

A focus on what's essential



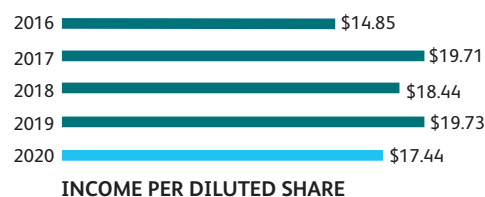
# 2020 Contents

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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.*

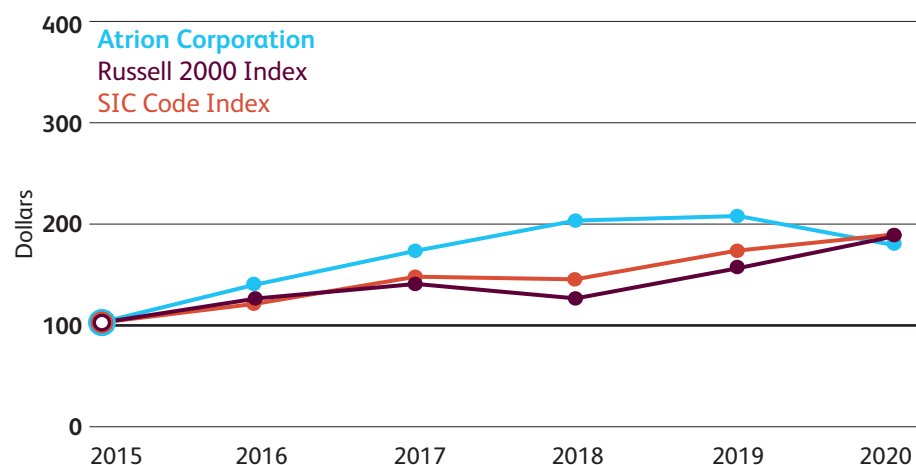
## Financial Highlights

For the Year Ended December 31	2020	2019	As of December 31	2020	2019
Revenues	\$ 147,591,000	\$ 155,066,000	Total Assets	\$ 266,890,000	\$ 262,031,000
Operating Income	\$ 35,668,000	\$ 40,529,000	Cash and Investments	\$ 87,915,000	\$ 100,586,000
Net Income	\$ 32,115,000	\$ 36,761,000	Long-term Debt	—	—
Income per Diluted Share	\$ 17.44	\$ 19.73	Stockholders' Equity	\$ 240,442,000	\$ 237,870,000
Weighted Average Diluted Shares Outstanding	1,841,000	1,863,000			



## 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, 2020 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, 2015 in our common stock, the Russell 2000 Index and the SIC Code Index and dividends were reinvested.

Company/Index	2015	2016	2017	2018	2019	2020
Atrion Corporation	\$100.00	\$134.26	\$168.21	\$199.25	\$203.54	\$175.78
Russell 2000 Index	\$100.00	\$121.31	\$139.08	\$123.76	\$155.35	\$186.36
SIC Code Index	\$100.00	\$116.43	\$144.67	\$140.90	\$169.11	\$184.59

## To our stockholders,

2020 was a year in which the true meaning of *essential* became apparent. What's essential is the philosophy that guides us: a relentless focus on building a business to withstand any storm. And what's essential is the resolute purpose and commitment of our people.

Last year, our employees were legally designated as essential to fighting the pandemic. This was just the law recognizing what I've always known about my co-workers. Despite the fear, despite the need to care for loved ones and to supervise remote learning for their kids, our people made sure that our facilities in Alabama, Florida, and Texas kept frontline healthcare workers supplied with our products. For example, we have always made a critical component for ventilators. As the government called for the production of 50,000 ventilators in 90 days, our teams rose to this enormous challenge. Work cells were redesigned, equipment was retooled, and a massive logistics effort was launched. Similarly, as hospitals pleaded for personal protective equipment, a group of employees came to work over a weekend, purchased the appropriate equipment and taught themselves how to make face shields. In less than two weeks, thousands of face shields were made, all of which were donated to hospitals and first responders. This is the quiet, but critical, dedication of my co-workers.

Our work was supported by a business foundation built long before the pandemic. Just as we weathered the worst financial crisis since the Great Depression back in 2008, we withstood the devastation of 2020 with no debt and plenty of cash and other liquid investments. This is not to say the year was an easy one. There was heavy demand for our critical care products, but our portfolio also includes a number of products used in surgeries that were deferred as hospitals reserved beds for COVID-19 patients and individuals postponed procedures, opting to remain in quarantine at home. At the same time, our aviation component business also saw deep declines as air travel declined dramatically.

While sales slowed, our pace of investing in our future growth did not. Because the core of our business approach is sensible investment in both proven and new product lines, R&D spending increased, as did investments in equipment to enhance our quality, capacity, and efficiency. In fact, 2020 saw record levels of capital investment. Confident in our future growth, we began the process of substantially expanding one of our facilities. We also further refined our unparalleled MPS 3 technology, receiving FDA clearance to launch two different models in 2020. The expansion of our MPS platform will position us to stay ahead of the market and meet future demand.

Finally, for 17 years in a row, our stockholders were rewarded with a double-digit percentage increase in dividends.

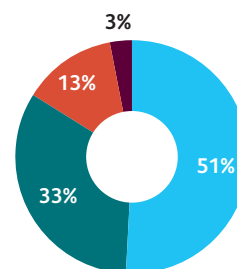
I'm exceedingly proud of the kindness and dedication of our people. I equally appreciate your continued belief in how we execute on our business philosophy.

Respectfully,

*David Battat*

David A. Battat  
President and CEO

## 2020 REVENUES BY PRODUCT LINE



<b>Fluid Delivery</b>	<b>51%</b>
\$ 75,228,000	
<b>Cardiovascular</b>	<b>33%</b>
\$ 48,524,000	
<b>Other</b>	<b>13%</b>
\$ 19,139,000	
<b>Ophthalmology</b>	<b>3%</b>
\$ 4,700,000	

# ATRION CORPORATION CONSOLIDATED BALANCE SHEETS

As of December 31, 2020 and 2019

Assets:	2020	2019
	(in thousands)	
Current Assets:		
Cash and cash equivalents	\$ 22,450	\$ 45,048
Short-term investments	19,258	23,766
Accounts receivable, net of allowance for doubtful accounts of \$41 and \$36 in 2020 and 2019, respectively	16,445	18,886
Inventories	50,298	42,093
Prepaid expenses and other current assets	3,868	2,545
Total Current Assets	112,319	132,338
Long-term investments	46,207	31,772
Property, Plant and Equipment	218,912	200,990
Less accumulated depreciation	123,977	116,384
	94,935	84,606
Other Assets and Deferred Charges:		
Patents and licenses, net of accumulated amortization of \$12,419 and \$12,301 in 2020 and 2019, respectively	1,421	1,539
Goodwill	9,730	9,730
Other	2,278	2,046
	13,429	13,315
Total Assets	\$ 266,890	\$ 262,031

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

Liabilities and Stockholders' Equity:	2020	2019
	(in thousands)	
Current Liabilities:		
Accounts payable	\$ 6,635	\$ 5,707
Accrued liabilities	6,565	5,148
Accrued income and other taxes	436	419
Total Current Liabilities	<b>13,636</b>	11,274
Line of credit	—	—
Other Liabilities and Deferred Credits:		
Deferred income taxes	10,768	8,496
Other	2,044	4,391
Total Liabilities	<b>12,812</b>	12,887
Total Liabilities	<b>26,448</b>	24,161
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	53,527	52,043
Retained earnings	337,700	317,745
Treasury shares, 1,594 shares in 2020 and 1,565 shares in 2019, at cost	(151,127)	(132,260)
Total Stockholders' Equity	<b>240,442</b>	237,870
Total Liabilities and Stockholders' Equity	<b>\$ 266,890</b>	\$ 262,031

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

# ATRION CORPORATION CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2020, 2019 and 2018

	2020	2019	2018
	(in thousands, except per share amounts)		
Revenues	\$ 147,591	\$ 155,066	\$ 152,448
Cost of Goods Sold	81,428	84,378	80,670
Gross Profit	66,163	70,688	71,778
Operating Expenses:			
Selling	7,520	8,813	8,341
General and administrative	17,330	16,308	16,217
Research and development	5,645	5,038	5,513
	30,495	30,159	30,071
Operating Income	35,668	40,529	41,707
Interest and Dividend Income	1,444	2,487	1,667
Other Investment Income (Loss)	1,355	152	(1,380)
Other Income	—	—	42
Income before Provision for Income Taxes	38,467	43,168	42,036
Provision for Income Taxes	(6,352)	(6,407)	(7,781)
Net Income	\$ 32,115	\$ 36,761	\$ 34,255
Net Income Per Basic Share	\$ 17.49	\$ 19.82	\$ 18.49
Weighted Average Basic Shares Outstanding	1,836	1,855	1,853
Net Income Per Diluted Share	\$ 17.44	\$ 19.73	\$ 18.44
Weighted Average Diluted Shares Outstanding	1,841	1,863	1,858
Dividends Per Common Share	\$ 6.60	\$ 5.80	\$ 5.10

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



# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2020, 2019 and 2018

	2020	2019	2018
	(in thousands)		
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 32,115	\$ 36,761	\$ 34,255
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,652	10,853	9,123
Deferred income taxes	2,282	1,809	(625)
Stock-based compensation	1,731	1,682	1,659
Net change in unrealized gains and losses on investments	(1,093)	(135)	1,399
Net change in accrued interest, premiums, and discounts on investments	112	(281)	47
Other	21	(6)	(18)
	<b>46,820</b>	<b>50,683</b>	<b>45,840</b>
Changes in operating assets and liabilities:			
Accounts receivable	2,438	(1,872)	62
Inventories	(8,205)	(8,521)	(4,218)
Prepaid expenses and other current assets	(1,323)	697	(43)
Other non-current assets	(275)	(425)	(87)
Accounts payable and accrued liabilities	2,095	1,254	725
Accrued income and other taxes	17	(200)	(127)
Other non-current liabilities	(2,347)	849	1,084
	<b>38,970</b>	<b>42,465</b>	<b>43,236</b>
<b>Cash Flows From Investing Activities:</b>			
Property, plant and equipment additions	(21,886)	(20,446)	(17,507)
Purchase of investments	(45,768)	(83,721)	(28,472)
Proceeds from sale of investments	899	—	—
Proceeds from maturities of investments	35,923	59,331	40,898
	<b>(30,832)</b>	<b>(44,836)</b>	<b>(5,081)</b>
<b>Cash Flows From Financing Activities:</b>			
Shares tendered for employees' withholding taxes on stock-based compensation	(55)	(579)	(90)
Purchase of treasury stock	(18,831)	—	—
Dividends paid	(12,100)	(10,755)	(9,448)
	<b>(30,986)</b>	<b>(11,334)</b>	<b>(9,538)</b>
<b>Net change in cash and cash equivalents</b>	<b>(22,598)</b>	<b>(13,705)</b>	<b>28,617</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>45,048</b>	<b>58,753</b>	<b>30,136</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 22,450</b>	<b>\$ 45,048</b>	<b>\$ 58,753</b>
<b>Cash paid for:</b>			
Income taxes, net of refunds	\$ 5,565	\$ 4,178	\$ 9,858

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, 2020, 2019 and 2018 (in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares Outstanding	Amount	Shares	Amount				
<b>Balances, January 31, 2018</b>	<b>1,852</b>	<b>\$ 342</b>	<b>1,568</b>	<b>\$ (131,663)</b>	<b>\$ 48,730</b>	<b>\$ (1,215)</b>	<b>\$ 268,194</b>	<b>\$ 184,388</b>
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)
<b>Balances, December 31, 2018</b>	<b>1,853</b>	<b>\$ 342</b>	<b>1,567</b>	<b>\$ (131,727)</b>	<b>\$ 50,391</b>	<b>\$ 0</b>	<b>\$ 291,761</b>	<b>\$ 210,767</b>
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)
<b>Balances, December 31, 2019</b>	<b>1,855</b>	<b>\$ 342</b>	<b>1,565</b>	<b>\$ (132,260)</b>	<b>\$ 52,043</b>	<b>\$ 0</b>	<b>\$ 317,745</b>	<b>\$ 237,870</b>
Cumulative change in accounting principle							(36)	(36)
Adjusted Balance at January 1, 2020	1,855	\$ 342	1,565	\$ (132,260)	\$ 52,043	\$ 0	\$ 317,709	\$ 237,834
Net income							32,115	32,115
Stock-based compensation transactions				19	1,484			1,503
Shares surrendered in stock transactions				(55)				(55)
Purchase of treasury stock	(29)		29	(18,831)				(18,831)
Dividends							(12,124)	(12,124)
<b>Balances, December 31, 2020</b>	<b>1,826</b>	<b>\$ 342</b>	<b>1,594</b>	<b>\$ (151,127)</b>	<b>\$ 53,527</b>	<b>\$ 0</b>	<b>\$ 337,700</b>	<b>\$ 240,442</b>

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, 2020 and 2019 are as follows (in thousands):

	December 31,	
	2020	2019
<b>Cash and Cash Equivalents:</b>		
Cash deposits	\$ 16,628	\$ 38,942
Money market funds	4,822	3,460
Commercial paper	1,000	2,646
Total cash and cash equivalents	\$ 22,450	\$ 45,048
<b>Short-term investments:</b>		
Commercial paper (held-to-maturity)	\$ 5,178	\$ 6,778
Bonds (held-to-maturity)	14,101	16,988
Allowance for credit losses	(21)	—
Total short-term investments	\$ 19,258	\$ 23,766
<b>Long-term investments:</b>		
Mutual funds (available for sale)	\$ 563	\$ 1,105
Bonds (held-to-maturity)	41,619	27,845
Allowance for credit losses	(52)	—
Equity securities (available for sale)	4,077	2,822
Total long-term investments	\$ 46,207	\$ 31,772
<b>Total cash, cash equivalents and short and long-term investments</b>	<b>\$ 87,915</b>	<b>\$ 100,586</b>

#### Account Receivables

Accounts receivable are recorded at the original sales price to the customer. We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the failure of customers to make required payments. 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 (in thousands):

	December 31,	
	2020	2019
Raw materials	\$ 20,308	\$ 18,157
Work in process	11,339	8,525
Finished goods	18,651	15,411
Total inventories	\$ 50,298	\$ 42,093

### Accounts Payable

We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2020 and 2019, disbursements totaling approximately \$1,434,000 and \$1,236,000, 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, 2020 and 2019, we made quarterly payments in excess of federal and state income taxes due of approximately \$1,525,000 and \$4,000, 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,		Useful Lives
	2020	2019	
Land	\$ 5,511	\$ 5,511	—
Buildings	35,114	34,582	30-40 yrs
Machinery and equipment	178,287	160,897	3-15 yrs
Total property, plant and equipment	\$ 218,912	\$ 200,990	

Depreciation expense of \$11,533,000, \$10,733,000 and \$9,003,000 was recorded for the years ended December 31, 2020, 2019 and 2018, 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, 2020 and 2019 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 (in thousands):

	December 31,	
	2020	2019
Accrued payroll and related expenses	\$ 5,656	\$ 4,233
Accrued vacation	276	311
Other accrued liabilities	633	604
Total accrued liabilities	\$ 6,565	\$ 5,148

### 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 2020, 2019 and 2018 is as follows (in thousands):

	Year ended December 31,		
	2020	2019	2018
United States	\$ 85,682	\$ 98,496	\$ 95,757
Germany	9,712	7,996	8,898
Other countries less than 5% of revenues	52,197	48,574	47,793
Total	\$ 147,591	\$ 155,066	\$ 152,448

A summary of revenues by product line for 2020, 2019 and 2018 is as follows (in thousands):

	Year ended December 31,		
	2020	2019	2018
Fluid Delivery	\$ 75,228	\$ 72,117	\$ 70,606
Cardiovascular	48,524	54,799	50,904
Ophthalmology	4,700	7,124	10,473
Other	19,139	21,026	20,465
Total	\$ 147,591	\$ 155,066	\$ 152,448

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 four 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, 2020 and 2019 the balance totaled \$315,000 and \$398,000, 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 three leases in total for equipment and facilities used internally, which we account for as operating leases. At December 31, 2020, our right-of-use asset balance was \$295,000 and our lease liability at December 31, 2020 for these leases was \$272,000. The monthly expense of \$27,000 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.

#### **Liability-classified awards**

The Company classifies certain awards that can or will be settled in cash as liability awards. The fair value of a liability-classified award is determined on a quarterly basis beginning at the grant date until final vesting. Changes in the fair value of liability-classified awards are recorded to general and administrative expense over the vesting period of the award.

#### **New Accounting Pronouncements**

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. The ASU introduced a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and trade and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology

replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized.

On January 1, 2020, we adopted the guidance prospectively with a cumulative adjustment to retained earnings. Atrion has not restated comparative information for 2019 and, therefore, the comparative information for 2019 is reported under the old model and is not comparable to the information presented for 2020.

At adoption, we recognized an incremental allowance for credit losses on our allowance for credit losses related to our held-to-maturity debt securities of approximately \$42,000 and our trade accounts receivable of approximately \$4,000. Additionally, we recorded an approximately \$36,000 decrease in retained earnings associated with the increased estimated credit losses on our trade accounts receivable and investments. The impact on our operating results for 2020 from our adoption of this pronouncement was not material.

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, we had allowances for doubtful accounts of approximately \$41,000 and \$36,000, respectively. The carrying amount of the receivables approximates their fair value. We had two customers which accounted for 12% each of our accounts receivable as of December 31, 2020 and one customer which accounted for 12% of our accounts receivable as of December 31, 2019.

#### **(2) Investments**

As of December 31, 2020 and 2019, 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		Fair Value
			Gains	Losses	
<b>As of December 31, 2020</b>					
Money market funds	1	\$ 4,822	\$ —	\$ —	\$ 4,822
Commercial paper	2	\$ 6,178	\$ —	\$ —	\$ 6,178
Bonds	2	\$ 55,720	\$ 505	\$ (44)	\$ 56,181
Mutual funds	1	\$ 599	\$ —	\$ (36)	\$ 563
Equity investments	2	\$ 5,675	\$ —	\$ (1,598)	\$ 4,077
<b>As of December 31, 2019</b>					
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

The above equity investments represent an investment in one company at December 31, 2020 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. As of December 31, 2020 we had no bond investments in a loss position for more than 12 months.

At December 31, 2020, the length of time until maturity of the bonds we currently own ranged from one to 51 months and the length of time until maturity of the commercial paper ranged from one to nine months.

Topic 326 utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for held-to-maturity securities at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. Our credit loss calculations for held-to-maturity securities are based upon historical default and recovery rates of bonds rated with the same rating as our portfolio. We also apply an adjustment factor to these credit loss calculations based upon our assessment of the expected impact from current economic conditions on our investments, including the impact of COVID-19. We monitor the credit quality of debt securities classified as held-to-maturity through the use of their respective credit ratings and update them on a quarterly basis with our latest assessment completed on December 31, 2020. During the year 2020, our allowance for credit losses related to short-term and long-term investments increased by \$12,000 and \$18,000, respectively.

The following table summarizes the amortized cost of our held-to-maturity bonds at December 31, 2020, aggregated by credit quality indicator (in thousands):

<b>Held-to-Maturity Bonds</b>					
Credit Quality Indicators	Asset Backed Bonds	Fed Govt. Bonds/Notes	Municipal Bonds	Corporate Bonds	Totals
AAA/AA/A	\$ 1,413	\$ 3,222	\$ 637	\$ 32,126	\$ 37,398
BBB/BB	—	—	—	18,322	18,322
<b>Total</b>	\$ 1,413	\$ 3,222	\$ 637	\$ 50,448	\$ 55,720

### (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):

<b>December 31, 2020</b>		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	\$ 13,840	\$ 12,419
<b>December 31, 2019</b>		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
15.67	\$ 13,840	\$ 12,301

Aggregate amortization expense for patents and licenses was \$119,000 for both 2020 and 2019. Estimated future amortization expense for each of the years set forth below ending December 31 is as follows (in thousands):

2021	\$119
2022	\$117
2023	\$113
2024	\$113
2025	\$112

### (4) Line of Credit

As of December 31, 2020 and 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. On February 12, 2021 this credit facility was amended to, among other things, extend the date for advances to February 28, 2024. 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 (1.035 percent at December 31, 2020) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2020 or December 31, 2019. 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, 2020, 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,		
		2020	2019	2018
Current	— Federal	\$ 3,166	\$ 3,508	\$ 6,405
	— State	904	1,090	2,001
		4,070	4,598	8,406
Deferred	— Federal	2,111	1,660	(626)
	— State	171	149	1
		2,282	1,809	(625)
Provision for Income Taxes		\$ 6,352	\$ 6,407	\$ 7,781

Temporary differences and carryforwards which have given rise to deferred tax liabilities as of December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
<b>Deferred tax liabilities (assets):</b>		
Property, plant and equipment	\$ 11,532	\$ 9,697
Patents and goodwill	1,775	1,756
Benefit plans	(1,976)	(2,131)
Inventories	(420)	(350)
Capital loss carryover	(544)	(556)
Other	(179)	(513)
	10,188	7,903
Plus: Valuation allowance	580	593
Total deferred tax liabilities	\$ 10,768	\$ 8,496

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,		
		2020	2019	2018
Income tax expense at the statutory federal income tax rate	\$	8,078	\$ 9,065	\$ 8,828
Increase (decrease) resulting from:				
State income taxes		839	978	1,572
R&D tax credits		(1,589)	(1,470)	(1,212)
Foreign-derived intangible income deduction		(1,051)	(1,700)	(1,000)
Excess tax benefit from stock compensation		(81)	(412)	(95)
Change in valuation allowance		(13)	(16)	—
Uncertain tax positions		(450)	(42)	(373)
Other, net		619	4	61
Provision for Income Taxes	\$	6,352	\$ 6,407	\$ 7,781

At December 31, 2020, our deferred tax valuation allowance of \$580,000 primarily related to a deferred tax asset for a remaining capital loss carryover deduction of \$2.6 million which will expire in 2021 if not utilized.

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, 2018	\$ 865
Increase 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
Increase 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
Increase in tax positions for prior years	8
Increase in tax positions for current year	—
Lapse in statutes of limitation	(458)
Gross unrecognized tax benefits at December 31, 2020	\$ —

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 2016.

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 and \$19,000 at December 31, 2019 and 2018, respectively. Tax expense for the years ended December 31, 2020, 2019 and 2018 included a net interest benefit of \$35,000, \$16,000 and \$18,000, 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, 2020, there remained 202,018 for repurchasing under this program. As of December 31, 2019, there remained 231,765 shares available for repurchase under this program. During 2020 we repurchased a total of 29,747 shares of our common stock in the open-market. There were no stock repurchases during 2019 or 2018.

We increased our quarterly cash dividend payments in September of each of the past three years. The quarterly dividend was increased to \$1.35 per share in September 2018, to \$1.55 per share in September 2019 and to \$1.75 per share in September 2020. Holders of our stock units earned non-cash dividend equivalents of \$24,000 in 2020, \$22,000 in 2019 and \$25,000 in 2018.

## (7) Income Per Share

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

	Year ended December 31,		
	2020	2019	2018
	(in thousands, except per share amounts)		
Net Income	\$ 32,115	\$ 36,761	\$ 34,255
Weighted average basic shares outstanding	1,836	1,855	1,853
Add: Effect of dilutive securities	5	8	5
Weighted average diluted shares outstanding	1,841	1,863	1,858
Net Income Per Share			
Basic	\$ 17.49	\$ 19.82	\$ 18.49
Diluted	\$ 17.44	\$ 19.73	\$ 18.44

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 six, seven and 501 shares of common stock for the years ended December 31, 2020, 2019 and 2018, respectively, were excluded from the computation of weighted average diluted shares outstanding because their effect would have been anti-dilutive.

## (8) Stock-based Compensation

At December 31, 2020, 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 were reserved for awards. The purchase price of shares issued on the exercise of options were required to 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, 2020, no future stock-based awards were permitted under the 2006 Plan.

A summary of stock option transactions for the year ended December 31, 2020, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2019	20,000	\$ 501.03	2.3 years
Granted	—	—	—
Exercised	—	—	—
Outstanding at December 31, 2020	20,000	\$ 501.03	1.3 years
Exercisable at December 31, 2020	12,000	\$ 501.03	1.3 years

All nonvested options outstanding at December 31, 2020 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 2020 and 2019.

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, 2020, was \$2.8 million. The total intrinsic value of exercisable options at December 31, 2020, was \$1.7 million.

There were no restricted stock grants during 2020 and 2019. 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, 2020, is presented below:

Nonvested Shares	Shares	Weighted Average Award Date Fair Value Per Share
Restricted stock at December 31, 2019	3,540	\$ 445.47
Granted in 2020	—	—
Vested in 2020	(1,180)	\$ 445.47
Restricted stock at December 31, 2020	2,360	\$ 445.47

All shares of nonvested restricted stock outstanding at December 31, 2020 are expected to vest. The total fair value of restricted stock vested during 2020, 2019 and 2018 was \$762,000, \$994,000 and \$699,000, respectively.

During 2020, restricted stock units were added to certain employee accounts under the 2006 Plan as dividend equivalents. All of our restricted stock units granted under the 2006 Plan 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 restricted 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 restricted stock units earn dividends in the form of additional units. During 2020, 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 Director.

A summary of changes in stock units for the year ended December 31, 2020, 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, 2019	3,601	\$ 623.19	—	
Added	33	\$ 635.04	16	\$ 711.75
Forfeited	(40)	\$ 766.48	—	
Vested	(479)	\$ 388.02	(16)	\$ 711.75
Nonvested at December 31, 2020	3,115	\$ 657.70	—	

All nonvested restricted stock units set forth above at December 31, 2020 are expected to vest. The total intrinsic value of these outstanding stock units which were not convertible at December 31, 2020, including 503 stock units held for the accounts of non-employee directors, was \$2,324,000. The total fair value of directors' stock units that vested during 2020, 2019 and 2018 was \$11,000, \$7,000 and \$6,000, respectively.

In addition to the above, during 2020 we granted 3,865 restricted stock units to three employees outside of the 2006 Plan that will be settled in cash and are treated as liability-classified awards. The grant-date fair value per unit for these awards was \$646.90. No grants of this type were made outside the 2006 Plan prior to 2020. These units will vest 20 percent each year over a five-year period beginning in 2021. Changes in the fair value of these awards are recorded to G&A expense over the vesting period of the award. The liability recorded for these units is adjusted to the current market value at the end of each reporting period. At December 31, 2020, none of these units had vested and our recorded liability for these units was \$250,000. The intrinsic value of these units at December 31, 2020 was \$2,496,000 including accrued amounts for dividend equivalents.

There were no stock awards to nonemployee directors under the 2006 Plan in 2020. The total value of stock awards to nonemployee directors awarded under the 2006 Plan was \$240,000 in each of 2019 and 2018. These awards vested immediately at the time of the grants. Compensation related to stock awards, restricted stock and stock units that are treated as equity-classified awards 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, 2020, 2019 and 2018, we recorded stock-based compensation expense as a G&A expense in the amount of \$1,731,000, \$1,682,000 and \$1,659,000, 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, 2020, 2019 and 2018 was \$444,000, \$765,000 and \$441,000, respectively. These amounts include excess tax benefits in each year.

Unrecognized compensation cost information for our various stock-based compensation awards is shown below as of December 31, 2020:

	Unrecognized Compensation Cost	Weighted Average Remaining Years in Amortization Period
Stock options	\$ 682,000	1.3
Restricted stock	687,000	1.3
Restricted stock units	990,000	2.8
Restricted stock units (to be settled in cash)	2,246,000	4.5
Total	\$ 4,605,000	

We have a policy of utilizing treasury shares to satisfy stock option exercises, stock unit conversions and restricted stock awards that are equity-classified 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 42 percent, 36 percent and 37 percent of our net revenues in 2020, 2019 and 2018, respectively. 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 \$917,000, \$845,000 and \$752,000 in 2020, 2019 and 2018, respectively.

The Company has a Nonqualified Deferred Compensation Plan 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 \$1,544,000 and \$3,266,000 at December 31, 2020 and 2019, 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, 2020, 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 \$2.0 million in potential future payments under this settlement as of December 31, 2020 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, 2020, could have resulted in payments aggregating \$4.9 million.

At December 31, 2020, the Company had lease obligations totaling \$272,000 with certain lessors for equipment and facilities for 2021.

# 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, 2020 and 2019, 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, 2020, and the related notes and 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 26, 2021 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 Public Company Accounting Oversight Board (United States) (“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 regarding 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*

Grant Thornton LLP  
We have served as the Company’s auditor since 2002  
Dallas, Texas  
February 26, 2021

## 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, 2020 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, 2020, 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, 2020, 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, 2020, 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 of the Company as of and for the year ended December 31, 2020, and our report dated February 26, 2021 expressed an unqualified opinion on those financial statements.

### *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  
February 26, 2021



# 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 2020, approximately 42 percent of our sales were outside the United States.

Our products are used in a wide variety of applications by numerous customers. We encounter competition in all of our markets and compete primarily on the basis of product quality, price, engineering, customer service and delivery time.

Our business strategy is to provide hospitals, physicians and other healthcare providers with the tools they need to improve the lives of the patients they serve. To do so, we provide a broad selection of products in the areas of our expertise. We have diverse product lines serving primarily the fluid delivery, cardiovascular and ophthalmic markets, and this diversity has served us well as we encounter changing market conditions. 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, 2020, we reported revenues of \$147.6 million, operating income of \$35.7 million and net income of \$32.1 million.

## Results of Operations

Our net income was \$32.1 million, or \$17.49 per basic and \$17.44 per diluted share, in 2020 compared to \$36.8 million, or \$19.82 per basic and \$19.73 per diluted share in 2019. Revenues were \$147.6 million in 2020 compared with \$155.1 million in 2019.

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

	2020	2019
Fluid Delivery	\$ 75,228	\$ 72,117
Cardiovascular	48,524	54,799
Ophthalmology	4,700	7,124
Other	19,139	21,026
<b>Total</b>	<b>\$ 147,591</b>	<b>\$ 155,066</b>

Consolidated revenues of \$147.6 million in 2020 were 5 percent lower than revenues in 2019. The decrease was primarily related to lower volumes in 2020. Healthcare facilities prepared for the COVID-19 pandemic surge and postponed selective surgeries that impacted our products. We anticipate sales will increase in 2021 assuming the pandemic eases and at least the level of elective surgeries performed in the first month of 2021 is maintained. Our cost of goods sold was \$81.4 million in 2020 compared with \$84.4 million in 2019. Decreased sales volumes and favorable product sales mix partially offset by increased manufacturing overhead expenses were the primary contributors to the decrease in cost of goods sold in 2020 compared to 2019.

Gross profit in 2020 was \$66.2 million compared with \$70.7 million in 2019. Our gross profit was 45 percent of revenues in 2020 compared with 46 percent of revenues in 2019. The decrease in gross profit percentage in 2020 from 2019 was primarily related to an increase in manufacturing overhead expenses coupled with lower sales volumes, partially offset by a favorable sales mix.

Operating expenses were \$30.5 million in 2020 and \$30.2 million in 2019. R&D expenses increased \$607,000 in 2020 as compared with 2019. Outside services for testing and compensation expense were the main contributors to this increase. 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 2020, selling expenses decreased \$1,293,000 compared with 2019 primarily as a result of travel restrictions and cancelled events and outside services related to the COVID-19 pandemic. Selling expenses consist primarily of salaries, commissions and other related expenses

for sales and marketing personnel, marketing, advertising and promotional expenses. General and Administrative, or G&A, expenses increased \$1,022,000 in 2020 as compared to 2019 primarily as a result of increased salaries and higher 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 2020 was \$35.7 million compared with \$40.5 million in 2019. Operating income was 24 percent of revenues in 2020 and 26 percent of revenues in 2019. A decrease in 2020 gross profit primarily attributed to a decrease in sales and increased manufacturing overhead costs adversely affected operating income for 2020 as compared to the previous year.

Interest and Dividend income for 2020 was \$1.4 million compared with \$2.5 million in 2019. The decline in interest and dividend income was largely due to lower interest rates in the 2020 period as compared to the 2019 period.

Other Investment Income was \$1.4 million in 2020 compared to \$0.2 million in 2019. The improvement from 2019 to 2020 was primarily related to unrealized gains on equity investments as a result of an increase in the market value on the investments.

Income tax expense in 2020 totaled \$6.35 million compared with \$6.4 million in 2019. The effective tax rates were 16.5 percent in 2020 and 14.8 percent in 2019. The higher effective tax rate in 2020 was primarily related to decreased tax benefits booked for sales outside the United States under the FDII deduction and from lower stock compensation deductions. We expect our effective tax rate for 2021 to be approximately 18.0 percent.

For information on the Company's results of operations for the fiscal year ended December 31, 2018 and a comparison of that information to that for the year ended December 31, 2019, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the U.S. Securities and Exchange Commission on February 26, 2020

## Liquidity and Capital Resources

As of December 31, 2020, 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. On February 12, 2021 this credit facility was amended to, among other things, extend the date for advances to February 28, 2024. 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 (1.035 percent at

December 31, 2020) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2020 or December 31, 2019. 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, 2020, we were in compliance with all of these covenants.

At December 31, 2020, we had a total of \$87.9 million in cash and cash equivalents, short-term investments and long-term investments, a decrease of \$12.7 million from December 31, 2019. The principal contributor to this decrease was purchases of our stock in the open market totaling \$18.8 million in 2020.

Cash flows provided by operations of \$39.2 million in 2020 were primarily comprised of net income plus the net effect of non-cash expenses. At December 31, 2020, we had working capital of \$98.7 million, including \$22.5 million in cash and cash equivalents and \$19.3 million in short-term investments. The \$22.4 million decrease in working capital during 2020 was primarily related to a decrease in cash and cash equivalents partially offset by an increase in inventory. The increase in inventories was primarily related to inventory build for a new product launch. 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 \$21.9 million in 2020, compared with \$20.4 million in 2019. These expenditures were primarily for machinery and equipment. Purchases of investments totaled \$45.8 million in 2020, compared to \$83.7 million in 2019. Proceeds from maturities of investments totaled \$35.9 million in 2020 and \$59.3 million in 2019. We expect 2021 capital expenditures for machinery and equipment to be consistent with total average capital expenditure amounts expended during each of the past two years. In addition, we expect to commence an expansion of one of our facilities in 2021 that is expected to cost \$23.0 million over a 15-month period.

We paid cash dividends totaling \$12.1 million and \$10.8 million during 2020 and 2019, respectively. We expect to fund future dividend payments with cash flows from operations. Treasury stock totaling \$18.8 million was purchased during 2020. No treasury stock was purchased in 2019.

Our current contractual obligations are normal due to our line of business and mainly consist of purchase orders for raw materials. These obligations will be funded through funds generated through operations and require no additional funding. We have initiated plans to expand one of our facilities. The expansion will require funds in an amount estimated at \$23.0 million. We believe this expansion is required to support

our anticipated increases in capacity in the coming years. 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.

The table below summarizes debt, lease and other contractual obligations outstanding at December 31, 2020:

Contractual Obligations	Payments Due by Period				
	Total	2021	2022-2023	2024-2025	2026 and thereafter
(in thousands)					
Lease Obligations	\$ 251	\$ 251	\$ —	\$ —	\$ —
Purchase Obligations	\$ 23,841	\$ 23,501	\$ 340	\$ —	\$ —
Total	\$ 24,092	\$ 23,752	\$ 340	\$ —	\$ —

## COVID-19 Impact

The COVID-19 pandemic has resulted in travel and other restrictions to reduce the spread of the disease, including governmental orders across the globe, which, among other things, direct individuals to shelter at their places of residence, direct businesses and governmental agencies to cease non-essential operations at physical locations, prohibit certain non-essential gatherings, maintain social distancing, and order cessation of non-essential travel. As a result of these developments, we have implemented work-from-home policies for certain of our employees. In addition, many of our customers implemented and are continuing similar measures in their facilities, which have delayed, and may continue to delay, the timing of some orders and deliveries. The effects of shelter-in-place and social distancing orders, government-imposed quarantines, and work-from-home policies may further negatively impact productivity, disrupt our business, and delay our development timelines beyond the delays we have already experienced and disclosed, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. Such restrictions and limitations may also further negatively impact our access to regulatory authorities (which are affected, among other things, by applicable travel restrictions and may be delayed in responding to inquiries, reviewing filings, and conducting inspections); our ability to perform regularly scheduled quality checks and maintenance; and our ability to obtain services from third-party specialty vendors and other providers or to access their expertise as fully and timely as needed. The COVID-19 pandemic may also result in the loss of some of our key personnel, either temporarily or permanently. In addition,

our sales and marketing efforts have been negatively impacted and may be further negatively impacted by postponement or cancellation of face-to-face meetings and restrictions on access by non-essential personnel to hospitals or clinics to the extent such measures slow down adoption or further commercialization of our marketed products. The demand for our products may also be adversely impacted by the restrictions and limitations adopted in response to the COVID-19 pandemic, particularly to the extent they affect the patients' ability or willingness to undergo elective surgeries. As a result, some of our inventory may become obsolete and may need to be written off, impacting our operating results. These and similar, and perhaps more severe, disruptions in our operations may materially adversely impact our business, operating results, and financial condition.

The global COVID-19 pandemic continues to rapidly evolve. The ultimate impact of this pandemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, healthcare systems, or the global economy as a whole. These effects could have a material impact on our operations.

## 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 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. The ASU introduced a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and trade and other receivables at the time the financial asset is originated or

acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in prior GAAP, which generally require that a loss be incurred before it is recognized.

On January 1, 2020, we adopted the guidance prospectively with a cumulative adjustment to retained earnings. Atrion has not restated comparative information for 2019 and, therefore, the comparative information for 2019 is reported under the old model and is not comparable to the information presented for 2020.

At adoption, we recognized an incremental allowance for credit losses on our allowance for credit losses related to our held-to-maturity debt securities of approximately \$42,000 and our trade accounts receivable of approximately \$4,000. Additionally, we recorded an approximately \$36,000 decrease in retained earnings associated with the increased estimated credit losses on our trade accounts receivable and investments. The impact on our operating results for 2020 from our adoption of this pronouncement was not material.

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.

### Significant 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 significant 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 2020, 2019 and 2018, none of our significant accounting estimates required material 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 effects of expanding our MPS platform, our effective tax rate for 2021, our 2021 capital expenditures, the expansion of one of our facilities, funding future dividend payments with cash flows from operations, availability of equity and debt financing, our ability to meet our cash requirements for the foreseeable future, the impact on our consolidated financial statement of recently issued accounting standards when we adopt those standards, and the effect that the COVID-19 pandemic may have on our business and operations, as well as those of many of our key customers, suppliers, and other counterparties. 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: the risk that the COVID-19 pandemic continues to lead to material delays and cancellations of, or reduced demand for, procedures in which our products are utilized; curtailed or delayed capital spending by hospitals and other healthcare providers; disruption to our supply chain; closures of our facilities; delays in training; delays in gathering clinical evidence; diversion of management and other resources to respond to the COVID-19 outbreak; the impact of global and regional economic and credit market conditions on healthcare spending; the risk that the COVID-19 virus continues to disrupt local economies and causes economies in our key markets to enter prolonged recessions; changing economic, market and business conditions; acts of war or terrorism; the effects of governmental regulation; the impact of competition and new technologies; slower-than-anticipated introduction of new products or implementation of marketing strategies; implementation of new manufacturing processes or

implementation of new information systems; our ability to protect our intellectual property; changes in the prices of raw materials; changes in product mix; intellectual property and product liability claims and product recalls; the ability to attract and retain qualified personnel; and the loss of, or any material reduction in sales to any significant customers. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and

periodic review which may cause 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)

	2020	2019	2018	2017	2016
<b>Operating Results for the Year ended December 31,</b>					
Revenues	\$ 147,591	\$ 155,066	\$ 152,448	\$ 146,595	\$ 143,487
Operating income	35,668	40,529	41,707	41,274	39,126
Net income	32,115	36,761	34,255	36,593	27,581
Depreciation and amortization	11,652	10,853	9,123	8,677	8,953
<b>Per Share Data:</b>					
Net income per diluted share	\$ 17.44	\$ 19.73	\$ 18.44	\$ 19.71	\$ 14.85
Cash dividends per common share	\$ 6.60	\$ 5.80	\$ 5.10	\$ 4.50	\$ 3.90
Average diluted shares outstanding	1,841	1,863	1,858	1,857	1,857
<b>Financial Position at December 31,</b>					
Total assets	\$ 266,890	\$ 262,031	\$ 231,216	\$ 203,780	\$ 181,942
Long-term debt	—	—	—	—	—

# Leadership

## Board of Directors

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**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

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**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

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**Corporate Office**

Atrion Corporation  
One Allentown Parkway  
Allen, Texas 75002  
(972) 390-9800  
[www.atrioncorp.com](http://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 2020 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 12, 2021, we had 106 record holders, and approximately 9,725 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](http://www.atrioncorp.com)  
972.390.9800