplies, travel and outside services. In 2012, selling expenses increased \$369,000 primarily related to increased compensation, commissions and promotional expenses. G&A expenses decreased \$592,000 in 2012 as compared to 2011 primarily related to decreased outside services.

Our operating income for 2013 was \$37.9 million, compared with \$33.6 million in 2012 and \$38.2 million in 2011. Operating income was 29 percent of revenues for 2013, 28 percent of revenues for 2012 and 32 percent of revenues for 2011. The increase in gross profit partially offset by the increase in operating expenses described above was the major contributor to the operating income increase in 2013 compared to the previous year. The decrease in gross profit and the increase in operating expenses described above were the primary contributors to the operating income decrease in 2012 compared to the previous year. Although we anticipate increases in R&D expenses and depreciation charges in 2014, we expect growth in our operating income during 2014 as compared to 2013.

Income tax expense in 2013 totaled \$12.7 million, compared with \$11.4 million in 2012 and \$13.4 million in 2011. The effective tax rates for 2013, 2012 and 2011 were 32.3 percent, 32.6 percent and 34.0 percent, respectively. The effective tax rate for 2013 benefitted from the extension of the federal research tax credit provisions included in the American Taxpayer Relief Act of 2012. The decrease in our effective tax rate for 2012 was primarily related to a favorable adjustment to an uncertain tax position related to income tax credits claimed for research and development following the conclusion of an Internal Revenue Service examination of our United States federal income tax returns for 2006, 2007 and 2008. Benefits from tax incentives for domestic production totaled \$1.3 million in 2013, \$949,000 in 2012 and \$996,000 in 2011. Benefits from changes in uncertain tax positions totaled \$195,000 in 2013, \$720,000 in 2012 and \$159,000 in 2011. We expect our effective tax rate for 2014 to be approximately 34.0 percent.

#### Liquidity and Capital Resources

Effective October 1, 2011, our revolving credit facility with a money center bank was amended to increase the maximum principal amount of our revolving line of credit from \$25.0 million to \$40.0 million and to extend the date on which the lender is obligated to make advances under the revolving line of credit to October 1, 2016. The credit facility is 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. From time to time prior to October 1, 2016 and assuming an event of default is not then existing, we can convert outstanding advances under the revolving line of credit to term loans with a term of up to two years. We had no outstanding borrowings under our credit facility at December 31, 2013 or 2012. The credit facility contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At December 31, 2013, we were in compliance with all financial covenants. We believe the bank providing the credit facility is highly-rated and that the entire \$40.0 million under the credit facility is currently available to us. If that bank were unable to provide such funds, we believe such inability would not impact our ability to fund operations.

At December 31, 2013, we had a total of \$57.0 million in cash and cash equivalents, short-term investments and long-term investments, an increase of \$12.4 million from December 31, 2012. The principal contributor to this increase was the cash generated by operating activities.

Cash flows provided by operations of \$36.6 million in 2013 were primarily comprised of net income plus the net effect of non-cash expenses. At December 31, 2013, we had working capital of \$81.0 million, including \$28.6 million in cash and cash equivalents and \$18.4 million in short-term investments. The \$31.4 million increase in working capital during 2013 was primarily related to increases in cash and cash equivalents, short-term investments and inventories partially offset by increases in accounts payable and accrued liabilities. The net increase in cash and cash

equivalents was primarily related to the maturities of short-term investments. The increase in short-term investments was primarily related to the reclassification of long-term investments as their maturities became less than one year. Increased inventories are primarily related to higher safety stock levels necessary to support increased revenues. Increased accounts payable and accrued liabilities were primarily related to increased accrued compensation. Working capital items consisted primarily of cash, accounts receivable, short-term investments, inventories and other current assets minus accounts payable and other current liabilities.

Capital expenditures for property, plant and equipment totaled \$7.5 million in 2013, compared with \$10.3 million in 2012 and \$12.0 million in 2011. These expenditures were primarily for machinery and equipment. We expect 2014 capital expenditures, primarily machinery and equipment, to be greater than the average of the levels expended during each of the past three years.

We paid cash dividends totaling \$4.8 million, \$24.5 million and \$3.7 million during 2013, 2012 and 2011, respectively. In November 2012, our Board of Directors declared a special cash dividend of \$10.00 per share on our outstanding common stock. This dividend which totaled \$20.2 million was paid on December 10, 2012. We expect to fund future dividend payments with cash flows from operations. We purchased treasury stock totaling \$9.2 million, \$5.3 million and \$1.5 million during 2013, 2012 and 2011, respectively.

The table below summarizes debt, lease and other contractual obligations outstanding at December 31, 2013:

|                         |           | Payments due by period |                |                        |
|-------------------------|-----------|------------------------|----------------|------------------------|
| Contractual Obligations | Total     | 2014                   | 2015 -<br>2016 | 2017 and<br>thereafter |
| (In thousands)          |           |                        |                |                        |
| Purchase Obligations    | \$ 13,460 | \$ 13,387              | \$ 64          | \$ 9                   |
| Total                   | \$ 13,460 | \$ 13,387              | \$ 64          | \$ 9                   |

We believe our cash, cash equivalents, short-term investments and long-term investments, cash flows from operations and available borrowings of up to \$40.0 million under our credit facility will be sufficient to fund our cash requirements for at least the foreseeable future. We believe our strong financial position would allow us to access equity or debt financing should that be necessary. Additionally, we expect our cash and cash equivalents and investments, as a whole, will continue to increase in 2014.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet financing arrangements.

#### Impact of Inflation

We experience the effects of inflation primarily in the prices we pay for labor, materials and services. Over the last three years, we have experienced the effects of moderate inflation in these costs. At times, we have been able to offset a portion of these increased costs by increasing the sales prices of our products. However, competitive pressures have not allowed for full recovery of these cost increases.

#### New Accounting Pronouncements

From time to time, new accounting standards updates applicable to us are issued by the Financial Accounting Standards Board ("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.

## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. In the preparation of these financial statements, we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We believe the following discussion addresses our most critical accounting policies and estimates, which are those that are most important to the portrayal of our financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Actual results could differ significantly from those estimates under different assumptions and conditions.

From time to time, we accrue legal costs associated with certain litigation. In making determinations of likely outcomes of litigation matters, we consider the evaluation of legal counsel knowledgeable about each matter, case law and other case-specific issues. We believe these accruals are adequate to cover the legal fees and expenses associated with litigating these matters. However, the time and cost required to litigate these matters as well as the outcomes of the proceedings may vary from what we have projected.

We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the failure of customers to make required payments. On an ongoing basis, the collectability of accounts receivable is assessed based upon historical collection trends, current economic factors and the assessment of the collectability of specific accounts. We evaluate the collectability of specific accounts and determine when to grant credit to our customers using a combination of factors, including the age of the outstanding balances, evaluation of customers' current and past financial condition, recent payment history, current economic environment, and discussions with our personnel and with the customers directly. Accounts are written off when it is determined the receivable will not be collected. If circumstances change, our estimates of the collectability of amounts could be changed by a material amount.

We are required to estimate our provision for income taxes and uncertain tax positions in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is more likely than not, do not establish a valuation allowance. In the event that actual results differ from these estimates, the provision for income taxes could be materially impacted.

We assess the impairment of our long-lived identifiable assets, excluding goodwill which is tested for impairment as explained below, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. This review is based upon projections of anticipated future cash flows. Although we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows or future changes in our business plan could materially affect our evaluations. No such changes are anticipated at this time.

We assess goodwill for impairment pursuant to ASC 350, Intangibles—Goodwill and Other, which requires that goodwill be assessed whenever events or changes in circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis by applying a qualitative assessment on goodwill impairment to determine whether it is necessary to perform the two-step goodwill impairment test.



During 2013, 2012 and 2011, none of our critical accounting policy estimates required significant adjustments. We did not note any material events or changes in circumstances indicating that the carrying value of long-lived assets were not recoverable.

#### Quantitative and Qualitative Disclosures About Market Risks

##### Foreign Exchange Risk

We are not exposed to material fluctuations in currency exchange rates because the payments from our international customers are received primarily in United States dollars.

##### Principal and Interest Rate Risk

Our cash equivalents and short-term and long-term investments consist of money-market accounts and taxable corporate bonds. Our investment policy is to seek to manage these assets to achieve the goal of preserving principal, maintaining adequate liquidity at all times, and maximizing returns subject to established investment guidelines. In general, the primary exposure to market risk is interest rate sensitivity. This means that a change in prevailing interest rates may cause the value of and the return on the investment to fluctuate.

##### Forward-looking Statements

Statements in this Management's Discussion and Analysis and elsewhere in this Form 10-K 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 our research and development expenditures in 2014, our depreciation charges in 2014, our 2014 effective tax rate, our ability to obtain component parts in the event of a supply disruption, the impact of the restrictive covenants in our credit facility on our liquidity and capital resources, our earnings in 2014, our growth in operating income in 2014, our 2014 capital expenditures, funding future dividend payments with cash flows from operations, availability of equity and debt financing, our ability to meet our cash requirements for the foreseeable future, our ability to fund operations if the bank providing our credit facility were unable to lend funds to us, the impact on our consolidated financial statement of recently issued accounting standards when we adopt those standards, and increases in 2014 in cash, cash equivalents and investments. 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 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Atrion Corporation

We have audited the accompanying consolidated balance sheets of Atrion Corporation and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15. Exhibits and Financial Statement Schedules. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atrion Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material aspects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Atrion Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2014 expressed an unqualified opinion.

/s/ Grant Thornton LLP  
Dallas, Texas  
March 14, 2014

ATRION CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
For the year ended December 31, 2013, 2012 and 2011

|   | 2013                                     | 2012       | 2011       |
|---|--|------------|------------|
|   | (In thousands, except per share amounts) |            |            |
| Revenues                                    | \$ 131,993                               | \$ 119,062 | \$ 117,704 |
| Cost of Goods Sold                          | 68,931                                   | 62,922     | 57,697     |
| Gross Profit                                | 63,062                                   | 56,140     | 60,007     |
| Operating Expenses:                         |  |            |            |
| Selling                                     | 6,218                                    | 5,694      | 5,325      |
| General and administrative                  | 14,612                                   | 13,054     | 13,646     |
| Research and development                    | 4,288                                    | 3,766      | 2,868      |
|   | 25,118                                   | 22,514     | 21,839     |
| Operating Income                            | 37,944                                   | 33,626     | 38,168     |
| Interest Income                             | 1,313                                    | 1,447      | 1,295      |
| Other Income, net                           | 8  | 2          | 12         |
| Income before Provision for Income Taxes    | 39,265                                   | 35,075     | 39,475     |
| Provision for Income Taxes                  | (12,683 )                                | (11,446 )  | (13,437 )  |
| Net Income                                  | \$ 26,582                                | \$ 23,629  | \$ 26,038  |
| Net Income Per Basic Share                  | \$ 13.22                                 | \$ 11.72   | \$ 12.90   |
| Weighted Average Basic Shares Outstanding   | 2,010                                    | 2,016      | 2,019      |
| Net Income Per Diluted Share                | \$ 13.18                                 | \$ 11.66   | \$ 12.82   |
| Weighted Average Diluted Shares Outstanding | 2,017                                    | 2,027      | 2,031      |
| Dividends Per Common Share                  | \$ 2.40                                  | \$ 12.10   | \$ 1.82    |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of December 31, 2013 and 2012

| Assets:   | 2013           | 2012      |
|---|----------------|-----------|
|   | (In thousands) |           |
| Current Assets:   |                |           |
| Cash and cash equivalents   | \$28,559       | \$7,999   |
| Short-term investments  | 18,351         | 8,182     |
| Accounts receivable, net of allowance for doubtful accounts of \$86 and \$47 in 2013 and 2012, respectively   | 14,164         | 13,054    |
| Inventories   | 26,266         | 23,779    |
| Prepaid expenses and other current assets   | 1,603          | 3,110     |
| Deferred income taxes   | 1,376          | 623       |
| Total Current Assets  | 90,319         | 56,747    |
| Long-term investments   | 10,069         | 28,433    |
| Property, Plant and Equipment   | 130,504        | 124,180   |
| Less accumulated depreciation and amortization  | 72,176         | 64,912    |
|   | 58,328         | 59,268    |
| Other Assets and Deferred Charges:  |                |           |
| Patents and licenses, net of accumulated amortization of \$11,032 and \$10,853 in 2013 and 2012, respectively | 2,808          | 837       |
| Goodwill  | 9,730          | 9,730     |
| Other   | 812            | 795       |
|   | 13,350         | 11,362    |
| Total Assets  | \$172,066      | \$155,810 |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of December 31, 2013 and 2012

| Liabilities and Stockholders' Equity:  | 2013           | 2012      |
|--|----------------|-----------|
|  | (In thousands) |           |
| Current Liabilities:   |                |           |
| Accounts payable   | \$4,088        | \$3,843   |
| Accrued liabilities  | 4,423          | 2,900     |
| Accrued income and other taxes   | 853            | 465       |
| Total Current Liabilities  | 9,364          | 7,208     |
| Line of credit   | --             | --        |
| Other Liabilities and Deferred Credits:  |                |           |
| Deferred income taxes  | 12,062         | 12,232    |
| Other  | 1,646          | 1,542     |
|  | 13,708         | 13,774    |
| Total Liabilities  | 23,072         | 20,982    |
| Commitments and Contingencies  |                |           |
| Stockholders' Equity:  |                |           |
| Common stock, par value \$.10 per share, authorized 10,000 shares, issued 3,420 shares | 342            | 342       |
| Additional paid-in capital   | 31,592         | 29,998    |
| Retained earnings  | 174,362        | 152,630   |
| Treasury shares, 1,428 shares in 2013 and 1,399 shares in 2012, at cost                | (57,302 )      | (48,142 ) |
| Total Stockholders' Equity   | 148,994        | 134,828   |
| Total Liabilities and Stockholders' Equity   | \$172,066      | \$155,810 |

The accompanying notes are an integral part of these statements.

ATRION CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the year ended December 31, 2013, 2012 and 2011

|   | 2013           | 2012      | 2011      |
|---|----------------|-----------|-----------|
|   | (In thousands) |           |           |
| Cash Flows From Operating Activities:   |                |           |           |
| Net income  | \$26,582       | \$23,629  | \$26,038  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |           |           |
| Depreciation and amortization   | 8,592          | 7,610     | 6,544     |
| Deferred income taxes   | (923 )         | 1,462     | 2,584     |
| Stock-based compensation  | 1,586          | 1,482     | 1,047     |
| Net change in accrued interest, premiums, and discounts on investments            | 556            | 817       | 824       |
| Other   | 30             | --        | --        |
|   | 36,423         | 35,000    | 37,037    |
| Changes in operating assets and liabilities:                                      |                |           |           |
| Accounts receivable   | (1,110 )       | (1,831 )  | 298       |
| Inventories   | (2,487 )       | 803       | (7,182 )  |
| Prepaid expenses and other current assets   | 1,507          | (797 )    | (1,263 )  |
| Other non-current assets  | (17 )          | (77 )     | 18        |
| Accounts payable and accrued liabilities  | 1,768          | (2,465 )  | 2,008     |
| Accrued income and other taxes  | 388            | (370 )    | 283       |
| Other non-current liabilities   | 104            | (894 )    | 341       |
|   | 36,576         | 29,369    | 31,540    |
| Cash Flows From Investing Activities:   |                |           |           |
| Property, plant and equipment additions   | (7,503 )       | (10,347 ) | (11,999 ) |
| Purchase of patents   | (2,150 )       | --        | --        |
| Purchase of investments   | --             | (26,566 ) | (14,723 ) |
| Proceeds from maturities of investments   | 7,639          | 19,750    | 14,290    |
|   | (2,014 )       | (17,163 ) | (12,432 ) |
| Cash Flows From Financing Activities:   |                |           |           |
| Exercise of stock options   | --             | 731       | --        |
| Shares tendered for employees' withholding taxes on stock-based compensation      | --             | (1,136 )  | (78 )     |
| Tax benefit related to stock-based compensation                                   | 15             | 1,412     | 79        |
| Purchase of treasury stock  | (9,196 )       | (5,344 )  | (1,513 )  |
| Dividends paid  | (4,821 )       | (24,460 ) | (3,676 )  |
|   | (14,002 )      | (28,797 ) | (5,188 )  |
| Net change in cash and cash equivalents   | 20,560         | (16,591 ) | 13,920    |
| Cash and cash equivalents, beginning of year                                      | 7,999          | 24,590    | 10,670    |
| Cash and cash equivalents, end of year  | \$28,559       | \$7,999   | \$24,590  |

Cash paid for:

|              |         |          |          |
|--------------|---------|----------|----------|
| Income taxes | \$8,036 | \$10,357 | \$11,921 |
|--------------|---------|----------|----------|

The accompanying notes are an integral part of these statements.

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ATRION CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the year ended December 31, 2013, 2012 and 2011

|  | Common Stock          |        | Treasury Stock |              | Additional         | Retained   | Total      |
|--|-----------------------|--------|----------------|--------------|--------------------|------------|------------|
|  | Shares<br>Outstanding | Amount | Shares         | Amount       | Paid-in<br>Capital | Earnings   |            |
| Balances,<br>January 1, 2011                       | 2,016                 | \$ 342 | 1,404          | \$ (39,342 ) | \$ 24,331          | \$ 131,286 | \$ 116,617 |
| Net income   |                       |        |                |              |                    | 26,038     | 26,038     |
| Tax benefit<br>from<br>stock-based<br>compensation |                       |        |                |              | 79                 |            | 79         |
| Stock-based<br>compensation<br>transactions        | 8                     |        | (8 )           | 35           | 1,042              |            | 1,077      |
| Shares<br>surrendered in<br>stock<br>transactions  |                       |        |                | (78 )        |                    |            | (78 )      |
| Purchase of<br>treasury<br>stock                   | (8 )                  |        | 8              | (1,513 )     |                    |            | (1,513 )   |
| Dividends  |                       |        |                |              |                    | (3,706 )   | (3,706 )   |
| Balances,<br>December 31,<br>2011                  | 2,016                 | 342    | 1,404          | (40,898 )    | 25,452             | 153,618    | 138,514    |
| Net income   |                       |        |                |              |                    | 23,629     | 23,629     |
| Tax benefit<br>from<br>stock-based<br>compensation |                       |        |                |              | 1,412              |            | 1,412      |
| Stock-based<br>compensation<br>transactions        | 41                    |        | (41 )          | 368          | 3,134              |            | 3,502      |
| Shares<br>surrendered in<br>stock<br>transactions  | (9 )                  |        | 9              | (2,268 )     |                    |            | (2,268 )   |
| Purchase of<br>treasury<br>stock                   | (27 )                 |        | 27             | (5,344 )     |                    |            | (5,344 )   |
| Dividends  |                       |        |                |              |                    | (24,617 )  | (24,617 )  |
| Balances,<br>December 31,                          | 2,021                 | 342    | 1,399          | (48,142 )    | 29,998             | 152,630    | 134,828    |

2012

|   |       |        |          |              |           |            |            |
|---|-------|--------|----------|--------------|-----------|------------|------------|
| Net income                                |       |        |          |              | 26,582    |            | 26,582     |
| Tax benefit from stock-based compensation |       |        |          | 15           |           |            | 15         |
| Stock-based compensation transactions     | 1     | (1 )   | 36       | 1,579        |           |            | 1,615      |
| Purchase of treasury stock                | (30 ) | 30     | (9,196 ) |              |           |            | (9,196 )   |
| Dividends                                 |       |        |          |              | (4,850 )  |            | (4,850 )   |
| Balances, December 31, 2013               | 1,992 | \$ 342 | 1,428    | \$ (57,302 ) | \$ 31,592 | \$ 174,362 | \$ 148,994 |

The accompanying notes are an integral part of this statement.

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Atrion Corporation  
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Atrion Corporation and its subsidiaries (“we,” “our,” “us,” “Atrion” or the “Company”) develop and manufacture products primarily for medical applications. We market our products throughout the United States and internationally. Our customers include hospitals, distributors, and other manufacturers. Atrion Corporation’s principal subsidiaries through which these operations are conducted are Atrion Medical Products, Inc., Halkey-Roberts Corporation and Quest Medical, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of Atrion Corporation and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include cash on hand and in the bank as well as money market accounts and debt securities with original maturities of 90 days or less.

Trade Receivables

Trade accounts receivable are recorded at the original sales price to the customer. We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the failure of customers to make required payments. On an ongoing basis, the collectability of accounts receivable is assessed based upon historical collection trends, current economic factors and the assessment of the collectability of specific accounts. We evaluate the collectability of specific accounts and determine when to grant credit to our customers using a combination of factors, including the age of the outstanding balances, evaluation of customers’ current and past financial condition, recent payment history, current economic environment, and discussions with appropriate Company personnel and with the customers directly. Accounts are written off when we determine the receivable will not be collected.

Investments

Our investments consist of taxable corporate bonds. Our investment policy is to seek to preserve principal and maintain adequate liquidity while at the same time maximizing yields without significantly increasing risk. We are required to classify our investments as trading, available-for-sale or held-to-maturity. Our investments are accounted for as held-to-maturity since we have the positive intent and ability to hold these investments to maturity. These investments are reported at cost, adjusted for premiums and discounts that are recognized in interest income, using a method that approximates the effective interest method, over the period to maturity and unrealized gains and losses are excluded from earnings. We consider as current assets those investments which will mature in the next 12 months. The remaining investments are considered non-current assets.

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

#### Inventories

Inventories are stated at the lower of cost (including materials, direct labor and applicable overhead) or market. Cost is determined by using the first-in, first-out method. The following table details the major components of inventory (in thousands):

|                   | December 31, |           |
|-------------------|--------------|-----------|
|                   | 2013         | 2012      |
| Raw materials     | \$ 10,744    | \$ 10,017 |
| Work in process   | 6,246        | 5,268     |
| Finished goods    | 9,276        | 8,494     |
| Total inventories | \$ 26,266    | \$ 23,779 |

#### Accounts Payable

We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2013 and 2012, disbursements totaling approximately \$443,000 and \$495,000, respectively, had not been presented for payment to our bank.

#### Income Taxes

We account for income taxes utilizing Accounting Standards Codification (ASC) 740, Income Taxes (“ASC 740”). ASC 740 requires the asset and liability method for the recording of deferred income taxes, whereby deferred tax assets and liabilities are recognized based on the tax effects of temporary differences between the financial statement and the tax bases of assets and liabilities, as measured at current enacted tax rates. When appropriate, we evaluate the need for a valuation allowance to reduce deferred tax assets.

ASC 740 also requires the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement attributes of income tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not of being sustained.

Our uncertain tax positions are recorded as “Other non-current liabilities.” We classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision.

#### Property, Plant and Equipment

Property, plant and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Additions and improvements are capitalized, including all material, labor and engineering costs to design, install or improve the asset. Expenditures for repairs and maintenance are charged to expense as incurred. The following table represents a summary of property, plant and equipment at original cost (in thousands):

|                                     | December 31, |            | Useful    |
|-------------------------------------|--------------|------------|-----------|
|                                     | 2013         | 2012       | Lives     |
| Land                                | \$ 5,260     | \$ 5,260   | —         |
| Buildings                           | 31,314       | 30,664     | 30-40 yrs |
| Machinery and equipment             | 93,930       | 88,256     | 3-15 yrs  |
| Total property, plant and equipment | \$ 130,504   | \$ 124,180 |           |



Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

Depreciation expense of \$8,413,000, \$7,448,000 and \$6,272,000 was recorded for the years ended December 31, 2013, 2012 and 2011, respectively. Depreciation expense is recorded in either cost of goods sold or operating expenses based on the associated assets' usage.

#### Patents and Licenses

Costs for patents and licenses acquired are determined at acquisition date. Patents and licenses are amortized over the useful lives of the individual patents and licenses, which are from 7 to 20 years. Patents and licenses are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

#### Goodwill

Goodwill represents the excess of cost over the fair value of tangible and identifiable intangible net assets acquired. Annual impairment testing for goodwill is done using a qualitative assessment on goodwill impairment to determine whether it is necessary to perform the two-step goodwill impairment test. Goodwill is also reviewed whenever events or changes in circumstances indicate a change in value may have occurred. We have identified three reporting units where goodwill was recorded for purposes of testing goodwill impairment annually: (1) Atrion Medical Products, Inc., (2) Halkey-Roberts Corporation and (3) Quest Medical, Inc. The total carrying amount of goodwill in each of the years ended December 31, 2013, 2012 and 2011 was \$9,730,000. Our evaluation of goodwill during the year resulted in no impairment losses.

#### Current Accrued Liabilities

The items comprising current accrued liabilities are as follows (in thousands):

|                                      | December 31, |          |
|--------------------------------------|--------------|----------|
|                                      | 2013         | 2012     |
| Accrued payroll and related expenses | \$ 3,711     | \$ 2,276 |
| Accrued vacation                     | 229          | 210      |
| Other accrued liabilities            | 483          | 414      |
| Total accrued liabilities            | \$ 4,423     | \$ 2,900 |

#### Revenues

We recognize revenue when our products are shipped to our customers, provided an arrangement exists, the fee is fixed and determinable and collectability is reasonably assured. All risks and rewards of ownership pass to the customer upon shipment. Net sales represent gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Revenues are recorded exclusive of sales and similar taxes. Returns, discounts and other allowances have been insignificant historically.

#### Shipping and Handling Policy

Shipping and handling fees charged to customers are reported as revenue and all shipping and handling costs incurred related to products sold are reported as cost of goods sold.

#### Research and Development Costs

Research and development costs relating to the development of new products and improvements of existing products are expensed as incurred.

#### Stock-Based Compensation

We have stock-based compensation plans covering certain of our officers, directors and key employees. As explained in detail in Note 8, we account for stock-based compensation utilizing the fair value recognition provisions of ASC 718, Compensation-Stock Compensation, (“ASC 718”).

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Notes to Consolidated Financial Statements - (continued)

New Accounting Pronouncements

From time to time, new accounting pronouncements applicable to us are issued by the Financial Accounting Standards Board ("FASB") or other standards setting bodies, which we will adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

Fair Value Measurements

Accounting standards use a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

As of December 31, 2013 and 2012, we held certain investments that were required to be measured for disclosure purposes at fair value on a recurring basis. These investments are considered Level 2 assets. The fair value of our investments is estimated using recently executed transactions and market price quotations. At December 31, 2013 and 2012, the fair value of our investments approximated or exceeded the carrying value of the investments (see Note 2).

The carrying values of our other financial instruments including cash and cash equivalents, money market accounts, accounts receivable, accounts payable, accrued liabilities, and accrued income and other taxes approximated fair value due to their liquid and short-term nature.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, investments and accounts receivable.

Our cash is held in high credit quality financial institutions. As of December 31, 2013, we had \$28.6 million in cash and cash equivalents invested as follows: \$2.6 million invested in money market mutual funds and \$26.0 million held in depository accounts. From time to time, deposits held with financial institutions exceed the amount of Federal Deposit Insurance Corporation, or FDIC, insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. At December 31, 2013, our uninsured cash and cash equivalents totaled approximately \$27.0 million.

For accounts receivable, we perform ongoing credit evaluations of our customers' financial condition and generally do not require collateral. We maintain reserves for possible credit losses. As of December 31, 2013 and 2012, we had allowances for doubtful accounts of approximately \$86,000 and \$47,000, respectively. The carrying amount of the receivables approximates their fair value. Our customer that generates our largest revenues accounted for 8.2%, 16.3% and 6.7% of accounts receivable as of December 31, 2013, 2012 and 2011, respectively. No other customer exceeded 10% of our accounts receivable as of December 31, 2013, 2012 or 2011.

(2) Investments

As of December 31, 2013 and 2012, we held certain investments that were required to be measured for disclosure purposes at fair value on a recurring basis. These investments were 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.



Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

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 the dates shown below (in thousands):

|                          | Cost     | Gross Unrealized<br>Gains | Losses | Fair value |
|--------------------------|----------|---------------------------|--------|------------|
| As of December 31, 2013: |          |                           |        |            |
| Short-term Investments:  |          |                           |        |            |
| Corporate bonds          | \$18,351 | \$234                     | \$—    | \$18,585   |
| Long-term Investments:   |          |                           |        |            |
| Corporate bonds          | \$10,069 | \$285                     | \$—    | \$10,354   |
| As of December 31, 2012: |          |                           |        |            |
| Short-term Investments:  |          |                           |        |            |
| Corporate bonds          | \$8,182  | \$78                      | \$—    | \$8,260    |
| Long-term Investments:   |          |                           |        |            |
| Corporate bonds          | \$28,433 | \$652                     | \$29   | \$29,056   |

At December 31, 2013, the length of time until maturity of these securities ranged from five to 16 months.

### (3) 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):

| December 31, 2013                                  |                             |                             | December 31, 2012                                  |                             |                             |
|--|-----------------------------|-----------------------------|--|-----------------------------|-----------------------------|
| Weighted<br>Average<br>Original<br>Life<br>(years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Weighted<br>Average<br>Original<br>Life<br>(years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| 18.55  | \$13,840                    | \$ 11,032                   | 14.88  | \$11,690                    | \$ 10,853                   |

Aggregate amortization expense for patents and licenses was \$179,000 for 2013, \$162,000 for 2012 and \$272,000 for 2011. Estimated future amortization expense for each of the years set forth below ending December 31, is as follows (in thousands):

|      |        |
|------|--------|
| 2014 | \$ 269 |
| 2015 | \$ 269 |
| 2016 | \$ 269 |
| 2017 | \$ 173 |
| 2018 | \$ 141 |

### (4) Line of Credit



We have a revolving credit facility with a money center bank which is secured by substantially all our inventories, equipment and accounts receivable. Effective October 1, 2011, our credit facility was amended to increase the maximum principal amount of our revolving line of credit from \$25.0 million to \$40.0 million. Interest under the credit facility is assessed at 30-day, 60-day or 90-day LIBOR, as selected by us, plus one percent (1.17 percent at December 31, 2013) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2013 or 2012. The credit facility amendment also extended the date on which the lender is obligated to make advances under the revolving line of credit to October 1, 2016. At any time during the term, we may convert any or all outstanding amounts under the credit facility to a term loan with a maturity of two years. Our ability to borrow funds under the credit facility from time to time is contingent on meeting certain covenants in the loan agreement, the most restrictive of which is the ratio of total debt to earnings before interest, income tax, depreciation and amortization. At December 31, 2013, we were in compliance with all of those covenants.

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

## (5) Income Taxes

The items comprising income tax expense are as follows (in thousands):

|                          |           | Year ended December 31, |          |          |
|--------------------------|-----------|-------------------------|----------|----------|
|                          |           | 2013                    | 2012     | 2011     |
| Current                  | — Federal | \$12,541                | \$8,934  | \$9,973  |
|                          | — State   | 1,065                   | 1,050    | 880      |
|                          |           | 13,606                  | 9,984    | 10,853   |
| Deferred                 | — Federal | (1,063 )                | 1,363    | 2,372    |
|                          | — State   | 140                     | 99       | 212      |
|                          |           | (923 )                  | 1,462    | 2,584    |
| Total income tax expense |           | \$12,683                | \$11,446 | \$13,437 |

Temporary differences and carryforwards which have given rise to deferred income tax assets and liabilities as of December 31, 2013 and 2012 are as follows (in thousands):

|   | 2013     | 2012     |
|---|----------|----------|
| Deferred tax assets:                      |          |          |
| Benefit plans                             | \$1,590  | \$1,099  |
| Inventories                               | 525      | 536      |
| Other                                     | 37       | 38       |
| Total deferred tax assets                 | \$2,152  | \$1,673  |
| Deferred tax liabilities:                 |          |          |
| Property, plant and equipment             | \$9,716  | \$10,299 |
| Patents and goodwill                      | 2,956    | 2,972    |
| Other                                     | 166      | 11       |
| Total deferred tax liabilities            | \$12,838 | \$13,282 |
| Net deferred tax liability                | \$10,686 | \$11,609 |
| Balance Sheet classification:             |          |          |
| Non-current deferred income tax liability | \$12,062 | \$12,232 |
| Current deferred income tax asset         | 1,376    | 623      |
| Net deferred tax liability                | \$10,686 | \$11,609 |

Total income tax expense differs from the amount that would be provided by applying the statutory federal income tax rate to pretax earnings as illustrated below (in thousands):

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

|   | Year ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2013                    | 2012      | 2011      |
| Income tax expense at the statutory federal income tax rate | \$ 13,743               | \$ 12,276 | \$ 13,816 |
| Increase (decrease) resulting from:                         |                         |           |           |
| State income taxes  | 770                     | 747       | 710       |
| Section 199 manufacturing deduction                         | (1,307 )                | (949 )    | (996 )    |
| Other, net  | (523 )                  | (628 )    | (93 )     |
| Total income tax expense                                    | \$ 12,683               | \$ 11,446 | \$ 13,437 |

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits as required by ASC 740 is as follows (in thousands):

|  |          |
|--|----------|
| Gross unrecognized tax benefits at January 1, 2011   | \$ 1,420 |
| Decreases in tax positions for prior years           | (77 )    |
| Increases in tax positions for current year          | 134      |
| Lapse in statutes of limitation                      | (216 )   |
| Gross unrecognized tax benefits at December 31, 2011 | \$ 1,261 |
| Increase in tax positions for prior years            | 19       |
| Increase in tax positions for current year           | 0        |
| Decrease due to settlement with taxing authorities   | (641 )   |
| Lapse in statutes of limitation                      | (98 )    |
| Gross unrecognized tax benefits at December 31, 2012 | \$ 541   |
| Increase in tax positions for prior years            | 11       |
| Increase in tax positions for current year           | 0        |
| Lapse in statutes of limitation                      | (206 )   |
| Gross unrecognized tax benefits at December 31, 2013 | \$ 346   |

As of December 31, 2013 all of the unrecognized tax benefits, which were comprised of uncertain tax positions, would impact the effective tax rate if recognized. Unrecognized tax benefits that are affected by statutes of limitation that expire within the next 12 months are immaterial.

We are subject to United States federal income tax as well as to income tax of multiple state jurisdictions. We have concluded all United States federal income tax matters for years through 2009. In January 2009, the Internal Revenue Service ("IRS") began examining certain of our United States federal income tax returns for 2006, 2007 and 2008. This audit was favorably concluded in the third quarter of 2012 when the IRS appeals group allowed 100% of the tax credits claimed for our research and development during those years. Our unrecognized tax benefits were reduced at that time on the basis of this favorable settlement in the amount of approximately \$641,000. All material state and local income tax matters have been concluded for years through 2009.

We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The liability for unrecognized tax benefits included accrued interest of \$21,000, \$26,000 and \$77,000 at December 31, 2013, 2012 and 2011, respectively. Tax expense for the year ended December 31, 2013, 2012 and 2011 included a net interest benefit of \$5,400, \$51,000 and \$7,000, respectively.



Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

(6) Stockholders' Equity

Our Board of Directors has at various times authorized repurchases of our stock in open-market or negotiated transactions at such times and at such prices as management may from time to time determine. On August 16, 2011, our Board of Directors adopted a new stock repurchase program pursuant to which we can repurchase up to 200,000 shares of our common stock from time to time in open market or privately-negotiated transactions. This stock repurchase program has no expiration date but may be terminated by the Board of Directors at any time. As of December 31, 2012, 165,438 shares remained available for repurchase under this program. In 2013, we repurchased 36,666 shares under this program, including 6,704 shares from executive officers in transactions during an open window period for trading, and that were pre-cleared, under our Insider Trading Policy. In 2012 and 2011, we repurchased 26,562 and 8,000 shares, respectively, and as of December 31, 2013 there remained 128,772 shares available for repurchase under the program.

We have increased our quarterly cash dividend payments in September of each of the past three years. The quarterly dividend was increased to \$.49 per share in September 2011, to \$.56 per share in September 2012 and to \$.64 in September 2013. On December 10, 2012 we also paid a special cash dividend to stockholders of \$10.00 per share. Holders of stock units earned non-cash dividends of \$29,000 in 2013, \$157,000 in 2012 and \$30,000 in 2011.

We have a Rights Plan, which is intended to protect the interests of stockholders in the event of a hostile attempt to take over the Company. The rights, which are not presently exercisable and do not have any voting powers, represent the right of our stockholders to purchase at a substantial discount, upon the occurrence of certain events, shares of our common stock or of an acquiring company involved in a business combination with us. This plan, which was adopted in August 2006, expires in August 2016.

(7) Income Per Share

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

|   | Year ended December 31,                  |          |          |
|---|--|----------|----------|
|   | 2013                                     | 2012     | 2011     |
|   | (In thousands, except per share amounts) |          |          |
| Net Income                                  | \$26,582                                 | \$23,629 | \$26,038 |
| Weighted average basic shares outstanding   | 2,010                                    | 2,016    | 2,019    |
| Add: Effect of dilutive securities          | 7  | 11       | 12       |
| Weighted average diluted shares outstanding | 2,017                                    | 2,027    | 2,031    |
| Net Income per share                        |  |          |          |
| Basic                                       | \$13.22                                  | \$11.72  | \$12.90  |
| Diluted                                     | \$13.18                                  | \$11.66  | \$12.82  |

As required by ASC 260, Earnings per Share, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and, therefore, are included in the computation of basic income per share pursuant to the two-class method.

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 4,344 shares of common stock for the year ended December 31, 2013 were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive.

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

(8) Stock Plans

At December 31, 2013, we had three stock-based compensation plans which are described more fully below. We account for our plans under ASC 718, and the disclosures that follow are based on applying ASC 718. ASC 718 requires that cash flows from the use of stock-based compensation resulting from tax benefits in excess of recognized compensation cost (excess tax benefits) be classified as financing cash flows. We recorded \$15,000, \$1,412,000 and \$79,000 of such excess tax benefits as financing cash flows in 2013, 2012 and 2011, respectively.

Our Amended and Restated 2006 Equity Incentive Plan (the “2006 Plan”) provides for the grant to key employees, non-employee directors and consultants of incentive and nonqualified stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance shares and other stock-based awards. Under the 2006 Plan, 200,000 shares, in the aggregate, of common stock have been reserved for awards. The purchase price of shares issued on the exercise of options must be at least equal to the fair market value of such shares on the date of grant. The options granted become exercisable and expire as determined by the Compensation Committee. As of December 31, 2013, there remained 58,242 shares for future stock-based awards under the 2006 Plan.

In May 2007, we adopted our Deferred Compensation Plan for Non-Employee Directors (as amended, the “Deferred Compensation Plan”), and 2,500 shares of our common stock were initially reserved for issuance thereunder. This plan allows our non-employee directors to elect to receive stock units in lieu of all or part of the cash fees they are receiving for their services as directors. On the first business day of each calendar year, each participating non-employee director is credited with a number of stock units determined on the basis of the foregone cash fees and the closing price of our common stock on the next preceding date on which shares of our stock were traded. The stock units are converted to shares of our common stock on a one-for-one basis at a future date as elected in advance by the director, but no later than the January following the year in which the director ceases to serve on the Board of Directors, and the shares are delivered to the director. As of December 31, 2013, there remained 1,626 shares of common stock reserved for issuance upon the conversion of stock units which may be credited in the future to non-employee directors.

In May 2007, we also adopted our Non-Employee Director Stock Purchase Plan, (as amended, the “Director Stock Purchase Plan”), and 2,500 shares of our common stock were initially reserved for issuance thereunder. Under this plan, our non-employee directors may elect to receive on the first business day of the calendar year fully-vested stock and restricted stock in lieu of some or all of their fees payable to them during such year. The foregone fees are converted into shares of fully-vested stock and restricted stock on the first business day of such calendar year based on the closing price of our common stock on the next preceding date on which shares of our stock were traded. The restricted stock vests in equal amounts on the first day of the next three succeeding calendar quarters provided the non-employee director is then serving on our Board of Directors. As of December 31, 2013, there remained 1,126 shares reserved for issuance under such plan.

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

A summary of stock option transactions for the year ended December 31, 2013 is presented below:

| Options                          | Shares | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|----------------------------------|--------|---------------------------------------|---|
| Outstanding at December 31, 2012 | 50,000 | \$ 204.76                             |   |
| Granted                          | --     | --                                    |   |
| Exercised                        | --     | --                                    |   |
| Outstanding at December 31, 2013 | 50,000 | \$ 204.76                             | 4.9 years   |
| Exercisable at December 31, 2013 | 15,000 | \$ 196.99                             | 4.7 years   |

All nonvested options outstanding at December 31, 2013 are expected to vest. We estimate the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. None of our grants includes performance-based or market-based vesting conditions. The expected life represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The fair value of stock-based payments, funded with options, is valued using the Black-Scholes valuation method with a volatility factor based on our historical stock trading history. We base the risk-free interest rate using the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury securities with an equivalent term. We base the dividend yield used in the Black-Scholes valuation method on our dividend history.

There were no options granted in 2013. The fair value for the options granted in 2012 and 2011 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

|                         | 2013 | 2012    | 2011    |
|-------------------------|------|---------|---------|
| Risk-free interest rate | --   | .5 %    | 1.7 %   |
| Dividend yield          | --   | 1 %     | 1 %     |
| Volatility factor       | --   | 25.0 %  | 25.0 %  |
| Expected life           | --   | 5 years | 5 years |

The weighted average grant date fair value of the options granted in 2012 and 2011 was \$40.38 and \$40.64, respectively. The total intrinsic value of options exercised during 2012 was \$3.1 million. There were no options exercised in 2013 and 2011. The total intrinsic values of options outstanding and options currently exercisable at December 31, 2013, were \$4.6 million and \$1.5 million, respectively.



Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

During 2013, we made no awards of restricted stock under the 2006 Plan. Under the terms of our restricted stock awards, the restrictions usually lapse over a five-year period. During the vesting period, holders of restricted stock have voting rights and earn dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Nonvested shares are generally forfeited on termination of employment unless otherwise provided in the participant's employment agreement or the termination is in connection with a change in control. A summary of changes in nonvested restricted stock for the year ended December 31, 2013 is presented below:

|                                       |          | Weighted<br>Average<br>Award<br>Date Fair<br>Value Per<br>Share |
|---------------------------------------|----------|---|
| Nonvested Shares                      | Shares   |   |
| Restricted stock at December 31, 2012 | 13,500   | \$207.35  |
| Granted in 2013                       | --       | --  |
| Vested in 2013                        | (3,000 ) | \$211.06  |
| Restricted stock at December 31, 2013 | 10,500   | \$208.09  |

All shares of nonvested restricted stock outstanding at December 31, 2013 are expected to vest. The total fair value of restricted stock vested during 2013, 2012 and 2011 was \$633,000, \$559,000 and \$481,000, respectively.

During 2013, restricted stock units were awarded to certain employees under the 2006 Plan. All of our restricted stock units are convertible to shares of stock on a one-for-one basis when the restrictions lapse, which is generally after a five-year period. Nonvested stock units are generally forfeited on termination of employment unless the termination is in connection with a change in control. During the vesting period, holders of all restricted stock units earn dividends in the form of additional units. During 2013, one non-employee director elected to receive stock units in lieu of a portion of his cash fees for his services as a member of the Board of Directors.

A summary of changes in stock units for the year ended December 31, 2013, is presented below:

|                                | Restricted<br>Stock Units | Weighted<br>Average<br>Award Date<br>Fair Value<br>Per Unit | Director's<br>Stock Units | Weighted<br>Average<br>Award Date<br>Fair Value<br>Per Unit |
|--------------------------------|---------------------------|---|---------------------------|---|
| Nonvested Stock Units          |                           |   |                           |   |
| Nonvested at December 31, 2012 | 11,996                    | \$ 194.95   | --                        |   |
| Granted                        | 908                       | \$ 214.76   | 41                        | \$ 199.78   |
| Vested                         | --                        | --  | (41 )                     | \$ 199.78   |
| Nonvested at December 31, 2013 | 12,904                    | \$ 196.35   | --                        |   |

All nonvested restricted stock units at December 31, 2013 are expected to vest. The total intrinsic value of all outstanding stock units which were not convertible at December 31, 2013, including 389 stock units held for the accounts of non-employee directors, was \$3,938,000. There were no vested restricted stock units during 2013. The total fair value of directors' stock units vested during 2013, 2012 and 2011 was \$8,000, \$22,000 and \$8,000, respectively.

Stock awards that vest immediately were awarded under the 2006 Plan to non-employee directors in 2013, 2012 and 2011 totaling \$120,000 in value in each year. Compensation related to stock awards, restricted stock and stock units is based on the fair market value of the stock on the date of the grant. These fair values are then amortized on a straight-line basis over the requisite service periods of the entire awards, which is generally the vesting period. Compensation related to stock options is based on the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. For the years ended December 31, 2013, 2012 and 2011, we recorded stock-based compensation expense as a “General and Administrative expense” in the amount of \$1,586,000, \$1,482,000 and \$1,047,000, respectively, for all of the above mentioned stock-based compensation arrangements. The total tax benefit recognized in the income statement from stock-based compensation arrangements for the years ended December 31, 2013, 2012 and 2011, was \$555,000, \$516,000 and \$359,000, respectively.

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

Unrecognized compensation cost information for our various stock-based compensation types is shown below as of December 31, 2013:

|                        | Unrecognized<br>Compensation<br>Cost | Weighted<br>Average<br>Remaining<br>Years in<br>Amortization<br>Period |
|------------------------|--------------------------------------|--|
| Stock options          | \$ 1,172,000                         | 3.0  |
| Restricted stock       | 1,812,000                            | 3.0  |
| Restricted stock units | 1,355,000                            | 3.3  |
| Total                  | \$ 4,339,000                         |  |

We have a policy of utilizing treasury shares to satisfy stock option exercises, stock unit conversions and restricted stock awards.

(9) Revenues From Major Customers

We had one major customer which represented approximately \$13.5 million (10.2 percent) and \$15.1 million (12.9 percent) of our net revenues during 2013 and 2011, respectively.

(10) Industry Segment and Geographic Information

We operate in one reportable industry segment: developing and manufacturing products primarily for medical applications and have no foreign operating subsidiaries. We have other product lines which include pressure relief valves and inflation systems, which are sold primarily to the aviation and marine industries. Due to the similarities in product technologies and manufacturing processes, these products are managed as part of our medical products segment. Our revenues from sales to customers outside the United States totaled approximately 42 percent of our net revenues in 2013, 2012 and 2011. We have no assets located outside the United States.

A summary of revenues by geographic territory, based on shipping destination, for 2013, 2012 and 2011 is as follows (in thousands):

|   | Year ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2013                    | 2012      | 2011      |
| United States                             | \$75,997                | \$69,388  | \$68,156  |
| Canada                                    | 15,114                  | 13,352    | 17,524    |
| Other countries less than 10% of revenues | 40,882                  | 36,322    | 32,024    |
| Total                                     | \$131,993               | \$119,062 | \$117,704 |

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

A summary of revenues by product line for 2013, 2012 and 2011 is as follows (in thousands):

|                | 2013      | 2012      | 2011      |
|----------------|-----------|-----------|-----------|
| Fluid Delivery | \$51,289  | \$49,060  | \$45,274  |
| Cardiovascular | 40,182    | 36,021    | 34,072    |
| Ophthalmology  | 20,736    | 15,717    | 19,581    |
| Other          | 19,786    | 18,264    | 18,777    |
| Total          | \$131,993 | \$119,062 | \$117,704 |

(11) Employee Retirement and Benefit Plans

We sponsor a defined contribution 401(k) plan for all employees. Each participant may contribute certain amounts of eligible compensation. We make a matching contribution to the plan. Our contributions under this plan were \$561,000, \$533,000 and \$487,000 in 2013, 2012 and 2011, respectively.

(12) Commitments and Contingencies

From time to time and in the ordinary course of business, we may be subject to various claims, charges and litigation. In some cases, the claimants may seek damages, as well as other relief, which, if granted, could require significant expenditures. We accrue the estimated costs of settlement or damages when a loss is deemed probable and such costs are estimable, and accrue for legal costs associated with a loss contingency when a loss is probable and such amounts are estimable. Otherwise, these costs are expensed as incurred. If the estimate of a probable loss or defense costs is a range and no amount within the range is more likely, we accrue the minimum amount of the range. As of December 31, 2013, the Company had no ongoing litigation or arbitration for such matters.

We had a dispute which was favorably settled in the third quarter of 2007. This settlement was amended in December 2008. The amended settlement agreement provides that we may receive annual payments from 2009 through 2024. We have not recorded \$5.5 million in potential future payments under this settlement as of December 31, 2013 due to the uncertainty of payment.

We have arrangements with three of our executive officers pursuant to which the termination of their employment under certain circumstances would result in lump sum payments to them. Termination under such circumstances at December 31, 2013 could have resulted in payments aggregating \$4.3 million.

Atrion Corporation  
Notes to Consolidated Financial Statements - (continued)

(13) Quarterly Financial Data (Unaudited):

| Quarter Ended                            | Operating Revenue | Operating Income | Net Income | Income Per Basic Share | Income Per Diluted Share |
|--|-------------------|------------------|------------|------------------------|--------------------------|
| (In thousands, except per share amounts) |                   |                  |            |                        |                          |
| 03/31/13                                 | \$ 33,493         | \$ 9,400         | \$ 6,635   | \$ 3.28                | \$ 3.28                  |
| 06/30/13                                 | 32,605            | 9,495            | 6,506      | 3.23                   | 3.22                     |
| 09/30/13                                 | 34,044            | 10,713           | 7,673      | 3.82                   | 3.81                     |
| 12/31/13                                 | 31,851            | 8,336            | 5,768      | 2.88                   | 2.87                     |
| 03/31/12                                 | \$ 29,239         | \$ 7,943         | \$ 5,377   | \$ 2.67                | \$ 2.65                  |
| 06/30/12                                 | 30,689            | 8,967            | 6,099      | 3.03                   | 3.02                     |
| 09/30/12                                 | 30,637            | 9,677            | 7,259      | 3.60                   | 3.59                     |
| 12/31/12                                 | 28,497            | 7,039            | 4,894      | 2.42                   | 2.42                     |

The quarterly information presented above reflects, in the opinion of management, all adjustments necessary for a fair presentation of the results for the interim periods presented.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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 December 31, 2013. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, were effective as of December 31, 2013. There were no changes in our internal control over financial reporting for the fourth fiscal quarter ended December 31, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. A system of internal control may become inadequate over time because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 1992 Internal Control-Integrated Framework. Based on this assessment, our management concluded that, as of December 31, 2013, our internal control over financial reporting was effective.

Grant Thornton LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Report and, as part of its audit, has issued the following attestation report on the effectiveness of our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Atrion Corporation

We have audited the internal control over financial reporting of Atrion Corporation and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control—Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013, and our report dated March 14, 2014, expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP  
Dallas, Texas  
March 14, 2014





ITEM 9B. OTHER INFORMATION.

There was no information required to be disclosed in a report on Form 8-K during the three months ended December 31, 2013 that was not reported.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Certain information required by Part III is omitted from this Form 10-K and is incorporated herein by reference to our definitive proxy statement for our 2014 annual meeting of stockholders which we intend to file pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after December 31, 2013.

Directors

The information for this item relating to our directors is incorporated by reference from our definitive proxy statement to be held in connection with our 2014 annual meeting of stockholders.

Executive Officers

The information required by this item relating to executive officers is set forth in Part I of this report.

The information required by Item 405 of Regulation S-K is incorporated by reference from our definitive proxy statement to be filed in connection with our 2014 annual meeting of stockholders.

We have adopted a Code of Business Conduct that applies to all of our directors, officers and employees. The Code of Business Conduct will be provided to any person, without charge, upon request addressed to: Corporate Secretary, Atrion Corporation, One Allentown Parkway, Allen, Texas 75002.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed in connection with our 2014 annual meeting of stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information contained in the section entitled "Securities Ownership" in our definitive proxy statement to be filed in connection with our 2014 annual meeting of stockholders is incorporated herein by reference.

## Equity Compensation Plan Information

The following table provides certain information about securities authorized for issuance under our equity compensation plans as of December 31, 2013:

| Plan Category   | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |           |
|---|---|---|---|-----------|
| Equity compensation plan approved by security holders (1)     | 62,904  | \$ 204.76   | (2)   | 58,065    |
| Equity compensation plans not approved by security holders(3) | 389   | -   |   | 1,626 (4) |
| Total   | 63,293  | \$ 204.76   |   | 59,692    |

- (1) Consists of shares of our common stock authorized for issuance under our Amended and Restated 2006 Equity Incentive Plan, or 2006 Plan. The number of shares available for issuance under this plan is subject to equitable adjustment by the Compensation Committee of the Board of Directors in the event of any change in our capitalization, including, without limitation, a stock dividend or stock split. For more information regarding this plan, see Note 8 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this Form 10-K.
- (2) The deferred stock units and restricted stock units awarded under our 2006 Plan are excluded from the calculation of the weighted average exercise price.
- (3) Consists of our Deferred Compensation Plan, and our Director Stock Purchase Plan. For more information regarding these plans, see Note 8 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this Form 10-K.
- (4) The Deferred Compensation Plan and the Director Stock Purchase Plan do not provide for a specified limit on the number of shares of our common stock that may be issued thereunder. The 2,752 shares shown as available for future issuance (1,626 shares under the Deferred Compensation Plan and 1,126 shares under the Director Stock Purchase Plan) reflect the number of shares initially reserved, in the aggregate, for issuance under those plans less the number of shares of our common stock issued or to be issued with respect to stock units that have been credited to non-employee directors' stock unit accounts under the Deferred Compensation Plan and our stock that has been purchased under the Director Stock Purchase Plan on or before December 31, 2013.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed in connection with our 2014 annual meeting of stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated by reference from our definitive proxy statement to be filed in connection with our 2014 annual meeting of stockholders.

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this report on Form 10-K:

1. Financial Statements of the Company:  
Report of Independent Registered Public Accounting Firm  
Consolidated Statements of Income  
Consolidated Balance Sheets  
Consolidated Statements of Cash Flows  
Consolidated Statement of Changes in Stockholders Equity

2. Financial Statement Schedules:

## Schedule II – Consolidated Valuation and Qualifying Accounts

|                              | Allowance for Doubtful Receivables<br>December 31, |       |       |
|------------------------------|--|-------|-------|
|                              | 2013   | 2012  | 2011  |
|                              | (in thousands)                                     |       |       |
| Beginning balance            | \$47   | \$42  | \$36  |
| Additions charged to expense | 69   | 36    | 40    |
| Deductions from reserve      | (29 )  | (31 ) | (23 ) |
| Recovery                     | (1 )   | -     | (11 ) |
| Ending balance               | \$86   | \$47  | \$42  |

All other financial statement schedules have been omitted since the required information is included in the consolidated financial statements or the notes thereto or is not applicable or required.

3. Exhibits. Reference as made to Item 15(b) of this report on Form 10-K.

## (b) Exhibits

## Exhibit

## Numbers Description

- 3a Certificate of Incorporation of Atrion Corporation, dated December 30, 1996(1)
- 3b Bylaws of Atrion Corporation (as last amended on August 14, 2013) (2)
- 10a\* Atrion Corporation Short-Term Incentive Compensation Plan (3)
- 10b\* Severance Plan for Chief Financial Officer (4)
- 10c\* Amended and Restated Employment Agreement for Chairman (5)
- 10d\* First Amendment to Amended and Restated Employment Agreement for Chairman (6)
- 10e\* Amended and Restated Atrion Corporation 2006 Equity Incentive Plan (as last amended on May 26, 2011) (7)
- 10f\* Form of Award Agreement for Incentive Stock Option Award under Amended and Restated Atrion Corporation 2006 Equity Incentive Plan (8)
- 10g\* Form of Award Agreement for Non-Qualified Stock Option Award under Amended and Restated Atrion Corporation 2006 Equity Incentive Plan (9)



- 10h\* Form of Award Agreement for Common Stock Award under Amended and Restated Atrion Corporation 2006 Equity Incentive Plan (10)
- 10i\* Form of Award Agreement for Restricted Stock Award under Amended and Restated Atrion Corporation 2006 Equity Incentive Plan (11)
- 10j\* Form of Award Agreement for Restricted Stock Units Award under Amended and Restated Atrion Corporation 2006 Equity Incentive Plan (12)
- 10k\* Non-Employee Directors Stock Purchase Plan (as amended and restated as of December 2, 2008) (13)
- 10l\* Form of Stock Purchase Election Form – Non-Employee Directors Stock Purchase Plan (14)
- 10m\* Deferred Compensation Plan for Non-Employee Directors (as amended and restated as of December 2, 2008) (15)
- 10n\* Form of Deferred Fee Election Form – Deferred Compensation Plan for Non-Employee Directors (16)
- 10o\* Change in Control Agreement for President (17)
- 10p\* Form of Indemnification Agreement for Directors and Executive Officers (18)
- 10q Loan and Security Agreement dated November 12, 1999 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, Inc., Atrion Leasing Company, Inc., Atrion International, Inc. and SouthTrust Bank, National Association. (19)
- 10r Amendment to Loan and Security Agreement dated as of December 26, 2001 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, LLC, Atrion Leasing Company, LLC, Atrion International, Inc. and SouthTrust Bank, National Association. (20)
- 10s Third Amendment to Loan and Security Agreement dated as of September 1, 2005 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, LLC, Atrion Leasing Company, LLC and Wachovia Bank, National Association. (21)
- 10t Fourth Amendment to Loan and Security Agreement dated as of July 1, 2008 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, LLC, Atrion Leasing Company, LLC and Wachovia Bank, National Association. (22)
- 10u Fifth Amendment to Loan and Security Agreement dated as of September 30, 2008 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, LLC, Atrion Leasing Company, LLC and Wachovia Bank, National Association. (23)
- 10v Sixth Amendment to Loan and Security Agreement and Loan Increase Agreement dated as of October 1, 2011 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, LLC, Atrion Leasing Company, LLC and Wells Fargo Bank, National Association. (24)
- 10w Sixth Amendment to Line of Credit Promissory Note dated as of October 1, 2011 among Atrion Corporation, Atrion Medical Products, Inc., Halkey-Roberts Corporation, Quest Medical, Inc., AlaTenn Pipeline Company, LLC, Atrion Leasing Company, LLC and Wells Fargo Bank, National Association. (25)
- 13.1 Stock Performance Graph (26)
- 21 Subsidiaries of Atrion Corporation as of December 31, 2013 (26)
- 23 Consent of Grant Thornton LLP (26)
- 31.1 Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer (26)
- 31.2 Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer (26)
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes – Oxley Act Of 2002 (26)
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes – Oxley Act Of 2002 (26)

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

Notes

- (1) Incorporated by reference to Appendix B to the Definitive Proxy Statement of the Company filed January 10, 1997.
- (2) Incorporated by reference to Exhibit 3.1 to the Form 8-K of Atrion Corporation filed August 20, 2013.
- (3) Incorporated by reference to Exhibit 10.1 to Form 10-Q of Atrion Corporation filed October 29, 2013.
- (4) Incorporated by reference to Exhibit 10b to Form 10-Q of Atrion Corporation filed May 12, 2000.
- (5) Incorporated by reference to Exhibit 10.1 to Form 10-Q of Atrion Corporation filed November 6, 2006.
- (6) Incorporated by reference to Exhibit 10.1 to Form 8-K of Atrion Corporation filed May 27, 2011.
- (7) Incorporated by reference to Exhibit 10.1 to Form 10-Q of Atrion Corporation filed on August 4, 2011.
- (8) Incorporated by reference to Exhibit 10.2 to Form 10-Q of Atrion Corporation filed August 4, 2011.
- (9) Incorporated by reference to Exhibit 10.3 to Form 10-Q of Atrion Corporation filed August 4, 2011.
- (10) Incorporated by reference to Exhibit 10.4 to Form 10-Q of Atrion Corporation filed August 4, 2011.
- (11) Incorporated by reference to Exhibit 10.5 to Form 10-Q of Atrion Corporation filed August 4, 2011.
- (12) Incorporated by reference to Exhibit 10.6 to Form 10-Q of Atrion Corporation filed August 4, 2011.
- (13) Incorporated by reference to Exhibit 10l to Form 10-K of Atrion Corporation filed March 13, 2009.
- (14) Incorporated by reference to Exhibit 10.1 to the Form S-8 of Atrion Corporation filed June 27, 2007 (File No. 333-144085).
- (15) Incorporated by reference to Exhibit 10n to Form 10-K of Atrion Corporation filed March 13, 2009.
- (16) Incorporated by reference to Exhibit 10.1 to the Form S-8 of Atrion Corporation filed June 27, 2007 (File No. 333-144086).
- (17) Incorporated by reference to Exhibit 10.1 to Form 10-Q of Atrion Corporation filed May 8, 2009.
- (18) Incorporated by reference to Exhibit 10v to Form 10-K of Atrion Corporation filed March 11, 2013.
- (19) Incorporated by reference to Exhibit (b)(i) to Schedule 13E-4 of Atrion Corporation filed November 17, 1999.
- (20) Incorporated by reference to Exhibit (b)(3) to Schedule TO-I of Atrion Corporation filed March 18, 2003.
- (21) Incorporated by reference to Exhibit 10.3 to Form 10-Q of Atrion Corporation filed November 2, 2011.
- (22) Incorporated by reference to Exhibit 10.5 to Form 10-Q of Atrion Corporation filed November 2, 2011.
- (23) Incorporated by reference to Exhibit 10.7 to Form 10-Q of Atrion Corporation filed November 2, 2011.
- (24) Incorporated by reference to Exhibit 10.8 to Form 10-Q of Atrion Corporation filed November 2, 2011.

- (25) Incorporated by reference to Exhibit 10.9 to Form 10-Q of Atrion Corporation filed November 2, 2011.
- (26) Filed herewith.

\* Management Contract or Compensatory Plan or Arrangement

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 of this Form 10-K shall not be subject to the liability of Section 18 of the Securities Exchange Act of 1934 and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.



# SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

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

Dated: March 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                                      | Title  | Date           |
|--|--|----------------|
| /s/ David A. Battat<br>David A. Battat         | President and Chief Executive<br>Officer (Principal Executive<br>Officer)  | March 14, 2014 |
| /s/ Jeffery Strickland<br>Jeffery Strickland   | Vice President, Chief Financial<br>Officer and<br>Secretary-Treasurer (Principal<br>Financial<br>and Accounting Officer) | March 14, 2014 |
| /s/ Emile A Battat<br>Emile A Battat           | Chairman   | March 14, 2014 |
| /s/ Hugh J. Morgan, Jr.<br>Hugh J. Morgan, Jr. | Director   | March 14, 2014 |
| /s/ Roger F. Stebbing<br>Roger F. Stebbing     | Director   | March 14, 2014 |
| /s/ John P. Stupp, Jr.<br>John P. Stupp, Jr.   | Director   | March 14, 2014 |
| /s/ Ronald N. Spaulding                        | Director   | March 14, 2014 |

Ronald N. Spaulding

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