# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
**SEC Accession No.** 0001157523-04-007660



## FILER

**ATRION CORP**

CIK:**701288**| IRS No.: **630821819** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-10763** | Film No.: **04969349**
SIC: **3841** Surgical & medical instruments & apparatus

Mailing Address
*ONE ALLENTOWN PARKWAY*
*ALLEN TX 75002*

Business Address
*ONE ALLENTOWN PARKWAY*
*ALLEN TX 75002*
*9723909800*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE PERIOD ENDED JUNE 30, 2004 COMMISSION FILE NUMBER 0-10763

ATRION CORPORATION
(Exact Name of Registrant as Specified in its Charter)

| DELAWARE | 63-0821819 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

ONE ALLENTOWN PARKWAY, ALLEN, TEXAS 75002

(Address of Principal Executive Offices) (Zip Code)

(972) 390-9800

(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [check mark] NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| TITLE OF EACH CLASS | NUMBER OF SHARES OUTSTANDING AT AUGUST 2, 2004 |
|---|---|
| COMMON STOCK, PAR VALUE $0.10 PER SHARE | 1,717,507 |

17

ATRION CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | (in thousands, except per share amounts) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Revenues | $ 16,417 | $ 16,175 | $ 33,206 | $ 31,896 |
| Cost of goods sold | 10,351 | 10,598 | 21,185 | 20,723 |
| Gross profit | 6,066 | 5,577 | 12,021 | 11,173 |
| Operating expenses: | | | | |
| Selling | 1,404 | 1,390 | 2,833 | 2,799 |
| General and administrative | 2,019 | 1,951 | 4,100 | 3,885 |
| Research and development | 579 | 531 | 1,123 | 1,060 |
| | 4,002 | 3,872 | 8,056 | 7,744 |
| Operating income | 2,064 | 1,705 | 3,965 | 3,429 |
| Other income: | | | | |
| Interest income | 11 | 20 | 22 | 39 |
| Interest expense | (16) | (54) | (43) | (114) |
| Other income (expense), net | 39 | (14) | 45 | (5) |
| | 34 | (48) | 24 | (80) |
| Income from continuing operations before provision for income taxes | 2,098 | 1,657 | 3,989 | 3,349 |
| Provision for income taxes | 655 | 509 | 1,259 | 1,051 |
| Income from continuing operations | 1,443 | 1,148 | 2,730 | 2,298 |
| Gain on disposal of discontinued operations, net of income taxes | 165 | 165 | 165 | 165 |
| Net income | $ 1,608 | $ 1,313 | $ 2,895 | $ 2,463 |
| Income per basic share: | | | | |
| Income from continuing operations | $ 0.84 | $ 0.67 | $ 1.60 | $ 1.33 |
| Gain on disposal of discontinued operations | 0.10 | 0.10 | 0.10 | 0.10 |
| | $ 0.94 | $ 0.77 | $ 1.70 | $ 1.43 |
| Weighted average basic shares outstanding | 1,710 | 1,702 | 1,706 | 1,733 |
| Income per diluted share: | | | | |
| Income from continuing operations | $ 0.78 | $ 0.63 | $ 1.48 | $ 1.25 |
| Gain on disposal of discontinued operations | 0.09 | 0.09 | 0.09 | 0.09 |
| | $ 0.87 | $ 0.72 | $ 1.57 | $ 1.34 |
| Weighted average diluted shares outstanding | 1,848 | 1,812 | 1,846 | 1,841 |

</TABLE>

The accompanying notes are an integral part of these statements.

ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
<CAPTION>

| ASSETS | JUNE 30, 2004 (UNAUDITED) | DECEMBER 31, 2003 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 691 | $ 298 |
| Accounts receivable | 7,707 | 6,226 |
| Inventories | 12,784 | 11,314 |
| Prepaid expenses | 1,233 | 1,894 |
| Other | 760 | 760 |
| | 23,175 | 20,492 |
| Property, plant and equipment | 47,522 | 45,767 |
| Less accumulated depreciation and amortization | 23,522 | 21,578 |
| | 24,000 | 24,189 |
| Other assets and deferred charges: | | |
| Patents | 1,836 | 2,099 |
| Goodwill | 9,730 | 9,730 |
| Other | 3,226 | 3,540 |
| | 14,792 | 15,369 |
| | $ 61,967 | $ 60,050 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 7,007 | $ 6,038 |
| Accrued income and other taxes | 1,440 | 651 |
| | 8,447 | 6,689 |
| Line of credit | 1,701 | 4,287 |
| Other non-current liabilities | 4,373 | 4,470 |
| Stockholders' equity: | | |
| Common shares, par value $0.10 per share; authorized 10,000 shares, issued 3,420 shares | 342 | 342 |
| Paid-in capital | 9,915 | 9,673 |
| Retained earnings | 71,385 | 68,900 |
| Treasury shares,1,705 at June 30, 2004 and 1,742 at December 31, 2003, at cost | (34,196) | (34,311) |
| Total stockholders' equity | 47,446 | 44,604 |
| | $ 61,967 | $ 60,050 |

</TABLE>

The accompanying notes are an integral part of these statements.



ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

SIX MONTHS ENDED
JUNE 30,

| | 2004 | 2003 |
|---|---|---|
| | (In thousands) | |
| Cash flows from operating activities: | | |
| <S> | <C> | <C> |
| Net income | $ 2,895 | $ 2,463 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on disposal of discontinued operations | (165) | (165) |
| Depreciation and amortization | 2,509 | 2,218 |
| Deferred income taxes | (134) | 94 |
| Tax benefit related to stock plans | 36 | 170 |
| Other | 1 | 25 |
| | 5,142 | 4,805 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (1,481) | (1,361) |
| Inventories | (1,469) | (1,254) |
| Prepaid expenses | 661 | 397 |
| Other non-current assets | 314 | 77 |
| Accounts payable and current liabilities | 969 | 1,365 |
| Accrued income and other taxes | 789 | 200 |
| Other non-current liabilities | 37 | 234 |
| Net cash provided by continuing operations | 4,962 | 4,463 |
| Net cash provided by discontinued operations | 165 | 165 |
| | 5,127 | 4,628 |
| Cash flows from investing activities: | | |
| Property, plant and equipment additions | (2,058) | (1,819) |
| Property, plant and equipment sales | -- | 14 |
| | (2,058) | (1,805) |
| Cash flows from financing activities: | | |
| Net change in line of credit | (2,586) | (651) |
| Purchase of treasury stock | -- | (4,069) |
| Issuance of common stock | 321 | 2,100 |
| Dividends | (411) | -- |
| | (2,676) | (2,620) |
| Net change in cash and cash equivalents | 393 | 203 |
| Cash and cash equivalents at beginning of period | 298 | 353 |
| Cash and cash equivalents at end of period | $ 691 | $ 556 |
| Cash paid for: | | |
| Interest | $ 50 | $ 119 |
| Income taxes | $ 0 | $ 542 |

</TABLE>

The accompanying notes are an integral part of these statements.



ATRION CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) BASIS OF PRESENTATION

In the opinion of management, all adjustments necessary for a fair presentation of results of operations for the periods presented have been included in the accompanying unaudited consolidated financial statements of Atrion Corporation (the "Company"). Such adjustments consist of normal recurring items. The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and include the information and notes required by such instructions. Accordingly, the consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's 2003 Annual Report on Form 10-K.

(2) INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by using the first-in, first-out method. The following table details the major components of inventories (in thousands):

<TABLE>
<CAPTION>

| | JUNE 30, 2004 | DECEMBER 31, 2003 |
|---|---|---|
| <S> | <C> | <C> |
| Raw materials | $ 6,824 | $ 5,641 |
| Finished goods | 4,522 | 4,044 |
| Work in process | 1,438 | 1,626 |
| Total inventories | $ 12,784 | $ 11,314 |

</TABLE>

(3) INCOME PER SHARE

The following is the computation for basic and diluted income per share from continuing operations:

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED JUNE 30, 2004 | 2003 | SIX MONTHS ENDED JUNE 30, 2004 | 2003 |
|---|---|---|---|---|
| | (in thousands, except per share amounts) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Income from continuing operations | $ 1,443 | $ 1,148 | $ 2,730 | $ 2,298 |
| Weighted average basic shares outstanding | 1,710 | 1,702 | 1,706 | 1,733 |
| Add: Effect of dilutive securities (options) | 138 | 110 | 140 | 108 |
| Weighted average diluted shares outstanding | 1,848 | 1,812 | 1,846 | 1,841 |
| EARNINGS PER SHARE FROM CONTINUING OPERATIONS: | | | | |
| Basic | $ 0.84 | $ 0.67 | $ 1.60 | $ 1.33 |
| Diluted | $ 0.78 | $ 0.63 | $ 1.48 | $ 1.25 |

</TABLE>

Outstanding options that were not included in the diluted income per share calculation because their effect would be anti-dilutive totaled 52,000 and 39,500 for the three-month periods ended June 30, 2004 and June 30, 2003, respectively,and 52,000 and 25,250 for the six-month periods ended June 30, 2004 and June 30, 2003, respectively.





(4) STOCK-BASED COMPENSATION

At June 30, 2004, the Company had three stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and income per share if the Company had applied the fair value recognition provisions of FASB SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED JUNE 30, | SIX MONTHS ENDED JUNE 30, |
|---|---|---|

| | 2004 | 2003 | 2004 | 2003 |
|---|---|---|---|---|
| | (in thousands, except per share amounts) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net income, as reported | $ 1,608 | $ 1,313 | $ 2,895 | $ 2,463 |
| Deduct: Total stock-based employee compensation expense determined under fair value-based methods for all awards, net of tax effects | 343 | 106 | 486 | 212 |
| Pro forma net income | $ 1,265 | $ 1,207 | $ 2,409 | $ 2,251 |
| Income per share: | | | | |
| Basic - as reported | $ 0.94 | $ 0.77 | $ 1.70 | $ 1.43 |
| Basic - pro forma | $ 0.74 | $ 0.71 | $ 1.41 | $ 1.30 |
| Diluted - as reported | $ 0.87 | $ 0.72 | $ 1.57 | $ 1.34 |
| Diluted - pro forma | $ 0.68 | $ 0.67 | $ 1.30 | $ 1.22 |

</TABLE>

(5) PENSION BENEFITS

The components of net periodic pension cost are as follows for the three and six months ended June 30, 2004 and June 30, 2003 (in thousands):

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED JUNE 30, 2004 | THREE MONTHS ENDED JUNE 30, 2003 | SIX MONTHS ENDED JUNE 30, 2004 | SIX MONTHS ENDED JUNE 30, 2003 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Service cost | $ 60 | $ 53 | $ 120 | $ 106 |
| Interest cost | 78 | 74 | 156 | 148 |
| Expected return on assets | (106) | (87) | (212) | (174) |
| Prior service cost amortization | (9) | (9) | (18) | (18) |
| Actuarial loss | 26 | 32 | 52 | 64 |
| Transition amount amortization | (11) | (11) | (22) | (22) |
| Net periodic pension cost | $ 38 | $ 52 | $ 76 | $ 104 |

</TABLE>





## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

The Company designs, develops, manufactures, markets, sells and distributes products and components, primarily for the medical and health care industry. The Company markets components to other equipment manufacturers for incorporation in their products and sells finished devices to physicians, hospitals, clinics and other treatment centers. The Company's products and services primarily range from ophthalmology and cardiovascular products to fluid delivery devices, contract manufacturing and kitting services.

The Company's products are used in a wide variety of applications by numerous customers. The Company encounters competition in all of its markets and competes primarily on the basis of product quality, price, engineering, customer service and delivery time.

For the three months ended June 30, 2004, the Company reported revenues of $16.4 million, operating income of $2.1 million and net income of $1.6 million, up 1 percent, 21 percent and 22 percent, respectively, from the three months ended June 30, 2003. For the six months ended June 30, 2004, the Company reported revenues of $33.2 million, operating income of $4.0 million and net income of $2.9 million, up 4 percent, 16 percent and 18 percent, respectively, from the six months ended June 30, 2003.

RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2004

The Company's income from continuing operations for the three months ended June 30, 2003 was $1.4 million, or $0.84 per basic and $0.78 per diluted share, compared with income from continuing operations for the three months ended June 30, 2003 of $1.1 million, or $0.67 per basic and $0.63 per diluted share. Consolidated net income, including discontinued operations, totaled $1.6 million, or $0.94 per basic and $0.87 per diluted share, in the second quarter of 2004. This is compared with consolidated net income, including discontinued operations, of $1.3 million, or $0.77 per basic and $0.72 per diluted share, in the second quarter of 2003. The income per basic share computations are based on weighted average basic shares outstanding of 1,709,775 in the 2004 period and 1,701,627 in the 2003 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,847,565 in the 2004 period and 1,811,949 in the 2003 period.

Consolidated revenues of $16.4 million for the second quarter of 2004 were higher than revenues of $16.2 million for the second quarter of 2003. This 1 percent increase in revenues for the second quarter of 2004 over the second quarter of 2003 is primarily attributable to increases in the revenues from the Company's fluid delivery products, cardiovascular products and other products. These increases are generally attributable to higher sales volumes. These increases were largely offset by a decrease in the revenues from the Company's ophthalmic products following the fulfillment of a customer's requirements in late 2003. Revenue comparisons for the remainder of the year will be similarly affected by the completion of that order. Cost of goods sold of $10.4 million for the second quarter of 2004 was 2 percent lower than in the comparable 2003 period primarily as a result of a change in product mix.

Gross profit of $6.1 million in the second quarter of 2004 was $489,000, or 9 percent, higher than in the comparable 2003 period. The Company's gross profit percentage in the second quarter of 2004 was 36.9 percent of revenues compared with 34.5 percent of revenues in the second quarter of 2003. This increase in gross profit percentage is primarily related to a change in product mix. The previously mentioned reduced ophthalmic revenues generated a lower gross profit percentage as compared with the gross profit percentage generated by the higher revenues from the Company's fluid delivery products, cardiovascular products and other products.

The Company's second quarter 2004 operating expenses of $4.0 million were $130,000 higher than the operating expenses for the second quarter of 2003, resulting from a $68,000 increase in general and administrative (G&A) expenses, a $15,000 increase in selling expenses and a $47,000 increase in research and development (R&D) expenses. The increase in G&A expenses for the second quarter of 2004 is primarily attributable to increases in outside services and compensation. The increase in R&D expenses for the second quarter of 2004 is primarily attributable to increases in outside services. Operating income in the second quarter of 2004 increased $359,000, or 21 percent, to $2.1 million from $1.7 million in the second quarter of 2003. Operating income margin was 12.6 percent of revenues in the second quarter of 2004 compared to 10.5 percent of revenues in the second quarter of 2003. The improvement in operating income is primarily attributable to the previously mentioned gross profit improvement partially offset by the increase in operating expenses.

Interest expense for the second quarter of 2004 was $16,000 compared to interest expense of $54,000 for the same period in the prior year. The decrease in the 2004 period from the 2003 period is primarily attributable to the Company's lower average borrowing level in the current-year period.

Income tax expense for the second quarter of 2004 was $655,000 compared to income tax expense of $509,000 for the same period in the prior year. The effective tax rate for the second quarter of 2004 was 31.2 percent compared with 30.7 percent for the second quarter of 2003.

The Company recorded a gain on the disposal of discontinued operations relating to the 1997 sale of its natural gas operations of $165,000 after tax, or $0.10 per basic and $0.09 per diluted share, for the second quarter of 2004 and $165,000 after tax, or $0.10 per basic and

$0.09 per diluted share, for the second quarter of 2003, resulting from the receipt of contingent deferred payments in each year.

RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

The Company's income from continuing operations for the six months ended June 30, 2003 was $2.7 million, or $1.60 per basic and $1.48 per diluted share, compared with income from continuing operations for the six months ended June 30, 2003 of $2.3 million, or $1.33 per basic and $1.25 per diluted share. Consolidated net income, including discontinued operations, totaled $2.9 million, or $1.70 per basic and $1.57 per diluted share, in the first six months of 2004. This is compared with consolidated net income, including discontinued operations, of $2.5 million, or $1.43 per basic and $1.34 per diluted share, in the first six months of 2003. The income per basic share computations are based on weighted average basic shares outstanding of 1,706,464 in the 2004 period and 1,733,127 in the 2003 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,846,309 in the 2004 period and 1,841,258 in the 2003 period.



Consolidated revenues of $33.2 million for the first six months of 2004 were higher than revenues of $31.9 million for the first six months of 2003. This 4 percent increase in revenues for the first six months of 2004 over the first six months of 2003 is primarily attributable to an increase in the revenues from the Company's fluid delivery products, cardiovascular products and other products. These increases are generally attributable to higher sales volumes. These increases were partially offset by a decrease in the revenues from the Company's ophthalmic products following the fulfillment of a customer's requirements in late 2003. Cost of goods sold of $21.2 million for the first six months of 2004 was 2 percent higher than in the comparable 2003 period. The increase in cost of goods sold is primarily the result of higher sales volumes.

Gross profit of $12.0 million in the first six months of 2004 was $848,000, or 8 percent, higher than in the comparable 2003 period. The Company's gross profit percentage in the first six months of 2004 was 36.2 percent of revenues compared with 35.0 percent of revenues in the first six months of 2003. This increase in gross profit percentage is primarily related to a change in product mix. The previously mentioned reduced ophthalmic revenues generated a lower gross profit percentage as compared with the gross profit percentage generated by the higher revenues from the Company's fluid delivery products, cardiovascular products and other products.

The Company's operating expenses of $8.1 million for the first six months of 2004 were $312,000 higher than the operating expenses for the first six months of 2003. This resulted from a $215,000 increase in G&A expenses, a $34,000 increase in selling expenses and a $63,000 increase in R&D expenses. The increase in G&A expenses for the first six months of 2004 is primarily attributable to a write-off of $124,000 for the impairment of a patent related to a discontinued product and increased outside services and compensation. Operating income in the first six months of 2004 increased $536,000, or 16 percent, to $4.0 million from $3.4 million in the first six months of 2003. Operating income margin was 11.9 percent of revenues in the first six months of 2004 compared to 10.8 percent of revenues in the first six months of 2003. The improvement in operating income is primarily attributable to the previously mentioned gross profit improvement partially offset by the increase in operating expenses.

Interest expense for the first six months of 2004 was $43,000 compared to interest expense of $114,000 for the same period in the prior year. The decrease in the 2004 period from the 2003 period is primarily attributable to the Company's lower average borrowing level in the current-year period.

Income tax expense for the first six months of 2004 was $1.3 million compared to income tax expense of $1.1 million for the same period in the prior year. The effective tax rate for the first six months of 2004 was 31.6 percent compared with 31.4 percent for the first six months of 2003.

The Company recorded a gain on the disposal of discontinued operations relating to the 1997 sale of its natural gas operations of $165,000 after tax, or $0.10 per basic and $0.09 per diluted share, for the first six months of 2004 and $165,000 after tax, or $0.10 per basic and $0.09 per diluted share, for the first six months of 2003, resulting from the receipt of contingent deferred payments in each year.



LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004, the Company had cash and cash equivalents of $691,000 compared with $298,000 at December 31, 2003. The Company had outstanding borrowings of $1.7 million under its $25 million revolving credit facility ("Credit Facility") at June 30, 2004 and $4.3 million at December 31, 2003. The decrease in the outstanding balance under the Credit Facility in the first six months of 2004 is primarily attributable to cash provided by continuing operations. The Credit Facility, which expires November 12, 2006, and may be extended under certain circumstances, contains various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources. At June 30, 2004, the Company was in compliance with all financial covenants.

As of June 30, 2004, the Company had working capital of $14.7 million, including $691,000 in cash and cash equivalents. The $925,000 increase in working capital during the first six months of 2004 was primarily related to increases in accounts receivable and inventories offset by increases in current liabilities. The increase in accounts receivable during the first six months of 2004 is directly related to the increase in revenues for the second quarter of 2004 as compared to the fourth quarter of 2003. The increase in inventories is primarily attributable to planned increases related to new product introductions. The increase in current liabilities is primarily related to standard accruals made in the normal course of operations and accruals for income and other taxes. Cash flows from continuing operations generated $5.0 million for the six months ended June 30, 2004 as compared to $4.5 million for the six months ended June 30, 2003. Earnings from continuing operations were the primary contributor to this increase. During the first six months of 2004, the Company expended $2.1 million for the addition of property and equipment. The Company received net proceeds of $321,000 from the exercise of employee stock options during the first six months of 2004. During the first six months of 2004 the Company paid dividends totaling $411,000 to its stockholders.

The Company believes that its existing cash and cash equivalents, cash flows from operations, borrowings available under the Company's credit facility, supplemented, if necessary, with equity or debt financing, which the Company believes would be available, will be sufficient to fund the Company's cash requirements for the foreseeable future.

FORWARD-LOOKING STATEMENTS

The statements in this Management's Discussion and Analysis that are forward-looking are based upon current expectations, and actual results may differ materially. Therefore, the inclusion of such forward-looking information should not be regarded as a representation by the Company that the objectives or plans of the Company would be achieved. Such statements include, but are not limited to, the Company's expectations regarding future liquidity and capital resources. Words such as "anticipates," "believes," "expects," "estimated" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying the Company's forward-looking statements: changing economic, market and business conditions; market acceptance of the Company's products; the effects of governmental regulation; acts of war or terrorism; competition and new technologies; slower-than-anticipated introduction of new products or implementation of marketing strategies; changes in the prices or availability of raw materials; changes in product mix; product liability claims and product recalls; the ability to attract and retain qualified personnel and the loss of any significant customer. 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 the Company to alter its marketing, capital expenditures or other budgets, which in turn may affect the Company's results of operations and financial condition.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the quarter ended June 30, 2004, the Company did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in the Company's 2003 Annual Report on Form 10K.

ITEM 4. CONTROLS AND PROCEDURES

With the participation of management, the Company's Chief Executive Officer and its Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2004. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be disclosed by the Company in the reports that the Company files with the Securities and Exchange Commission.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



PART II

OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its 2004 Annual Meeting of Stockholders on May 27, 2004 at its offices in Allen, Texas. At such meeting, the Company's stockholders ratified the appointment of Grant Thornton LLP as independent accountants with 1,511,009 shares voted for ratification, 8,886 voted against and 150 abstentions. The voting with respect to the nominees for election as directors was as follows:

| NOMINEE | VOTES FOR | VOTES WITHHELD |
|---|---|---|
| Roger F. Stebbing | 1,499,749 | 20,276 |
| John P. Stupp, Jr. | 1,499,749 | 20,276 |

The terms of the following directors continued after the meeting: Emile A. Battat, John H. P. Maley, Richard O. Jacobson and Hugh J. Morgan, Jr.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer

31.2 Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer

32.1 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes - Oxley Act Of 2002

32.2 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes - Oxley Act Of 2002

(b) Reports on Form 8-K

On April 29, 2005, the Company filed a report on Form 8-K with the SEC regarding the public dissemination of a press release announcing its financial results for the first quarter ended March 31, 2004 (Item 12).



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATRION CORPORATION

(Registrant)

Date: August 12, 2004

/s/ Emile A. Battat

--------------------------

Emile A. Battat
Chairman, President and
Chief Executive Officer

Date: August 12, 2004

/s/ Jeffery Strickland

--------------------------

Jeffery Strickland
Vice President and
Chief Financial Officer

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Emile A. Battat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Atrion Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over the financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2004
/s/ Emile A. Battat
-----------------------
Emile A. Battat
Chairman, President and
Chief Executive Officer

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Jeffery Strickland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Atrion Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over the financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2004
/s/ Jeffery Strickland
------------------------
Jeffery Strickland
Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002

Pursuant to 18 U.S.C. ss. 1350, the undersigned officer of Atrion Corporation (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2004

/s/ Emile A. Battat

Emile A. Battat
Chief Executive Officer

The foregoing certification is made solely for purpose of 18 U.S.C.ss.1350 and not for any other purpose.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002

Pursuant to 18 U.S.C. ss. 1350, the undersigned officer of Atrion Corporation (the "Company"), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2004

/s/ Jeffery Strickland

Jeffery Strickland
Chief Financial Officer

The foregoing certification is made solely for purpose of 18 U.S.C.ss.1350 and not for any other purpose.