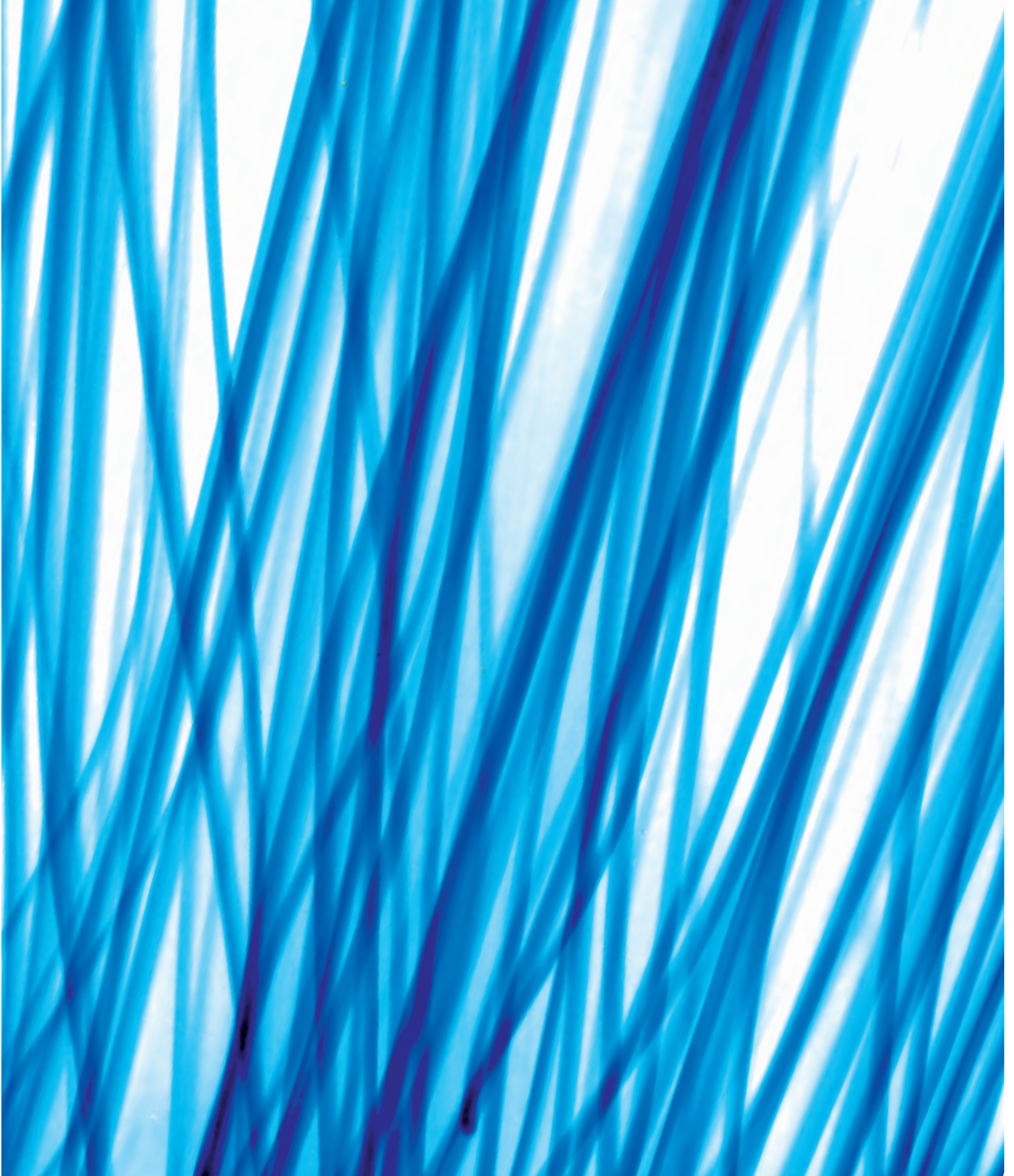
2011 ANNUAL REPORT *to* STOCKHOLDERS



Atrion

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.

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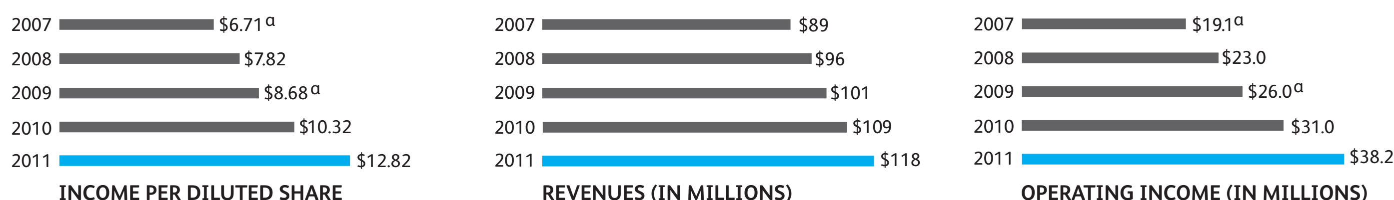
FINANCIAL HIGHLIGHTS

For the Year Ended December 31	2011	2010
Revenues	$ 117,704,000	$ 108,569,000
Operating Income	38,168,000	30,977,000
Net Income	26,038,000	20,952,000
Income per Diluted Share	$ 12.82	$ 10.32
Weighted Average Diluted Shares Outstanding	2,031,000	2,030,000

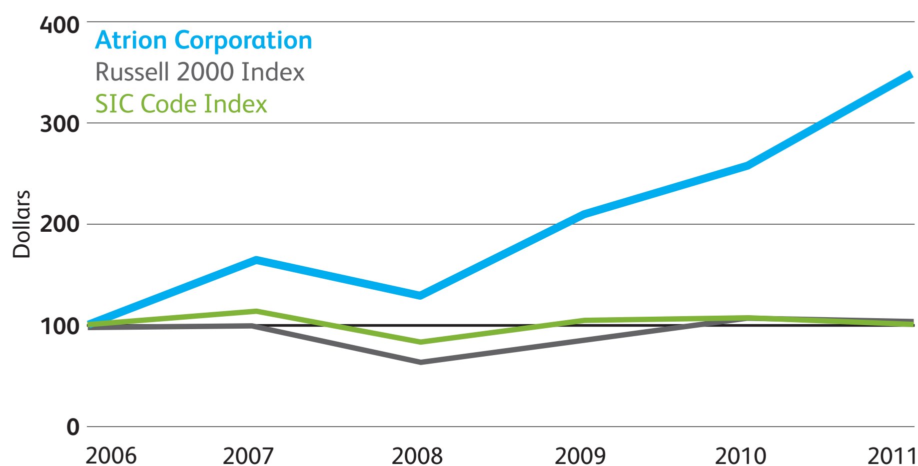
As of December 31	2011	2010
Total Assets	$ 161,895,000	$ 134,652,000
Cash and Investments	55,205,000	41,676,000
Long-term Debt	—	—
Stockholders' Equity	$ 138,514,000	$ 116,617,000



a) These are non-GAAP financial measures. For a reconciliation of these non-GAAP measures to GAAP financial measures, see page 31.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

Among Atrion Corporation, Russell 2000 Index and SIC Code Index



The graph set forth to the left compares the total cumulative return for the five-year period ended December 31, 2011 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, 2006 in our common stock, the Russell 2000 Index and the SIC Code Index and dividends were reinvested.

Company/Index	2006	2007	2008	2009	2010	2011
Atrion Corporation	$100.00	$162.45	$127.50	$206.84	$254.36	$343.72
Russell 2000 Index	$100.00	$98.44	$65.18	$82.89	$105.16	$100.77
SIC Code Index	$100.00	$112.88	$81.88	$103.60	$106.28	$98.60

TO OUR STOCKHOLDERS

By any measure, 2011 was an outstanding year, with sales up 8%, operating income up 23%, and diluted earnings per share up 24% — the thirteenth consecutive year of double-digit growth in this most important financial measure. Free cash flow was strong, with cash and short- and long-term investments totaling $55.2 million as of December 31, 2011 — an increase of $13.5 million from the prior year.

These results reflect our relentless efforts to continuously develop innovative, niche products, and to manufacture those products both efficiently and to the highest possible quality standards. While simple to articulate, the art is in the execution.

"These results reflect our relentless efforts to continuously develop innovative, niche products, and to manufacture those products both efficiently and to the highest possible quality standards. While simple to articulate, the art is in the execution."

Poised to Meet Our Customers' Future Needs

In 2011, while major companies in the medical products space were downsizing to meet financial targets, we expanded our capabilities by adding highly qualified professionals in research and development, quality and regulatory, automation and manufacturing engineering. To enhance our current offerings, and to meet our needs for anticipated sales contracts and new product launches, we initiated a three-year program to significantly add to and upgrade our equipment.

Over 2011-2013, we will be adding some $35 million in new equipment. This represents about a one-third increase in gross property, plant, and equipment by the end of 2013. In addition, we have embarked upon a major training initiative to ensure our employees are well prepared to apply emerging processes and technologies to meet the future needs of our customers.

The Importance of Looking Ahead

This is an especially important time to remain forward-looking. We see significant changes not only in the technological landscape, but also in the ways hospitals will pay for new and enhanced products. There are substantial opportunities for companies that foresee and respond to these changes. As our history over the last 13 years illustrates, we will be in the vanguard of such companies.

Profit and Perseverance

In 2012 we will be impacted by a major inventory adjustment by a long-term contractual customer. Diluted earnings per share for the first half of this year are expected to show a decline of some 20%, with full-year results down by about 10% from those of the comparable periods in 2011.

Despite this setback, we still expect 2012 to be a very profitable year for us. We should see a return on equity that would be the envy of most manufacturing companies, and earnings that exceed those of all prior years except 2011. Our long-established strategy of investing in our ongoing growth allows us to weather such surprises. We will execute our strategy with discipline and pragmatism, focusing on the best interests of our stockholders, employees, and communities.

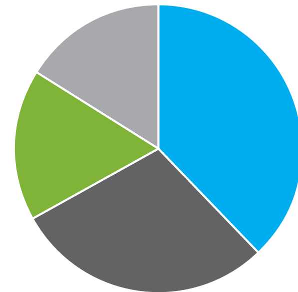
We are enthusiastic about our future. We are grateful to you, our stockholders, for your support. We are equally grateful to our employees whose dedication makes our success possible. This year, I would like to especially recognize the employees of our Alabama facility. In April 2011, the surrounding community was hit by one of the most severe tornado outbreaks in U.S. history. Although all of our employees were safe, some lost relatives and others lost their homes. Nevertheless, the very next day, our employees showed up to work. Despite having no power for 10 days, they made sure every customer shipment went out on time, comforted those who lost so much, and went out to the community to repair damaged homes. People like this are the heart and soul of our company. I am fortunate and proud to work with each and every one of them.

Respectfully,

David Battat

David Battat
President and Chief Executive Officer

2011 REVENUES BY PRODUCT LINE



Product line	Revenue	Share
Fluid Delivery	$ 45,274,000	38%
Cardiovascular	$ 34,072,000	29%
Ophthalmology	$ 19,581,000	17%
Other	$ 18,777,000	16%

CONSOLIDATED BALANCE SHEETS

As of December 31, 2011 and 2010

Assets:	2011	2010
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 24,590	$ 10,670
Short-term investments	20,279	10,715
Accounts receivable, net of allowance for doubtful accounts of $42 and $36 in 2011 and 2010, respectively	11,223	11,521
Inventories	24,582	17,400
Prepaid expenses and other current assets	2,313	1,050
Deferred income taxes	755	625
Total Current Assets	83,742	51,981
Property, Plant and Equipment	114,975	103,789
Less accumulated depreciation and amortization	58,605	53,125
	56,370	50,664
Other Assets and Deferred Charges:		
Patents and licenses, net of accumulated amortization of $10,691 and $10,419 in 2011 and 2010, respectively	999	1,249
Goodwill	9,730	9,730
Other	718	737
Long-term investments	10,336	20,291
	21,783	32,007
Total Assets	$ 161,895	$ 134,652

The accompanying notes are an integral part of these statements.

Liabilities and Stockholders' Equity:	2011	2010
	(in thousands)	
Current Liabilities:		
Accounts payable	$ 3,642	$ 2,550
Accrued liabilities	5,566	4,650
Accrued income and other taxes	835	552
Total Current Liabilities	10,043	7,752
Line of credit	—	—
Other Liabilities and Deferred Credits:		
Deferred income taxes	10,902	8,188
Other	2,436	2,095
	13,338	10,283
Total Liabilities	23,381	18,035
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	25,452	24,331
Retained earnings	153,618	131,286
Treasury shares, 1,404 shares in 2011 and 1,404 shares in 2010, at cost	(40,898)	(39,342)
Total Stockholders' Equity	138,514	116,617
Total Liabilities and Stockholders' Equity	$ 161,895	$ 134,652

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2011, 2010 and 2009

	2011	2010	2009
	(in thousands, except per share amounts)		
Revenues	**$ 117,704**	$ 108,569	$ 100,643
Cost of Goods Sold	**57,697**	57,655	55,312
Gross Profit	**60,007**	50,914	45,331
Operating Expenses:			
Selling	**5,325**	5,368	5,650
General and administrative	**13,646**	11,900	11,623
Research and development	**2,868**	2,669	3,054
	21,839	19,937	20,327
Operating Income	**38,168**	30,977	25,004
Interest Income	**1,295**	1,009	578
Other Income (Expense), net	**12**	2	2
Income before Provision for Income Taxes	**39,475**	31,988	25,584
Provision for Income Taxes	**(13,437)**	(11,036)	(8,741)
Net Income	**$ 26,038**	$ 20,952	$ 16,843
Net Income Per Basic Share	**$ 12.90**	$ 10.38	$ 8.51
Weighted Average Basic Shares Outstanding	**2,019**	2,018	1,979
Net Income Per Diluted Share	**$ 12.82**	$ 10.32	$ 8.36
Weighted Average Diluted Shares Outstanding	**2,031**	2,030	2,015
Dividends Per Common Share	**$ 1.82**	$ 10.56	$ 1.32

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2011, 2010 and 2009

	2011	2010	2009
		(in thousands)	
Cash Flows From Operating Activities:			
Net income	$ **26,038**	$ 20,952	$ 16,843
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**6,544**	7,041	7,163
Deferred income taxes	**2,584**	309	608
Stock-based compensation	**1,047**	606	668
Pension charge	**—**	—	989
	36,213	28,908	26,271
Changes in operating assets and liabilities:			
Accounts receivable	**298**	(495)	(151)
Inventories	**(7,182)**	1,275	1,494
Prepaid expenses and other current assets	**(1,263)**	(69)	(262)
Other non-current assets	**18**	(57)	434
Accounts payable and accrued liabilities	**2,008**	1,075	643
Accrued income and other taxes	**283**	(5)	(174)
Other non-current liabilities	**341**	609	144
	30,716	31,241	28,399
Cash Flows From Investing Activities:			
Property, plant and equipment additions	**(11,999)**	(4,293)	(6,591)
Purchase of investments	**(14,723)**	(19,117)	(15,485)
Proceeds from maturities of investments	**14,290**	4,000	4,625
Net change in accrued interest, premiums, and discounts on investments	**824**	(183)	(155)
	(11,608)	(19,593)	(17,606)
Cash Flows From Financing Activities:			
Exercise of stock options	—	542	459
Shares tendered for employees' taxes on stock-based compensation	**(78)**	(725)	(122)
Tax benefit related to stock-based compensation	**79**	1,239	121
Purchase of treasury stock	**(1,513)**	(1,407)	—
Dividends paid	**(3,676)**	(21,321)	(2,613)
	(5,188)	(21,672)	(2,155)
Net change in cash and cash equivalents	**13,920**	(10,024)	8,638
Cash and cash equivalents, beginning of year	**10,670**	20,694	12,056
Cash and cash equivalents, end of year	$ **24,590**	$ 10,670	$ 20,694
Cash paid for:			
Income taxes	$ **11,921**	$ 9,080	$ 8,170

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the year ended December 31, 2011, 2010 and 2009 (in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares Outstanding	Amount	Shares	Amount				
Balances, January 1, 2009	**1,968**	**$ 342**	**1,452**	**$ (35,651)**	**$ 19,130**	**$ (533)**	**$ 117,554**	**$ 100,842**
Net income							16,843	**16,843**
Recognition of pension plan settlement loss, net of income taxes of $286						533		**533**
Total comprehensive income						533	16,843	**17,376**
Tax benefit from stock-based compensation					121			**121**
Stock options and restricted stock	15		(15)	171	1,105			**1,276**
Shares surrendered in stock transactions	(3)		3	(256)				**(256)**
Dividends							(2,628)	**(2,628)**
Balances, December 31, 2009	**1,980**	**342**	**1,440**	**(35,736)**	**20,356**	**—**	**131,769**	**116,731**
Net income							20,952	**20,952**
Tax benefit from stock-based compensation					1,239			**1,239**
Stock options and restricted stock	64		(64)	671	2,736			**3,407**
Shares surrendered in stock transactions	(18)		18	(2,870)				**(2,870)**
Purchase of treasury stock	(10)		10	(1,407)				**(1,407)**
Dividends							(21,435)	**(21,435)**
Balances, December 31, 2010	**2,016**	**342**	**1,404**	**(39,342)**	**24,331**	**—**	**131,286**	**116,617**
Net income							26,038	**26,038**
Tax benefit from stock-based compensation					79			**79**
Stock options and restricted stock	8		(8)	35	1,042			**1,077**
Shares surrendered in stock transactions				(78)				**(78)**
Purchase of treasury stock	(8)		8	(1,513)				**(1,513)**
Dividends							(3,706)	**(3,706)**
Balances, December 31, 2011	**2,016**	**$ 342**	**1,404**	**$ (40,898)**	**$ 25,452**	**$ —**	**$ 153,618**	**$ 138,514**

The accompanying notes are an integral part of these statements.

ATRION CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Atrion Corporation and its subsidiaries ("we," "our," "us," "Atrion" or the "Company") develop and manufacture products primarily for medical applications. We market our products throughout the United States and internationally. Our customers include hospitals, distributors, and other manufacturers. Atrion Corporation's principal subsidiaries through which these operations are conducted are Atrion Medical Products, Inc., Halkey-Roberts Corporation and Quest Medical, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of Atrion Corporation and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Trade Receivables

Trade accounts receivable are recorded at the original sales price to the customer. We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the failure of customers to make required payments. On an ongoing basis, the collectability of accounts receivable is assessed based upon historical collection trends, current economic factors and the assessment of the collectability of specific accounts. We evaluate the collectability of specific accounts and determine when to grant credit to our customers using a combination of factors, including the age of the outstanding balances, evaluation of customers' current and past financial condition, recent payment history, current economic environment, and discussions with appropriate Company personnel and with the customers directly. Accounts are written off when we determine the receivable will not be collected.

Investments

Our investments consist of taxable high-grade corporate bonds. Our investment policy is to seek to preserve principal and maintain adequate liquidity while at the same time maximizing yields without significantly increasing risk. We are required to classify our investments as trading, available-for-sale or held-to-maturity. Our investments are accounted for as held-to-maturity since we have the positive intent and ability to hold these investments to maturity. These investments are reported at cost, adjusted for premiums and discounts that are recognized in interest income, using a method that approximates the effective interest method, over the period to maturity and unrealized gains and losses are excluded from earnings. We consider as current assets those investments which will mature in the next 12 months. The remaining investments are considered non-current assets.

Inventories

Inventories are stated at the lower of cost (including materials, direct labor and applicable overhead) or market. Cost is determined by using the first-in, first-out method. The following table details the major components of inventory (in thousands):

	December 31,			
	2011		2010	
Raw materials	$	**9,074**	$	7,888
Work in process		**4,843**		3,985
Finished goods		**10,665**		5,527
Total inventories	$	**24,582**	$	17,400

Accounts Payable

We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2011 and 2010, disbursements totaling approximately $155,000 and $282,000, 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* ("ASC 740"). ASC 740 requires the asset and liability method for the recording of deferred income taxes, whereby deferred tax assets and liabilities are recognized based on the tax effects of temporary differences between the financial statement and the tax bases of assets and liabilities, as measured at current enacted tax rates. When appropriate, we evaluate the need for a valuation allowance to reduce deferred tax assets.

ASC 740 also requires the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attributes of income tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not of being sustained.

Our uncertain tax positions are recorded as "Other non-current liabilities." We classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision.

Property, Plant and Equipment

Property, plant and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Additions and improvements are capitalized, including all material, labor and engineering costs to design, install or improve the asset. Expenditures for repairs and maintenance are charged to expense as incurred. The following table represents a summary of property, plant and equipment at original cost (in thousands):

	December 31,				
	2011		2010		Useful Lives
Land	$	**5,260**	$	5,260	—
Buildings		**30,579**		29,798	30-40 yrs
Machinery and equipment		**79,136**		68,731	3-15 yrs
Total property, plant and equipment	$	**114,975**	$	103,789	

Depreciation expense of $6,272,000, $6,769,000 and $6,820,000 was recorded for the years ended December 31, 2011, 2010 and 2009, respectively. Depreciation expense is recorded in either cost of goods sold or operating expenses based on the associated assets' usage.

Patents and Licenses

Costs for patents and licenses acquired are determined at acquisition date. Patents and licenses are amortized over the useful lives of the individual patents and licenses, which are from 7 to 19 years. Patents and licenses are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Goodwill

Goodwill represents the excess of cost over the fair value of tangible and identifiable intangible net assets acquired. Annual impairment testing for goodwill is done using a fair-value-based test. Goodwill is also reviewed whenever events or changes in circumstances indicate a change in value may have occurred. We have identified three reporting units where goodwill was recorded for purposes of testing goodwill impairment annually: (1) Atrion Medical Products, Inc., (2) Halkey-Roberts Corporation and (3) Quest Medical, Inc. The total carrying amount of goodwill in each of the years ended December 31, 2011, 2010 and 2009 was $9,730,000.

Current Accrued Liabilities

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

	December 31,	
	2011	2010
Accrued payroll and related expenses	$ 4,409	$ 3,833
Accrued vacation	195	171
Accrued professional fees	613	215
Other accrued liabilities	349	431
Total accrued liabilities	$ 5,566	$ 4,650

Revenues

We recognize revenue when our products are shipped to our customers, provided an arrangement exists, the fee is fixed and determinable and collectability is reasonably assured. All risks and rewards of ownership pass to the customer upon shipment. Net sales represent gross sales invoiced to customers, less certain related charges, including discounts, returns and other allowances. Revenues are recorded exclusive of sales and similar taxes. Returns, discounts and other allowances have been insignificant historically.

Shipping and Handling Policy

Shipping and handling fees charged to customers are reported as revenue and all shipping and handling costs incurred related to products sold are reported as cost of goods sold.

Research and Development Costs

Research and development costs relating to the development of new products and improvements of existing products are expensed as incurred.

Advertising

Advertising production costs are expensed as incurred. Costs for print placement media are expensed in the period the advertising first appears. Total advertising expenses were approximately $98,000, $117,000 and $126,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Stock-Based Compensation

We have stock-based compensation plans covering certain of our officers, directors and key employees. As explained in detail in Note 8, we account for stock-based compensation utilizing the fair value recognition provisions of ASC 718, *Compensation-Stock Compensation*, ("ASC 718").

Pension Plan

We terminated our pension plan in 2007 and had settled all obligations under the plan, and no assets, liabilities or stockholders equity accounts remained for the plan, as of December 31, 2009. Prior to final settlement in the fourth quarter of 2009, our pension plan benefits were expensed as applicable employees earned benefits. The recognition of expenses was significantly impacted by estimates made by management, such as discount rates used to value certain liabilities and expected return on assets. We used third-party specialists to assist management in appropriately measuring the expense associated with our pension plan benefits. All unrecognized losses, net of tax, were recorded as accumulated other comprehensive loss within stockholders' equity.

Comprehensive Income

Comprehensive income includes net income plus other comprehensive income, which for us in 2009 consisted of recognition of a loss as a result of pension plan settlement transactions. There were no other comprehensive income items during 2010 and 2011.

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board, or FASB, issued authoritative guidance in ASC 350 "*Intangibles - Goodwill and Other*" intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. We have chosen to adopt this standard as of December 31, 2011, and it had no effect on our financial statements.

From time to time, new accounting pronouncements applicable to us are issued by the FASB or other standards setting bodies, which we will adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

Fair Value Measurements

Accounting standards use a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

As of December 31, 2011 and 2010, we held certain investments that were required to be measured for disclosure purposes at fair value on a recurring basis. These investments are considered Level 2 assets. The fair value of our investments is estimated using recently executed transactions and market price quotations. At December 31, 2011 and 2010, the fair value of our investments approximated or exceeded the carrying value of the investments (see Note 2).

The carrying values of our other financial instruments including cash and cash equivalents, money market accounts, accounts receivable, accounts payable, accrued liabilities, and accrued income and other taxes approximated fair value due to their liquid and short-term nature.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, investments and accounts receivable.

Our cash is held in high credit quality financial institutions. As of December 31, 2011, $4.5 million in cash and cash equivalents was invested in a money market mutual fund, and $20.1 million in cash and cash equivalents was deposited at two major financial institutions in the United States. At times, deposits held with financial institutions exceed the amount of FDIC insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. At December 31, 2011, our uninsured cash and cash equivalents totaled approximately $23.0 million.

We have invested a portion of our cash in debt instruments of corporations with strong credit ratings.

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, 2011 and 2010, we had allowances for doubtful account balances of approximately $42,000 and $36,000, respectively. The carrying amount of the receivables approximates their fair value. Our largest customer accounted for 12.9%, 14.1% and 15.0% of operating revenues in 2011, 2010 and 2009, respectively. That same customer accounted for 6.7%, 16.2% and 16.1% of accounts receivable as of December 31, 2011, 2010 and 2009, respectively. No other customer exceeded 10% of our operating revenues for the years then ended, or accounts receivable as of, December 31, 2011, 2010 or 2009.

(2) Investments

As of December 31, 2011 and 2010, we held certain investments that were required to be measured for disclosure purposes at fair value on a recurring basis. These investments were considered Level 2 investments. We consider as current assets those investments which will mature in the next 12 months. The remaining investments are considered non-current assets. The amortized cost and fair value of our investments that are being accounted for as held-to-maturity securities, and the related gross unrealized gains and losses, were as follows as of the dates shown below (in thousands):

		Gross Unrealized		
	Cost	Gains	Losses	Fair Value
As of December 31, 2011				
Short-term Investments:				
Corporate bonds	$ 20,279	$ 44	$ 8	$ 20,315
Long-term Investments:				
Corporate bonds	$ 10,336	$ —	$ 55	$ 10,281
As of December 31, 2010				
Short-term Investments:				
Corporate bonds	$ 10,715	$ 178	$ —	$ 10,893
Long-term Investments:				
Corporate bonds	$ 20,291	$ 602	$ —	$ 20,893

At December 31, 2011, the length of time until maturity of these securities ranged from three to 34 months.

(3) Patents and Licenses

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

December 31, 2011		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
14.88	**$ 11,690**	**$ 10,691**

December 31, 2010		
Weighted Average Original Life (years)	Gross Carrying Amount	Accumulated Amortization
14.76	$ 11,668	$ 10,419

Aggregate amortization expense for patents and licenses was $272,000 for 2011, $272,000 for 2010 and $343,000 for 2009. Estimated future amortization expense for each of the years set forth below ending December 31, is as follows (in thousands):

Year	Amount
2012	$ 162
2013	$ 162
2014	$ 162
2015	$ 162
2016	$ 162

(4) Line of Credit

We have a revolving credit facility with a money center bank which is secured by substantially all our inventories, equipment and accounts receivable. Effective October 1, 2011, our credit facility was amended to increase the maximum principal amount of our revolving line of credit from $25.0 million to $40.0 million. Interest under the credit facility is assessed at 30-day, 60-day or 90-day LIBOR, as selected by us, plus one percent (1.30 percent at December 31, 2011) and is payable monthly. We had no outstanding borrowings under the credit facility at December 31, 2011 or 2010. The credit facility amendment also extended the termination date for advances under the revolving line of credit to October 1, 2016. At any time during the term, we may convert any or all outstanding amounts under the credit facility to a term loan with a maturity of two years. Our ability to borrow funds under the credit facility from time to time is contingent on meeting certain covenants in the loan agreement, the most restrictive of which is the ratio of total debt to earnings before interest, income tax, depreciation and amortization. At December 31, 2011, we were in compliance with all of those covenants.

(5) Income Taxes

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

	Year ended December 31,		
	2011	2010	2009
Current — Federal	$ 9,973	$ 9,916	$ 7,421
Current — State	880	831	712
	10,853	10,747	8,133
Deferred — Federal	2,372	293	560
Deferred — State	212	(4)	48
	2,584	289	608
Total income tax expense	$ 13,437	$ 11,036	$ 8,741

Temporary differences and carryforwards which have given rise to deferred income tax assets and liabilities as of December 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Deferred tax assets:		
Benefit plans	$ 1,021	$ 695
Inventories	506	495
Other	206	89
Total deferred tax assets	$ 1,733	$ 1,279
Deferred tax liabilities:		
Property, plant and equipment	$ 9,147	$ 6,359
Patents and goodwill	2,719	2,466
Other	14	17
Total deferred tax liabilities	$ 11,880	$ 8,842
Net deferred tax liability	$ 10,147	$ 7,563
Balance Sheet classification:		
Non-current deferred income tax liability	$ 10,902	$ 8,188
Current deferred income tax asset	755	625
Net deferred tax liability	$ 10,147	$ 7,563

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,		
	2011	2010	2009
Income tax expense at the statutory federal income tax rate	$ 13,816	$ 11,196	$ 8,954
Increase (decrease) resulting from:			
State income taxes	710	538	421
Section 199 manufacturing deduction	(996)	(957)	(491)
Other, net	(93)	259	(143)
Total income tax expense	$ 13,437	$ 11,036	$ 8,741

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, 2009	$ 1,022
Increases in tax positions for prior years	204
Increases in tax positions for current year	332
Lapse in statute of limitations	(393)
Gross unrecognized tax benefits at December 31, 2009	$ 1,165
Increases in tax positions for prior years	(14)
Increases in tax positions for current year	322
Lapse in statute of limitations	(53)
Gross unrecognized tax benefits at December 31, 2010	$ 1,420
Decreases in tax positions for prior years	(77)
Increases in tax positions for current year	134
Lapse in statute of limitations	(216)
Gross unrecognized tax benefits at December 31, 2011	$ 1,261

As of December 31, 2011 all of the unrecognized tax benefits, which were comprised of uncertain tax positions, would impact the effective tax rate if recognized. Unrecognized tax benefits that are affected by statutes of limitation that expire within the next 12 months are immaterial.

We are subject to United States federal income tax as well as to income tax of multiple state jurisdictions. We have concluded all United States federal income tax matters for years through 2005. In January 2009, the Internal Revenue Service began examining certain of our United States federal income tax returns for 2006, 2007 and 2008. This audit is ongoing and we believe we have adequately reserved for the costs and liabilities that may arise as a result of this examination. All material state and local income tax matters have been concluded for years through 2007.

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 $77,000, $84,000 and $61,000 at December 31, 2011, 2010 and 2009, respectively. Tax expense for the years ended December 31, 2010 included net interest expense of $23,000. Tax expense for the year ended December 31, 2009 and 2011 included a net interest benefit of $12,000 and $7,000, respectively.

(6) Stockholders' Equity

Our Board of Directors has at various times authorized repurchases of our stock in open-market or negotiated transactions at such times and at such prices as management may from time to time decide. On August 16, 2011, our Board of Directors terminated the stock repurchase program that was adopted in April 2000 and replaced it with a new stock repurchase program pursuant to which we can repurchase up to 200,000 shares of our common stock from time to time in open market or privately-negotiated transactions. A total of 58,105 shares remained eligible for repurchase under the April 2000 program when it was terminated. The new stock repurchase program has no expiration date but may be terminated by the Board of Directors at any time. In 2011 we repurchased 8,000 shares under the new program leaving a balance of 192,000 shares available for repurchase as of December 31, 2011. In 2010 we repurchased 9,995 shares in the open market. No repurchases were made in 2009.

We have increased our quarterly cash dividend payments in September of each of the past three years. The quarterly dividend was increased to $.36 per share in September 2009, to $.42 per share in September 2010 and to $.49 in September 2011. On January 29, 2010 and December 23, 2010 we also made special cash dividend payments to stockholders of $6.00 and $3.00 per share, respectively.

We have a Rights Plan, which is intended to protect the interests of stockholders in the event of a hostile attempt to take over the Company. The rights, which are not presently exercisable and do not have any voting powers, represent the right of our stockholders to purchase at a substantial discount, upon the occurrence of certain events, shares of our common stock or of an acquiring company involved in a business combination with us. This plan, which was adopted in August 2006, expires in August 2016.

(7) Income Per Share

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

	Year ended December 31,		
	2011	2010	2009
	(in thousands, except per share amounts)		
Net Income	$ 26,038	$ 20,952	$ 16,843
Weighted average basic shares outstanding	2,019	2,018	1,979
Add: Effect of dilutive securities	12	12	36
Weighted average diluted shares outstanding	2,031	2,030	2,015
Net Income Per Share			
Basic	$ 12.90	$ 10.38	$ 8.51
Diluted	$ 12.82	$ 10.32	$ 8.36

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, unvested restricted stock, restricted stock units and deferred stock units were included in the calculation of weighted average diluted shares outstanding using the treasury stock method.

(8) Stock Plans

At December 31, 2011, we had four stock-based compensation plans which are described more fully below. We account for our plans under ASC 718, and the disclosures that follow are based on applying ASC 718. ASC 718 requires that cash flows from the use of stock-based compensation resulting from tax benefits in excess of recognized compensation cost (excess tax benefits) be classified as financing cash flows. We recorded $79,000, $1,239,000 and $121,000 of such excess tax benefits as financing cash flows in 2011, 2010 and 2009, respectively.

Our 1997 Stock Incentive Plan (the "1997 Plan") provides for the grant to key employees of incentive and nonqualified stock options, stock appreciation rights, restricted stock and performance shares. In addition, under the 1997 Plan, outside directors (directors who are not employees of the Company or any subsidiary) each received automatic annual grants of nonqualified stock options to purchase 2,000 shares of common stock until 2005 when that plan was amended to provide that no additional stock options may be granted to outside directors thereunder. Under the 1997 Plan, 624,425 shares, in the aggregate, of common stock were reserved for grants. The purchase price of shares issued on the exercise of incentive options was required to be at least equal to the fair market value of such shares on the date of grant. The purchase price for shares issued on the exercise of nonqualified options and restricted and performance shares was fixed by the Compensation Committee of the Board of Directors. The options granted become exercisable as determined by the Compensation Committee and expire no later than 10 years after the date of grant.

Our Amended and Restated 2006 Equity Incentive Plan (the "2006 Plan") provides for the grant to key employees, non-employee directors and consultants of incentive and nonqualified stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance shares and other stock-based awards. Under the 2006 Plan, 200,000 shares, in the aggregate, of common stock have been reserved for awards. The purchase price of shares issued on the exercise of options must be at least equal to the fair market value of such shares on the date of grant. The purchase price for restricted and performance shares is fixed by the Compensation Committee of the Board of Directors. The options granted become exercisable and expire as determined by the Compensation Committee except that incentive options expire no later than 10 years after the date of grant.

In May 2007, we adopted our Deferred Compensation Plan for Non-Employee Directors and 2,500 shares of our common stock were reserved for issuance thereunder. This plan, as amended (the "Deferred Compensation Plan"), allows our non-employee directors to elect to receive stock units in lieu of all or part of the cash fees they are receiving for their services as directors. On the first business day of each calendar year, each participating non-employee director is credited with a number of stock units equal to the cash fees such director has elected to forego for such year divided by the closing price of our common stock on the next preceding date on which shares of our stock were traded. The stock units are converted to shares of our common stock on a one-for-one basis at a future date as elected in advance by the director, but no later than the January following the year in which the director ceases to serve on the Board of Directors, and the shares are delivered to the director.

In May 2007, we also adopted our Non-Employee Director Stock Purchase Plan (as amended, the "Director Stock Purchase Plan") pursuant to which our non-employee directors may elect to receive on the first business day of the calendar year fully-vested stock and restricted stock in lieu of some or all of their fees payable to them during such year. The foregone fees are converted into shares of fully-vested stock and restricted stock on the first business day of such calendar year based on the closing price of our common stock on the next preceding date on which shares of our stock were traded. The restricted stock vests in equal amounts on the first day of the next three succeeding calendar quarters, provided the non-employee director is then serving on our Board of Directors. At the time the Director Stock Purchase Plan was adopted, 2,500 shares were reserved for the issuance thereunder. As of December 31, 2011, there remained 1,180 shares reserved for issuance under such plan.

Option transactions for the three years ended December 31, 2011 are as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at January 1, 2009	99,000	$ 51.96
Granted in 2009	—	—
Exercised in 2009	(14,000)	$ 42.29
Options outstanding at December 31, 2009	85,000	$53.56
Granted in 2010	—	—
Exercised in 2010	(62,792)	$ 42.80
Options outstanding at December 31, 2010	22,208	$ 83.96
Granted in 2011	25,000	$ 181.44
Exercised in 2011	—	—
Options outstanding at December 31, 2011	47,208	$ 135.58
Exercisable options at December 31, 2009	66,750	$ 41.49
Exercisable options at December 31, 2010	14,208	$ 68.65
Exercisable options at December 31, 2010	18,208	$ 77.99

All unvested options outstanding at December 31, 2011 are expected to vest. As of December 31, 2011, there remained 97,826 shares for which options may be granted in the future under the 2006 Plan. The following table summarizes information about stock options outstanding at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$26.13-$43.75	8,000	1.8 years	$ 35.73	8,000	$ 35.73
$111.06-$111.50	14,208	1.4 years	$ 111.12	10,208	$ 111.10
$181.44	25,000	6.4 years	$ 181.44	—	—
	47,208	**4.1 years**	**$ 135.58**	**18,208**	**$ 77.99**

We estimate the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. None of our grants includes performance-based or market-based vesting conditions. The expected life represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The fair value of stock-based payments, funded with options, is valued using the Black-Scholes valuation method with a volatility factor based on our historical stock trading history. We base the risk-free interest rate using the Black-Scholes valuation method on the implied yield currently available on U. S. Treasury securities with an equivalent term. We base the dividend yield used in the Black-Scholes valuation method on our dividend history.

There were no options granted in 2010 and 2009. The fair value for the options granted in 2011 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2011:

	2011	2010	2009
Risk-free interest rate	**1.7%**	—	—
Dividend yield	**1%**	—	—
Volatility factor	**25.0%**	—	—
Expected life	**5 years**	—	—

The weighted average grant date fair value of the options granted in 2011 was $40.64. There were no options exercised in 2011. The total intrinsic values of options exercised during 2010 and 2009 were $7.5 million and $.6 million, respectively. The total intrinsic values of options outstanding and options currently exercisable at December 31, 2011, were $4.9 million and $3.0 million, respectively.

During each of 2010 and 2011, we made one award of restricted stock under the 2006 Plan. Under the terms of the 2010 award, the restrictions lapse over a two-year period. Under the terms of the 2011 award, the restrictions lapse over a five-year period. In both cases, 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. Unvested shares are generally forfeited on termination of employment unless otherwise provided in the participant's employment agreement or, in certain instances, if the termination is in connection with a change in control. Changes in restricted stock for the years ended December 31, 2009, 2010 and 2011 were as follows:

	Shares	Weighted Average Award Date Fair Value Per Share
Restricted stock at January 1, 2009	8,500	$ 90.31
Granted in 2009	—	—
Vested in 2009	(2,500)	$ 113.90
Restricted stock at December 31, 2009	6,000	$ 91.46
Granted in 2010	200	$ 150.23
Vested in 2010	(2,500)	$ 144.94
Restricted stock at December 31, 2010	3,700	$ 97.29
Granted in 2011	7,500	$ 181.44
Vested in 2011	(2,600)	$ 185.13
Restricted stock at December 31, 2011	8,600	$ 172.89

All shares of unvested restricted stock outstanding at December 31, 2011 are expected to vest. The total intrinsic value of unvested restricted stock awards at December 31, 2011, 2010 and 2009 was $2,066,000, $664,000 and $934,000, respectively. The total fair value of restricted stock vested during 2011, 2010 and 2009 was $481,000, $362,000 and $285,000, respectively.

During 2011 and 2009, restricted stock units were granted to certain employees under the 2006 Plan. All of these stock units are convertible to shares of stock on a one-for-one basis when the restrictions lapse, which is generally after a five-year period. Unvested stock units are forfeited on termination of employment. During the vesting period, holders of all restricted stock units earn dividends as additional units. During 2011, 2010 and 2009, certain non-employee directors elected to receive stock units in lieu of cash fees for their services as members of the Board of Directors. Changes in stock units for the three years ended December 31, 2011 were as follows:

	Restricted Stock Units	Weighted Average Award Date Fair Value Per Unit	Directors' Stock Units	Weighted Average Award Date Fair Value Per Unit
Unvested stock units at January 1, 2009	10,117	$ 96.09	—	
Granted in 2009	825	$ 102.08	81	$ 99.35
Vested in 2009	—		(81)	$ 99.35
Unvested stock units at December 31, 2009	10,942	$ 96.53	—	
Granted in 2010	736	$ 157.43	60	$ 155.04
Forfeited in 2010	(469)	$ 104.94	—	
Vested in 2010	—		(60)	$ 155.04
Unvested stock units at December 31, 2011	11,209	$ 100.19	—	
Granted in 2011	6,171	$ 181.33	42	$ 180.73
Vested in 2011	—		(42)	$ 180.73
Unvested stock units at December 31, 2011	17,380	$ 129.00	—	

All unvested restricted stock units at December 31, 2011 are expected to vest. No restricted stock units vested during 2011. The total intrinsic value of all outstanding stock units which were not convertible at December 31, 2011, including 254 stock units held for the accounts of non-employee directors, was $4,236,000. The total fair value of directors' stock units that vested was $8,000, $9,000 and $8,000 during 2011, 2010 and 2009, respectively. As of December 31, 2011, there remained 1,765 shares of common stock reserved for issuance at the end of deferral periods of stock units which may be credited in the future to non-employee directors.

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. Compensation related to restricted stock and restricted stock units is based on the fair market value of the stock on the date of the grant. These fair values are then amortized on a straight-line basis over the requisite service periods of the entire awards, which is generally the vesting period. For the years ended December 31, 2011, 2010 and 2009, we recorded share-based compensation expense as a "General and Administrative expense" in the amount of $1,047,000, $606,000 and $668,000, respectively, for all of the above mentioned share-based compensation arrangements. The total tax benefit recognized in the income statement from share-based compensation arrangements for the years ended December 31, 2011, 2010 and 2009, was $359,000, $204,000 and $226,000, respectively.

Unrecognized compensation cost information for our various share-based compensation types is shown below as of December 31, 2011:

	Unrecognized Compensation Cost	Weighted Average Remaining Years in Amortization Period
Stock options	$ 930,000	4.3
Restricted stock	1,245,000	4.3
Restricted stock units	1,077,000	4.2
Total	$ 3,252,000	

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

(9) Revenues From Major Customers

We had one major customer which represented approximately $15.1 million (12.9 percent), $15.3 million (14.1 percent) and $15.1 million (15.0 percent) of our net revenues during 2011, 2010 and 2009, respectively.

(10) Industry Segment and Geographic Information

We operate in one reportable industry segment: developing and manufacturing products primarily for medical applications and have no foreign operating subsidiaries. We have other product lines which include pressure relief valves and inflation systems, which are sold primarily to the aviation and marine industries. Due to the similarities in product technologies and manufacturing processes, these products are managed as part of our medical products segment. Our revenues from sales to customers outside the United States totaled approximately 42 percent, 40 percent and 39 percent of our net revenues in 2011, 2010 and 2009, respectively. We have no assets located outside the United States.

A summary of revenues by geographic territory, based on shipping destination, for 2011, 2010 and 2009 is as follows (in thousands):

	Year ended December 31,		
	2011	2010	2009
United States	$ 68,156	$ 64,854	$ 61,198
Canada	17,524	17,792	16,674
Other countries less than 10% of revenues	32,024	25,923	22,771
Total	$ 117,704	$ 108,569	$ 100,643

A summary of revenues by product line for 2011, 2010 and 2009 is as follows (in thousands):

	2011	2010	2009
Fluid Delivery	$ 45,274	$ 39,442	$ 35,540
Cardiovascular	34,072	31,280	29,051
Ophthalmology	19,581	19,370	19,452
Other	18,777	18,477	16,600
Total	$ 117,704	$ 108,569	$ 100,643

(11) Employee Retirement and Benefit Plans

In September 2007, we terminated our pension plan that was maintained for all our regular employees except those of Quest Medical, Inc. and employees hired after May 2005. Prior to termination, our funding policy was to make the annual contributions required by applicable regulations and recommended by our actuary. We used a December 31 measurement date for the plan. Affected employees accrued pension benefits through December 31, 2007, but did not accrue any additional benefits under the plan after that date. However, participants continued to earn interest credits on their account balances until all our obligations to plan participants were settled in October 2009. A pension termination settlement charge of $989,000 was recorded as a general and administrative expense in the fourth quarter of 2009 when all remaining plan obligations were settled. All assets remaining in the plan after the settlement was completed were transferred to our 401(k) plan in December 2009.

The components of net periodic pension cost for 2009 were as follows (in thousands):

Components of Net Periodic Pension Cost:	
Service cost	$ —
Interest cost	218
Expected return on assets	(215)
Actuarial loss	31
Settlement loss	989
Net periodic pension expense	$ 1,023

To determine the above net periodic pension cost, we used actuarial assumptions of 6% for discount rate and 5.25% for expected long-term return on assets.

Our expected long-term rate of return assumption was based upon the plan's actual long-term investment results as well as the long-term outlook for investment returns in the marketplace at the time the assumption was made.

Our pension plan assets were invested during 2009 in a money market account so that the settlement of the termination obligations could be completed after regulatory approvals were received. Final settlement of the plan termination occurred in the fourth quarter of 2009 when benefit distributions totaling $3.7 million were made to participants. After all plan obligations were settled, the remaining plan assets of $263,000 were transferred to our 401(k) plan to be used for contributions and plan expenses.

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 $487,000, $482,000 and $499,000 in 2011, 2010 and 2009, respectively.

(12) Commitments and Contingencies

From time to time and in the ordinary course of business, we may be subject to various claims, charges and litigation. In some cases, the claimants may seek damages, as well as other relief, which, if granted, could require significant expenditures. We accrue the estimated costs of settlement or damages when a loss is deemed probable and such costs are estimable, and accrue for legal costs associated with a loss contingency when a loss is probable and such amounts are estimable. Otherwise, these costs are expensed as incurred. If the estimate of a probable loss or defense costs is a range and no amount within the range is more likely, we accrue the minimum amount of the range. As of December 31, 2011 we had accrued $109,000 for legal fees and expenses that we expect to incur in connection with the litigation or arbitration of two 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 $6.5 million in potential future payments under this settlement as of December 31, 2011 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, 2011 could have resulted in payments aggregating $4.6 million.

(13) Subsequent Events

We evaluated all events or transactions that occurred after December 31, 2011 and determined we did not have any material recognizable subsequent events.

(14) Quarterly Financial Data (Unaudited)

Quarter Ended	Operating Revenue	Operating Income	Net Income	Income Per Basic Share	Income Per Diluted Share
	(in thousands, except per share amounts)				
3/31/11	$ 30,589	$ 10,096	$ 6,858	$ 3.40	$ 3.38
6/30/11	31,139	10,437	7,019	3.48	3.46
9/30/11	30,457	10,004	6,774	3.35	3.33
12/31/11	25,519	7,631	5,388	2.67	2.65
3/31/10	$ 26,902	$ 7,038	$ 4,697	$ 2.33	$ 2.31
6/30/10	27,881	8,180	5,431	2.69	2.67
9/30/10	27,156	8,003	5,400	2.68	2.66
12/31/10	26,630	7,755	5,423	2.69	2.67

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Atrion Corporation

We have audited the accompanying consolidated balance sheets of Atrion Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. Our audits of the basic consolidated financial statements included the financial statement schedule (not presented separately herein) listed in the index appearing under Item 15. *Exhibits and Financial Statement Schedules*. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atrion Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material aspects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Atrion Corporation and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 12, 2012 expressed an unqualified opinion.

Grant Thornton LLP

Grant Thornton LLP
Dallas, Texas
March 12, 2012

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, 2011 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control–Integrated Framework*. Based on this assessment, our management concluded that, as of December 31, 2011, our internal control over financial reporting was effective.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Atrion Corporation

We have audited Atrion Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Atrion Corporation'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 Atrion Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Atrion Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control–Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Atrion Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated March 12, 2012, expressed an unqualified opinion on those financial statements

Grant Thornton LLP

Grant Thornton LLP
Dallas, Texas
March 12, 2012

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 instrumentation and disposables used in dialysis and valves and inflation devices used in marine and aviation safety products. In 2011 approximately 42 percent of our sales were outside the United States.

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

Our strategy is to provide a broad selection of products in the areas of our expertise. Research and development efforts are focused on improving current products and developing highly-engineered products that meet customer needs in niche markets that are large enough to provide meaningful increases in sales. 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 indebtedness, to fund capital expenditures, to make investment purchases, 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, 2011, we reported revenues of $117.7 million, operating income of $38.2 million and net income of $26.0 million.

Results of Operations

Our net income was $26.0 million, or $12.90 per basic and $12.82 per diluted share, in 2011, compared to net income of $21.0 million, or $10.38 per basic and $10.32 per diluted share, in 2010 and net income of $16.8 million, or $8.51 per basic and $8.36 per diluted share, in 2009. The 2009 results included a $643,000 net of tax settlement charge, or $0.32 per diluted share, related to the termination of our defined benefit pension plans. Revenues were $117.7 million in 2011, compared with $108.6 million in 2010 and $100.6 million in 2009. The 8 percent revenue increases in 2011 over 2010 and in 2010 over 2009 were generally attributable to higher sales volumes.

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

	2011	2010	2009
Fluid Delivery	**$ 45,274**	$ 39,442	$ 35,540
Cardiovascular	**34,072**	31,280	29,051
Ophthalmology	**19,581**	19,370	19,452
Other	**18,777**	18,477	16,600
Total	**$ 117,704**	$ 108,569	$ 100,643

Our cost of goods sold was $57.7 million in each of 2011 and 2010 and $55.3 million in 2009. Increased sales volume, increased material costs, and increased manufacturing overhead costs were the primary contributors to the 4 percent increase in cost of goods sold for 2010 over 2009.

Gross profit in 2011 increased $9.1 million to $60.0 million, compared with $50.9 million in 2010 and $45.3 million in 2009. Our gross profit was 51 percent of revenues in 2011, 47 percent of revenues in 2010 and 45 percent of revenues in 2009. The increases in gross profit percentage in each of 2011 and 2010 from the prior year were primarily due to a favorable product mix, improvements in manufacturing efficiencies and the impact of cost-savings projects.

Operating expenses were $21.8 million in 2011, compared with $19.9 million in 2010 and $20.3 million in 2009. In 2011 increases in general and administrative, or G&A, expenses and increases in research and development, or R&D, expenses were partially offset by decreases in selling expenses. G&A expenses increased $1.7 million in 2011 as compared to 2010 primarily related to increased compensation and increased outside services. G&A expenses consist primarily of salaries and other related expenses of administrative, executive and financial personnel and outside professional fees. R&D expenses increased $199,000 in 2011 as compared to 2010 primarily related to increased compensation costs, increased supplies costs and increased outside services. R&D expenses consist primarily of salaries and other related expenses of our R&D personnel as well as costs associated with regulatory matters. In 2011, selling expenses decreased $43,000 primarily related to decreased compensation, advertising and promotional expenses. Selling expenses consist primarily of salaries, commissions and other related expenses for sales and marketing personnel, marketing, advertising and promotional expenses.

In 2010, decreases in selling expenses and R&D expenses were partially offset by increases in G&A expenses. R&D expenses decreased $385,000 in 2010 as compared to 2009 primarily related to decreased compensation costs and decreased outside services. In 2010, selling expenses decreased $282,000 primarily related to decreased compensation, advertising and promotional expenses. In 2010, G&A expenses increased $277,000 over 2009 G&A expenses. G&A expenses in 2009 included a $989,000 settlement charge related to the termination of our defined benefit pension plans. Excluding the 2009 pension termination settlement charge; G&A expenses in 2010 increased $1.3 million, primarily as a result of increased compensation costs and outside services.

Our operating income for 2011 was $38.2 million, compared with $31.0 million in 2010 and $25.0 million in 2009. Operating income was 32 percent of revenues for 2011, 29 percent of revenues for 2010 and 25 percent of revenues in 2009. The increase in gross profit partially offset by the increase in operating expenses described above was the major contributor to the operating income improvement in 2011 compared to the previous year. The increase in 2010 gross profit in addition to the decrease in operating expenses described above were the major contributors to the operating income improvement in 2010 compared to the previous year.

Our interest income for 2011 was $1.3 million compared with $1.0 million in 2010 and $578,000 in 2009. The increases in 2011 and 2010 were primarily related to the increased level of cash and investments during 2011 and 2010. Results for 2011 and 2010 were also favorably impacted by investing in bonds with slightly longer maturities and higher yields.

Income tax expense in 2011 totaled $13.4 million, compared with $11.0 million in 2010 and $8.7 million in 2009. The effective tax rates for 2011, 2010 and 2009 were 34.0 percent, 34.5 percent and 34.2 percent, respectively. Benefits from tax incentives for domestic production totaled $996,000 in 2011, $957,000 in 2010 and $491,000 in 2009. Benefits from changes in uncertain tax positions totaled $159,000 in 2011. Expenses from changes in uncertain tax positions totaled $255,000 in 2010 and $143,000 in 2009. We expect our effective tax rate for 2012 to be approximately 34.5 percent.

In February 2012, we learned that a large customer with which we have a long-term contract had accumulated too large of an inventory of one of our products, which we anticipate will result in a significant reduction in shipments to that customer in 2012. Due to this and other factors, we expect our earnings for the full year of 2012 to decline by approximately 10 percent from 2011 levels. We believe that the bulk of this decline will occur in the first two quarters of 2012. We expect our earnings per share to return to double-digit annual growth in 2013.

Liquidity and Capital Resources

Effective October 1, 2011, our revolving credit facility with a money center bank was amended to increase the maximum principal amount of our revolving line of credit from $25.0 million to $40.0 million and to extend the termination date for advances under the revolving line of credit to October 1, 2016. The credit facility is to be utilized for the funding of operations and for major capital projects or acquisitions, subject to certain limitations and restrictions. Borrowings under the credit facility bear interest that is payable monthly at 30-day, 60-day or 90-day LIBOR, as selected by us, plus one percent. From time to time prior to October 1, 2016 and assuming an event of default is not then existing, we can convert outstanding advances under the revolving line of credit to term loans with a term of up to two years. We had no outstanding borrowings under our credit facility at December 31, 2011 or at December 31, 2010. The credit facility contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At December 31, 2011, we were in compliance with all financial covenants. We believe that the bank providing the credit facility is highly-rated and that the entire $40.0 million under the credit facility is currently available to us. If that bank were unable to provide such funds, we believe that such inability would not impact our ability to fund operations.

At December 31, 2011, we had a total of $55.3 million in cash and cash equivalents, short-term investments and long-term investments, an increase of $13.6 million from December 31, 2010. The principal contributor to this increase was the cash generated by operating activities, which was partially offset by payments for acquisitions of property, plant and equipment and the payment of dividends.

Cash flows provided by operations of $30.7 million in 2011 were primarily comprised of net income plus the net effect of non-cash expenses less net changes in working capital items. Inventories were the primary contributors to the negative net change in working capital items. The change in inventories was primarily related to increased stocking levels necessary to mitigate a supplier risk, to assure uninterrupted deliveries and to ensure high customer service levels. In addition, in late 2011 we rescheduled a shipment from late 2011 until early 2012 at the request of a large customer with which we have a long-term contract. In February 2012 we learned that this customer had accumulated too large an inventory of one of our products, which we anticipate will result in a significant reduction in shipments to that customer.

At December 31, 2011, we had working capital of $73.7 million, including $24.6 million in cash and cash equivalents and $20.3 million in short-term investments. The $29.5 million increase in working capital during 2011 was primarily related to increases in cash and cash equivalents, short-term investments and inventories partially offset by increases in accounts payable and accrued liabilities. The net increase in cash and short-term investments was primarily related to amounts generated from operations. Working capital items consisted primarily of cash, accounts receivable, short-term investments, inventories and other current assets minus accounts payable, and other current liabilities.

Capital expenditures for property, plant and equipment totaled $12.0 million in 2011, compared with $4.3 million in 2010 and $6.6 million in 2009. These expenditures were primarily for the addition of machinery and equipment. We expect 2012 capital expenditures, primarily machinery and equipment, to increase substantially over the average of the levels expended during each of the past three years.

We paid cash dividends totaling $3.7 million, $21.3 million and $2.6 million during 2011, 2010 and 2009, respectively. In January 2010, our Board of Directors declared a special cash dividend of $6.00 per share on our outstanding common stock. This dividend which totaled $12.1 million was paid on January 29, 2010. In December 2010, our Board of Directors declared a special cash dividend of $3.00 per share on our outstanding common stock. This dividend which totaled $6.0 million was paid on December 23, 2010. We expect to fund future dividend payments with cash flows from operations.

The table below summarizes debt, lease and other contractual obligations outstanding at December 31, 2011:

Contractual Obligations	Payments Due by Period: Total	2012	2013–2014	2015 and thereafter
	(in thousands)			
Purchase Obligations	$ 13,955	$ 13,895	$ 60	$ —
Total	$ 13,955	$ 13,895	$ 60	$ —

In the current credit and financial markets, many companies are finding it difficult to gain access to capital resources. In spite of the current economic conditions, we believe that our cash, cash equivalents, short-term investments and long-term investments, cash flows from operations and available borrowings of up to $40.0 million under our credit facility will be sufficient to fund our cash requirements for at least the foreseeable future. We believe that our strong financial position would allow us to access equity or debt financing should that be necessary. Additionally, we expect that our cash and cash equivalents and investments, as a whole, will continue to increase in 2012.

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 September 2011, the Financial Accounting Standards Board, or FASB, issued authoritative guidance in ASC 350 "*Intangibles–Goodwill and Other*" intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. We have chosen to adopt this standard as of December 31, 2011, and it had no effect on our financial statements.

From time to time, new accounting standards updates applicable to us are issued by the FASB, which we will adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of recently issued standards updates that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. In the preparation of these financial statements, we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We believe the following discussion addresses our most critical accounting policies and estimates, which are those that are most important to the portrayal of our financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Actual results could differ significantly from those estimates under different assumptions and conditions.

From time to time, we accrue legal costs associated with certain litigation. In making determinations of likely outcomes of litigation matters, we consider the evaluation of legal counsel knowledgeable about each matter, case law and other case-specific issues. We believe these accruals are adequate to cover the legal fees and expenses associated with litigating these matters. However, the time and cost required to litigate these matters as well as the outcomes of the proceedings may vary from what we have projected.

We maintain an allowance for doubtful accounts to reflect estimated losses resulting from the failure of customers to make required payments. On an ongoing basis, the collectability of accounts receivable is assessed based upon historical collection trends, current economic factors and the assessment of the collectability of specific accounts. We evaluate the collectability of specific accounts and determine when to grant credit to our customers using a combination of factors, including the age of the outstanding balances, evaluation of customers' current and past financial condition, recent payment history, current economic environment, and discussions with our personnel and with the customers directly. Accounts are written off when it is determined the receivable will not be collected. If circumstances change, our estimates of the collectability of amounts could be changed by a material amount.

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

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

We assess goodwill for impairment pursuant to ASC 350, *Intangible–Goodwill and Other*, which requires that goodwill be assessed whenever events or changes in circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis by applying a fair value test.

During 2009, 2010 and 2011, none of our critical accounting policy estimates required significant adjustments. We did not note any material events or changes in circumstances indicating that the carrying value of long-lived assets were not recoverable.

Quantitative and Qualitative Disclosures About Market Risks

Foreign Exchange Risk

We are not exposed to material fluctuations in currency exchange rates because the payments from our international customers are received primarily in United States dollars.

Principal and Interest Rate Risk

Our cash equivalents and short-term and long-term investments consist of money-market accounts and taxable high-grade corporate bonds. Our investment policy is to seek to manage these assets to achieve the goal of preserving principal, maintaining adequate liquidity at all times, and maximizing returns subject to established investment guidelines. In general, the primary exposure to market risk is interest rate sensitivity. This means that a change in prevailing interest rates may cause the value of and the return on the investment to fluctuate.

In recent years, there has been concern in the credit markets regarding the value of a variety of mortgage-backed securities and the resultant effect on various securities markets. We believe that our cash, cash equivalents, and investments do not have significant risk of default or illiquidity. However, our cash equivalents and investments may be subject to adverse changes in market value.

Forward-looking Statements

Statements in this Management's Discussion and Analysis and elsewhere in this Annual Report that are forward-looking are based upon current expectations, and actual results or future events may differ materially. Therefore, the inclusion of such forward-looking information should not be regarded as a representation by us that our objectives or plans will be achieved. Such statements include, but are not limited to, our expectations regarding our research and development expenditures in 2012, our 2012 effective tax rate, our ability to obtain component parts in the event of a supply disruption, shipments in 2012 to a large customer which had excess inventory at the end of 2011, earnings and profitability in 2012, our return on equity in 2012, a return to double-digit annual growth in earnings per share in 2013, our 2012 and 2011–2013 capital expenditures, funding future dividend payments with cash flows from operations, availability of equity and debt financing, our ability to meet our cash requirements for the foreseeable future, our ability to fund operations if the bank providing our credit facility were unable to lend funds to us, the impact on our consolidated financial statement of recently issued accounting standards when we adopt those standards, and increases in 2012 in cash, cash equivalents and investments. Words such as "expects," "believes," "anticipates," "will," "intends," "should," "plans," and variations of such words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements contained herein involve numerous risks and uncertainties, and there are a number of factors that could cause actual results or future events to differ materially, including, but not limited to, the following: changing economic, market and business conditions; acts of war or terrorism; the effects of governmental regulation; the impact of competition and new technologies; slower-than-anticipated introduction of new products or implementation of marketing strategies; implementation of new manufacturing processes or implementation of new information systems; our ability to protect our intellectual property; changes in the prices of raw materials; changes in product mix; intellectual property and product liability claims and product recalls; the ability to attract and retain qualified personnel and the loss of any significant customers. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic review which may cause us to alter our marketing, capital expenditures or other budgets, which in turn may affect our results of operations and financial condition.

SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

	2011	2010	2009	2008	2007
Operating Results for the Year ended December 31,					
Revenues	**$ 117,704**	$ 108,569	$ 100,643	$ 95,895	$ 88,540
Operating income	**38,168**	30,977	25,004[a]	22,973	20,195[b]
Income from continuing operations	**26,038**	20,952	16,843[a]	15,667	14,006[b]
Net income	**26,038**	20,952	16,843[a]	15,667	14,006[b]
Depreciation and amortization	**6,544**	7,041	7,163	6,353	5,534
Per Share Data:					
Income from continuing operations, per diluted share	**12.82**	10.32	8.36[a]	7.82	7.06[b]
Net income per diluted share	**12.82**	10.32	8.36[a]	7.82	7.06[b]
Cash dividends per common share	**1.82**	10.56	1.32	1.08	.88
Average diluted shares outstanding	**2,031**	2,030	2,015	2,004	1,985
Financial Position at December 31,					
Total assets	**161,895**	134,652	132,749	115,353	99,313
Long-term debt	**—**	—	—	—	—

a) Included a non-cash charge for the settlement of the 2007 termination of pension plans that subtracted $1.0 million from operating income, $643,000 from net income and $0.32 from net income per diluted share. (See Note 11)

b) Included two special items that, when combined, added $1.1 million to operating income, $695,000 to net income and $0.35 to net income per diluted share.

NON-GAAP FINANCIAL MEASURES RECONCILIATION

(in thousands, except per share amounts)

	2011		2010		2009		2008		2007
GAAP operating income	**$**	**38,168**	$	30,977	$	25,004	$	22,973	$	20,195
Dispute resolution income										(1,398)
Pension charges, net						989				329
Net adjustments						989				(1,069)
Adjusted operating income	**$**	**38,168**	$	30,977	$	25,993	$	22,973	$	19,126
GAAP net income	**$**	**26,038**	$	20,952	$	16,843	$	15,667	$	14,006
Net adjustments as shown above						989				(1,069)
Income taxes on adjustments						(346)				374
Adjustments to net income						643				(695)
Adjusted net income	**$**	**26,038**	$	20,952	$	17,486	$	15,667	$	13,311
Income per diluted share:										
GAAP EPS	**$**	**12.82**	$	10.32	$	8.36	$	7.82	$	7.06
Adjustments (calculated below)						0.32				(0.35)
Adjusted EPS	**$**	**12.82**	$	10.32	$	8.68	$	7.82	$	6.71
Adjustments to net income as shown above	**$**		$		$	643	$		$	(695)
Diluted shares outstanding		**2,031**		2,030		2,015		2,004		1,985
Adjustment to income per diluted share	**$**		$		$	0.32	$		$	(0.35)

LEADERSHIP

Board of Directors

Emile A Battat
Chairman of the Board
Atrion Corporation

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

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

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

John P. Stupp, Jr.
President
Stupp Bros., Inc.
St. Louis, Missouri

Executive Officers

Emile A Battat
Chairman of the Board

David A. Battat
President and Chief Executive Officer

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

CORPORATE INFORMATION

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www.atrioncorp.com

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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 2011 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

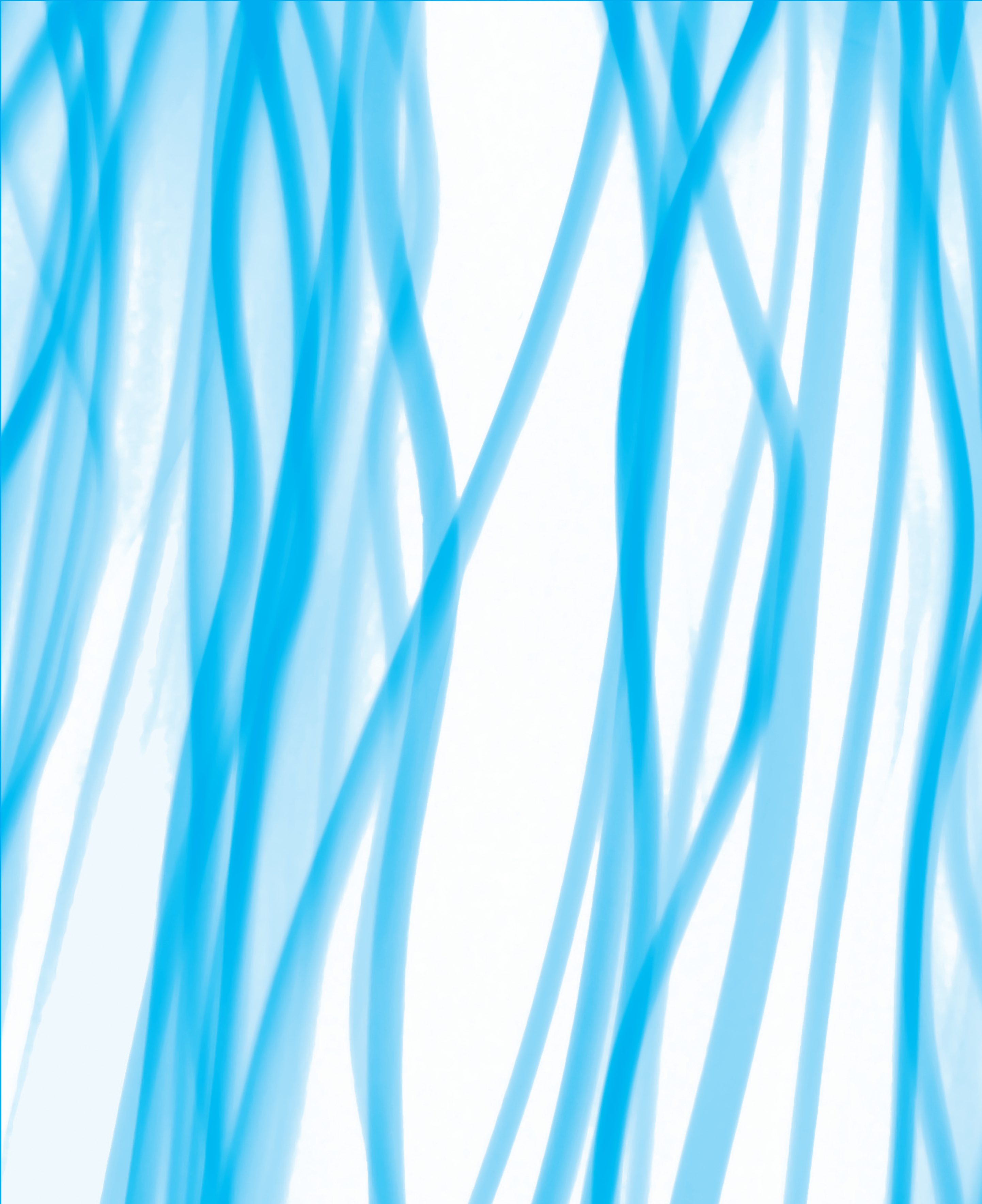
Stock Information

The Company's common stock is traded on the NASDAQ Global Select Market (Symbol: ATRI). As of February 21, 2012, there were approximately 4,300 stockholders, including beneficial owners holding shares in nominee or "street" name. The table below sets forth the high and low sales prices as reported by NASDAQ and the quarterly dividends per share declared by the Company for each quarter of 2010 and 2011.

2010 Quarter Ended	High	Low	Dividends
March 31	$ 164.56	$ 129.51	$ 6.36 [a]
June 30	153.90	127.01	0.36
September 30	157.51	130.50	0.42
December 31	184.99	154.63	3.42 [a]
2011 Quarter Ended	**High**	**Low**	**Dividends**
March 31	$ 187.22	$ 163.80	$ 0.42
June 30	200.56	165.76	0.42
September 30	219.06	186.22	0.49
December 31	244.30	200.95	0.49

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

a) These amounts include a special cash dividend of $6.00 per share declared in the first quarter of 2010 and $3.00 per share declared in the fourth quarter of 2010.



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