

The background of the entire page is a dense, abstract network of glowing fiber optic cables. The cables are primarily blue, with some white and yellowish-gold fibers interspersed, creating a complex, web-like pattern that suggests connectivity and data flow. The lighting is bright and futuristic, with a dark background that makes the glowing lines stand out.

**ANNUAL  
REPORT 2017**

**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.

# 2017

## Contents

Letter to Stockholders .....	2
Financial Statements .....	4
Management's Discussion .....	22
Selected Financial Data .....	28
Corporate Information .....	29

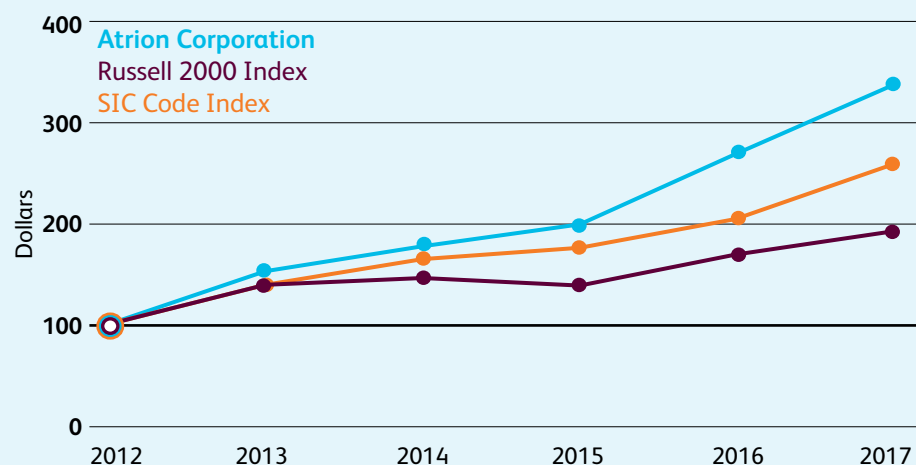
## Financial Highlights

For the Year Ended December 31	2017	2016	As of December 31	2017	2016
Revenues	\$ 146,595,000	\$ 143,487,000	Total Assets	\$ 203,780,000	\$ 181,942,000
Operating Income	41,274,000	39,126,000	Cash and Investments	74,740,000	54,047,000
Net Income	36,593,000	27,581,000	Long-term Debt	—	—
Income per Diluted Share	\$ 19.71	\$ 14.85	Stockholders' Equity	\$ 184,388,000	\$ 162,988,000
Weighted Average Diluted Shares Outstanding	1,857,000	1,857,000			



## 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, 2017 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, 2012 in our common stock, the Russell 2000 Index and the SIC Code Index and dividends were reinvested.

Company/Index	2012	2013	2014	2015	2016	2017
Atrion Corporation	\$100.00	\$152.72	\$176.83	\$200.00	\$268.53	\$336.43
Russell 2000 Index	\$100.00	\$138.82	\$145.62	\$139.19	\$168.85	\$193.58
SIC Code Index	\$100.00	\$140.92	\$166.14	\$176.77	\$205.60	\$257.98

## To our stockholders,

We finished 2017 with increases across the board in all key areas over the prior year: operating income was up 5%, our dividend increased by 15%, and cash and short- and long-term investments were up 38% over the prior year to \$75 million. Return on equity remained high at 21%, and GAAP net income and earnings per share both increased by 33%.

For some companies, those net income and EPS numbers would be the headline. At Atrion, it's always been our practice to tell the full story behind the numbers. Our effective tax rate in 2017 was 14% compared to 30% in 2016. This was due to a combination of one-time unusual tax benefits and the impact of the enactment in late 2017 of the Tax Cuts and Jobs Act, which significantly reduced future liabilities for accelerated depreciation in 2017 and prior years. This is why the 5% increase in operating income is the more insightful comparison to the prior year. Coupled with a 2% increase in revenues, I would characterize 2017 as something of a steady state after a decade that saw several years of double-digit growth in operating income.

We expect to work through this relatively flat period by the end of 2018, with 2019 and beyond showing steady improvements in revenues and pre-tax results as investments in research and development over the last five years begin to make it through the lengthy processes of regulatory approvals and customer validation and adoption.

The results for any calendar year don't tell the full story of a company's outlook. This is particularly true when the focus, as it is at Atrion, is on ensuring the company's growth over the long term. Our company is a solid organization delivering steady results. This consistency is the result of our willingness to be entrepreneurial and a commitment across all roles to design and produce products that protect patients and clinicians. This is what drives our engineers to reimagine our products for ever greater levels of patient and clinician protection. Every year, our factories look different than they did the year before, in a process of constant change to improve and expand our capabilities. The dedication of these teams impresses, excites, and humbles me. And not least, it inspires my gratitude.

To the Atrion teams that work so hard, and to you, our partners in these endeavors, I say thank you for your belief in our work and your investment in our future progress.

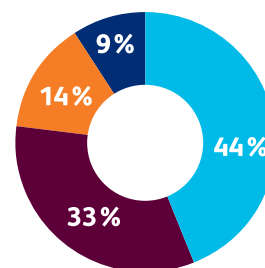
This year once again, you have my word that we will stay focused on maintaining a solid financial position and dedicated to the steady and sustainable growth you are accustomed to seeing from Atrion.

Respectfully,

*David Battat*

David A. Battat  
President and CEO

#### 2017 REVENUES BY PRODUCT LINE



<b>Fluid Delivery</b>	<b>44%</b>
\$ 65,053,000	
<b>Cardiovascular</b>	<b>33%</b>
\$ 48,073,000	
<b>Other</b>	<b>14%</b>
\$ 19,932,000	
<b>Ophthalmology</b>	<b>9%</b>
\$ 13,537,000	

## ATRION CORPORATION CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2016

Assets:	2017	2016
	(in thousands)	
Current Assets:		
Cash and cash equivalents	\$ 30,136	\$ 20,022
Short-term investments	35,468	24,080
Accounts receivable, net of allowance for doubtful accounts of \$28 and \$71 in 2017 and 2016, respectively	17,076	17,166
Inventories	29,354	29,015
Prepaid expenses and other current assets	3,199	3,181
Total Current Assets	115,233	93,464
Long-term investments	9,136	9,945
Property, Plant and Equipment	167,080	160,413
Less accumulated depreciation and amortization	100,711	95,148
	66,369	65,265
Other Assets and Deferred Charges:		
Patents and licenses, net of accumulated amortization of \$12,062 and \$11,911 in 2017 and 2016, respectively	1,778	1,929
Goodwill	9,730	9,730
Other	1,534	1,609
	13,042	13,268
Total Assets	\$ 203,780	\$ 181,942

The accompanying notes are an integral part of these statements.

Liabilities and Stockholders' Equity:	2017	2016
	(in thousands)	
Current Liabilities:		
Accounts payable	\$ 3,929	\$ 4,028
Accrued liabilities	4,947	4,635
Accrued income and other taxes	746	410
Total Current Liabilities	9,622	9,073
Line of credit	—	—
Other Liabilities and Deferred Credits:		
Deferred income taxes	7,312	8,753
Other	2,458	1,128
Total Liabilities	9,770	9,881
Total Liabilities	19,392	18,954
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	48,730	37,448
Accumulated other comprehensive loss	(1,215)	(474)
Retained earnings	268,194	239,946
Treasury shares, 1,584 shares in 2017 and 1,596 shares in 2016, at cost	(131,663)	(114,274)
Total Stockholders' Equity	184,388	162,988
Total Liabilities and Stockholders' Equity	\$ 203,780	\$ 181,942

The accompanying notes are an integral part of these statements.

## ATRION CORPORATION CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2017, 2016 and 2015

	2017	2016	2015
	(in thousands, except per share amounts)		
Revenues	\$ 146,595	\$ 143,487	\$ 145,733
Cost of Goods Sold	75,841	75,857	74,752
Gross Profit	70,754	67,630	70,981
Operating Expenses:			
Selling	7,251	6,611	6,043
General and administrative	16,430	15,319	16,082
Research and development	5,799	6,574	6,346
	29,480	28,504	28,471
Operating Income	41,274	39,126	42,510
Investment Income	1,065	448	771
Other Income (Expense), net	1	(308)	(2,411)
Income before Provision for Income Taxes	42,340	39,266	40,870
Provision for Income Taxes	(5,747)	(11,685)	(11,945)
Net Income	\$ 36,593	\$ 27,581	\$ 28,925
Net Income Per Basic Share	\$ 19.82	\$ 15.12	\$ 15.67
Weighted Average Basic Shares Outstanding	1,846	1,824	1,846
Net Income Per Diluted Share	\$ 19.71	\$ 14.85	\$ 15.47
Weighted Average Diluted Shares Outstanding	1,857	1,857	1,870
Dividends Per Common Share	\$ 4.50	\$ 3.90	\$ 3.30

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31, 2017, 2016 and 2015

	2017	2016	2015
	(in thousands)		
Net Income	\$ 36,593	\$ 27,581	\$ 28,925
Other Comprehensive (Loss) Income, net of tax: Unrealized (Loss) Gain on investments, net of tax benefits of \$68 and \$408 in 2017 and 2016, respectively, and net of tax expense of \$283 in 2015	(741)	(757)	528
Comprehensive Income	\$ 35,852	\$ 26,824	\$ 29,453

The accompanying notes are an integral part of these statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2017, 2016 and 2015

	2017	2016	2015
	(in thousands)		
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 36,593	\$ 27,581	\$ 28,925
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,677	8,953	8,823
Deferred income taxes	(1,374)	(247)	(1,431)
Stock-based compensation	1,602	1,566	1,841
Impairment of investment	—	345	2,413
Net change in accrued interest, premiums, and discounts on investments	(195)	(37)	100
Other	49	—	17
	<b>45,352</b>	<b>38,161</b>	<b>40,688</b>
Changes in operating assets and liabilities:			
Accounts receivable	88	(546)	371
Inventories	(339)	756	(1,749)
Prepaid expenses and other current assets	(18)	(247)	1,786
Other non-current assets	75	(673)	(103)
Accounts payable and accrued liabilities	213	(324)	(492)
Accrued income and other taxes	336	81	(128)
Other non-current liabilities	1,330	195	54
	<b>47,037</b>	<b>37,403</b>	<b>40,427</b>
<b>Cash Flows From Investing Activities:</b>			
Property, plant and equipment additions	(9,677)	(10,639)	(9,323)
Purchase of investments	(69,193)	(30,799)	(168)
Proceeds from sale of investments	—	210	—
Proceeds from maturities of investments	58,000	5,000	13,400
	<b>(20,870)</b>	<b>(36,228)</b>	<b>3,909</b>
<b>Cash Flows From Financing Activities:</b>			
Shares tendered for employees' withholding taxes on stock-based compensation	(7,735)	(1,112)	(154)
Tax benefit related to stock-based compensation	—	—	156
Purchase of treasury stock	—	(1,276)	(30,698)
Dividends paid	(8,318)	(7,111)	(6,069)
	<b>(16,053)</b>	<b>(9,499)</b>	<b>(36,765)</b>
<b>Net change in cash and cash equivalents</b>	<b>10,114</b>	<b>(8,324)</b>	<b>7,571</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>20,022</b>	<b>28,346</b>	<b>20,775</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 30,136</b>	<b>\$ 20,022</b>	<b>\$ 28,346</b>
<b>Cash paid for:</b>			
Income taxes, net of refunds	\$ 4,959	\$ 10,750	\$ 12,900
<b>Non-cash financing activities:</b>			
Non-cash effect of stock option exercises	\$ 10,237	\$ —	\$ —

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2017, 2016 and 2015 (in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total
	Shares Outstanding	Amount	Shares	Amount				
<b>Balances, January 1, 2015</b>	<b>1,913</b>	<b>\$ 342</b>	<b>1,507</b>	<b>\$ (81,173)</b>	<b>\$ 33,940</b>	<b>\$ (245)</b>	<b>\$ 196,706</b>	<b>\$ 149,570</b>
Net income							28,925	28,925
Other comprehensive income						528		528
Tax benefit from stock-based compensation					156			156
Stock-based compensation transactions	1		(1)	37	1,849			1,886
Shares surrendered in stock transactions	(1)		1	(154)				(154)
Purchase of treasury stock	(89)		89	(30,698)				(30,698)
Dividends							(6,115)	(6,115)
<b>Balances, December 31, 2015</b>	<b>1,824</b>	<b>342</b>	<b>1,596</b>	<b>(111,988)</b>	<b>35,945</b>	<b>283</b>	<b>219,516</b>	<b>144,098</b>
Net income							27,581	27,581
Other comprehensive loss						(757)		(757)
Stock-based compensation transactions	7		(7)	102	1,503			1,605
Shares surrendered in stock transactions	(3)		3	(1,112)				(1,112)
Purchase of treasury stock	(4)		4	(1,276)				(1,276)
Dividends							(7,151)	(7,151)
<b>Balances, December 31, 2016</b>	<b>1,824</b>	<b>342</b>	<b>1,596</b>	<b>(114,274)</b>	<b>37,448</b>	<b>(474)</b>	<b>239,946</b>	<b>162,988</b>
Net income							36,593	36,593
Other comprehensive loss						(741)		(741)
Stock-based compensation transactions	46		(46)	583	11,282			11,865
Shares surrendered in stock transactions	(34)		34	(17,972)				(17,972)
Dividends							(8,345)	(8,345)
<b>Balances, December 31, 2017</b>	<b>1,836</b>	<b>\$ 342</b>	<b>1,584</b>	<b>\$ (131,663)</b>	<b>\$ 48,730</b>	<b>\$ (1,215)</b>	<b>\$ 268,194</b>	<b>\$ 184,388</b>

The accompanying notes are an integral part of this statement.

# 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 physicians, 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 the consolidated 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 and 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 bonds and commercial paper, mutual funds, certificates of deposit and equity securities. We classify our investment securities in one of three categories: held-to-maturity, available-for-sale, or trading. 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. We report available-for-sale securities at fair value, based on quoted market prices, with unrealized gains and, to the extent deemed temporary, unrealized losses recorded in stockholders’ equity as accumulated other comprehensive income (loss). We report trading securities at fair value with unrealized gains and losses recorded in investment income in the Consolidated Statement of Income. We consider as current assets our mutual fund investments and those investments which will mature in the next 12 months including interest receivable on long-term bonds. 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.

The components of the Company’s cash and cash equivalents and our short and long-term investments as of December 31, 2017 and 2016 are as follows (in thousands):

	December 31,	
	2017	2016
<b>Cash and Cash Equivalents:</b>		
Cash deposits	\$ 12,730	\$ 10,724
Money market funds	17,406	9,298
Total cash and cash equivalents	\$ 30,136	\$ 20,022
<b>Short-term investments:</b>		
Mutual funds (trading)	\$ 222	—
Commercial paper (held-to-maturity)	31,220	—
Certificates of deposit (held-to-maturity)	4,020	\$ 24,000
Corporate bonds (held-to-maturity)	6	80
Total short-term investments	\$ 35,468	\$ 24,080
<b>Long-term investments:</b>		
Corporate bonds (held-to-maturity)	\$ 5,000	\$ 5,000
Equity securities (available-for-sale)	4,136	4,945
Total long-term investments	\$ 9,136	\$ 9,945
<b>Total cash, cash equivalents and short and long-term investments</b>	<b>\$ 74,740</b>	<b>\$ 54,047</b>

#### Account Receivables

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 net realizable value. Cost is determined by using the first-in, first-out method. The following table details the major components of inventory (in thousands):

	December 31,	
	2017	2016
Raw materials	\$ 13,545	\$ 12,984
Work in process	6,647	6,230
Finished goods	9,162	9,801
Total inventories	\$ 29,354	\$ 29,015

### Accounts Payable

We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2017 and 2016, disbursements totaling approximately \$411,000 and \$624,000, 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.

During the year ended December 31, 2016, we made quarterly payments in excess of federal income taxes due of approximately \$920,000. This amount is recorded in Prepaid expenses and other current assets on our Consolidated Balance Sheets.

### 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 Lives
	2017	2016	
Land	\$ 5,511	\$ 5,260	—
Buildings	32,461	32,321	30-40 yrs
Machinery and equipment	129,108	122,832	3-15 yrs
Total property, plant and equipment	\$ 167,080	\$ 160,413	

Depreciation expense of \$8,526,000, \$8,689,000 and \$8,478,000 was recorded for the years ended December 31, 2017, 2016 and 2015, 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 seven 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 performed in the fourth quarter using a qualitative assessment on goodwill impairment to determine whether it is more likely than not that the carrying value of our reporting units exceeds their fair value. If necessary, a two-step goodwill impairment analysis is performed. 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, 2017 and 2016 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,	
	2017	2016
Accrued payroll and related expenses	\$ 3,943	\$ 3,661
Accrued vacation	273	265
Other accrued liabilities	731	709
Total accrued liabilities	\$ 4,947	\$ 4,635

### 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

R&D 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*, or ASC 718.

### New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 was effective for fiscal years beginning after December 15, 2016. Under this guidance all excess tax benefits (“windfalls”) and deficiencies (“shortfalls”) related to employee stock compensation are recognized within income tax expense. The Company early adopted this guidance using the prospective transition method in the second quarter of 2016 effective January 1, 2016. As a result of our adoption of this guidance, an excess tax benefit of \$687,000 was recorded in 2016 resulting from the vesting of restricted stock and restricted stock units. In 2017 we recorded an excess tax benefit of \$5,782,000 resulting from the exercise of employee stock options and the vesting of restricted stock and restricted stock units. The excess tax benefits recorded in 2017 and 2016 were included in our consolidated statements

of cash flows under operating activity rather than under financing activity as was done in prior years. There were no restatements to 2015. This guidance could create future volatility in our effective tax rate depending upon the extent of exercise or vesting activity in our stock based awards.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17) which requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by this guidance. ASU 2015-17 was effective for annual and interim periods beginning after December 15, 2016. We adopted this ASU in the first quarter of 2017 on a retrospective basis. As of December 31, 2016, “Deferred Income Taxes” of \$651,000 were reclassified from Current Assets to “Other Liabilities and Deferred Credits” in the accompanying Consolidated Balance Sheets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, also known as ASC 606. This new standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaced most existing revenue recognition guidance in United States Generally Accepted Accounting Principles when it became effective for fiscal years beginning after December 15, 2017. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We conducted and completed a comprehensive review of contracts and their associated business terms and conditions and performed detailed analysis on the impact of this standard to our current contracts. Based on our evaluation, we adopted the new standard on January 1, 2018, using the full retrospective method and expect no material change to our financial statements and our internal controls over financial reporting as a result. Because accounting for revenue under contracts will not materially change for us under the new standard, prior period financial statements will not require adjustment.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The primary impact of this change relates to our available-for-sale equity investment and will result in unrecognized gains and losses from this investment being reflected in our income statement starting in 2018. We adopted ASU 2016-01 as of January 1, 2018, applying the update by means of a cumulative-effect adjustment to the balance sheet by reclassifying Accumulated Other Comprehensive Loss in the shareholders’ equity section of the balance sheet to Retained Earnings. We do not anticipate that the

adoption of ASU 2016-01 will have a material impact on our financial statements.

On February 25, 2016 the FASB issued ASU 2016-02, *Leases* (ASC 842). The main objective of this new standard is to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The new leasing standard requires lessees to recognize a right of use asset and lease liability on the balance sheet. Lessor accounting is updated to align with certain changes in the lessee model and the new revenue recognition standard (ASC 606). Atrion elected to early adopt this new standard as of January 1, 2018, using the modified retrospective approach as required. We have concluded that the adoption of this new standard will not have a material impact on our financial statements.

From time to time, new accounting pronouncements applicable to us are issued by the 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, 2017 and 2016, we held certain investments in corporate bonds and commercial paper, mutual funds, certificates of deposit, and certain equity securities. These investments, with the exception of mutual funds, 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). Our investments in mutual funds are considered Level 1 assets and the reported fair value of these investments is based on observable quoted prices from active markets.

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, 2017, approximately 98 percent 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 corporate bonds and commercial paper and in certificates of deposit. 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. These securities have a higher degree of, and a greater exposure to, credit or default 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, 2017 and 2016, we had allowances for doubtful accounts of approximately \$28,000 and \$71,000, respectively. The carrying amount of the receivables approximates their fair value. One customer accounted for 15.5% of accounts receivable as of December 31, 2017. This was the only customer that exceeded 10% of our accounts receivable at December 31, 2017 and no customer exceeded 10% of our accounts receivable as of December 31, 2016.

## (2) Investments

As of December 31, 2017 and 2016, 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 1 or Level 2 investments as detailed in the table below.

The amortized cost and fair value of our investments and the related gross unrealized gains and losses were as follows as of the dates shown below (in thousands):

	Level	Cost	Gross Unrealized		Fair Value
			Gains	Losses	
As of December 31, 2017					
<b>Short-term Investments:</b>					
Certificates of deposit	2	\$ 4,020	\$ —	\$ (3)	\$ 4,017
Commercial paper	2	\$ 31,220	\$ 26	\$ (38)	\$ 31,208
Corporate bonds	2	\$ 6	\$ —	\$ —	\$ 6
Mutual funds	1	\$ 219	\$ 3	\$ —	\$ 222
<b>Long-term Investments:</b>					
Corporate bonds	2	\$ 5,000	\$ —	\$ (75)	\$ 4,925
Equity Investments	2	\$ 5,675	\$ —	\$ (1,539)	\$ 4,136
As of December 31, 2016					
<b>Short-term Investments:</b>					
Certificates of deposit	2	\$ 24,000	\$ 9	\$ —	\$ 24,009
Corporate bonds	2	\$ 80	\$ —	\$ —	\$ 80
<b>Long-term Investments:</b>					
Corporate bonds	2	\$ 5,000	\$ —	\$ (287)	\$ 4,713
Equity Investments	2	\$ 5,675	\$ —	\$ (730)	\$ 4,945

The above certificates of deposit and commercial paper represent investments in multiple issuers at December 31, 2017, and are classified as held-to-maturity securities. The above equity investment represents an investment in one company at December 31, 2017 and is classified as available for sale. The above long-term corporate bond represents an investment in one issuer at December 31, 2017. The carrying value of our investments is reviewed quarterly for changes in circumstances or the occurrence of events that suggest an investment may not be recoverable. The unrealized loss for the long-term corporate bond is attributable to a rise in interest rates which resulted in a lower market price for that security. This investment has been in a loss position for more than 12 months due to the rise in interest rates. As of December 31, 2017 there were no changes in circumstances or events that would suggest our investments may not be recoverable. As a result, we recorded no impairment expense related to our investments during 2017. In 2015, one of our bonds experienced a significant decline in market value over a 12-month period due to a changed outlook for the issuer resulting from a major economic decline in its industry. In the fourth quarter of 2015, we determined, based upon disclosures by the issuer, that more likely than not, we would be required to sell or exchange the bond before recovery of its amortized cost. Therefore, we recorded an impairment loss on this bond of \$2.4 million in 2015, reducing the carrying value of the bond to its market value at December 31, 2015. In 2016 after the issuer declared bankruptcy, we sold this bond that was previously intended to be held to maturity. We recorded an additional net loss of \$311,000 on this bond in 2016 prior to and including its sale. These losses in 2015 and 2016 are reported as other income (loss) in the accompanying Consolidated Statements of Income.

At December 31, 2017, the length of time until maturity of the corporate bond we currently own was 41.5 months and the length of time until maturity of the certificates of deposit and commercial paper ranged from less than a month to 11.2 months.

Our accumulated other comprehensive loss is comprised solely of unrealized losses on our above equity investments, net of tax.

### (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, 2017		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	\$ 13,840	\$ 12,062

December 31, 2016		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	\$ 13,840	\$ 11,911

Aggregate amortization expense for patents and licenses was \$151,000, \$264,000 and \$345,000 for 2017, 2016 and 2015, respectively. Estimated future amortization expense for each of the years set forth below ending December 31 is as follows (in thousands):

2018	\$119
2019	\$119
2020	\$119
2021	\$119
2022	\$117

### (4) Line of Credit

As of December 31, 2017 we had a \$75.0 million revolving credit facility with a money center bank pursuant to which the lender is obligated to make advances until February 28, 2022. This credit facility, entered into on February 28, 2017, replaced a \$40.0 million revolving credit facility with the same bank which was in place for several years prior to that date. 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 .875 percent (2.35 percent at December 31, 2017) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2017 or the prior credit facility at December 31, 2016. 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, 2017, we were in compliance with all of the covenants.

### (5) Income Taxes

The items comprising Provision for Income Taxes are as follows (in thousands):

		Year ended December 31,		
		2017	2016	2015
Current	— Federal	\$ 6,244	\$ 10,706	\$ 11,848
	— State	877	1,226	1,528
		7,121	11,932	13,376
Deferred	— Federal	(1,542)	(92)	(1,364)
	— State	168	(155)	(67)
		(1,374)	(247)	(1,431)
	Provision for Income Taxes	\$ 5,747	\$ 11,685	\$ 11,945

Temporary differences and carryforwards which have given rise to deferred tax liabilities as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
<b>Deferred tax liabilities (assets):</b>		
Property, plant and equipment	\$ 6,787	\$ 9,550
Patents and goodwill	1,740	2,833
Benefit plans	(854)	(1,819)
Inventories	(282)	(519)
Capital loss carryover	(572)	(954)
Other	(116)	(338)
	6,703	8,753
Plus: Valuation allowance	609	—
Total deferred tax liabilities	\$ 7,312	\$ 8,753

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,		
	2017	2016	2015
Income tax expense at the statutory federal income tax rate	\$ 14,819	\$ 13,743	\$ 14,304
Increase (decrease) resulting from:			
State income taxes	662	730	882
Section 199 manufacturing deduction	(630)	(1,165)	(1,383)
R&D tax credits	(983)	(1,070)	(2,254)
Excess tax benefit from stock compensation	(5,782)	(687)	—
Impact from tax law rate change	(4,053)	—	—
Change in valuation allowance	609	—	—
Uncertain tax positions	865	(120)	(9)
Other, net	240	254	405
Provision for Income Taxes	\$ 5,747	\$ 11,685	\$ 11,945

The Tax Cuts and Jobs Act, enacted in December 2017, reduced the corporate federal income tax rate in the United States from 35% to 21% effective on January 1, 2018. This rate reduction reduced our net deferred tax liability, including adjustments to our net state deferred tax liabilities, by \$4.1 million as of December 31, 2017. Based upon this tax law enactment, we recorded a corresponding benefit in our income tax provision of \$4.1 million for the three months and year ended December 31, 2017. Also, in the fourth quarter of 2017 we recorded a deferred tax valuation allowance of \$609,000 primarily related to deferred tax assets for a \$2.7 million capital loss carryover deduction which may not be realized by its expiration date in 2021. This charge partially offset the benefit recorded in our income tax provision as a result of the Tax Cuts and Jobs Act.

We will continue to evaluate the tax reform impacts noting that the ultimate impact of tax reform may differ from the amounts recorded due to changes in our interpretations and assumptions, as well as additional regulatory guidance that may be issued.

An excess tax benefit is the realized tax benefit related to the amount of deductible compensation cost reported on an employer's tax return for equity instruments in excess of the compensation cost for those instruments recognized for financial reporting purposes. The Company adopted ASU 2016-09 (see Note 1) effective January 1, 2016 eliminating the requirement for excess tax benefits to be recorded as additional paid-in capital when realized. An excess tax benefit in the amount of \$156,000 was recognized as additional paid-in capital during 2015, resulting from the vesting of restricted stock and restricted stock units. With the adoption of ASU 2016-09, excess tax benefits of \$5,782,000 and \$687,000 were recognized as a component of income tax expense in 2017 and 2016, respectively.

We recorded tax credits for our R&D expenditures totaling \$2.3 million in 2015. This amount included an adjustment for recalculation of our R&D tax credits from prior years resulting from a regulation issued by the Treasury Department which favorably impacted the benefits provided to the Company under these rules.

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, 2015	\$ 129
Increase in tax positions for prior years	122
Increase in tax positions for current year	0
Lapse in statutes of limitation	(131)
Gross unrecognized tax benefits at December 31, 2015	\$ 120
Decrease in tax positions for prior years	(120)
Increase in tax positions for current year	0
Lapse in statutes of limitation	0
Gross unrecognized tax benefits at December 31, 2016	\$ 0
Increase in tax positions for prior years	865
Increase in tax positions for current year	0
Lapse in statutes of limitation	0
Gross unrecognized tax benefits at December 31, 2017	\$ 865

As of December 31, 2017 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 2013. An audit of our federal income tax returns for 2011, 2012 and 2013 was completed in 2016 with no changes. All material state and local income tax matters have been concluded for years through 2013.

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 \$1,000 at December 31, 2017. Tax expense for the year ended December 31, 2017, included a net interest charge of \$1,000. There were no tax expenses or tax benefits for interest and penalties in 2016. A net interest benefit of \$9,000 was included in 2015.

## (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 stock repurchase program pursuant to which we repurchased 200,000 shares of our common stock from time to time in open-market or privately-negotiated transactions, which was the maximum number of shares that could be repurchased. On May 21, 2015, our Board of Directors adopted a new stock repurchase program authorizing the repurchase of up to 250,000 shares of our common stock in open-market or privately-negotiated transactions. This program has no expiration date but may be terminated by the Board of Directors at any time. As of December 31, 2017, there remained 231,765 shares available for repurchase under this program. There were no stock repurchases during 2017. We repurchased 3,427 and 89,452 shares during 2016 and 2015, respectively.

We increased our quarterly cash dividend payments in September of each of the past three years. The quarterly dividend was increased to \$.90 per share in September 2015, to \$1.05 per share in September 2016 and to \$1.20 per share in September 2017. Holders of our stock units earned non-cash dividend equivalents of \$27,000 in 2017, \$40,000 in 2016 and \$46,000 in 2015.

## (7) Income Per Share

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

	Year ended December 31,		
	2017	2016	2015
	(in thousands, except per share amounts)		
Net Income	\$ 36,593	\$ 27,581	\$ 28,925
Weighted average basic shares outstanding	1,846	1,824	1,846
Add: Effect of dilutive securities	11	33	24
Weighted average diluted shares outstanding	1,857	1,857	1,870
Net Income Per Share			
Basic	\$ 19.82	\$ 15.12	\$ 15.67
Diluted	\$ 19.71	\$ 14.85	\$ 15.47

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. Securities representing 148 shares of common stock for the year ended December 31, 2017, were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive. There were no anti-dilutive shares excluded from the computation of weighted average diluted shares outstanding in 2016 and 2015.

## (8) Stock Plans

At December 31, 2017, 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.

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, 2017, there remained 24,373 shares reserved 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, 2017, there remained 1,548 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, 2017, there remained 1,126 shares reserved for issuance under such plan.

A summary of stock option transactions for the year ended December 31, 2017, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2016	50,000	\$ 204.76	
Granted	20,000	\$ 501.03	
Exercised	(50,000)	\$ 204.76	
Outstanding at December 31, 2017	20,000	\$ 501.03	5.3 years
Exercisable at December 31, 2017	—	—	—

All nonvested options outstanding at December 31, 2017 are expected to vest. None of our grants includes performance-based or market-based vesting conditions. We estimate the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. Our Black-Scholes valuation uses a volatility factor based on our historical stock trading history, a risk-free interest rate based on the implied yield currently available on U.S. Treasury securities with an equivalent term, and a dividend yield based on our dividend history. Our expected life assumption 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.

There were no options granted in 2016 and 2015. The fair value for the options granted in 2017 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2017	2016	2015
Risk-free interest rate	2.13%	—	—
Dividend yield	0.85%	—	—
Volatility factor	25.45%	—	—
Expected life	5 years	—	—

The weighted average grant date fair value of the options granted in 2017 was \$130.35. The total intrinsic value of options exercised during 2017 was \$16.5 million. The total intrinsic value of options outstanding at December 31, 2017, was \$2.6 million. There were no exercisable options at December 31, 2017.

During 2017, we granted two 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. Both awards include restrictions on transfer for a two-year period following vesting. 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. We calculated the weighted average fair value per share of the restricted stock awarded in 2017 using the market value of our common stock on the date of the grant with a discount for post-vesting restrictions of 11.2%. We estimated this discount using the Chaffe protective put method. A summary of changes in nonvested restricted stock for the year ended December 31, 2017, is presented below:

Nonvested Shares	Shares	Weighted Average Award Date Fair Value Per Share
Restricted stock at December 31, 2016	1,500	\$ 228.08
Granted in 2017	5,900	\$ 445.47
Vested in 2017	(1,500)	\$ 228.08
Restricted stock at December 31, 2017	5,900	\$ 445.47

All shares of nonvested restricted stock outstanding at December 31, 2017 are expected to vest. The total fair value of restricted stock vested during 2017, 2016 and 2015 was \$803,000, \$1,177,000 and \$1,086,000, respectively.

During 2017, 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 2017, 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, 2017, 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, 2016	9,388	\$ 258.69	—	
Granted	1,420	\$ 616.41	11	\$ 535.07
Vested	(4,608)	\$ 230.90	(11)	\$ 535.07
Nonvested at December 31, 2017	6,200	\$ 361.28	—	

All nonvested restricted stock units at December 31, 2017 are expected to vest. The total intrinsic value of all outstanding stock units which were not convertible at December 31, 2017, including 468 stock units held for the accounts of non-employee directors, was \$4,205,000. The total fair value of directors' stock units that vested during 2017, 2016, and 2015 was \$6,000, \$10,000 and \$5,000, respectively.

Stock awards that vested immediately were awarded under the 2006 Plan to non-employee directors totaling \$312,000 in value in 2017 and \$240,000 in value in each of 2016 and 2015. 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 award. 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, 2017, 2016 and 2015, we recorded stock-based compensation expense as a G&A expense in the amount of \$1,602,000, \$1,566,000 and \$1,841,000, 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, 2017, 2016 and 2015, was \$6,342,000, \$1,235,000 and \$644,000, respectively. The 2017 and 2016 tax benefit amounts include \$5,782,000 and \$687,000, respectively, of excess tax benefits within income tax expense as a result of the adoption of ASU 2016-09. Excess tax benefits of \$156,000 were recognized during 2015 as additional paid-in capital and is shown as a financing activity in our consolidated statements of cash flows for such year.

Unrecognized compensation cost information for our various stock-based compensation types is shown below as of December 31, 2017:

	Unrecognized Compensation Cost	Weighted Average Remaining Years in Amortization Period
Stock options	\$ 2,246,000	4.3
Restricted stock	2,264,000	4.3
Restricted stock units	1,114,000	3.8
Total	\$ 5,624,000	

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

## (9) 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 37 percent of our net revenues in 2017 and 2016, and 35 percent in 2015. We have no assets located outside the United States.

A summary of revenues by geographic area, based on shipping destination, for 2017, 2016 and 2015 is as follows (in thousands):

	Year ended December 31,		
	2017	2016	2015
United States	\$ 93,082	\$ 91,092	\$ 94,840
Germany	8,172	6,396	7,156
Other countries less than 5% of revenues	45,341	45,999	43,737
Total	\$ 146,595	\$ 143,487	\$ 145,733

A summary of revenues by product line for 2017, 2016 and 2015 is as follows (in thousands):

	2017	2016	2015
Fluid Delivery	\$ 65,053	\$ 60,889	\$ 60,630
Cardiovascular	48,073	47,064	46,463
Ophthalmology	13,537	15,427	18,253
Other	19,932	20,107	20,387
Total	\$ 146,595	\$ 143,487	\$ 145,733

## (10) 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 \$720,000, \$667,000 and \$645,000 in 2017, 2016 and 2015, respectively.

The Company adopted a Nonqualified Deferred Compensation Plan effective September 1, 2017, for certain key management or highly-compensated employees. The plan allows for the deferral of salary and bonus compensation until retirement or other specified payment events occur. Employees' deferred compensation amounts are deemed to be invested in certain investment funds, indexes or vehicles selected by our Compensation Committee and designated by each participant and their deferral balances are adjusted for earnings based upon the performance of

## (12) 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)					
03/31/17	\$ 38,504	\$ 11,327	\$ 9,950	\$ 5.42	\$ 5.36
06/30/17	36,164	10,175	10,026	5.44	5.40
09/30/17	37,903	11,479	7,971	4.30	4.29
12/31/17	34,024	8,293	8,646	4.67	4.66
03/31/16	\$ 36,215	\$ 10,465	\$ 6,945	\$ 3.81	\$ 3.76
06/30/16	36,143	10,074	7,450	4.09	4.02
09/30/16	37,835	10,976	7,614	4.17	4.10
12/31/16	33,294	7,611	5,571	3.05	3.00

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.

these deemed investments. Our deferred compensation obligation under the plan at December 31, 2017 was \$426,000 and is reflected in "Other Liabilities and Deferred Credits" in the accompanying Consolidated Balance Sheets.

## (11) 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, 2017, 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 \$3.5 million in potential future payments under this settlement as of December 31, 2017, 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, 2017 could have resulted in payments aggregating \$5.1 million.

At December 31, 2017, the Company had purchase obligations with certain suppliers for the purchase of inventory for 2018. These contracts were commitments to purchase inventory used in the production of the Company's products totaling \$1.5 million.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## Board of Directors and Stockholders Atrion Corporation

### *Opinion on the consolidated financial statements*

We have audited the accompanying consolidated balance sheets of Atrion Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2017 and 2016, 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, 2017, and the related notes and the schedule (not presented separately herein) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, 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 February 27, 2018 expressed an unqualified opinion.

### *Basis for opinion*

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Grant Thornton LLP*

Grant Thornton LLP

We have served as the Company’s auditor since 2002

Dallas, Texas  
February 27, 2018

## 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, 2017 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, 2017, our internal control over financial reporting was effective.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## Board of Directors and Stockholders Atrion Corporation

### *Opinion on internal control over financial reporting*

We have audited the internal control over financial reporting of Atrion Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements and schedule (not presented separately herein), of the Company as of and for the year ended December 31, 2017, and our report dated February 27, 2018 expressed an unqualified opinion on those financial statements and schedule.

### *Basis for opinion*

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### *Definition and limitations of internal control over financial reporting*

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.

*Grant Thornton LLP*

Grant Thornton LLP  
Dallas, Texas

February 27, 2018

# 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 2017, approximately 37 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. R&D 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, 2017, we reported revenues of \$146.6 million, operating income of \$41.3 million and net income of \$36.6 million.

## Results of Operations

Our net income was \$36.6 million, or \$19.82 per basic and \$19.71 per diluted share, in 2017 compared to \$27.6 million, or \$15.12 per basic and \$14.85 per diluted share, in 2016 and net income of \$28.9 million, or \$15.67 per basic and \$15.47 per diluted share, in 2015. Revenues were \$146.6 million in 2017 compared with \$143.5 million in 2016 and \$145.7 million in 2015. The two percent revenue increase in 2017 over 2016 was generally attributable to higher sales volumes. Our 2016 revenues were negatively impacted by the strong U.S. dollar in our international markets and lower sales prices in certain markets as compared to 2015 revenues.

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

	2017	2016	2015
Fluid Delivery	\$ 65,053	\$ 60,889	\$ 60,630
Cardiovascular	48,073	47,064	46,463
Ophthalmology	13,537	15,427	18,253
Other	19,932	20,107	20,387
Total	\$ 146,595	\$ 143,487	\$ 145,733

Our cost of goods sold was \$75.8 million in 2017, \$75.9 million in 2016 and \$74.8 million in 2015. A favorable product sales mix, improved manufacturing efficiencies and the impact of continued cost improvement projects were the primary contributors to the decrease in cost of goods sold in 2017 compared to 2016. Increased compensation costs, depreciation and repair costs partially offset by reduced utilities and reduced supplies were the primary contributors to the increase in cost of goods sold in 2016 over 2015.

Gross profit in 2017 was \$70.8 million compared with \$67.6 million in 2016 and \$71.0 million in 2015. Our gross profit was 48 percent of revenues in 2017, 47 percent of revenues in 2016 and 49 percent of revenues in 2015. The increase in gross profit percentage in 2017 from 2016 was primarily related to increased revenues and a favorable product sales mix. The decrease in gross profit percentage in 2016 from 2015 was primarily related to reduced sales, lower sales prices and increased manufacturing costs.

Operating expenses were \$29.5 million in 2017 and \$28.5 million in both 2016 and 2015. R&D expenses decreased \$775,000 in 2017 as compared with 2016 primarily as a result of decreased 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 2017, selling expenses increased \$640,000 as compared with 2016 primarily as a result of increased commissions, outside services, compensation and travel costs. 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 \$1.1 million in 2017 as compared to 2016 primarily as a result of increased compensation and compensation related costs and increased outside services partially offset by reduced depreciation, amortization and travel costs. 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 \$228,000 in 2016 as compared to 2015 primarily as a result of increased costs for supplies and travel partially offset by reduced outside services. In 2016, selling expenses increased \$568,000 as compared with 2015 primarily as a result of increased travel, outside services, compensation and trade shows. G&A expenses decreased \$763,000 in 2016 as compared to 2015 primarily as a result of reduced compensation and benefits.

Our operating income for 2017 was \$41.3 million compared with \$39.1 million in 2016 and \$42.5 million in 2015. Operating income was 28 percent of revenues in 2017, 27 percent of revenues for 2016 and 29 percent of revenues for 2015. An increase in 2017 gross profit partially offset by increased operating expenses was the major contributor to the increase in operating income for 2017 as compared to the previous year. The decrease in 2016 gross profit was the major contributor to the decrease in operating income for 2016 as compared to the previous year.

Investment income for 2017 was \$1.1 million, compared with \$448,000 in 2016 and \$771,000 in 2015. Increased levels of investments, increased interest rates and increased dividends on our equity investments were the primary reason for the increase in 2017. Lower interest rates were the primary reason for the reductions in 2016.

Other income (expense) in 2015 is primarily related to a \$2.4 million impairment loss on one of our long-term corporate bonds which experienced a significant decline in market value in 2015. In 2016 after the issuer declared bankruptcy, we sold this bond that was previously intended to be held to maturity. We recorded an additional net loss of \$311,000 to other income (expense) on this bond in 2016 prior to and including its sale.

Income tax expense in 2017 totaled \$5.7 million, compared with \$11.7 million in 2016 and \$11.9 million in 2015. The effective tax rates for 2017, 2016 and 2015 were 13.6 percent,

29.8 percent and 29.2 percent, respectively. The Tax Cuts and Jobs Act reduced the corporate federal income tax rate in the United States from 35% to 21% effective for us on January 1, 2018. This rate reduction reduced our net deferred tax liability, including adjustments to our net state deferred tax liabilities, by \$4.1 million as of December 31, 2017. Based upon this tax law enactment, we recorded a corresponding benefit in our income tax provision of \$4.1 million for the fourth quarter and the full year of 2017. Also, in the fourth quarter of 2017 we recorded a valuation allowance of \$609,000 to reduce our deferred tax assets which partially offset the benefit recorded in our income tax provision from the tax law change in 2017. During 2016 we adopted ASU 2016-09, *Stock Compensation (Topic 718) Improvements to Employee Share Based Payment Accounting* and recorded excess tax benefits related to employee stock compensation of \$5.8 million and \$687,000 for the years ended December 31, 2017 and 2016, respectively. The adoption was on a prospective basis and therefore had no impact on years prior to 2016. The effective tax rate for 2015 benefitted from tax credits totaling \$2.3 million for our R&D expenditures. This amount included an adjustment for recalculation of our R&D tax credits from prior years resulting from a regulation issued by the Treasury Department which favorably impacted the benefits provided to the Company under these rules. Benefits from R&D tax credits totaled \$1.0 million in 2017, \$1.1 million in 2016 and \$2.3 million in 2015. Benefits from tax incentives for domestic production totaled \$600,000 in 2017, \$1.2 million in 2016 and \$1.4 million in 2015. Charges from changes in uncertain tax positions totaled \$865,000 in 2017. Benefits from changes in uncertain tax positions totaled \$120,000 in 2016. We expect our effective tax rate for 2018 to be approximately 21.0 percent. Accounting for stock based awards could create volatility in our effective tax rate depending upon the extent of exercise or vesting activity.

## Liquidity and Capital Resources

As of December 31, 2017, we had a \$75.0 million revolving credit facility with a money center bank pursuant to which the lender is obligated to make advances until February 28, 2022. This credit facility, entered into on February 28, 2017, replaced a \$40.0 million revolving credit facility with the same bank which was in place for several years prior to that date. 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 .875 percent (2.35 percent at December 31, 2017) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2017, or the prior credit facility at December 31, 2016. 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, 2017, we were in compliance with all of the covenants.

At December 31, 2017, we had a total of \$74.7 million in cash and cash equivalents, short-term investments and long-term investments, an increase of \$20.7 million from December 31, 2016. The principal contributor to this increase was positive cash flows resulting from operations.

Cash flows provided by operations of \$47.0 million in 2017 were primarily comprised of net income plus the net effect of non-cash expenses. At December 31, 2017, we had working capital of \$105.6 million, including \$30.1 million in cash and cash equivalents and \$35.5 million in short-term investments. The \$20.6 million increase in working capital during 2017 was primarily related to increases in cash and short-term investments. The increase in cash and short-term investments was primarily a result of operational results partially offset by purchases of property, plant and equipment and payment of dividends. 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 \$9.6 million in 2017, compared with \$10.6 million in 2016 and \$9.3 million in 2015. These expenditures were primarily for machinery and equipment. We expect 2018 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 \$8.3 million, \$7.1 million and \$6.1 million during 2017, 2016 and 2015, respectively. We expect to fund future dividend payments with cash flows from operations. We purchased treasury stock totaling \$1.3 million and \$30.7 million during 2016 and 2015, respectively. No treasury stock was purchased in 2017.

The table below summarizes debt, lease and other contractual obligations outstanding at December 31, 2017:

Contractual Obligations	Payments Due by Period			
	Total	2018	2019–2020	2021 and thereafter
(in thousands)				
Purchase Obligations	\$ 1,474	\$ 1,474	\$ —	\$ —
Total	\$ 1,474	\$ 1,474	\$ —	\$ —

We believe our cash, cash equivalents, short-term investments and long-term investments, cash flows from operations and available borrowings of up to \$75.0 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 2018.

## 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

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 was effective for fiscal years beginning after December 15, 2016. Under this guidance all excess tax benefits (“windfalls”) and deficiencies (“shortfalls”) related to employee stock compensation are recognized within income tax expense. The Company early adopted this guidance using the prospective transition method in the second quarter of 2016 effective January 1, 2016. As a result of our adoption of this guidance, an excess tax benefit of \$687,000 was recorded in 2016 resulting from the vesting of restricted stock and restricted stock units. In 2017 we recorded an excess tax benefit of \$5,782,000 resulting from the exercise of employee stock options and the vesting of restricted stock and restricted stock units. The excess tax benefits recorded in 2017 and 2016 were included in our consolidated statements of cash flows under operating activity rather than under financing activity as was done in prior years. There were no restatements to 2015. This guidance could create future volatility in our effective tax rate depending upon the extent of exercise or vesting activity in our stock based awards.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17) which requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by this guidance. ASU 2015-17 was effective for annual and interim periods beginning after December 15, 2016. We adopted this ASU in the first quarter of 2017 on a retrospective basis. As of December 31, 2016, “Deferred Income

Taxes” of \$651,000 were reclassified from an asset account in Current Assets to a liability account in “Other Liabilities and Deferred Credits.”

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, also known as ASC 606. This new standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaced most existing revenue recognition guidance in United States Generally Accepted Accounting Principles when it became effective for fiscal years beginning after December 15, 2017. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. We conducted and completed a comprehensive review of contracts and their associated business terms and conditions and performed detailed analysis on the impact of this standard to our current contracts. Based on our evaluation, we adopted the new standard on January 1, 2018, using the full retrospective method and expect no material change to our financial statements and internal controls over financial reporting as a result. Because accounting for revenue under contracts will not materially change for us under the new standard, prior period financial statements will not require adjustment.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The primary impact of this change relates to our available-for-sale equity investment and will result in unrecognized gains and losses from this investment being reflected in our income statement beginning in 2018. We adopted ASU 2016-01 as of January 1, 2018, applying the update by means of a cumulative-effect adjustment to the balance sheet by reclassifying Accumulated Other Comprehensive Loss in the shareholders’ equity section of the balance sheet to Retained Earnings. We do not anticipate that the adoption of ASU 2016-01 will have a material impact on our financial statements.

On February 25, 2016 the FASB issued ASU 2016-02, *Leases* (ASC 842). The main objective of this new standard is to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The new leasing standard requires lessees to recognize a right of use asset and lease liability on the balance sheet. Lessor accounting is updated to align with certain changes in the lessee model and the new revenue recognition standard (ASC 606). Atrion elected to early adopt this new standard as of January 1, 2018, using the modified retrospective approach as required. We have

concluded that the adoption of this new standard will not have a material impact on our financial statements.

From time to time, new accounting pronouncements applicable to us are issued by the 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.

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

We assess the total carrying value for each of our investments on a quarterly basis for changes in circumstances or the occurrence of events that suggest our investment may not be recoverable. If an investment is considered impaired, we must determine whether the impairment is other than temporary. If it is determined to be other than temporary, the impairment must be recognized in our financial statements.

During 2017, 2016 and 2015, none of our critical accounting estimates, with the exception of the previously mentioned impairment loss on one of our long-term corporate bonds, 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 that would result in realized gains or losses being reflected in the consolidated statements of income because the payments from our international customers are received primarily in United States dollars.

However, 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 customers. Increases 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.

### *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 taxable corporate bonds and commercial paper and in certificates of deposit. 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. These securities have a higher degree of, and a greater exposure to, credit or default 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 and mutual funds. 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 Management's Discussion and Analysis and elsewhere in this Annual Report 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 revenues and pre-tax results in 2018 and thereafter, the results of our investments in research and development over the last five years,

our focus on maintaining a solid financial position and dedication to steady and sustainable growth, our 2018 effective tax rate, our 2018 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, the impact on our consolidated financial statement of recently issued accounting standards when we adopt those standards, and increases in 2018 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. The forward-looking statements in this Annual Report are made as of the date hereof, and we do not undertake any obligation, and disclaim any duty, to supplement, update or revise such statements, whether as a result of subsequent events, changed expectations or otherwise, except as required by applicable law.

## SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

	2017	2016	2015	2014	2013
<b>Operating Results for the Year ended December 31,</b>					
Revenues	\$ 146,595	\$ 143,487	\$ 145,733	\$ 140,762	\$ 131,993
Operating income	41,274	39,126	42,510	40,817	37,944
Net income	36,593	27,581	28,925	27,808	26,582
Depreciation and amortization	8,677	8,953	8,823	8,723	8,592
<b>Per Share Data:</b>					
Net income per diluted share	\$ 19.71	\$ 14.85	\$ 15.47	\$ 14.08	\$ 13.18
Cash dividends per common share	\$ 4.50	\$ 3.90	\$ 3.30	\$ 2.78	\$ 2.40
Average diluted shares outstanding	1,857	1,857	1,870	1,975	2,017
<b>Financial Position at December 31,</b>					
Total assets	\$ 203,780	\$ 181,942	\$ 164,336	\$ 171,514	\$ 172,066
Long-term debt	—	—	—	—	—

# Leadership

## Board of Directors

### Emile A Battat

Chairman of the Board  
Atrion Corporation

### Preston G. Athey

Private Investor  
Former Portfolio Manager,  
T. Rowe Price Small Cap Value Fund  
T. Rowe Price Associates, Inc.  
Baltimore, Maryland

### 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 2017 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

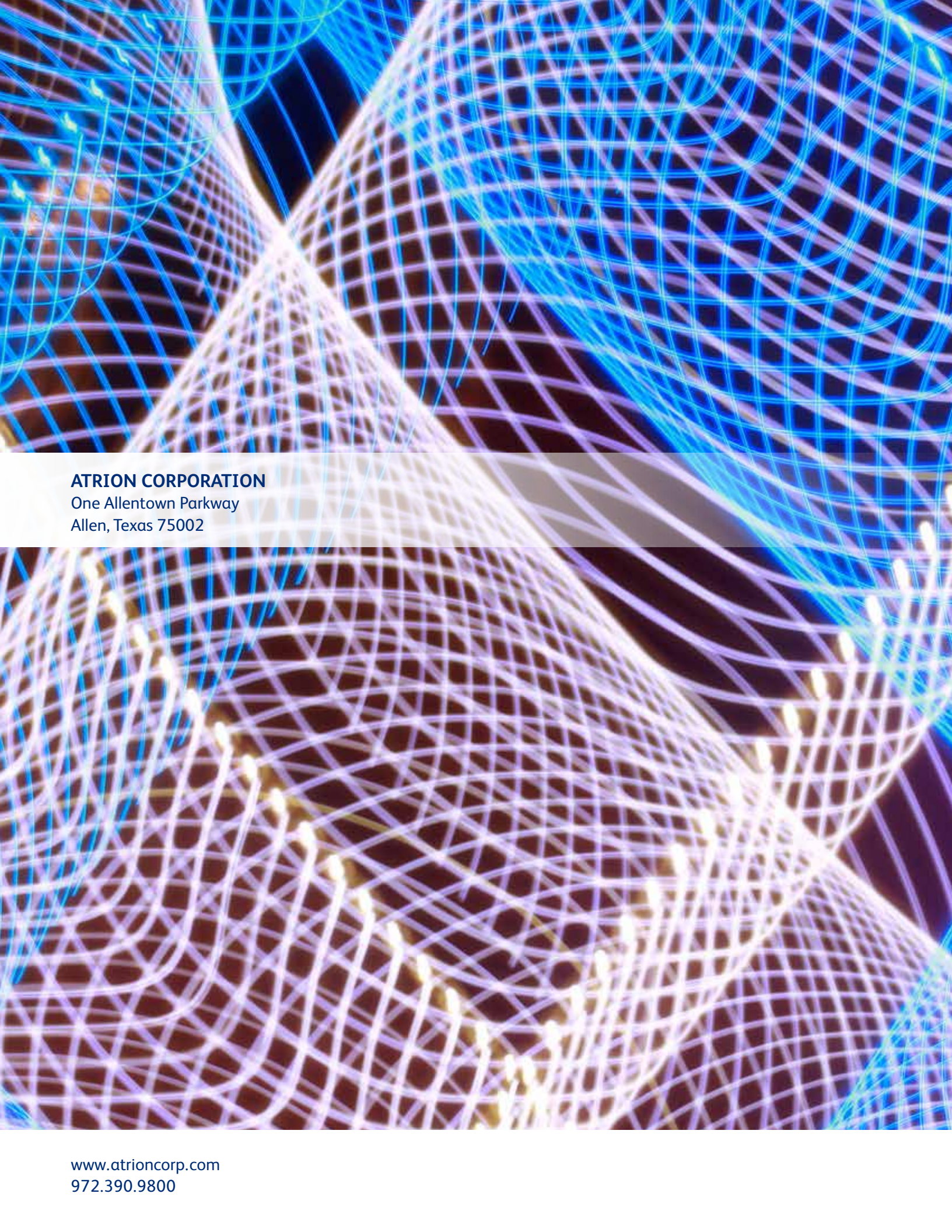
Atrion Corporation  
One Allentown Parkway  
Allen, Texas 75002

## Stock Information

The Company's common stock is traded on The Nasdaq Global Select Market (Symbol: ATRI). As of February 13, 2018, we had 126 record holders, and approximately 4,800 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 2016 and 2017.

2016 Quarter Ended	High	Low	Dividends
March 31	\$ 415.00	\$ 350.00	\$ 0.90
June 30	442.50	385.00	0.90
September 30	490.45	393.96	1.05
December 31	522.05	418.00	1.05
2017 Quarter Ended	High	Low	Dividends
March 31	\$ 512.10	\$ 454.10	\$ 1.05
June 30	688.95	459.50	1.05
September 30	691.95	605.70	1.20
December 31	694.00	612.10	1.20

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



**ATRION CORPORATION**  
One Allentown Parkway  
Allen, Texas 75002

[www.atrioncorp.com](http://www.atrioncorp.com)  
972.390.9800