Atrion

2014 ANNUAL REPORT TO STOCKHOLDERS

2014

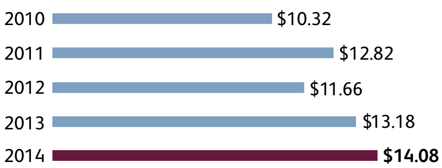
Atrion Corporation develops and manufactures products primarily for medical applications. Our products advance the standard of care by increasing safety for patients and providers. We target niche markets, with particular emphasis on fluid delivery, cardiovascular and ophthalmology applications. Headquartered in Allen, Texas, Atrion has design and manufacturing facilities in Alabama, Florida and Texas.

Contents

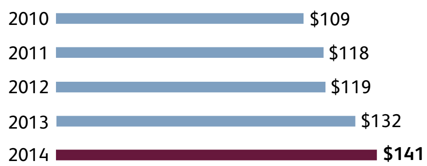
FINANCIAL HIGHLIGHTS

For the Year Ended December 31	2014	2013
Revenues	$ 140,762,000	$ 131,993,000
Operating Income	40,817,000	37,944,000
Net Income	27,808,000	26,582,000
Income per Diluted Share	$ 14.08	$ 13.18
Weighted Average Diluted Shares Outstanding	1,975,000	2,017,000

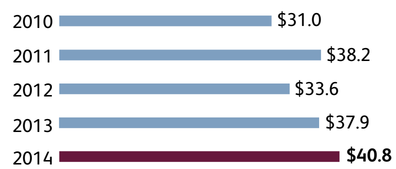
As of December 31	2014	2013
Total Assets	$ 171,514,000	$ 172,066,000
Cash and Investments	45,619,000	56,979,000
Long-term Debt	—	—
Stockholders' Equity	$ 149,570,000	$ 148,994,000



INCOME PER DILUTED SHARE



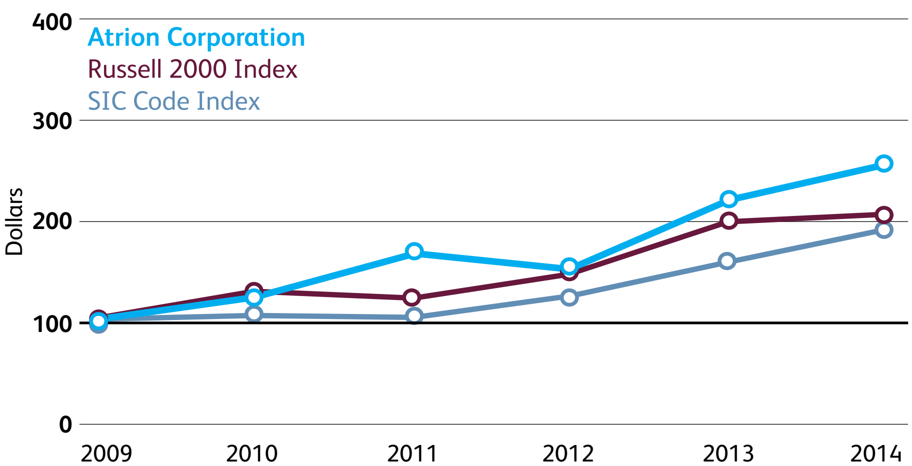
REVENUES (IN MILLIONS)



OPERATING INCOME (IN MILLIONS)

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

Among Atrion Corporation, Russell 2000 Index and SIC Code Index



The graph set forth at left compares the total cumulative return for the five-year period ended December 31, 2014 on the Company's common stock, the Russell 2000 Index and SIC Code 3841 Index-Surgical and Medical Instruments (compiled by Zacks Investment Research, Inc.), assuming $100 was invested on December 31, 2009 in our common stock, the Russell 2000 Index and the SIC Code Index and dividends were reinvested.

Company/Index	2009	2010	2011	2012	2013	2014
Atrion Corporation	$100.00	$122.97	$166.18	$143.84	$219.68	$254.36
Russell 2000 Index	$100.00	$126.81	$121.52	$141.42	$196.32	$205.93
SIC Code Index	$100.00	$103.72	$103.34	$123.29	$156.95	$189.97

To our stockholders

At Atrion, our ability to generate strong cash flows enables us to deliver consistent profitability and growth. We work carefully and diligently, with the precision our markets require; then we put our earnings to work wisely. Effective investing in key areas is the foundation for our past, current, and future success.

2014 was another record year for the company. Compared to 2013, sales increased 7% and operating income – the best measure of a company's performance – was up 8%, both in line with our 5-year historical measures.

Investing in research

Consistent with previous years, we continue to prioritize R&D activities. In 2014, investments in our new product pipeline were increased by a million dollars over the prior year.

As with all new products, the time to complete each project is a multi-year effort encompassing development, regulatory approvals, market introduction, and finally the expected market acceptance and meaningful penetration.

These investments are about innovation and iteration. They reflect how we choose to continually enhance our position in the markets we serve by focusing on unmet needs. As technology advances and our industry evolves, we are poised to be leaders rather than followers.

It is the way we stay competitive.

Investing in products

A number of our products hold leading market positions in their respective niches, creating a stable and diversified revenue base. We continuously improve these products to enhance their functionality and to reach new markets.

While in 2014 we evaluated many acquisition opportunities, ultimately we concluded they were not the optimal investments for the Company's capital. Should the right opportunity present itself, we will consider it carefully. But we will never feel compelled to get bigger just for the sake of being bigger. Instead, we feel compelled to get better. And we still see that the better potential return is from our own product development.

It is where we have proven success.

Investing in people

Our R&D efforts require the right people. This is why we devote such effort to developing our internal engineering talent, and complementing their extensive experience at Atrion by adding people who bring new experiences and perspectives to our efforts.

We also strive to build the manufacturing talent we need through a mix of training and recruiting – and balancing the costs of both.

It is how we stay ready to execute.

Investing in ourselves

In 2014, we bought back a portion of our own shares – yet another way of investing in ourselves. For the full year, we purchased 74,746 shares of common stock, representing about 3.8% of our outstanding shares, for a total of $23.9 million, while still ending 2014 with cash and short- and long-term investments of $45.6 million. This is another mechanism by which we returned capital to our stockholders.

Capital allocation and return to stockholders

We are mindful of the need to balance capital allocations to achieve high returns on our equity while also returning capital to our stockholders in the form of regular and special dividends and stock repurchases. Over the last five years, we generated $181.5 million in operating income, devoted $18.9 million to the development of new products, invested $46.8 million for manufacturing and automation equipment, and returned to our stockholders $59.7 million in dividends and an additional $37.6 million in stock repurchases. Throughout this period, we remained debt-free and held substantial cash and short- and long-term investments.

Our returns on equity have been significantly higher than the average returns on equity of the S&P 500 companies and the healthcare sector overall. In 2014, our after-tax return on stockholders' equity including cash was 19%. If cash and the income it generates were excluded from this calculation, that return increases to 28%. Similar performance was delivered in each of the last 10 years. These outcomes were achieved while we continue to maintain all of our manufacturing in the U.S., and without channeling profits to any low-income tax jurisdictions. In fact, our tax rate in 2014 was 34%.

The year ahead

Because a significant portion of our products is exported to Europe and Japan, we are concerned about the economic weakness of both regions and the strengthening U.S. dollar. However, despite these headwinds and our continued higher level of spending on new product development, we expect sales and diluted earnings per share to show high single-digit growth in 2015.

Guided by consistency and common sense

Atrion is, simply put, a company that focuses on ensuring the right equipment, people, facilities, and products are in place in order to be as productive and profitable as we possibly can be. Our compass along the path to doing so is good, common sense.

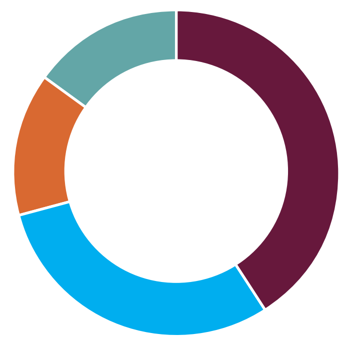
Consistency and common sense are in fact what shape our culture. This might not be dramatic or different, but it's valuable and true.

I deeply appreciate all that everyone at Atrion does to contribute to our ongoing success, and I am equally thankful for our stockholders' interest and support.

With gratitude,

David Battat

David A. Battat
President and CEO



2014 REVENUES BY PRODUCT LINE

Fluid Delivery $ 57,905,000	**41%**
Cardiovascular $ 43,001,000	**30%**
Ophthalmology $ 19,329,000	**14%**
Other $ 20,527,000	**15%**

CONSOLIDATED BALANCE SHEETS

As of December 31, 2014 and 2013

Assets:	2014	2013
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 20,775**	$ 28,559
Short-term investments	**3,084**	18,351
Accounts receivable, net of allowance for doubtful accounts of $22 and $86 in 2014 and 2013, respectively	**16,962**	14,164
Inventories	**28,022**	26,266
Prepaid expenses and other current assets	**4,720**	1,603
Deferred income taxes	**573**	1,376
Total Current Assets	**74,136**	90,319
Long-term investments	**21,760**	10,069
Property, Plant and Equipment	**142,171**	130,504
Less accumulated depreciation and amortization	**79,655**	72,176
	62,516	58,328
Other Assets and Deferred Charges:		
Patents and licenses, net of accumulated amortization of $11,301 and $11,032 in 2014 and 2013, respectively	**2,538**	2,808
Goodwill	**9,730**	9,730
Other	**834**	812
	13,102	13,350
Total Assets	**$ 171,514**	$ 172,066

The accompanying notes are an integral part of these statements.

Liabilities and Stockholders' Equity:	2014	2013
	(in thousands)	
Current Liabilities:		
Accounts payable	**$ 4,529**	$ 4,088
Accrued liabilities	**4,950**	4,423
Accrued income and other taxes	**457**	853
Total Current Liabilities	**9,936**	9,364
Line of credit	**—**	—
Other Liabilities and Deferred Credits:		
Deferred income taxes	**11,129**	12,062
Other	**879**	1,646
	12,008	13,708
Total Liabilities	**21,944**	23,072
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value $.10 per share, authorized 10,000 shares, issued 3,420 shares	**342**	342
Additional paid-in capital	**33,940**	31,592
Accumulated other comprehensive loss	**(245)**	—
Retained earnings	**196,706**	174,362
Treasury shares, 1,507 shares in 2014 and 1,435 shares in 2013, at cost	**(81,173)**	(57,302)
Total Stockholders' Equity	**149,570**	148,994
Total Liabilities and Stockholders' Equity	**$ 171,514**	$ 172,066

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	(in thousands, except per share amounts)		
Revenues	**$ 140,762**	$ 131,993	$ 119,062
Cost of Goods Sold	**72,244**	68,931	62,922
Gross Profit	**68,518**	63,062	56,140
Operating Expenses:			
Selling	**6,210**	6,218	5,694
General and administrative	**16,205**	14,612	13,054
Research and development	**5,286**	4,288	3,766
	27,701	25,118	22,514
Operating Income	**40,817**	37,944	33,626
Interest Income	**1,191**	1,313	1,447
Other Income, net	**13**	8	2
Income before Provision for Income Taxes	**42,021**	39,265	35,075
Provision for Income Taxes	**(14,213)**	(12,683)	(11,446)
Net Income	**$ 27,808**	$ 26,582	$ 23,629
Net Income Per Basic Share	**$ 14.20**	$ 13.22	$ 11.72
Weighted Average Basic Shares Outstanding	**1,958**	2,010	2,016
Net Income Per Diluted Share	**$ 14.08**	$ 13.18	$ 11.66
Weighted Average Diluted Shares Outstanding	**1,975**	2,017	2,027
Dividends Per Common Share	**$ 2.78**	$ 2.40	$ 12.10

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31, 2014, 2013 and 2012

	2014	2013	2012
		(in thousands)	
Net Income	**$ 27,808**	$ 26,582	$ 23,629
Other Comprehensive loss, net of tax: Unrealized loss on investments, net of tax benefit of $131 in 2014	**(245)**	—	—
Comprehensive Income	**$ 27,563**	$ 26,582	$ 23,629

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2014, 2013 and 2012

	2014	2013	2012
		(in thousands)	
Cash Flows From Operating Activities:			
Net income	**$ 27,808**	$ 26,582	$ 23,629
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**8,723**	8,592	7,610
Deferred income taxes	**2**	(923)	1,462
Stock-based compensation	**2,209**	1,586	1,482
Net change in accrued interest, premiums, and discounts on investments	**340**	556	817
Other	**29**	30	—
	39,111	36,423	35,000
Changes in operating assets and liabilities:			
Accounts receivable	**(2,798)**	(1,110)	(1,831)
Inventories	**(1,756)**	(2,487)	803
Prepaid expenses and other current assets	**(3,117)**	1,507	(797)
Other non-current assets	**(22)**	(17)	(77)
Accounts payable and accrued liabilities	**968**	1,768	(2,465)
Accrued income and other taxes	**(396)**	388	(370)
Other non-current liabilities	**(767)**	104	(894)
	31,223	36,576	29,369
Cash Flows From Investing Activities:			
Property, plant and equipment additions	**(12,671)**	(7,503)	(10,347)
Purchase of patents	**—**	(2,150)	—
Purchase of investments	**(33,115)**	—	(26,566)
Proceeds from maturities of investments	**35,975**	7,639	19,750
	(9,811)	(2,014)	(17,163)
Cash Flows From Financing Activities:			
Exercise of stock options	**—**	—	731
Shares tendered for employees' withholding taxes on stock-based compensation	**(376)**	—	(1,136)
Tax benefit related to stock-based compensation	**168**	15	1,412
Purchase of treasury stock	**(23,556)**	(9,196)	(5,344)
Dividends paid	**(5,432)**	(4,821)	(24,460)
	(29,196)	(14,002)	(28,797)
Net change in cash and cash equivalents	**(7,784)**	20,560	(16,591)
Cash and cash equivalents, beginning of year	**28,559**	7,999	24,590
Cash and cash equivalents, end of year	**$ 20,775**	$ 28,559	$ 7,999
Cash paid for:			
Income taxes	**$ 17,475**	$ 8,036	$ 10,357

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2014, 2013, and 2012 (in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Other Comprehensive Income	Retained Earnings	Total
	Shares Outstanding	Amount	Shares	Amount				
Balances, January 1, 2012	**2,016**	**$ 342**	**1,404**	**$ (40,898)**	**$ 25,452**	**$**	**$ 153,618**	**$ 138,514**
Net income							23,629	**23,629**
Tax benefit from stock-based compensation					1,412			**1,412**
Stock-based compensation transactions	41		(41)	368	3,134			**3,502**
Shares surrendered in stock transactions	(9)		9	(2,268)				**(2,268)**
Purchase of treasury stock	(27)		27	(5,344)				**(5,344)**
Dividends							(24,617)	**(24,617)**
Balances, December 31, 2012	**2,021**	**342**	**1,399**	**(48,142)**	**29,998**		**152,630**	**134,828**
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	(37)		37	(9,196)				**(9,196)**
Dividends							(4,850)	**(4,850)**
Balances, December 31, 2013	**1,985**	**342**	**1,435**	**(57,302)**	**31,592**		**174,362**	**148,994**
Net income							27,808	**27,808**
Other comprehensive income						(245)		**(245)**
Tax benefit from stock-based compensation					168			**168**
Stock-based compensation transactions	3		(3)	61	2,180			**2,241**
Shares surrendered in stock transactions	(1)		1	(376)				**(376)**
Purchase of treasury stock	(74)		74	(23,556)				**(23,556)**
Dividends							(5,464)	**(5,464)**
Balances, December 31, 2014	**1,913**	**$ 342**	**1,507**	**$ (81,173)**	**$ 33,940**	**$ (245)**	**$ 196,706**	**$ 149,570**

The accompanying notes are an integral part of these statements.

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 and Investments

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

Our investments consist of taxable corporate and United States government agency bonds and equity securities. We classify our investment securities in one of three categories: held-to-maturity, trading, or available-for-sale. Securities that we have the positive intent and ability to hold to maturity are reported at amortized cost and classified as held-to-maturity securities. If we do not have the intent and ability to hold a security to maturity, we report the investment as available-for-sale securities. We report available-for-sale securities at fair value with unrealized gains and, to the extent deemed temporary, unrealized losses recorded in stockholders' equity as accumulated other comprehensive loss. We consider investments which will mature in the next 12 months as current assets. The remaining investments are considered non-current assets including our investment in equity securities which we intend to hold longer than 12 months. We periodically evaluate our investments for impairment. We do not believe any unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of December 31, 2014.

The components of the Company's cash and cash equivalents and our short and long-term investments as of December 31, 2014 and 2013 are as follows (in thousands):

	December 31, 2014	December 31, 2013
Cash and Cash Equivalents:		
Cash deposits	**$ 14,572**	$ 25,958
Money market funds	**6,203**	2,601
Total cash and cash equivalents	**$ 20,775**	$ 28,559
Short-term investments:		
Corporate bonds (held-to-maturity)	**$ 3,084**	$ 18,351
Total short-term investments	**$ 3,084**	$ 18,351
Long-term investments:		
Corporate bonds (held-to-maturity)	**$ 10,028**	$ 10,069
US government agency bonds (held-to-maturity)	**8,400**	—
Equity securities (available-for-sale)	**3,332**	—
Total long-term investments	**$ 21,760**	$ 10,069
Total cash, cash equivalents and short and long-term investments	**$ 45,619**	$ 56,979

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.

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,	
	2014	2013
Raw materials	$ 12,575	$ 10,744
Work in process	5,600	6,246
Finished goods	9,847	9,276
Total inventories	$ 28,022	$ 26,266

Accounts Payable

We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2014 and 2013, disbursements totaling approximately $613,000 and $443,000, 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*, or 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,		
	2014	2013	Useful Lives
Land	$ 5,260	$ 5,260	—
Buildings	31,751	31,314	30-40 yrs
Machinery and equipment	105,160	93,930	3-15 yrs
Total property, plant and equipment	$ 142,171	$ 130,504	

Depreciation expense of $8,454,000, $8,413,000 and $7,448,000 was recorded for the years ended December 31, 2014, 2013 and 2012, 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, 2014, 2013 and 2012 was $9,730,000. Our evaluation of goodwill during each year resulted in no impairment losses.

Current Accrued Liabilities

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

	December 31,	
	2014	2013
Accrued payroll and related expenses	**$ 4,240**	$ 3,711
Accrued vacation	**219**	229
Other accrued liabilities	**491**	483
Total accrued liabilities	**$ 4,950**	$ 4,423

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").

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, 2014 and 2013, we held certain investments in corporate and government debt securities as well as certain equity securities. These investments are all considered Level 2 assets and the fair value of our investments were estimated using recently executed transactions and market price quotations (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 and cash equivalents, investments and accounts receivable.

Our cash and cash equivalents are held in accounts with financial institutions that we believe are creditworthy. Certain of these amounts at times may exceed federally-insured limits. At December 31, 2014, approximately 91% of our cash and cash equivalents were uninsured. We have not experienced any credit losses in such accounts and do not believe we are exposed to any significant credit risk on these funds.

We have investments in United States government agency securities and corporate bonds. As a result, we are exposed to potential loss from market risks that may occur as a result of changes in interest rates, changes in credit quality of the issuer and otherwise. Approximately 24% of our aggregate fixed-income investments are below investment grade. These securities have a higher degree of credit or default risk and a greater exposure to credit risk and may be less liquid in times of economic weakness or market disruptions.

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, 2014 and 2013, we had allowances for doubtful accounts of approximately $22,000 and $86,000, respectively. The carrying amount of the receivables approximates their fair value. Our customer that generates our largest revenues accounted for 6.5%, 8.2% and 16.3% of accounts receivable as of December 31, 2014, 2013 and 2012, respectively. No other customer exceeded 10% of our accounts receivable as of December 31, 2014, 2013 or 2012.

(2) Investments

As of December 31, 2014 and 2013, 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 including our investment in equity securities which we intend to hold longer than 12 months.

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):

		Gross Unrealized		
	Cost	Gains	Losses	Fair Value
As of December 31, 2014				
Short-term Investments:				
Corporate bonds	$ 3,084	$ —	$ (6)	$ 3,078
Long-term Investments:				
Corporate and government bonds	$ 18,428	$ 21	$ (292)	$ 18,157
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

At December 31, 2014, the length of time until maturity of these securities ranged from three and a half months to 58 months. None of the above investments has been in a loss position for more than 12 months.

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

		Gross Unrealized		
	Cost	Gains	Losses	Fair Value
As of December 31, 2014				
Long-term Investments:				
Equity investments	$ 3,708	$ —	$ (376)	$ 3,332

(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, 2014		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	$ 13,840	$ 11,302

December 31, 2013		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	$ 13,840	$ 11,032

Aggregate amortization expense for patents and licenses was $269,000 for 2014, $179,000 for 2013 and $162,000 for 2012. Estimated future amortization expense for each of the years set forth below ending December 31 is as follows (in thousands):

2015	$ 269
2016	$ 269
2017	$ 173
2018	$ 141
2019	$ 141

(4) Line of Credit

We have a $40.0 million revolving credit facility with a money center bank pursuant to which the lender is obligated to make advances until October 1, 2016. The credit facility is secured by substantially all our inventories, equipment and accounts receivable. Interest under the credit facility is assessed at 30-day, 60-day or 90-day LIBOR, as selected by us, plus one percent (1.16 percent at December 31, 2014) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2014 or 2013. 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, 2014, we were in compliance with all of those covenants.

(5) Income Taxes

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

	Year ended December 31, 2014	2013	2012
Current — Federal	$ 12,626	$ 12,541	$ 8,934
Current — State	1,585	1,065	1,050
	14,211	13,606	9,984
Deferred — Federal	31	(1,063)	1,363
Deferred — State	(29)	140	99
	2	(923)	1,462
Total income tax expense	$ 14,213	$ 12,683	$ 11,446

Temporary differences and carryforwards which have given rise to deferred income tax assets and liabilities as of December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Deferred tax assets:		
Benefit plans	$ 1,535	$ 1,590
Inventories	483	525
Other	158	37
Total deferred tax assets	$ 2,176	$ 2,152
Deferred tax liabilities:		
Property, plant and equipment	$ 9,648	$ 9,716
Patents and goodwill	2,926	2,956
Other	158	166
Total deferred tax liabilities	$ 12,732	$ 12,838
Net deferred tax liability	$ 10,556	$ 10,686
Balance Sheet classification:		
Non-current deferred income tax liability	$ 11,129	$ 12,062
Current deferred income tax asset	573	1,376
Net deferred tax liability	$ 10,556	$ 10,686

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):

	Year ended December 31, 2014	2013	2012
Income tax expense at the statutory federal income tax rate	$ 14,707	$ 13,743	$ 12,276
Increase (decrease) resulting from:			
State income taxes	934	770	747
Section 199 manufacturing deduction	(1,290)	(1,307)	(949)
Other, net	(138)	(523)	(628)
Total income tax expense	$ 14,213	$ 12,683	$ 11,446

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, 2012	$ 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, 2013	$ 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
Increase in tax positions for prior years	6
Increase in tax positions for current year	0
Lapse in statutes of limitation	(223)
Gross unrecognized tax benefits at December 31, 2014	$ 129

As of December 31, 2014 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 2010. 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 R&D expenditures 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 2010.

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 $9,000, $21,000 and $26,000 at December 31, 2014, 2013 and 2012, respectively. Tax expense for the year ended December 31, 2014, 2013 and 2012 included a net interest benefit of $12,000, $5,400 and $51,000, respectively.

(6) Stockholders' Equity

Our Board of Directors has at various times authorized repurchases of our stock in open-market or privately-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, 2014, 54,026 shares remained available for repurchase under this program. We repurchased 74,746, 36,666 and 26,562 shares under the program during 2014, 2013 and 2012, respectively.

We have increased our quarterly cash dividend payments in September of each of the past three years. The quarterly dividend was increased to $.56 per share in September 2012, to $.64 per share in September 2013 and to $.75 per share in September 2014. 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 $33,000 in 2014, $29,000 in 2013 and $157,000 in 2012.

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,		
	2014	**2013**	**2012**
	(in thousands, except per share amounts)		
Net Income	**$ 27,808**	$26,582	$ 23,629
Weighted average basic shares outstanding	**1,958**	2,010	2,016
Add: Effect of dilutive securities	**17**	7	11
Weighted average diluted shares outstanding	**1,975**	2,017	2,027
Net Income Per Share			
Basic	**$ 14.20**	$ 13.22	$ 11.72
Diluted	**$ 14.08**	$ 13.18	$ 11.66

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 eight and 4,344 shares of common stock for the years ended December 31, 2014 and December 31, 2013, respectively, were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive.

(8) Stock Plans

At December 31, 2014, 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 $168,000, $15,000 and $1,412,000 of such excess tax benefits as financing cash flows in 2014, 2013 and 2012, respectively.

Our Amended and Restated 2006 Equity Incentive Plan, or 2006 Plan, provides for awards 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, 2014, there remained 52,751 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, 2014, there remained 1,599 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, 2014, there remained 1,126 shares reserved for issuance under such plan.

A summary of stock option transactions for the year ended December 31, 2014 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2013	50,000	$ 204.76	
Granted	—	—	
Exercised	—	—	
Outstanding at December 31, 2014	50,000	$ 204.76	3.9 years
Exercisable at December 31, 2014	25,000	$ 200.10	3.8 years

All nonvested options outstanding at December 31, 2014 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 2014 or 2013. The fair value for the options granted in 2012 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2014	2013	2012
Risk-free interest rate	—	—	0.5 %
Dividend yield	—	—	1.0 %
Volatility factor	—	—	25.0 %
Expected life	—	—	5 years

The weighted average grant date fair value of the options granted in 2012 was $40.38. The total intrinsic value of options exercised during 2012 was $3.1 million. There were no options exercised in 2014 and 2013. The total intrinsic values of options outstanding and options currently exercisable at December 31, 2014, were $6.8 million and $3.5 million, respectively.

During 2014, 1,400 shares of restricted stock were awarded under the 2006 Plan. Under the terms of our restricted stock awards, the restrictions usually lapse over a five-year period, but the 2014 grant was vested over a four-month period ended September 30, 2014. 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, 2014 is presented below:

Nonvested Shares	Shares	Weighted Average Award Date Fair Value Per Share
Restricted stock at December 31, 2013	10,500	$ 208.09
Granted in 2014	1,400	$ 315.24
Vested in 2014	(4,400)	$ 239.91
Restricted stock at December 31, 2014	7,500	$ 209.42

All shares of nonvested restricted stock outstanding at December 31, 2014 are expected to vest. The total fair value of restricted stock vested during 2014, 2013 and 2012 was $1,372,000, $633,000 and $559,000, respectively.

During 2014, 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 2014, 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, 2014, is presented below:

Nonvested Stock Units	Restricted Stock Units	Weighted Average Award Date Fair Value Per Unit	Director's Stock Units	Weighted Average Award Date Fair Value Per Unit
Nonvested at December 31, 2013	12,904	$ 196.35	—	
Granted	2,785	$ 316.55	28	$ 299.21
Vested	(831)	$ 126.18	(28)	$ 299.21
Nonvested at December 31, 2014	14,858	$ 222.81	—	

All nonvested restricted stock units at December 31, 2014 are expected to vest. The total intrinsic value of all outstanding stock units which were not convertible at December 31, 2014, including 417 stock units held for the accounts of non-employee directors, was $5,194,000. The total intrinsic value of restricted stock units that vested and were converted during 2014 was $283,000. The total fair value of directors' stock units that vested and were converted was $8,000 during each of 2014 and 2013, and $22,000 during 2012.

Stock awards that vested immediately were awarded under the 2006 Plan to non-employee directors totaling $240,000 in value in 2014 and $120,000 in each of 2013 and 2012. 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, 2014, 2013 and 2012, we recorded stock-based compensation expense as a G&A expense in the amount of $2,209,000, $1,586,000 and $1,482,000, 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, 2014, 2013 and 2012, was $773,000, $555,000 and $516,000, respectively.

Unrecognized compensation cost information for our various stock-based compensation types is shown below as of December 31, 2014:

	Unrecognized Compensation Cost	Weighted Average Remaining Years in Amortization Period
Stock options	$ 767,000	2.0
Restricted stock	1,198,000	2.1
Restricted stock units	1,593,000	3.4
Total	$ 3,558,000	

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) of our net revenues during 2013.

(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 each of 2014, 2013 and 2012. We have no assets located outside the United States.

A summary of revenues by geographic area, based on shipping destination, for 2014, 2013 and 2012 is as follows (in thousands):

	Year ended December 31,		
	2014	2013	2012
United States	$ 81,971	$ 75,997	$ 69,388
Canada	11,655	15,114	13,352
Other countries less than 10% of revenues	47,136	40,882	36,322
Total	$ 140,762	$ 131,993	$ 119,062

A summary of revenues by product line for 2014, 2013 and 2012 is as follows (in thousands):

	2014	2013	2012
Fluid Delivery	$ 57,905	$ 51,289	$ 49,060
Cardiovascular	43,001	40,182	36,021
Ophthalmology	19,329	20,736	15,717
Other	20,527	19,786	18,264
Total	$ 140,762	$ 131,993	$ 119,062

(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 $600,000, $561,000 and $533,000 in 2014, 2013 and 2012, 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, 2014, 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 $5.0 million in potential future payments under this settlement as of December 31, 2014 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, 2014 could have resulted in payments aggregating $6.0 million.

(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)				
03/31/14	$ 36,419	$ 10,700	$ 7,201	$ 3.63	$ 3.61
06/30/14	35,025	10,257	6,882	3.51	3.48
09/30/14	36,625	11,226	7,685	3.94	3.91
12/31/14	32,693	8,632	6,040	3.11	3.08
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

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.

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, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits of the basic consolidated financial statements included the financial statement schedule (not presented separately herein) 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2015 expressed an unqualified opinion.

Grant Thornton LLP

Grant Thornton LLP
Dallas, Texas
March 13, 2015

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, 2014 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based on this assessment, our management concluded that, as of December 31, 2014, our internal control over financial reporting was effective.

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, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* 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, 2014, based on criteria established in the 2013 *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, 2014, and our report dated March 13, 2015, expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

Grant Thornton LLP
Dallas, Texas
March 13, 2015

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 2014, 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 investments, 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, 2014, we reported revenues of $140.8 million, operating income of $40.8 million and net income of $27.8 million.

Results of Operations

Our net income was $27.8 million, or $14.20 per basic and $14.08 per diluted share in 2014 compared to $26.6 million, or $13.22 per basic and $13.18 per diluted share, in 2013 and net income of $23.6 million, or $11.72 per basic and $11.66 per diluted share, in 2012. Revenues were $140.8 million in 2014, compared with $132.0 million in 2013 and $119.1 million in 2012. The seven percent revenue increase in 2014 over 2013 and 11 percent revenue increase in 2013 over 2012 were generally attributable to higher sales volumes.

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

	2014	2013	2012
Fluid Delivery	**$ 57,905**	$ 51,289	$ 49,060
Cardiovascular	**43,001**	40,182	36,021
Ophthalmology	**19,329**	20,736	15,717
Other	**20,527**	19,786	18,264
Total	**$ 140,762**	$ 131,993	$ 119,062

Our cost of goods sold was $72.2 million in 2014, $68.9 million in 2013 and $62.9 million in 2012. Higher sales volume along with increased repair and compensation costs partially offset by improved manufacturing efficiencies were the primary contributors to the increase in cost of goods sold in 2014 over 2013. Higher sales volume along with higher depreciation expense and lower manufacturing efficiencies partially offset by a more favorable product mix and the impact of continued cost improvement initiatives were the primary contributors to the 10 percent increase in cost of goods sold for 2013 over 2012.

Gross profit in 2014 was $68.5 million compared with $63.1 million in 2013 and $56.1 million in 2012. Our gross profit was 49 percent of revenues in 2014, 48 percent of revenues in 2013 and 47 percent of revenues in 2012. The improvement in gross profit percentage in 2014 over 2013 was primarily related to improvements in manufacturing efficiencies. 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.

Operating expenses were $27.7 million in 2014 compared with $25.1 million in 2013 and $22.5 million in 2012. Research and development, or R&D, expenses increased $1.0 million in 2014 as compared to 2013 primarily as a result of increased costs for outside services and supplies. 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 2014, selling expenses were virtually unchanged as decreased promotional costs were offset by increased commissions. 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 2014 as compared to 2013 primarily as a result of increased compensation, depreciation, amortization and outside services. G&A expenses consist primarily of salaries and other related expenses of administrative, executive and financial personnel and outside professional fees. R&D expenses increased $522,000 in 2013 as compared to 2012 primarily as a result of increased costs for supplies, outside services and compensation, partially offset by decreased travel costs. In 2013, selling expenses increased $524,000 primarily as a result of increased outside services, compensation, commissions and promotional expenses. G&A expenses increased $1.6 million in 2013 as compared to 2012 primarily due to increased compensation and outside services.

Our operating income for 2014 was $40.8 million, compared with $37.9 million in 2013 and $33.6 million in 2012. Operating income was 29 percent of revenues for 2014, 29 percent of revenues for 2013 and 28 percent of revenues for 2012. Increases in gross profit partially offset by increases in operating expenses described above were the major contributors to the operating income increases in 2014 and 2013 as compared to the previous years. Although we anticipate increases in R&D expenses and depreciation charges in 2015, we expect growth in our operating income during 2015 as compared to 2014.

Income tax expense in 2014 totaled $14.2 million, compared with $12.7 million in 2013 and $11.4 million in 2012. The effective tax rates for 2014, 2013 and 2012 were 33.8 percent, 32.3 percent and 32.6 percent, respectively. The effective tax rate for 2013 benefitted from the retroactive extension of the federal research tax credit provisions included in the American Taxpayer Relief Act of 2012. Benefits from tax incentives for 2012 R&D expenditures were included in the calculation of income taxes for 2013. The effective tax rate for 2012 was impacted by a favorable adjustment to an uncertain tax position related to income tax credits claimed for R&D expenditures 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 2014, $1.3 million in 2013 and $949,000 in 2012. Benefits from changes in uncertain tax positions totaled $217,000 in 2014, $195,000 in 2013 and $720,000 in 2012. We expect our effective tax rate for 2015 to be approximately 34.0 percent.

Liquidity and Capital Resources

We have a revolving credit facility with a money center bank in the amount of $40.0 million pursuant to which the lender is obligated to make advances until 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, 2014 or 2013. The credit facility contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At December 31, 2014, 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, 2014, we had a total of $45.6 million in cash and cash equivalents, short-term investments and long-term investments, a decrease of $11.4 million from December 31, 2013. The principal contributors to this decrease were the purchases of treasury stock under our stock repurchase program and property, plant and equipment expenditures.

Cash flows provided by operations of $31.2 million in 2014 were primarily comprised of net income plus the net effect of non-cash expenses. At December 31, 2014, we had working capital of $64.2 million, including $20.8 million in cash and cash equivalents and $3.1 million in short-term investments. The $16.8 million decrease in working capital during 2014 was primarily related to decreases in cash and cash equivalents and short-term investments and increases in accounts payable and accrued liabilities. This decrease was partially offset by increases in inventories and prepaid expenses and decreases in accrued income and other taxes. The decrease in cash and short-term investments was primarily a result of purchases of treasury stock under our stock repurchase program. Increased accounts receivable are primarily a result of increased sales. Increased inventories are primarily due to higher safety stock levels necessary to support increased revenues. Increased prepaid expenses and reduced accrued income and other taxes are primarily related to federal income tax payments. Increased accrued liabilities are primarily a result of accrued compensation. Increased accounts payable are primarily related to year-end purchases of capital equipment. 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 $12.7 million in 2014, compared with $7.5 million in 2013 and $10.3 million in 2012. These expenditures were primarily for machinery and equipment. We expect 2015 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 $5.4 million, $4.8 million and $24.5 million during 2014, 2013 and 2012, 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 $23.6 million, $9.2 million and $5.3 million during 2014, 2013 and 2012, respectively.

The table below summarizes debt, lease and other contractual obligations outstanding at December 31, 2014:

	Payments Due by Period			
Contractual Obligations	Total	2015	2016–2017	2018 and thereafter
	(in thousands)			
Purchase Obligations	$ 10,467	$ 10,300	$ 167	$ —
Total	$ 10,467	$ 10,300	$ 167	$ —

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 2015.

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 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 Accounting Standards Codification, or 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 2014, 2013 and 2012, 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.

Market Risk and Credit Risk

The Company's cash and cash equivalents are held in accounts with financial institutions that we believe are creditworthy. Certain of these accounts at times may exceed federally-insured limits. We have not experienced any credit losses in such accounts and do not believe we are exposed to any significant credit risk on these funds.

We have investments in United States government agency securities and corporate bonds. As a result, we are exposed to potential loss from market risks that may occur as a result of changes in interest rates, changes in credit quality of the issuer and otherwise. Approximately 24% of our aggregate fixed-income investments are below investment grade. These securities have a higher degree of credit or default risk and a greater exposure to credit risk and may be less liquid in times of economic weakness or market disruptions. We have also invested a portion of our available funds in common stock. The value of these securities fluctuates due to changes in the equity and credit markets along with other factors. In times of economic weakness, the market value and liquidity of these assets may decline and may negatively impact our financial condition.

Forward-looking Statements

Statements in this Annual Report to Stockholders 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 R&D expenditures and depreciation charges in 2015, our growth in operating income in 2015, our 2015 effective tax rate, the impact of the restrictive covenants in our credit facility on our liquidity and capital resources, our earnings in 2015, our 2015 capital expenditures, our growth in sales and diluted earnings per share in 2015, 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 2015 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.

SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

	2014	2013	2012	2011	2010
Operating Results for the Year ended December 31,					
Revenues	**$ 140,762**	$ 131,993	$ 119,062	$ 117,704	$ 108,569
Operating income	**40,817**	37,944	33,626	38,168	30,977
Net income	**27,808**	26,582	23,629	26,038	20,952
Depreciation and amortization	**8,723**	8,592	7,610	6,544	7,041
Per Share Data:					
Net income per diluted share	**14.08**	13.18	11.66	12.82	10.32
Cash dividends per common share	**2.78**	2.40	12.10	1.82	10.56
Average diluted shares outstanding	**1,975**	2,017	2,027	2,031	2,030
Financial Position at December 31,					
Total assets	**171,514**	172,066	155,810	161,895	134,652
Long-term debt	**—**	—	—	—	—

NON-GAAP FINANCIAL MEASURES RECONCILIATION

(Dollars in thousands)

Included in our Annual Report is a non-GAAP financial measure that is calculated by excluding certain income and assets that are included in financial measures determined in accordance with GAAP. We have provided this non-GAAP measure as an additional tool for investors to evaluate the Company's performance. This measure should be considered in addition to, rather than as a substitute for, GAAP measures of the Company's performance. The table below provides a reconciliation of this non-GAAP financial measure with the most directly comparable GAAP financial measure.

	GAAP	Adjustments	Non-GAAP
2014 net income [A]	$ 27,808	$ 774 [1]	$ 27,034
Equity at December 31, 2013	$ 148,994	$ 56,979 [2]	$ 92,015
Equity at December 31, 2014	$ 149,570	$ 45,619 [3]	$ 103,951
Average equity [B]	$ 149,282 [4]		$ 97,983 [5]
Return on equity (A/B)	19%		28%

1) 2014 after tax interest income.

2) Cash, cash equivalents and investments at December 31, 2013.

3) Cash, cash equivalents and investments at December 31, 2014.

4) GAAP equity at December 31, 2013 plus GAAP equity at December 31, 2014 divided by 2.

5) Adjusted equity at December 31, 2013 plus adjusted equity at December 31, 2014 divided by 2.

Leadership

Board of Directors

Emile A Battat
Chairman of the Board
Atrion Corporation

Hugh J. Morgan, Jr.
Private Investor
Former Chairman of the Board
National Bank of Commerce
of Birmingham
Birmingham, Alabama

Ronald N. Spaulding
Private Investor
Former President of
Worldwide Commercial Operations
Abbott Vascular
Miami, Florida

Roger F. Stebbing
President and Chief Executive Officer
Stebbing and Associates, Inc.
Signal Mountain, Tennessee

John P. Stupp, Jr.
President and Chief Executive Officer
Stupp Bros., Inc.
St. Louis, Missouri

Executive Officers

Emile A Battat
Chairman of the Board

David A. Battat
President and Chief Executive Officer

Jeffery Strickland
Vice President and Chief Financial Officer, Secretary and Treasurer

Corporate Information

Corporate Office
Atrion Corporation
One Allentown Parkway
Allen, Texas 75002
(972) 390-9800
www.atrioncorp.com

Registrar and Transfer Agent
American Stock Transfer and
Trust Company, LLC
Attn: Shareholder Services
6201 15th Avenue
Brooklyn, NY 11219

Form 10-K
A copy of the Company's 2014 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained by any stockholder without charge by written request to:

Corporate Secretary
Atrion Corporation
One Allentown Parkway
Allen, Texas 75002

Stock Information

The Company's common stock is traded on the NASDAQ Global Select Market (Symbol: ATRI). As of February 24, 2015, we had 151 record holders and approximately 3,500 beneficial owners of our common stock. The table below sets forth the high and low sales prices as reported by NASDAQ and the quarterly dividends per share declared by the Company for each quarter of 2013 and 2014.

2013 Quarter Ended	High	Low	Dividends
March 31	$ 210.99	$ 186.00	$ 0.56
June 30	222.74	186.37	0.56
September 30	261.00	217.00	0.64
December 31	299.00	252.50	0.64
2014 Quarter Ended	**High**	**Low**	**Dividends**
March 31	$ 316.99	$ 254.12	$ 0.64
June 30	337.25	261.53	0.64
September 30	329.99	278.01	0.75
December 31	355.91	288.50	0.75

The Company presently plans to pay quarterly cash dividends in the future.

ATRION CORPORATION
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