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ATRION CORP
Form 10-Q
May 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2006

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition Period from to

Commission File Number 0-10763

Atrion Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware

63-0821819

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

One Allentown Parkway, Allen, Texas 75002

(Address of Principal Executive Offices) (Zip Code)

(972) 390-9800

(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| Title of Each Class | Number of Shares Outstanding at April 28, 2005 |
|--|---|
| ----- | ----- |
| Common stock, Par Value \$0.10 per share | 1,843,206 |

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ATRION CORPORATION AND SUBSIDIARIES

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Item 1.

Financial Statements
 ATRION CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

| | Three Months Ended March 31 | |
|---|--|-----------|
| | 2006 | 2005 |
| | ----- | |
| | (In thousands, except per share data) | |
| Revenues | \$ 19,503 | \$ 18,645 |
| Cost of goods sold | 12,155 | 11,024 |
| | ----- | |
| Gross profit | 7,348 | 7,621 |
| | ----- | |
| Operating expenses: | | |
| Selling | 1,615 | 1,405 |
| General and administrative | 2,004 | 2,217 |
| Research and development | 677 | 581 |
| | ----- | |
| | 4,296 | 4,203 |
| | ----- | |
| Operating income | 3,052 | 3,418 |
| | ----- | |
| Other income: | | |
| Interest income | 10 | 15 |
| Interest expense | -- | (21) |
| Other income | -- | 8 |
| | ----- | |
| | 10 | 2 |
| | ----- | |
| Income before provision for income taxes | 3,062 | 3,420 |
| Provision for income taxes | (956) | (1,126) |
| | ----- | |
| Net income | \$ 2,106 | \$ 2,294 |
| | ===== | |
| Income per basic share | \$ 1.15 | \$ 1.33 |
| | ===== | |
| Weighted average basic shares outstanding | 1,835 | 1,723 |
| Income per diluted share | \$ 1.08 | \$ 1.23 |
| | ===== | |
| Weighted average diluted shares outstanding | 1,945 | 1,865 |
| Dividends per common share | \$ 0.17 | \$ 0.14 |
| | ===== | |

The accompanying notes are an integral part of these statements.

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ATRION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

| | March 31, 2006 (unaudited) | December 31, 2005 |
|---|----------------------------------|----------------------|
| | ----- | ----- |
| Assets | | |
| ----- | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 189 | \$ 525 |
| Accounts receivable | 9,585 | 8,291 |
| Inventories | 17,390 | 17,705 |
| Prepaid expenses | 636 | 832 |
| Other | 620 | 620 |
| | ----- | ----- |
| | 28,420 | 27,973 |
| | ----- | ----- |
| Property, plant and equipment | 70,384 | 63,041 |
| Less accumulated depreciation and amortization | 28,867 | 27,787 |
| | ----- | ----- |
| | 41,517 | 35,254 |
| | ----- | ----- |
| Other assets and deferred charges: | | |
| Patents | 2,502 | 2,331 |
| Goodwill | 9,730 | 9,730 |
| Other | 2,580 | 3,182 |
| | ----- | ----- |
| | 14,812 | 15,243 |
| | ----- | ----- |
| | \$ 84,749 | \$ 78,470 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| ----- | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 7,940 | \$ 7,128 |
| Accrued income and other taxes | 1,126 | 1,098 |
| | ----- | ----- |
| | 9,066 | 8,226 |
| | ----- | ----- |
| Line of credit | 6,831 | 2,529 |
| Other non-current liabilities | 5,779 | 5,820 |
| Stockholders' equity: | | |
| Common shares, par value \$0.10 per share; authorized 10,000 shares, issued 3,420 shares | 342 | 342 |
| Paid-in capital | 13,276 | 12,508 |
| Retained earnings | 84,111 | 82,318 |

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| | | |
|--|-----------|-----------|
| Treasury shares, 1,578 at March 31, 2006 and 1,586 at December 31, 2005, at cost | (34,656) | (33,273) |
| Total stockholders' equity | 63,073 | 61,895 |
| | \$ 84,749 | \$ 78,470 |

The accompanying notes are an integral part of these statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2006 | 2005 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 2,106 | \$ 2,294 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,160 | 1,072 |
| Deferred income taxes | (18) | 184 |
| Tax benefit related to stock options | -- | 83 |
| Other | 14 | 11 |
| | 3,262 | 3,644 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,294) | (946) |
| Inventories | 315 | (1,081) |
| Prepaid expenses | 196 | 71 |
| Other non-current assets | 352 | (642) |
| Accounts payable and current liabilities | 812 | (255) |
| Accrued income and other taxes | 28 | 228 |
| Other non-current liabilities | (23) | (16) |
| | 3,648 | 1,003 |
| Cash flows from investing activities: | | |
| Property, plant and equipment additions | (7,343) | (1,364) |
| Property, plant and equipment sales | -- | 6 |
| | (7,343) | (1,358) |
| Cash flows from financing activities: | | |
| Net change in line of credit | 4,302 | 1,191 |
| Exercise of stock options | 462 | 234 |
| Purchase of treasury stock | (1,594) | -- |

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| | | |
|--|--------|----------|
| Tax benefit related to stock options | 502 | -- |
| Dividends paid | (313) | (242) |
| | ----- | ----- |
| | 3,359 | 1,183 |
| | ----- | ----- |
| Net change in cash and cash equivalents | (336) | 828 |
| Cash and cash equivalents at beginning of period | 525 | 255 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 189 | \$ 1,083 |
| | ===== | ===== |
| Cash paid for: | | |
| Interest (net of capitalization) | \$ -- | \$ 21 |
| Income taxes | \$ 260 | \$ 454 |

The accompanying notes are an integral part of these statements.

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

(1) Basis of Presentation

In the opinion of management, all adjustments necessary for a fair presentation of results of operations for the periods presented have been included in the accompanying unaudited consolidated financial statements of Atrion Corporation and its subsidiaries (the "Company"). Such adjustments consist of normal recurring items. The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and include the information and notes required by such instructions. Accordingly, the consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company's 2005 Annual Report on Form 10-K.

(2) Inventories

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

| | March 31, 2006 | December 31, 2005 |
|-------------------|-------------------|----------------------|
| Raw materials | \$ 6,879 | \$ 6,898 |
| Work in process | 4,515 | 4,291 |
| Finished goods | 5,996 | 6,516 |
| | ----- | ----- |
| Total inventories | \$ 17,390 | \$ 17,705 |
| | ===== | ===== |

(3) Income per share

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

Three months ended

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| | March 31, | |
|--|---|----------|
| | 2006 | 2005 |
| | ----- | |
| | (in thousands, except per share amounts) | |
| Net Income | \$ 2,106 | \$ 2,294 |
| | ===== | |
| Weighted average basic shares outstanding | 1,835 | 1,723 |
| Add: Effect of dilutive securities (options) | 110 | 142 |
| | ----- | |
| Weighted average diluted shares outstanding | 1,945 | 1,865 |
| | ===== | |
| Income per share: | | |
| Basic | \$ 1.15 | \$ 1.33 |
| | ----- | |
| Diluted | \$ 1.08 | \$ 1.23 |
| | ===== | |

There were no outstanding options to purchase shares of common stock that were not included in the diluted income per share calculations because their effect would be anti-dilutive for the three-month periods ended March 31, 2006 and 2005.

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

(4) Stock-Based Compensation

At March 31, 2006, the Company had two stock-based employee compensation plans. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, "Accounting for Stock-based Compensation" ("SFAS No. 123R") using the modified-prospective transition method and the disclosures that follow are based on applying SFAS No. 123R. Under this transition method, compensation expense recognized during the three months ended March 31, 2006, included compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". In accordance with the modified-prospective transition method, results for the prior periods have not been restated. The Company recorded compensation in the amount of approximately \$14,000 for the three months ended March 31, 2006.

The Company's 1997 Stock Incentive 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 Stock Incentive Plan, outside directors (directors who are not employees of the Company or any subsidiary) received automatic annual

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grants of nonqualified stock options to purchase 2,000 shares of common stock. The 1997 Stock Incentive Plan was amended in 2005 to provide that no additional stock options may be granted to outside directors thereunder. Under the 1997 Stock Incentive 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 must 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 is 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.

During 1998, the Company's stockholders approved the adoption of the Company's 1998 Outside Directors Stock Option Plan which, as amended, provided for the automatic grant on February 1, 1998 and February 1, 1999 of nonqualified stock options to the Company's outside directors. Although no additional options may be granted under the 1998 Outside Directors Stock Option Plan, all outstanding options under this plan continue to be governed by the terms and conditions of the plan and the existing option agreements for those grants.

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

Option transactions for the three months ended March 31, 2006 are as follows:

| | Shares | Weighted Average Exercise Price | |
|--|----------|------------------------------------|--|
| | | | |
| Options outstanding at January 1, 2006 | 225,100 | \$ 24.86 | |
| Granted in 2006 | - | \$ - | |
| Expired in 2006 | - | \$ - | |
| Exercised in 2006 | (33,799) | \$ 17.59 | |
| | | | |
| Options outstanding at March 31, 2006 | 191,301 | \$ 26.14 | |
| | | | |
| | | | |
| Exercisable options at March 31, 2006 | 172,551 | \$ 25.57 | |

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The Company's expected life represents the period that the Company's 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. Stock-based payments made prior to January 1, 2006 were accounted for using the intrinsic value method under APB 25. The fair value of stock-based payments made subsequent to January 1, 2006 would be valued using the Black-Scholes valuation method with a volatility factor based on the Company's historical stock trading history. The Company bases 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. The Company bases the dividend yield used in the Black-Scholes valuation method on the Company's stock dividend history.

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The total intrinsic values of options exercised during the three months ended March 31, 2006 was \$0. The total intrinsic values of options outstanding, and options currently exercisable at March 31, 2006 were \$0 and \$0, respectively. The weighted-average remaining contractual life for options outstanding and options currently exercisable at March 31, 2006 were 3.18 years and 3.40 years, respectively.

As of March 31, 2006 there was approximately \$10,000 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 0.25 years. The total fair value of options vested during the three months ended March 31, 2006 was \$0. At March 31, 2006 there were 18,750 nonvested stock options outstanding with a weighted-average exercise price of \$31.39.

The Company has a policy of utilizing existing treasury shares to satisfy stock option exercises.

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

The following table illustrates the effect on net income and income per share if the Company had applied the fair value recognition provisions of SFAS No. 123R to stock-based employee compensation in the previous period:

| | Three Months ended March 31, 2005 |
|--|---|
| | ----- |
| | (in thousands, except per share amounts) |
| Net income, as reported | \$ 2,294 |
| Deduct: Total stock-based employee compensation expense determined under fair value-based methods for all awards, net of tax effects | 102 |
| | ----- |
| Pro forma net income | \$ 2,192 |
| | ===== |
| Income per share: | |
| Basic - as reported | \$ 1.33 |
| | ===== |
| Basic - pro forma | \$ 1.27 |
| | ===== |
| Diluted - as reported | \$ 1.23 |
| | ===== |
| Diluted - pro forma | \$ 1.18 |
| | ===== |

(5) Pension Benefits

The components of net periodic pension cost are as follows for the three months ended March 31, 2006 and March 31, 2005 (in thousands):

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| | Three Months ended March 31, | |
|---------------------------------|---------------------------------|-------|
| | 2006 | 2005 |
| Service cost | \$ 69 | \$ 67 |
| Interest cost | 83 | 80 |
| Expected return on assets | (111) | (114) |
| Prior service cost amortization | (9) | (9) |
| Actuarial loss | 29 | 27 |
| Transition amount amortization | - | (11) |
| | ----- | ----- |
| Net periodic pension cost | \$ 61 | \$ 40 |
| | ===== | ===== |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company designs, develops, manufactures, sells and distributes products and components, primarily for the medical and healthcare industry. The Company markets components to other equipment manufacturers for incorporation in their products and sells finished devices to physicians, hospitals, clinics and other treatment centers. The Company's medical products primarily serve the fluid delivery, cardiovascular, and ophthalmology markets. The Company's other medical and non-medical products include obstetrics products, instrumentation and disposables used in dialysis, contract manufacturing and valves and inflation devices used in marine and aviation safety products.

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

The Company's strategy is to provide a broad selection of products in the areas of its expertise. Research and development efforts are focused on improving current products and developing highly-engineered products that meet customer needs and have the potential for broad market applications and significant 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. The Company also focuses on controlling costs by investing in modern manufacturing technologies and controlling purchasing processes. The Company has been successful in consistently generating cash from operations and has used that cash to reduce indebtedness, to fund capital expenditures, to repurchase stock and, starting in 2003, to pay dividends.

The Company's strategic objective is to further enhance its position in its served markets by:

- o Focusing on customer needs;
- o Expanding existing product lines and developing new products;

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- o Maintaining a culture of controlling cost; and
- o Preserving and fostering a collaborative, entrepreneurial management structure.

For the three months ended March 31, 2006, the Company reported revenues of \$19.5 million, operating income of \$3.1 million and net income of \$2.1 million, up 5 percent, down 11 percent and down 8 percent, respectively, from the three months ended March 31, 2005.

Results for the three months ended March 31, 2006

Consolidated net income totaled \$2.1 million, or \$1.15 per basic and \$1.08 per diluted share, in the first quarter of 2006. This is compared with consolidated net income of \$2.3 million, or \$1.33 per basic and \$1.23 per diluted share, in the first quarter of 2005. The income per basic share computations are based on weighted average basic shares outstanding of 1,835,329 in the 2006 period and 1,723,199 in the 2005 period. The income per diluted share computations are based on weighted average diluted shares outstanding of 1,944,647 in the 2006 period and 1,864,695 in the 2005 period.

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Consolidated revenues of \$19.5 million for the first quarter of 2006 were higher than revenues of \$18.6 million for the first quarter of 2005. This 5 percent increase in revenues for the first quarter of 2006 over the first quarter of 2005 was primarily attributable to an approximate 25 percent increase in the revenues of the Company's fluid delivery products and an approximate 23 percent increase in the revenues of the Company's cardiovascular products. These increases, which were generally attributable to higher sales volumes, were partially offset by an approximate 25 percent decrease in the revenues of the Company's ophthalmic products and an approximate 11 percent decrease in the revenues of the Company's other products.

Cost of goods sold of \$12.2 million for the first quarter of 2006 was 10 percent higher than in the comparable 2005 period. Increased sales volume, increased manufacturing overhead costs, and a temporary production curtailment due to reduced orders from certain ophthalmic and related kitting business customers were the primary contributors to the increase in cost of goods sold for the first quarter of 2006.

Gross profit of \$7.3 million in the first quarter of 2006 was \$273,000, or 4 percent, lower than in the comparable 2005 period. The Company's gross profit percentage in the first quarter of 2006 was 37.7 percent of revenues compared with 40.8 percent of revenues in the first quarter of 2005. The decrease in gross profit percentage in the 2006 period compared to the 2005 period was primarily related to the previously mentioned manufacturing cost increases and temporary production curtailment.

The Company's first quarter 2006 operating expenses of \$4.3 million were \$93,000 higher than the operating expenses for the first quarter of 2005, resulting primarily from a \$210,000 increase in selling (Selling) expenses, a \$96,000 increase in Research and Development (R&D) expenses partially offset by a \$213,000 decrease in General and Administrative (G&A) expenses. The increase in Selling expenses for the first quarter of 2006 was principally attributable to increased compensation costs, advertising and promotion costs and travel-related expenses. The increase in R&D costs was

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primarily related to prototype expenses, new product testing costs, and process enhancements. The decrease in G&A for the first quarter of 2006 was primarily related to reduced compensation costs. Operating income in the first quarter of 2006 decreased \$366,000, or 11 percent, to \$3.1 million from \$3.4 million in the first quarter of 2005. Operating income was 15.6 percent of revenues in the first quarter of 2006 compared to 18.3 percent of revenues in the first quarter of 2005. The change in operating income for the first quarter of 2006 as compared with the first quarter of 2005 was primarily attributable to the previously mentioned reduced gross profit and the increased operating expenses.

Interest charges for the first quarter of 2006 were capitalized as part of the construction costs for a new facility for a subsidiary, Halkey-Roberts Corporation ("Halkey-Roberts"). Income tax expense for the first quarter of 2006 was \$956,000 compared to income tax expense of \$1.1 million for the same period in the prior year. The effective tax rate for the first quarter of 2006 was 31.2 percent compared with 32.9 percent for the first quarter of 2005.

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Liquidity and Capital Resources

At March 31, 2006, the Company had cash and cash equivalents of \$189,000 compared with \$525,000 at December 31, 2005. The Company had outstanding borrowings of \$6.8 million under its \$25.0 million revolving credit facility ("Credit Facility") at March 31, 2006 and \$2.6 million at December 31, 2005. The increase in the outstanding balance under the Credit Facility in the first three months of 2006 was primarily attributable to borrowings to fund the construction of the new Halkey-Roberts facility. The Credit Facility, which expires November 12, 2009, and may be extended under certain circumstances, contains various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources. At March 31, 2006, the Company was in compliance with all financial covenants.

As of March 31, 2006, the Company had working capital of \$19.4 million, including \$189,000 in cash and cash equivalents. The \$393,000 decrease in working capital during the first three months of 2006 was primarily related to an increase in accounts payable, a decrease in inventories and a decrease in cash offset by an increase in accounts receivable. The increase in accounts payable was primarily related to amounts due in connection with the construction of the new Halkey-Roberts facility. The increase in accounts receivable during the first three months of 2006 was primarily related to the increase in revenues for the first quarter of 2006 as compared to the fourth quarter of 2005. The decrease in inventories was primarily attributable to increased revenues. Cash flows from operating activities generated \$3.6 million for the three months ended March 31, 2006 as compared to \$1.0 million for the three months ended March 31, 2005. Reductions of inventories and accounts payable increases were the primary contributors to the 2006 improvements. During the first three months of 2006, the Company expended \$7.3 million for the addition of property and equipment. Of this amount, \$5.6 million was expended for the construction of the new Halkey-Roberts facility. The Company received net proceeds of \$462,000 from the exercise of employee stock options during the first three months of 2006. During the first quarter of 2006, the Company repurchased 24,000 shares of its common stock for approximately \$1.6 million and paid dividends totaling \$313,000 to its stockholders.

The Company believes that its existing cash and cash equivalents, cash flows from operations, borrowings available under the Company's credit

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facility, supplemented, if necessary, with equity or debt financing, which the Company believes would be available, will be sufficient to fund the Company's cash requirements for the foreseeable future.

Forward-Looking Statements

The statements in this Management's Discussion and Analysis that are forward-looking are based upon current expectations, and actual results may differ materially. Therefore, the inclusion of such forward-looking information should not be regarded as a representation by the Company that the objectives or plans of the Company would be achieved. Such statements include, but are not limited to, the Company's expectations regarding future liquidity and capital resources. Words such as "anticipates," "believes," "expects," "estimated" and variations of such words and similar expressions are intended to identify such forward-looking statements. 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; the Company's ability to protect its 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; the loss of, or any material reduction in sales to, any significant customers; and problems in the relocation of the Halkey-Roberts operations. In addition, assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic review which may cause the Company to alter its marketing, capital expenditures or other budgets, which in turn may affect the Company's results of operations and financial condition.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the quarter ended March 31, 2006, the Company did not experience any material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in the Company's 2005 Annual Report on Form 10K.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and its Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2006. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting for the quarter ended March 31, 2006 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) During the first quarter of 2006, the Company repurchased the following shares of the Company's common stock:

| | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plan or program | Maximum number of shares that may yet be purchased under Plan or Program (a) |
|---|---|------------------------------------|---|--|
| | | | | |
| January 1, 2006 - January 31, 2006 | 24,000 | \$ 66.41 | 24,000 | 68,100 |
| February 1, 2006 - February 28, 2006 | - | | - | 68,100 |
| March 1, 2006 - March 31, 2006 | - | | - | 68,100 |
| | | | | |
| Total | 24,000 | \$ 66.41 | 24,000 | 68,100 |

(a) This program was announced in April 2000 and initially provided authorization for up to 200,000 shares to be repurchased.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 31.1 Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer
- 31.2 Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer
- 32.1 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes - Oxley Act Of 2002
- 32.2 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes - Oxley Act Of 2002

(b) Reports on Form 8-K

On February 15, 2006, the Company filed a report on Form 8-K with the SEC regarding the public dissemination of a press release announcing

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its financial results for the fourth quarter and year ended December 31, 2005 (Item 12).

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SIGNATURES

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

Atrion Corporation

(Registrant)

Date: May 8, 2006

/s/ Emile A. Battat

Emile A. Battat
Chairman, President and
Chief Executive Officer

Date: May 8, 2006

/s/ Jeffery Strickland

Jeffery Strickland
Vice President and
Chief Financial Officer

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