Annual Report 2019

DISCOVERY ACCELERATION PERFORMANCE

Atrion

2019

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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.

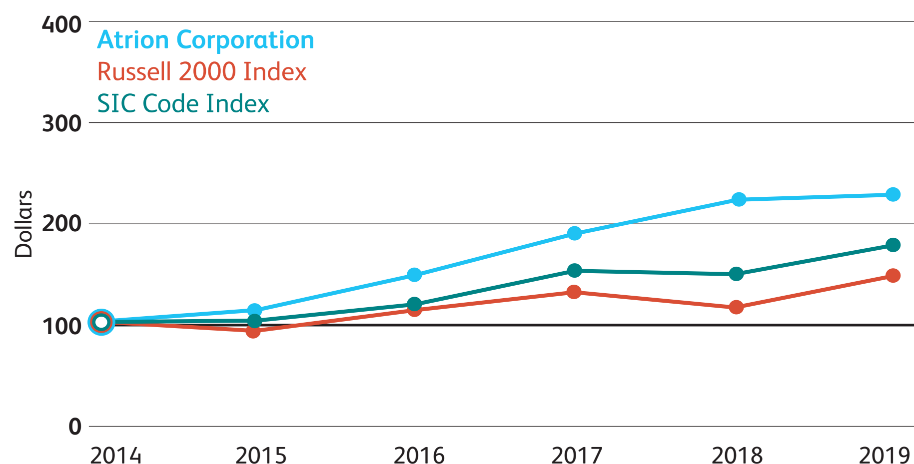
Financial Highlights

For the Year Ended December 31	2019	2018
Revenues	$ 155,066,000	$ 152,448,000
Operating Income	$ 40,529,000	$ 41,707,000
Net Income	$ 36,761,000	$ 34,255,000
Income per Diluted Share	$ 19.73	$ 18.44
Weighted Average Diluted Shares Outstanding	1,863,000	1,858,000

As of December 31	2019	2018
Total Assets	$ 262,031,000	$ 231,216,000
Cash and Investments	$ 100,586,000	$ 89,485,000
Long-term Debt	—	—
Stockholders' Equity	$ 237,870,000	$ 210,767,000

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, 2019 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, 2014 in our common stock, the Russell 2000 Index and the SIC Code Index and dividends were reinvested.

Company/Index	2014	2015	2016	2017	2018	2019
Atrion Corporation	$100.00	$113.10	$151.85	$190.25	$225.35	$230.21
Russell 2000 Index	$100.00	$95.59	$115.95	$132.94	$118.30	$148.49
SIC Code Index	$100.00	$106.07	$123.01	$154.51	$150.06	$179.58

To our stockholders,

It is my great pleasure to report to you on the progress we made in 2019, and to speak to strides we are focused on making in 2020.

Performance

In 2019, our earnings per share grew 7% to $19.73. We increased our dividend by 15%, the sixteenth consecutive year of double-digit increases. Our operating margin was an enviable 26%, reflecting the focus on operating efficiently and effectively. Sales were up slightly—just 2%, in part impacted by a nationwide shortage of contract sterilization capacity. Our cash and short- and long-term investments increased over 12% to $100.6 million at the end of the year, and we remained debt-free.

Discovery

Whether developing products to combat illness or to increase survivability in marine and aviation emergencies, exploration of new ideas, materials, and manufacturing techniques underlies our work.

The third generation of our Quest Myocardial Protection System (MPS 3) received regulatory clearance in Canada at the end of 2018, and a limited market release was conducted there in 2019. This console and its related disposables represent the most complex new product program in our history. This successful effort—ranging from writing millions of lines of software code to seamlessly integrating electrical and mechanical systems—has greatly expanded the capabilities of this uniquely powerful platform. We anticipate our MPS 3 receiving FDA clearance, and being introduced in the U.S., later this year. This introduction will further advance our status as the market leader in this clinical niche.

Central to this effort and the many others we undertake each and every year is an extremely talented team of experts in the sciences, engineering, manufacturing, and quality assurance, as well as support services and an incredible production team.

Acceleration

Our approach to growth is rooted in continuously investing in our people, products and new manufacturing technologies. Over the past year, the pace of new product development and launches increased—a trend that we expect to continue in the years ahead. We currently have over two dozen products in various stages of development. As they come to market, they will help us expand our market share. We also invested record amounts of capital in manufacturing technologies in both 2018 and 2019 to ensure the highest levels of quality and efficiency.

In 2019, we increased our focus on talent discovery, development, and management to shape our next generation of leadership, and we are continuing to focus on those aspects of our business this year.

These investments in people and products are aggressive, and they are key to solidifying the foundation of our work. However, at the same time we continue to manage the Company in the fiscally conservative manner that has guided our approach for years.

Appreciation

At the time of this writing, we are greatly concerned about the COVID-19 pandemic. To protect the health and safety of our employees, we are closely monitoring the guidance provided by the Centers for Disease Control and Prevention, and, at the same time, we are mindful of our special responsibility to supply hospitals with critical products that will be needed for various illnesses. Any breaks in the supply chain to hospitals will have profound implications for the critically ill. I do not know what tomorrow will bring, but I am extremely grateful for the courage and grace of my co-workers who are working with great dedication.

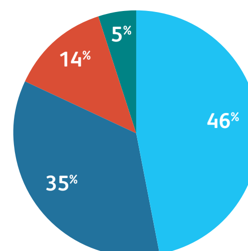
When we released our earnings for 2019, we predicted 2020 would bring high single-digit top line growth and low double-digit operating income growth. Whether the COVID-19 contagion will affect this outlook or the timing of regulatory approvals for new products is unclear at this time. Regardless of whether our results are impacted, at Atrion we focus on sustainable growth and responsible management. Our priority is to ensure the Company's growth over the long term, not just on achieving certain results for a specific calendar year.

I am grateful to you, our stockholders, for your continued support.

Respectfully,

David A. Battat
President and CEO

2019 REVENUES BY PRODUCT LINE



Fluid Delivery $ 72,117,000	**46%**
Cardiovascular $ 54,799,000	**35%**
Other $ 21,026,000	**14%**
Opthalmology $ 7,124,000	**5%**

ATRION CORPORATION CONSOLIDATED BALANCE SHEETS

As of December 31, 2019 and 2018

Assets:	2019	2018
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 45,048**	$ 58,753
Short-term investments	**23,766**	9,684
Accounts receivable, net of allowance for doubtful accounts of $36 and $21 in 2019 and 2018, respectively	**18,886**	17,014
Inventories	**42,093**	33,572
Prepaid expenses and other current assets	**2,545**	3,242
Total Current Assets	**132,338**	122,265
Long-term investments	**31,772**	21,048
Property, Plant and Equipment	**200,990**	181,582
Less accumulated depreciation	**116,384**	106,689
	84,606	74,893
Other Assets and Deferred Charges:		
Patents and licenses, net of accumulated amortization of $12,301 and $12,181 in 2019 and 2018, respectively	**1,539**	1,659
Goodwill	**9,730**	9,730
Other	**2,046**	1,621
	13,315	13,010
Total Assets	**$ 262,031**	$ 231,216

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

Liabilities and Stockholders' Equity:	2019	2018
	(in thousands)	
Current Liabilities:		
Accounts payable	**$ 5,707**	$ 5,082
Accrued liabilities	**5,148**	4,519
Accrued income and other taxes	**419**	619
Total Current Liabilities	**11,274**	10,220
Line of credit	**—**	—
Other Liabilities and Deferred Credits:		
Deferred income taxes	**8,496**	6,687
Other	**4,391**	3,542
	12,887	10,229
Total Liabilities	**24,161**	20,449
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value $.10 per share, authorized 10,000 shares, issued 3,420 shares	**342**	342
Additional paid-in capital	**52,043**	50,391
Accumulated other comprehensive loss	**—**	—
Retained earnings	**317,745**	291,761
Treasury shares, 1,565 shares in 2019 and 1,567 shares in 2018, at cost	**(132,260)**	(131,727)
Total Stockholders' Equity	**237,870**	210,767
Total Liabilities and Stockholders' Equity	**$ 262,031**	$ 231,216

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

ATRION CORPORATION CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2019, 2018 and 2017

	2019	2018	2017
	(in thousands, except per share amounts)		
Revenues	**$ 155,066**	$ 152,448	$ 146,595
Cost of Goods Sold	**84,378**	80,670	75,841
Gross Profit	**70,688**	71,778	70,754
Operating Expenses:			
Selling	**8,813**	8,341	7,251
General and administrative	**16,308**	16,217	16,430
Research and development	**5,038**	5,513	5,799
	30,159	30,071	29,480
Operating Income	**40,529**	41,707	41,274
Interest and Dividend Income	**2,487**	1,667	1,061
Other Investment Income (Loss)	**152**	(1,380)	4
Other Income (Expense), net	**—**	42	1
Income before Provision for Income Taxes	**43,168**	42,036	42,340
Provision for Income Taxes	**(6,407)**	(7,781)	(5,747)
Net Income	**$ 36,761**	$ 34,255	$ 36,593
Net Income Per Basic Share	**$ 19.82**	$ 18.49	$ 19.82
Weighted Average Basic Shares Outstanding	**1,855**	1,853	1,846
Net Income Per Diluted Share	**$ 19.73**	$ 18.44	$ 19.71
Weighted Average Diluted Shares Outstanding	**1,863**	1,858	1,857
Dividends Per Common Share	**$ 5.80**	$ 5.10	$ 4.50

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31, 2019, 2018 and 2017

	2019	2018	2017
		(in thousands)	
Net Income	**$ 36,761**	$ 34,255	$ 36,593
Other Comprehensive Loss, net of tax: Unrealized Loss on investments, net of tax benefits of $68 in 2017	**—**	—	(741)
Comprehensive Income	**$ 36,761**	$ 34,255	$ 35,852

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2019, 2018 and 2017

	2019	2018	2017
		(in thousands)	
Cash Flows From Operating Activities:			
Net income	**$ 36,761**	$ 34,255	$ 36,593
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**10,853**	9,123	8,677
Deferred income taxes	**1,809**	(625)	(1,374)
Stock-based compensation	**1,682**	1,659	1,602
Net change in unrealized gains and losses on investments	**(135)**	1,399	—
Net change in accrued interest, premiums, and discounts on investments	**(281)**	47	(195)
Other	**(6)**	(18)	49
	50,683	45,840	45,352
Changes in operating assets and liabilities:			
Accounts receivable	**(1,872)**	62	88
Inventories	**(8,521)**	(4,218)	(339)
Prepaid expenses and other current assets	**697**	(43)	(18)
Other non-current assets	**(425)**	(87)	75
Accounts payable and accrued liabilities	**1,254**	725	213
Accrued income and other taxes	**(200)**	(127)	336
Other non-current liabilities	**849**	1,084	1,330
	42,465	43,236	47,037
Cash Flows From Investing Activities:			
Property, plant and equipment additions	**(20,446)**	(17,507)	(9,677)
Purchase of investments	**(83,721)**	(28,472)	(69,193)
Proceeds from maturities of investments	**59,331**	40,898	58,000
	(44,836)	(5,081)	(20,870)
Cash Flows From Financing Activities:			
Shares tendered for employees' withholding taxes on stock-based compensation	**(579)**	(90)	(7,735)
Dividends paid	**(10,755)**	(9,448)	(8,318)
	(11,334)	(9,538)	(16,053)
Net change in cash and cash equivalents	**(13,705)**	28,617	10,114
Cash and cash equivalents, beginning of year	**58,753**	30,136	20,022
Cash and cash equivalents, end of year	**$ 45,048**	$ 58,753	$ 30,136
Cash paid for:			
Income taxes, net of refunds	**$ 4,178**	$ 9,858	$ 4,959
Non-cash financing activities:			
Non-cash effect of stock option exercises	**$ —**	$ —	$ 10,237

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

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2019, 2018 and 2017 (in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares Outstanding	Amount	Shares	Amount				
Balances, January 1, 2017	**1,824**	**$ 342**	**1,596**	**$ (114,274)**	**$ 37,448**	**($474)**	**$ 239,946**	**$ 162,988**
Net income							36,593	**36,593**
Other comprehensive income						(741)		**(741)**
Stock-based compensation transactions	61		(61)	583	11,282			**11,865**
Shares surrendered in stock transactions	(33)		33	(17,972)				**(17,972)**
Dividends							(8,345)	**(8,345)**
Balances, December 31, 2017	**1,852**	**342**	**1,568**	**(131,663)**	**48,730**	**(1,215)**	**268,194**	**184,388**
Net income							34,255	**34,255**
Reclass from adopting ASU 2016-01						1,215	(1,215)	**—**
Stock-based compensation transactions	1		(1)	26	1,661			**1,687**
Shares surrendered in stock transactions				(90)				**(90)**
Dividends							(9,473)	**(9,473)**
Balances, December 31, 2018	**1,853**	**342**	**1,567**	**(131,727)**	**50,391**	**0**	**291,761**	**210,767**
Net income							36,761	**36,761**
Stock-based compensation transactions	3		(3)	46	1,652			**1,698**
Shares surrendered in stock transactions	(1)		1	(579)				**(579)**
Dividends							(10,777)	**(10,777)**
Balances, December 31, 2019	**1,855**	**$ 342**	**1,565**	**$ (132,260)**	**$ 52,043**	**$ 0**	**$ 317,745**	**$ 237,870**

The accompanying notes are an integral part of this consolidated financial 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. Certain prior-year balances have been reclassified in order to conform to the current year presentation.

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 cash deposits in the bank as well as money market funds and debt securities with maturities at the time of purchase of 90 days or less. Cash deposits in the bank include amounts in operating accounts, savings accounts and money market accounts.

Our investments consist of corporate and government bonds, commercial paper, mutual funds 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 our available-for-sale and trading securities at fair value with changes in fair value recognized in other investment income (loss) in the Consolidated Statement of Income. Prior to our adoption of ASU 2016-01, *Financial Instruments-Overall, Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)* in January 2018, unrealized gains and losses for our available-for-sale securities were reported in stockholders' equity as accumulated other comprehensive income.

We consider as current assets 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, 2019 and 2018 are as follows (in thousands):

	December 31,	
	2019	**2018**
Cash and Cash Equivalents:		
Cash deposits	**$ 38,942**	$ 41,774
Money market funds	**3,460**	13,861
Commercial paper	**2,646**	3,118
Total cash and cash equivalents	**$ 45,048**	$ 58,753
Short-term investments:		
Commercial paper (held-to-maturity)	**$ 6,778**	$ 1,275
Bonds (held-to-maturity)	**$ 16,988**	$ 8,409
Total short-term investments	**$ 23,766**	$ 9,684
Long-term investments:		
Mutual funds (available for sale)	**$ 1,105**	$ 674
Bonds (held-to-maturity)	**27,845**	17,513
Equity securities (available for sale)	**2,822**	2,861
Total long-term investments	**$ 31,772**	$ 21,048
Total cash, cash equivalents and short and long-term investments	**$ 100,586**	$ 89,485

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. The allowance for doubtful accounts is updated periodically to reflect our estimate of collectability. 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,			
	2019		2018	
Raw materials	$	**18,157**	$	14,994
Work in process		**8,525**		7,214
Finished goods		**15,411**		11,364
Total inventories	$	**42,093**	$	33,572

Accounts Payable

We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2019 and 2018, disbursements totaling approximately $1,236,000 and $388,000, 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 basis 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 within "Other non-current liabilities" in the accompanying consolidated balance sheets. We classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision.

We account for excess tax benefits ("windfalls") and deficiencies ("shortfalls") related to employee stock compensation as required by ASU 2016-09, *Stock Compensation: Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), within income tax expense. 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.

During the years ended December 31, 2019 and 2018, we made quarterly payments in excess of federal income taxes due of approximately $4,000 and $1,180,000, respectively. These amounts were 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,				
	2019		2018		Useful Lives
Land	$	**5,511**	$	5,511	—
Buildings		**34,582**		32,719	30-40 yrs
Machinery and equipment		**160,897**		143,352	3-15 yrs
Total property, plant and equipment	$	**200,990**	$	181,582	

Depreciation expense of $10,733,000, $9,003,000 and $8,526,000 was recorded for the years ended December 31, 2019, 2018 and 2017, 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 of each year 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, 2019 and 2018 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,	
	2019	**2018**
Accrued payroll and related expenses	**$ 4,233**	$ 3,608
Accrued vacation	**311**	291
Other accrued liabilities	**604**	620
Total accrued liabilities	**$ 5,148**	$ 4,519

Revenues

We recognize revenue when obligations under the terms of a contract with our customer are satisfied. This occurs with the transfer of control of our products to customers when products are shipped. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products or services. Sales and other taxes we may collect concurrent with revenue-producing activities are excluded from revenue.

We believe that our medical device business will benefit in the long term from an aging world population along with an increase in life expectancy. In the near term however, demand for our products fluctuates based on our customers' requirements which are driven in large part by their customers' or patients' needs for medical care which does not always follow broad economic trends. This affects the nature, amount, timing and uncertainty of our revenue. Also, changes in the value of the United States dollar relative to foreign currencies could make our products more or less affordable and therefore affect our sales in international markets.

A summary of revenues by geographic area, based on shipping destination, for 2019, 2018 and 2017 is as follows (in thousands):

	Year ended December 31,		
	2019	**2018**	**2017**
United States	**$ 98,496**	$ 95,757	$ 93,082
Germany	**7,996**	8,898	8,172
Other countries less than 5% of revenues	**48,574**	47,793	45,341
Total	**$ 155,066**	$ 152,448	$ 146,595

A summary of revenues by product line for 2019, 2018 and 2017 is as follows (in thousands):

	Year ended December 31,		
	2019	**2018**	**2017**
Fluid Delivery	**$ 72,117**	$ 70,606	$ 65,053
Cardiovascular	**54,799**	50,904	48,073
Ophthalmology	**7,124**	10,473	13,537
Other	**21,026**	20,465	19,932
Total	**$ 155,066**	$ 152,448	$ 146,595

More than 99 percent of our total revenue in the periods presented herein is pursuant to shipments initiated by a purchase order. Under the guidance from Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606), the purchase order is the contract with the customer. As a result, the vast majority of our revenue is recognized at a single point in time when the performance obligation of the product being shipped is satisfied, rather than recognized over time, and presented as a receivable on the consolidated balance sheets.

Our payment terms vary by the type and location of our customers and the products or services offered. The term between invoicing and when payment is due is 30 days in most cases. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

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. We apply these same factors and more when evaluating certain aged receivables for collectability issues and to determine changes necessary to our allowance for doubtful accounts. If circumstances change, our estimates of the collectability of amounts could be changed by a material amount.

We have elected to recognize the cost for shipping as an expense in cost of sales when control over the product has transferred to the customer. Shipping and handling fees charged to customers are reported as revenue.

We do not make any material accruals for product returns and warranty obligations. Our manufactured products come with a standard warranty to be free from defect and, in the event of a defect, may be returned by the customer within a reasonable period of time. Historically, our returns have been unpredictable but very low due to our focus on quality control. A one-year warranty is provided with certain equipment sales but warranty claims and our accruals for these obligations have been minimal.

We expense sales commissions when incurred because the amortization period would be one year or less. These costs are recorded within selling expense.

Atrion has contracts in place with customers for equipment leases, equipment financing, and equipment and other services. These contracts represent less than 4 percent of our total revenue in all periods presented herein. A portion of these contracts contain multiple performance obligations including embedded leases. For such arrangements, we historically allocated revenue to each performance obligation which is capable of being distinct and accounted for as a separate performance obligation based on relative standalone selling prices. We generally determine standalone selling prices based on observable inputs, primarily the prices charged to customers.

Beginning July 1, 2018, for agreements with an embedded lease component, we adopted the practical expedient in ASU 2018-11 *Leases: Targeted Improvements* (ASU 2018-11) that allows us to treat these agreements as a single performance obligation and recognize revenue under ASC 606 rather than under the lease accounting guidelines, since the predominant component of revenue is the non-lease component.

Our fixed monthly equipment rentals to customers are accounted for as operating leases under ASU 2016-02, *Leases* (ASC 842). Fixed monthly rentals provide for a flat rental fee each month.

A limited number of our contracts have variable consideration including tiered pricing and rebates which we monitor closely for potential constraints on revenue. For these contracts we estimate our position quarterly using the most-likely-outcome method, including customer-provided forecasts and historical buying patterns, and we accrue for any asset or liability these arrangements may create. The effect of accruals for variable consideration on our consolidated financial statements is immaterial.

We do not disclose the value of unsatisfied performance obligations for contracts for which we recognize revenue at the amount which we have the right to invoice. We believe that the complexity added to our disclosures by the inclusion of a large amount of insignificant detail in attempting to disclose information under ASC 606 about immaterial contracts would potentially obscure more useful and important information.

Leases to Customers

The lease assets from our sales type leases are recorded in our accounts receivable in the accompanying consolidated balance sheets, and as of December 31, 2019 and 2018 the balance totaled $398,000 and $478,000, respectively.

Our equipment treated as leases to customers under ASC 842 is included in our Property, Plant and Equipment on our consolidated balance sheets. After our adoption of ASU 2018-11, the cost of the assets and associated depreciation that remain under lease agreements is immaterial. Due to the immaterial amount of revenue from our lessor activity, all other lessor disclosures under ASC 842 have been omitted.

Leased Property and Equipment

As a lessee, we have four leases in total for equipment and facilities used internally, which we account for as operating leases. At December 31, 2019, our right-of-use asset balance was $592,000 and our lease liability at December 31, 2019 for these leases was $567,000. The monthly expense of $26,000 for these operating leases, which are our only lessee arrangements, is immaterial and therefore all other lessee disclosures under ASC 842 have been omitted.

Research and Development Costs

Research and Development, or R&D, costs relating to the development of new products and improvements of existing products are expensed as incurred.

Stock-Based Compensation

We have a stock-based compensation plan 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 January 2016, the FASB issued ASU 2016-01. The main objective of this update is to enhance the reporting model for financial instruments in order to provide users of financial statements with more decision-useful information. Changes to the previous 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 for us relates to our available-for-sale equity investments and resulted in unrecognized gains and losses from our investments being reflected in our Consolidated Statement of Income beginning in 2018. We adopted ASU 2016-01 as of January 1, 2018, applying the update by means of a cumulative-effect adjustment to our consolidated balance sheets by reclassifying the balance of our Accumulated Other Comprehensive Loss in the stockholders' equity section of the consolidated balance sheets to Retained Earnings. The balance reclassified of $1,215,000 was a result of prior-period unrealized losses from our equity investment.

In 2019 we recorded a net unrealized gain of $135,000 as a result of a net increase in market value of our equity investments during the year. In 2018 we recorded a loss on our equity investments of $1,399,000 as a result of a decrease in the market value of these investments during the year. These

gains and losses are reflected in other investment income (loss) in our Consolidated Statement of Income.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. The ASU is effective for public entities for fiscal years beginning after December 15, 2019. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which provided additional implementation guidance on the previously issued ASU. Management has reviewed the guidance, performed an assessment of this guidance and expects the outcome of adoption of this standard to be immaterial to the 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, 2019 and 2018, we held investments in commercial paper, bonds, money market funds, mutual funds and equity securities that are required to be measured for disclosure purposes at fair value on a recurring basis. The fair values of these investments and their tier levels are shown in Note 2 below.

The carrying values of our other financial instruments including cash and cash equivalents, 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 deposits 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, 2019, approximately 98 percent of our cash deposits 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 money market funds, bonds and commercial paper. 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 as compared with cash deposits.

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, 2019 and 2018, we had allowances for doubtful accounts of approximately $36,000 and $21,000, respectively. The carrying amount of the receivables approximates their fair value. We had one customer, which accounted for 12% of our accounts receivable as of December 31, 2019, and no customer exceeded 10% of our accounts receivable as of December 31, 2018.

(2) Investments

As of December 31, 2019 and 2018, we held investments in commercial paper, bonds, money market funds, mutual funds and equity securities that are required to be measured for disclosure purposes at fair value on a recurring basis. The commercial paper and bonds are considered held-to-maturity and are recorded at amortized cost in the accompanying consolidated balance sheets. The money market funds, equity securities and mutual funds are recorded at fair value in the accompanying consolidated balance sheets. These investments are considered Level 1 or Level 2 as detailed in the table below. We consider as current assets those investments which will mature in the next 12 months including interest receivable on the long-term bonds. The remaining investments are considered non-current assets including our investment in equity securities we intend to hold longer than 12 months. The fair values of these investments were estimated using recently executed transactions and market price quotations.

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 Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2019					
Money market funds	1	$ 3,460	$ —	$ —	$ 3,460
Commercial paper	2	$ 9,424	$ 2	$ —	$ 9,426
Bonds	2	$ 44,833	$ 138	$ (19)	$ 44,952
Mutual funds	1	$ 1,052	$ 53	$ —	$ 1,105
Equity investments	2	$ 5,675	$ —	$ (2,853)	$ 2,822
As of December 31, 2018					
Money market funds	1	$ 13,861	$ —	$ —	$ 13,861
Commercial paper	2	$ 4,393	$ —	$ —	$ 4,393
Bonds	2	$ 25,922	$ —	$ (211)	$ 25,711
Mutual funds	1	$ 795	$ —	$ (121)	$ 674
Equity investments	2	$ 5,675	$ —	$ (2,814)	$ 2,861

The above equity investments represent an investment in one company at December 31, 2019 and is classified as available for sale. 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 our bonds is attributable to a rise in interest rates which resulted in a lower market price for those securities. As of December 31, 2019 we had no bond investments in a loss position for more than 12 months.

At December 31, 2019, the length of time until maturity of the bonds we currently own ranged from one to 58 months and the length of time until maturity of the commercial paper ranged from one to seven months.

(3) Patents and Licenses

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

December 31, 2019		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	$ 13,840	$ 12,301

December 31, 2018		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	$ 13,840	$ 12,181

Aggregate amortization expense for patents and licenses was $119,000 for both 2019 and 2018. Estimated future amortization expense for each of the years set forth below ending December 31 is as follows (in thousands):

2020	$119
2021	$119
2022	$117
2023	$113
2024	$113

(4) Line of Credit

As of December 31, 2019 and 2018, 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. 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 0.875 percent (2.64 percent at December 31, 2019) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2019 or December 31, 2018. 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, 2019, 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,		
		2019	2018	2017
Current	— Federal	$ 3,508	$ 6,405	$ 6,244
	— State	1,090	2,001	877
		4,598	8,406	7,121
Deferred	— Federal	1,660	(626)	(1,542)
	— State	149	1	168
		1,809	(625)	(1,374)
Provision for Income Taxes		$ 6,407	$ 7,781	$ 5,747

Temporary differences and carryforwards which have given rise to deferred tax liabilities as of December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Deferred tax liabilities (assets):		
Property, plant and equipment	$ 9,697	$ 7,540
Patents and goodwill	1,756	1,742
Benefit plans	(2,131)	(1,847)
Inventories	(350)	(367)
Capital loss carryover	(556)	(572)
Other	(513)	(418)
	7,903	6,078
Plus: Valuation allowance	593	609
Total deferred tax liabilities	$ 8,496	$ 6,687

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,		
	2019	2018	2017
Income tax expense at the statutory federal income tax rate	$ 9,065	$ 8,828	$ 14,819
Increase (decrease) resulting from:			
State income taxes	978	1,572	662
Section 199 manufacturing deduction	—	—	(630)
R&D tax credits	(1,470)	(1,212)	(983)
Foreign-derived intangible income deduction	(1,700)	(1,000)	—
Excess tax benefit from stock compensation	(412)	(95)	(5,782)
Impact from tax law rate change	—	—	(4,053)
Change in valuation allowance	(16)	—	609
Uncertain tax positions	(42)	(373)	865
Other, net	4	61	240
Provision for Income Taxes	$ 6,407	$ 7,781	$ 5,747

The Tax Cuts and Jobs Act of 2017, or Tax Act, enacted in December 2017, reduced the corporate federal income tax rate in the United States from 35 percent to 21 percent 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 year ended December 31, 2017. Also, in 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 in 2017 as a result of the Tax Act. The Tax Act also ended the domestic production activities deduction under Section 199 which previously helped lower our effective tax rate by three percentage points in 2017. The Tax Act added a new deduction starting in 2018 for foreign-derived intangible income under Section 250 which created a tax benefit for us of $1.7 million in 2019 and $1.0 million in 2018.

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, 2017	$ —
Decrease in tax positions for prior years	865
Increase in tax positions for current year	—
Lapse in statutes of limitation	—
Gross unrecognized tax benefits at December 31, 2017	$ 865
Decrease in tax positions for prior years	25
Increase in tax positions for current year	—
Lapse in statutes of limitation	(397)
Gross unrecognized tax benefits at December 31, 2018	$ 493
Decrease in tax positions for prior years	19
Increase in tax positions for current year	—
Lapse in statutes of limitation	(62)
Gross unrecognized tax benefits at December 31, 2019	$ 450

As of December 31, 2019, 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, as well as all material state and local income tax matters, for years through 2015.

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 $20,000, $19,000 and $1,000 at December 31, 2019, 2018 and 2017, respectively. Tax expense for the years ended December 31, 2019, 2018 and 2017 included a net interest charge of $16,000, $18,000 and $1,000, respectively.

(6) Stockholders' Equity

Our Board of Directors has at various times authorized repurchases of our stock in open-market or privately-negotiated transactions at such times and at such prices as management may from time to time determine. On May 21, 2015, our Board of Directors adopted a 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, 2019, there remained 231,765 shares available for repurchase under this program. There were no stock repurchases during 2019 and 2018.

We increased our quarterly cash dividend payments in September of each of the past three years. The quarterly dividend was increased to $1.20 per share in September 2017, to $1.35 per share in September 2018 and to $1.55 per share in September 2019. Holders of our stock units earned non-cash dividend equivalents of $22,000 in 2019, $25,000 in 2018 and $27,000 in 2017.

(7) Income Per Share

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

	Year ended December 31,		
	2019	2018	2017
	(in thousands, except per share amounts)		
Net Income	**$ 36,761**	$ 34,255	$ 36,593
Weighted average basic shares outstanding	**1,855**	1,853	1,846
Add: Effect of dilutive securities	**8**	5	11
Weighted average diluted shares outstanding	**1,863**	1,858	1,857
Net Income Per Share			
Basic	**$ 19.82**	$ 18.49	$ 19.82
Diluted	**$ 19.73**	$ 18.44	$ 19.71

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 7 and148 shares of common stock for the year ended December 31, 2019 and 2017, respectively, 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 2018.

(8) Stock Plans

At December 31, 2019, we had one stock-based compensation plan that is described below. We account for our plan 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, 2019, there remained 21,858 shares reserved for future stock-based awards under the 2006 Plan.

A summary of stock option transactions for the year ended December 31, 2019, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2018	20,000	$ 501.03	3.3 years
Granted	—	—	
Exercised	—	—	
Outstanding at December 31, 2019	20,000	$ 501.03	2.3 years
Exercisable at December 31, 2019	8,000	$ 501.03	2.3 years

All nonvested options outstanding at December 31, 2019 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 2019 and 2018. 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:

	2019	2018	2017
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 outstanding at December 31, 2019, was $5.0 million. The total intrinsic value of exercisable options at December 31, 2019, was $2.0 million.

There were no restricted stock grants during 2019 and 2018. 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, 2019, is presented below:

Nonvested Shares	Shares	Weighted Average Award Date Fair Value Per Share
Restricted stock at December 31, 2018	4,720	$ 445.47
Granted in 2019	—	—
Vested in 2019	(1,180)	$ 445.47
Restricted stock at December 31, 2019	3,540	$ 445.47

All shares of nonvested restricted stock outstanding at December 31, 2019 are expected to vest. The total fair value of restricted stock vested during 2019, 2018 and 2017 was $994,000, $699,000 and $803,000, respectively.

During 2019, 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 2019, 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, 2019, 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, 2018	5,168	$ 450.25	—	
Granted	1,046	$ 765.92	9	$ 761.76
Forfeited	(151)	$ 596.18	—	
Vested	(2,462)	$ 322.48	(9)	$ 761.76
Nonvested at December 31, 2019	3,601	$ 623.19	—	

All nonvested restricted stock units at December 31, 2019 are expected to vest. The total intrinsic value of all outstanding stock units which were not convertible at December 31, 2019, including 487 stock units held for the accounts of non-employee directors, was $3,072,000. The total fair value of directors' stock units that vested during 2019, 2018 and 2017 was $7,000, $6,000 and $6,000, respectively.

The total value of stock awards to nonemployee directors awarded under the 2006 Plan was $240,000, $240,000 and $312,000 in 2019, 2018 and 2017, respectively. These awards

vested immediately at the time of the grants. 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, 2019, 2018 and 2017, we recorded stock-based compensation expense as a G&A expense in the amount of $1,682,000, $1,659,000 and $1,602,000, 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, 2019, 2018 and 2017 was $765,000, $441,000 and $6,342,000, respectively. These amounts include excess tax benefits in each year.

Unrecognized compensation cost information for our various stock-based compensation types is shown below as of December 31, 2019:

	Unrecognized Compensation Cost	Weighted Average Remaining Years in Amortization Period
Stock options	$ 1,203,000	2.3
Restricted stock	1,213,000	2.3
Restricted stock units	1,446,000	3.7
Total	$ 3,862,000	

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 36 percent of our net revenues in 2019 and 37 percent of our net revenues in each of 2018 and 2017. We have no assets located outside the United States.

(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 $845,000, $752,000 and $720,000 in 2019, 2018 and 2017, respectively.

We 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 these deemed investments. Our deferred compensation obligation under the plan was $3,266,000 and $1,774,000 at December 31, 2019 and 2018, respectively. These amounts are 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, 2019, we 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 $2.5 million in potential future payments under this settlement as of December 31, 2019 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, 2019, could have resulted in payments aggregating $4.9 million.

At December 31, 2019, the Company had purchase obligations totaling $29.7 million with certain suppliers to purchase inventory for 2020 to be used in the production of the Company's products. At December 31, 2019, the Company had lease obligations totaling $299,000 with certain lessors for equipment and facilities for 2020.

(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)				
3/31/19	$ 41,614	$ 11,037	$ 9,438	$ 5.09	$ 5.07
6/30/19	40,103	10,966	9,664	5.21	5.18
9/30/19	38,883	10,450	9,595	5.17	5.15
12/31/19	34,466	8,075	8,064	4.35	4.33
3/31/18	$ 39,401	$ 11,366	$ 8,487	$ 4.58	$ 4.57
6/30/18	38,847	11,266	8,797	4.75	4.74
9/30/18	39,274	10,757	9,221	4.98	4.96
12/31/18	34,926	8,318	7,749	4.18	4.17

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Atrion Corporation

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 2, 2020 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.

Critical audit matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

Grant Thornton LLP
We have served as the Company's auditor since 2002
Dallas, Texas
March 2, 2020

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, 2019 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, 2019, 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, 2019, 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, 2019, 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 of the Company as of and for the year ended December 31, 2019, and our report dated March 2, 2020 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
Dallas, Texas
March 2, 2020

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 2019, approximately 36 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, 2019, we reported revenues of $155.1 million, operating income of $40.5 million and net income of $36.8 million.

Results of Operations

Our net income was $36.8 million, or $19.82 per basic and $19.73 per diluted share, in 2019 compared to $34.3 million, or $18.49 per basic and $18.44 per diluted share in 2018. Revenues were $155.1 million in 2019 compared with $152.5 million in 2018.

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

	2019	2018
Fluid Delivery	**$ 72,117**	$ 70,606
Cardiovascular	**54,799**	50,904
Ophthalmology	**7,124**	10,473
Other	**21,026**	20,465
Total	**$ 155,066**	$ 152,448

Consolidated revenues of $155 million in 2019 were 2 percent higher than revenues in 2018. This increase was primarily related to increased volumes in 2019. In the third quarter of 2019, the United States Food and Drug Administration, or FDA, issued a caution concerning a nationwide shortage of medical devices due to issues with contract sterilizers. Specifically, two significant contract sterilization facilities utilized by many medical device companies were shut down because of environmental concerns - one permanently and one temporarily. This loss of sterilization capacity caused significant delays at the country's remaining sterilization facilities. Due to this loss of capacity, we experienced delays in some of our sales during the third and fourth quarters of 2019. The sterilization capacity shortage affecting our products was resolved in early 2020 as we were able to validate the use of a new sterilization facility. We anticipate most of the sales that were delayed in 2019 will be completed and products shipped by the end of the second quarter of 2020.

Our cost of goods sold was $84.4 million in 2019 compared with $80.7 million in 2018. Increased sales volumes and increased manufacturing overhead expenses partially offset by favorable product sales mix, improved manufacturing efficiencies and the impact of continued cost improvement projects were the primary contributors to the increase in cost of goods sold in 2019 compared to 2018.

Gross profit in 2019 was $70.7 million compared with $71.8 million in 2018. Our gross profit was 46 percent of revenues in 2019 compared with 47 percent of revenues in 2018. The decrease in gross profit percentage in 2019 from 2018 was primarily related to an increase in manufacturing overhead expenses.

Operating expenses were $30.2 million in 2019 and $30.1 million in 2018. R&D expenses decreased $475,000 in 2019 as compared with 2018 primarily as a result of decreased costs in supplies and outside services. 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 2019, selling expenses increased $472,000 compared with 2018 primarily as a result of increased salaries and commissions partially offset by reduced travel costs and outside services. 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 $91,000 in 2019 as compared to 2018 primarily as a result of increased computer hardware and software costs. G&A expenses consist primarily of salaries and other related expenses of administrative, executive and financial personnel and outside professional fees.

Our operating income for 2019 was $40.5 million compared with $41.7 million in 2018. Operating income was 26 percent of revenues in 2019 and 27 percent of revenues in 2018. A decrease in 2019 gross profit primarily attributed to increased manufacturing overhead costs and delays in shipments due to third-party sterilization capacity issues adversely affected operating income for 2019 as compared to the previous year.

Interest and Dividend income for 2019 was $2.5 million compared with $1.7 million in 2018. Increased levels of investments, increased interest rates and increased dividends on our equity investments were the primary reasons for the increase in 2019 compared to 2018.

Other Investment Income was $0.2 million in 2019 compared to $1.4 million loss in 2018. The improvement from 2018 to 2019 was primarily related to unrealized gains on equity investments as a result of an increase in market value on the investments. In 2018, our equity investments had a decline in market value.

Income tax expense in 2019 totaled $6.4 million compared with $7.8 million in 2018. The effective tax rates were 14.8 percent in 2019 and 18.5 percent in 2018. The lower effective tax rate in 2019 was primarily related to increased tax benefits from foreign-derived intangible income deduction, R&D tax credits, excess tax benefits related to employee stock compensation and lower state income taxes. We expect our effective tax rate for 2020 to be approximately 18.0 percent.

For information on the Company's results of operations for the fiscal year ended December 31, 2017 and a comparison of that information to that for the year ended December 31, 2018, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual report for the year ended December 31, 2018, which was filed with the U.S. Securities and Exchange Commission on February 26, 2019.

Liquidity and Capital Resources

As of December 31, 2019, 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. The credit facility is secured by substantially all of 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 0.875 percent (2.64 percent at December 31, 2019) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2019 or December 31, 2018. 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, 2019, we were in compliance with all of these covenants.

At December 31, 2019, we had a total of $100.6 million in cash and cash equivalents, short-term investments and long-term investments, an increase of $11.1 million from December 31, 2018. The principal contributor to this increase was positive cash flows from operations.

Cash flows provided by operations of $42.5 million in 2019 were primarily comprised of net income plus the net effect of non-cash expenses. At December 31, 2019, we had working capital of $121.1 million, including $45.0 million in cash and cash equivalents and $23.8 million in short-term investments. The $9.0 million increase in working capital during 2019 was primarily related to increases in short-term investments and inventories partially offset by decreases in cash and cash equivalents. The net increase in short-term investments was primarily in bonds and commercial paper. The increase in inventories was primarily related to delays in shipments to customers due to the sterilization capacity issue from the shutdown of two of our contract sterilization facilities and the replenishment of inventories to levels required for operational effectiveness. 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 $20.4 million in 2019, compared with $17.5 million in 2018. These expenditures were primarily for machinery and equipment. Purchases of investments totaled $83.7 million in 2019, compared to $28.5 million in 2018. Proceeds from maturities of investments totaled $59.3 million in 2019 and $40.9 million in 2018. We expect 2020 capital expenditures, primarily machinery and equipment, to be greater than the average amounts expended during each of the past three years.

We paid cash dividends totaling $10.8 million and $9.5 million during 2019 and 2018, respectively. We expect to fund future

dividend payments with cash flows from operations. No treasury stock was purchased in 2019 or 2018.

The table below summarizes debt, lease and other contractual obligations outstanding at December 31, 2019:

Payments Due by Period					
Contractual Obligations	Total	2020	2021-2022	2023-2024	2025 and thereafter
(in thousands)					
Lease Obligations	$ 567	$ 299	$ 268	$ —	$ —
Purchase Obligations	$ 30,004	$ 29,691	$ 280	$ 33	$ —
Total	$ 30,571	$ 29,990	$ 548	$ 33	$ —

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, to continue increasing in 2020.

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 January 2016, the FASB issued ASU 2016-01 *Financial Instruments – Overall Recognition and Measurement of Financial Assets and Financial Liabilities*. The main objective of this update is to enhance the reporting model for financial instruments in order to provide users of financial statements with more decision-useful information. Changes to the previous 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 for us relates to our available-for-sale equity investments and resulted in unrecognized gains and losses from our investments being reflected in our Consolidated Statement of Income beginning in 2018. We adopted ASU 2016-01 as of January 1, 2018, applying the update by means of a cumulative-effect adjustment to our consolidated balance sheets by reclassifying the balance of our Accumulated Other Comprehensive Loss in the stockholders' equity section of the consolidated balance sheets to Retained Earnings. The balance reclassified of $1,215,000 was a result of prior-period unrealized losses from our equity investments.

In 2019, we recorded a net unrealized gain of $135,000 as a result of a net increase in market value of our equity investments during the year. In 2018 we recorded a loss on our equity investments of $1,399,000 as a result of a decrease in the market value of these investments during the year. These gains and losses are reflected in other investment income (loss) in our Consolidated Statements of Income.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. The ASU is effective for public entities for fiscal years beginning after December 15, 2019. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which provided additional implementation guidance on the previously issued ASU. Management has reviewed the guidance, performed an assessment of this guidance and expects the outcome of adoption of this standard to be immaterial to the 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 we determine the receivable will not be collected. If circumstances change, our estimates of the collectability of amounts could be changed by a material amount.

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

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

We assess goodwill for impairment pursuant to Accounting Standards Codification, or ASC 350, *Intangibles—Goodwill and Other*, which requires that goodwill be assessed 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.

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories are carried as standard cost, which approximates actual cost, and includes material, labor and allocated overhead. Standard costs are reviewed at least quarterly by management, or more often in the event circumstances indicate a change in cost has occurred. Adjustments to the cost basis of our inventory are made for excess and obsolete items based on usage, orders and technological obsolescence.

During 2019, 2018 and 2017, none of our critical accounting estimates required significant adjustments. We did not note any material events or changes in circumstances indicating that the carrying value of long-lived assets were not recoverable.

Quantitative and Qualitative Disclosures About Market Risks

Foreign Exchange Risk

We are not exposed to material fluctuations in currency exchange rates 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 competitors. 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

Our cash deposits 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 money market funds, bonds and commercial paper. 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 as compared with cash deposits. We have also invested a portion of our available funds in equity securities 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 the following: the timing of FDA clearance for our MPS 3 and its introduction in the U.S.; the pace of new product development and launches; expansion of market share as products come to market; focus on talent discovery, development and management; the timing of the completion of sales and deliveries of products that were delayed due to a shortage in third-party sterilization capacity; our effective tax rate for 2020; our 2020 capital expenditures; funding future dividend payments with cash flows from operations; the 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 2020 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 or a pandemic; 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)

	2019	2018	2017	2016	2015
Operating Results for the Year ended December 31,					
Revenues	**$ 155,066**	$ 152,448	$ 146,595	$ 143,487	$ 145,733
Operating income	**40,529**	41,707	41,274	39,126	42,510
Net income	**36,761**	34,255	36,593	27,581	28,925
Depreciation and amortization	**10,853**	9,123	8,677	8,953	8,823
Per Share Data:					
Net income per diluted share	**$ 19.73**	$ 18.44	$ 19.71	$ 14.85	$ 15.47
Cash dividends per common share	**$ 5.80**	$ 5.10	$ 4.50	$ 3.90	$ 3.30
Average diluted shares outstanding	**1,863**	1,858	1,857	1,857	1,870
Financial Position at December 31,					
Total assets	**$ 262,031**	$ 231,216	$ 203,780	$ 181,942	$ 164,336
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
Morganton, North Carolina

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

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 2019 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 14, 2020, we had 109 record holders, and approximately 8,200 beneficial owners, of our common stock.

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

ATRION CORPORATION

One Allentown Parkway
Allen, Texas 75002

www.atrioncorp.com
972.390.9800

DISCOVERY ACCELERATION PERFORMANCE

Atrion