ATRION CORP
Form 10-K
March 11, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2010
Commission File Number 0-10763

Atrion Corporation
(Exact name of Registrant as specified in its charter)

Delaware (State of incorporation or organization)	63-0821819 (I.R.S. Employer Identification No.)
One Allentown Parkway, Allen, Texas (Address of principal executive offices)	75002 (ZIP code)

Registrant's telephone number, including area code: (972) 390-9800

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, $.10 Par Value	NASDAQ

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

Indicate by check mark 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 o No x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting Common Stock held by nonaffiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter, June 30, 2010, was $206,789,575 based on the last reported sales price of the common stock on the NASDAQ Global Select Market on such date. Shares of voting stock held by executive officers, directors and holders of more than 10% of the outstanding voting shares have been excluded from this calculation because such persons may be deemed to be affiliates. Exclusion of such shares should not be construed to indicate that any of such persons possesses the power, direct or indirect, to control the Registrant, or that such person is controlled by or under common control of the Registrant

Number of shares of Common Stock outstanding at February 14, 2011: 2,015,929

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information from the Company's definitive proxy statement relating to the 2011 annual meeting of stockholders, to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

ATRION CORPORATION

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

ITEM		PAGE
PART I		1
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	7
ITEM 1B.	UNRESOLVED STAFF COMMENTS	14
ITEM 2.	PROPERTIES	14
ITEM 3.	LEGAL PROCEEDINGS	14
ITEM 4.	RESERVED	15
	EXECUTIVE OFFICERS OF THE COMPANY	15
PART II		16
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES	16
ITEM 6.	SELECTED FINANCIAL DATA	17
ITEM 7.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	17
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	23
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	24
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	48
ITEM 9A.	CONTROLS AND PROCEDURES	48
ITEM 9B.	OTHER INFORMATION	50
PART III		50
ITEM 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	50
ITEM 11.	EXECUTIVE COMPENSATION	50
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS	50
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	51
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	51

PART IV		52
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	52
SIGNATURES		55

ATRION CORPORATION

FORM 10-K

ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2010

PART I

ITEM 1. BUSINESS

General

Atrion Corporation ("we," "our," "us," "Atrion," or the "Company") develops and manufactures products, primarily for medi applications. Our medical products range from fluid delivery devices to ophthalmic and cardiovascular products.

Our fluid delivery products accounted for 36 percent, 35 percent and 34 percent of net revenues for 2010, 2009 and 2008, respectively. These products include valves that promote infection control and the prevention of accidental needlesticks. We have developed a wide variety of luer syringe check valves and one-way valves designed to fill, hold and release controlled amounts of fluids or gasses on demand for use in various intubation, catheter and other applications. We also make tubing clamps in a variety of materials and colors that are compatible with various grades of tubing and sterilization processes, and produce specialized intravenous sets for use in numerous applications including anesthesia and oncology.

Our cardiovascular products accounted for 29 percent, 29 percent and 30 percent of our net revenues for 2010, 2009 and 2008, respectively. At the heart of our cardiovascular products is the MPS2® Myocardial Protection System, or MPS2, a proprietary technology that delivers essential fluids and medications to the heart during open-heart surgery. The MPS2 integrates key functions relating to the delivery of solutions to the heart, such as varying the rate and ratio of oxygenated blood, crystalloid, potassium and other additives, and controlling temperature, pressure and other variables to allow simpler, more flexible management of this process, indicating improved patient outcomes. The MPS2 is the only device used in open-heart surgery that allows for the mixing of drugs into the bloodstream without diluting the blood. The MPS2 employs advanced pump, temperature control and microprocessor technologies and includes a line of disposable products. We also develop and manufacture other cardiovascular products that consist principally of the following: cardiac surgery vacuum relief valves; Retract-O-Tape® silicone vessel loops for retracting and occluding vessels in minimally invasive surgical procedures; inflation devices for balloon catheter dilation, stent deployment and fluid dispensing; and Clean-Cut® rotating aortic punch and PerfectCut® Aortotomy System, both of which are used in heart bypass surgery to make a precision opening in the heart for attachment of the bypass vessels.

Our ophthalmic products accounted for 18 percent, 19 percent and 16 percent of our net revenues for 2010, 2009 and 2008, respectively. We are a leading manufacturer of soft contact lens storage and disinfection cases. We produce a complete line of products which is compatible with all solutions for use with soft or rigid gas permeable lenses. We also work with customers to provide customized distribution of products. As a registered pharmaceutical reseller, we provide custom packaging, including component purchasing as well as labeling. Warehousing and inventory management are included in our complete kitting services. We also manufacture and sell the LacriCATH® product line, a line of balloon catheters that is used in the treatment of nasolacrimal duct obstruction in children and adults. Nasolacrimal duct obstruction can cause a condition called epiphora, or chronic tearing. People affected by this condition experience excessive and uncontrollable tearing and often encounter infection as a result of nasolacrimal blockage. LacriCATH balloon catheters are the only balloon catheters with United States Food and Drug Administration, or FDA, approval for use in the treatment of nasolacrimal duct obstruction.

Our other medical and non-medical products accounted for 17 percent, 17 percent and 20 percent of our net revenues for 2010, 2009 and 2008, respectively. We are the leading manufacturer of inflation systems and valves used in marine and aviation safety products. We manufacture inflation systems and valves for products such as life vests, life rafts, inflatable boats, survival equipment, and other inflatable structures. We are a global leader in this field. We also produce one-way and two-way pressure relief valves for use on electronics cases, munitions cases, pressure vessels, transportation container cases, escape slides, and many other medical and non-medical applications. Our ACTester product line consists of instrumentation and associated disposables used to measure the activated clotting time of blood. We manufacture and sell a line of products designed for safe needle and scalpel blade containment. In addition, we own and maintain a 22-mile high-pressure steel pipeline in north Alabama that is leased to an industrial gas producer which transports gaseous oxygen to one of its customers. This pipeline is incidental to our overall operations.

Marketing and Major Customers

We market components to other equipment manufacturers for incorporation in their products and sell finished devices to physicians, hospitals, clinics and other treatment centers. We sell our products through a sales force of approximately 67 people as of December 31, 2010. This sales force, which works with our sales managers, consists of direct sales personnel, independent sales representatives and distributors. Our sales managers also work closely with major customers in designing and developing products to meet customer requirements.

Our revenues from sales to customers outside the United States totaled approximately 40 percent, 39 percent and 35 percent of our net revenues in 2010, 2009 and 2008, respectively. Our international sales are made to various manufacturers and through distributors in over 60 countries. Revenues from sales to customers in Canada totaled approximately 16 percent, 15 percent and 13 percent of our net revenues in 2010, 2009 and 2008, respectively.

We offer customer service, training and education, and technical support such as field service, spare parts, maintenance and repair for certain of our products. We periodically advertise our products in trade journals, routinely attend and participate in industry trade shows throughout the United States and internationally, and sponsor scientific symposia as a means of disseminating product information. We also provide supportive literature on the benefits of our products.

During 2010, Novartis International AG was our only customer accounting for more than 10 percent of our revenues, with various products sold to several divisions of Novartis accounting for approximately 14 percent of our net revenues.

Manufacturing

Our medical products and other components are produced at facilities in Florida, Alabama and Texas. The facilities in Alabama and Florida both utilize plastic injection molding and specialized assembly as their primary manufacturing processes. Our other manufacturing processes consist of the assembly of standard and custom component parts and the testing of completed products.

We are subject to the FDA's Quality System Regulation which requires manufacturers of medical devices to adhere to certain design testing, quality control, documentation and other quality assurance procedures during the manufacturing process. We devote significant attention to quality assurance. Our quality assurance measures begin with the suppliers which participate in our supplier quality assurance program. These measures continue at the manufacturing level where many components are assembled in a clean room environment designed and maintained to reduce product exposure to particulate matter. Products are tested throughout the manufacturing process for adherence to specifications. Most finished products are then shipped to outside processors for sterilization by radiation or ethylene oxide gas. After sterilization, the products are quarantined and tested before they are shipped to customers.

-2-

Skilled workers are required for the manufacturing of our products and we believe that additional workers with these skills are readily available in the areas where our plants are located.

Our medical device operations are ISO13485:2003 certified and are subject to FDA jurisdiction. Our non-medical device operations are ISO9001-2008 certified.

Research and Development

A well-targeted research and development program is an essential part of our activities, and we are currently engaged in a number of research and development projects. The objective of this program is to develop new products in our current product lines, improve current products and develop new product lines. The Company expects to continue additional research and development in 2011 in all these areas.

Our consolidated research and development expenditures for 2010, 2009 and 2008 were $2,669,000, $3,054,000, and $2,969,000, respectively.

Sources and Availability of Raw Materials

The principal raw materials that we use in our products are resins. Our ability to operate profitably is dependent, in large part, on the availability and pricing of these resins. The resins we use are derived from petroleum and natural gas, and the prices fluctuate substantially as a result of changes in petroleum and natural gas prices, demand and the capacity of the companies that produce these resins to meet market needs. Instability in the world markets for petroleum and natural gas could adversely affect the availability and pricing of these resins.

We contract with various suppliers to provide the component parts necessary to assemble our products. Almost all of these components are available from a number of different suppliers, although certain components are purchased from single sources that manufacture these components using our tooling. We believe that there are satisfactory alternative sources for single-sourced components, although a sudden disruption in supply from one or more of these suppliers could adversely affect our ability to deliver finished products on time. We own the molds used for production of a majority of our components. Consequently, in the event of supply disruption, we would be able to fabricate our own components or contract with another supplier, albeit after a possible delay in the production process.

Patents and License Agreements

Our commercial success is dependent, in part, on our ability to continue to develop patentable products, to preserve our trade secrets and to operate without infringing or violating the proprietary rights of third parties. We currently have 392 active patents and patent applications pending on products that are either being sold or are in development. We pay royalties to outside parties for four patents. All of these patents and patents pending relate to products currently being sold by us or to products in evaluation stages. Our patents expire at various times over the next 16 years.

We have developed technical knowledge which, although non-patentable, we consider to be significant in enabling us to compete. However, the proprietary nature of such knowledge may be difficult to protect. We have entered into agreements with key employees prohibiting them from disclosing any of our confidential information or trade secrets. In addition, these agreements also provide that any inventions or discoveries relating to our business by these individuals will be assigned to us and become our sole property.

The medical device industry is characterized by extensive intellectual property litigation, and companies in that industry sometimes use intellectual property litigation to gain a competitive advantage. Intellectual property litigation, regardless of outcome, is often complex and expensive, and the outcome of this litigation is generally difficult to predict.

Competition

Depending on the product and the nature of the project, we compete on the basis of our ability to provide engineering and design expertise, quality, service, product and price. As such, successful competitors must have technical strength, responsiveness and scale. We believe that our expertise and reputation for quality medical products have allowed us to compete favorably with respect to each such factor and to maintain long-term relationships with our customers.

In many of our markets, we compete with numerous other companies in the sale of healthcare products. These markets are dominated by established manufacturers that have broader product lines, greater distribution capabilities, substantially greater capital resources and larger marketing, research and development staffs and facilities than ours. Many of these competitors offer broader product lines within the specific product market and in the general field of medical devices and supplies. Broad product lines give many of our cardiovascular and fluid delivery competitors the ability to negotiate exclusive, long-term medical device supply contracts and, consequently, the ability to offer comprehensive pricing of their competing products. By offering a broader product line in the general field of medical devices and supplies, competitors may also have a significant advantage in marketing competing products to group purchasing organizations, HMOs and other managed care organizations that are increasingly seeking to reduce costs through centralization of purchasing functions. Furthermore, innovations in surgical techniques or medical practices could have the effect of reducing or eliminating market demand for one or more of our products. In addition, our competitors may use price reductions to preserve market share in their product markets.

We frequently design products for a customer or potential customer prior to entering into long-term development and manufacturing agreements with that customer. Because these products are somewhat limited in number and normally are only a component of the ultimate product sold by our customers, we are dependent on our ability to meet the quality requirements of those major healthcare companies and must continually be attentive to the need to manufacture such products at competitive prices and in compliance with strict manufacturing standards. Additionally, we are dependent on our customer’s success in the marketing of the ultimate product sold. We also compete in the market for inflation devices used in marine and aviation equipment.

Government Regulation

Products

The manufacture and sale of medical products are subject to regulation by numerous United States governmental authorities, principally the FDA, and corresponding foreign agencies. The research and development, manufacturing, promotion, marketing and distribution of medical products in the United States are governed by the Federal Food, Drug and Cosmetic Act, or FDCA, and the regulations promulgated thereunder. All manufacturers of medical devices must register with the FDA and list all medical devices manufactured by them. The list must be updated annually. Our medical products subsidiaries and certain of our customers are subject to inspection by the FDA for compliance with such regulations and procedures and our medical products manufacturing facilities are subject to regulation by the FDA.

The FDA has traditionally pursued a rigorous enforcement program to ensure that regulated entities comply with the FDCA. The FDA has recently been increasing its scrutiny of the medical device industry, and the government is expected to continue to scrutinize the industry closely. A company not in compliance may face a variety of regulatory actions, including warning letters, product detentions, device alerts, mandatory recalls or field corrections, product seizures, total or partial suspension of production, injunctive actions or civil penalties and criminal prosecutions of the company or responsible employees, officers and directors. We and certain of our customers are subject to these inspections.

-4-

The FDA sets forth rules, which are available to the public, for the approval of medical devices. The process of obtaining FDA approval for new devices can take several months to several years depending on the type of application required for a particular device. Furthermore, the process of obtaining FDA approval can be expensive and uncertain. Even if granted, FDA approval may include significant limitations on the indicated uses for which a product may be marketed. FDA enforcement policy strictly regulates the promotion of approved medical devices. Product approvals can be withdrawn for failure to comply with regulatory requirements or the occurrence of unforeseen problems following initial marketing. We are also subject to regulation in certain foreign countries where we sell our products. Some of the regulations in these countries that are applicable to our products are similar to those of the FDA.

Certain aviation and marine safety products are also subject to regulation by the United States Coast Guard and the Federal Aviation Administration and similar organizations in foreign countries which regulate the safety of marine and aviation equipment.

Third-Party Reimbursement and Cost Containment

In the United States, healthcare providers, including hospitals and physicians, that purchase medical products for treatment of their patients generally rely on third-party payors, principally Medicare, Medicaid and private health insurance plans, to reimburse all or a part of the costs and fees associated with the procedures performed using these products.

Reimbursement systems in international markets vary significantly by country and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis. Many international markets have government-managed healthcare systems that control reimbursement for new products and procedures. In most markets, there are private insurance systems as well as government-managed systems. Market acceptance of our products in international markets depends, in part, on the availability and level of reimbursement.

Medicare and Medicaid reimbursement for hospitals is generally based on a fixed amount for a patient based upon that patient’s specific diagnosis. Because of this fixed reimbursement method, hospitals may seek to reduce the costs they incur in treating Medicare and Medicaid patients. Frequently, reimbursement is reduced to reflect the availability of a new procedure or technique, and as a result hospitals are generally willing to implement new cost saving technologies before these downward adjustments take effect. Likewise, because the rate of reimbursement for physicians who perform certain procedures has been and may in the future be reduced, physicians may seek greater cost efficiency in treatment to minimize any negative impact of reduced reimbursement. Third-party payors may challenge the prices charged for medical products and services and may deny reimbursement if they determine that a device was not used in accordance with cost-effective treatment methods as determined by the payor, was experimental or was used for an unapproved application.

In March 2010, comprehensive health care reform legislation in the form of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively known as the “Affordable Care Act”) was enacted. Among other provisions, this legislation imposes a 2.3 percent excise tax on U.S. sales of medical devices after December 31, 2012. The Affordable Care Act also includes numerous provisions to limit Medicare spending through reductions in various fee schedule payments and by instituting more sweeping payment reforms, such as bundled payments for episodes of care and the establishment of “accountable care organizations” under which hospitals and physicians will be able to share savings that result from cost control efforts. Many of these provisions will be implemented through the regulatory process, and policy details have not yet been finalized. Various healthcare reform proposals have also emerged at the state level.

We anticipate that Congress, state legislatures and the private sector will continue to review and assess healthcare reform, including alternative healthcare delivery and payment systems. We cannot predict what impact the adoption or modification of any federal or state healthcare reform measures, including the Affordable Care Act, and state healthcare reform, future private sector reform or market forces may have on our business.

Product Liability and Insurance

The design, manufacture and marketing of products of the types we produce entail an inherent risk of product liability claims. A problem with one of our products could result in product liability claims or a recall of, or safety alert or advisory notice relating to, the product. We have product liability insurance in amounts that we believe are adequate.

Advisory Board

Several physicians and other healthcare professionals serve as our clinical advisors. These clinical advisors have assisted in the identification of the market need for some of our products. Members of our management and scientific and technical staff from time to time consult with these clinical advisors to better understand the technical and clinical requirements of current and future products. We anticipate that these clinical advisors will continue to play a role in our development activities.

Certain of the clinical advisors are employed by academic institutions and may have commitments to, or consulting or advisory agreements with, other entities that may limit their availability to advise us. The clinical advisors may also serve as consultants to other medical device companies. Our clinical advisors are not expected to devote more than a small portion of their time in providing services to us.

People

At January 31, 2011, we had 437 full-time employees. We are proud that many of our employees have tenures with us ranging from ten to thirty years.

Available Information

Our website address is www.atrioncorp.com. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission, or SEC. These filings are also available at www.sec.gov.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial, or that we have not predicted, may also harm our business operations or adversely affect us.

- The loss of a key supplier of raw materials could lead to increased costs and lower profit margins.

The loss of a key supplier would force us to purchase raw materials in the open market, which may be at higher prices, until we could secure another source and such higher prices may not allow us to remain competitive. If we are unable to obtain raw materials in sufficient quantities, we may not be able to manufacture our products. Even if we were able to replace one of our raw material suppliers through another supply arrangement, there is no assurance that the terms that we enter into with such alternate supplier will be as favorable as the supply arrangements that we currently have.

- Our sales could decline materially if we lost business from one or more of our larger customers or a significant number of our smaller customers.

Our sales are generally made under open short-term purchase orders or purchase contracts. Customers with purchase orders could reduce their volumes, or cease purchasing our products, with minimal notice. Customers having purchase contracts may elect not to renew those contracts at expiration or the contracts may be renewed on terms less favorable to us. The loss of, or material reduction in orders by, one or more of our larger customers or a significant number of our smaller customers could have a material adverse effect on our business, financial condition and results of operations.

- Product liability claims could adversely affect our financial condition and results of operations.

We may be subject to product liability claims involving claims of personal injury or property damage. Our product liability insurance coverage may not be adequate to cover the cost of defense and the potential award in the event of a claim. Also, a well-publicized actual or perceived problem with one or more of our products could adversely affect our reputation and reduce the demand for our products.

- Our business is dependent on the price and availability of resins and our ability to pass on resin price increases to our customers.

The principal raw materials that we use in our products are polyethylene, polypropylene and polyvinyl chloride resins. Our ability to operate profitably is dependent, in large part, on the availability and pricing of these resins. The resins we use are derived from petroleum and natural gas; therefore, prices fluctuate substantially as a result of changes in petroleum and natural gas prices, demand and the capacity of the companies that produce these products to meet market needs. Instability in the world markets for petroleum and natural gas could adversely affect the prices of these raw materials and their availability.

Our ability to maintain profitability is heavily dependent upon our ability to pass through to our customers the full amount of any increase in raw material costs. If resin prices increase and we are not able to fully pass on the increases to our customers, our results of operations and our financial condition will be adversely affected.

- Any losses we incur as a result of our exposure to the credit risk of our customers could harm our results of operations.

We monitor individual customer payment capability in granting credit arrangements, seek to limit credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. As we have grown our revenue and customer base, our exposure to credit risk has increased. Any material losses as a result of customer defaults could harm and have an adverse effect on our business, operating results and financial condition.

- Our success is measured in part by our ability to develop patentable products, to preserve our trade secrets and operate without infringing or violating the proprietary rights of third parties.

Others may challenge the validity of any patents issued to us, and we could encounter legal and financial difficulties in enforcing our patent rights against infringers. In addition, there can be no assurance that other technologies cannot or will not be developed or that patents will not be obtained by others which would render our patents less valuable or obsolete. Once patents expire, some customers may not continue to purchase from us, opting for competitive copies instead.

We have developed technical knowledge which, although non-patentable, we consider to be significant in enabling us to compete. However, the proprietary nature of such knowledge may be difficult to protect.

The medical device industry is characterized by extensive intellectual property litigation, and companies in the medical products industry sometimes use intellectual property litigation to gain a competitive advantage. Intellectual property litigation, regardless of outcome, is often complex and expensive, and the outcome of this litigation is generally difficult to predict. An adverse determination in any such proceeding could subject us to significant liabilities to third parties or require us to seek licenses from third parties or pay royalties that may be substantial. Furthermore, there can be no assurance that necessary licenses would be available to us on satisfactory terms or at all. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing or selling certain of our products, which could have a material adverse effect on our business, financial condition and results of operations.

- International patent protection is uncertain.

Patent law outside the United States is uncertain and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect our intellectual property rights to the same extent as United States laws. We may participate in opposition proceedings to determine the validity of our or our competitors' foreign patents, which could result in substantial costs and diversion of our efforts.

- New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new product or service could have a significant impact on the effectiveness of our system of internal control. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

-8-

- Some of our competitors have significantly greater resources than we do, and it may be difficult for us to compete against them.

In many of our markets, we compete with numerous other companies that have substantially greater financial resources and engage in substantially more research and development activities than we do. Furthermore, innovations in surgical techniques or medical practices could have the effect of reducing or eliminating market demand for one or more of our products.

Some of the markets in which we compete are dominated by established manufacturers that have broader product lines, greater distribution capabilities, substantially larger marketing, research and development staffs and facilities than we do. Many of these competitors offer broader product lines within the specific product market and in the general field of medical devices and supplies. Broad product lines give many of our cardiovascular and fluid delivery competitors the ability to negotiate exclusive, long-term medical device supply contracts and, consequently, the ability to offer comprehensive pricing of their competing products. By offering a broader product line in the general field of medical devices and supplies, competitors may also have a significant advantage in marketing competing products to group purchasing organizations. In addition, our competitors may use price reductions to preserve market share in their product markets.

We are subject to substantial governmental regulation and our failure to comply with applicable governmental regulations could subject us to numerous penalties, any of which could adversely affect our business.

We are subject to numerous governmental regulations relating to, among other things, our ability to sell our products, third-party reimbursement and Medicare and Medicaid fraud and abuse. If we do not comply with applicable governmental regulations, governmental authorities could do one or more of the following:

impose fines and penalties on us;
prevent us from manufacturing our products;
bring civil or criminal charges against us;
delay the introduction of our new products into the market;
recall or seize our products;
disrupt the manufacture or distribution of our products; or
withdraw or deny approvals for our products.

Any one of these actions could materially adversely affect our revenues and profitability and harm our reputation.

- We will be unable to sell our products if we fail to comply with manufacturing regulations.

To manufacture our products commercially, we must comply with governmental manufacturing regulations that govern design controls, quality systems and documentation policies and procedures. The FDA and equivalent foreign governmental authorities periodically inspect our manufacturing facilities and the manufacturing facilities of our OEM medical device customers. If we or our OEM medical device customers fail to comply with these manufacturing regulations or fail any FDA inspections, marketing or distribution of our products may be prevented or delayed, which would negatively impact our business.

Our products are subject to product recalls even after receiving regulatory clearance or approval, and any such recalls would negatively affect our financial performance and could harm our reputation.

Any of our products may be found to have significant deficiencies or defects in design or manufacture. The FDA and similar governmental authorities in other countries have the authority to require the recall of any such defective product. A government-mandated or voluntary recall could occur as a result of component failures, manufacturing errors or design defects. We do not maintain insurance to cover losses incurred as a result of product recalls. Any product recall would divert managerial and financial resources and negatively affect our financial performance, and could harm our reputation with customers and end-users.

- We may not receive regulatory approvals for new product candidates or for modifications of existing products or approvals may be delayed.

Regulation by governmental authorities in the United States and foreign countries is a significant factor in the development, manufacture and marketing of our proposed products and in our ongoing research and product development activities. Any failure to receive the regulatory approvals necessary to commercialize our product candidates, or the subsequent withdrawal of any such approvals, would harm our business. Additionally, modification of our existing products may require regulatory approval. The process of obtaining these approvals and the subsequent compliance with federal and state statutes and regulations require spending substantial time and financial resources. If we fail to obtain or maintain, or encounter delays in obtaining or maintaining, regulatory approvals, it could adversely affect the marketing of any products we develop or modify, our ability to receive product revenues, and our liquidity and capital resources.

- We rely on technology to operate our business and any failure of these systems could harm our business.

We rely heavily on communications and information systems to conduct our business, enhance customer service and increase employee productivity. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, inventory, manufacturing and other systems. There is no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed by our policies and procedures that are intended to safeguard our systems. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, and expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

- We sell many of our products to healthcare providers that rely on Medicare, Medicaid and private health insurance plans to reimburse the costs associated with the procedures performed using our products and these third party payors may deny reimbursement for use of our products.

We are dependent, in part, upon the ability of healthcare providers to obtain satisfactory reimbursement from third-party payors for medical procedures in which our products are used. Third-party payors may deny reimbursement if they determine that a prescribed product has not received appropriate regulatory clearances or approvals, is not used in accordance with cost-effective treatment methods as determined by the payor, or is experimental, unnecessary or inappropriate. Failure by hospitals and other users of our products to obtain reimbursement from third-party payors, or adverse changes in government and private third-party payors' policies toward reimbursement for procedures utilizing our products, could have a material adverse effect on the Company's business, financial condition and results of operations. Major third-party payors for medical services in the United States and other countries continue to work to contain healthcare costs. The introduction of cost containment incentives, combined with closer scrutiny of healthcare expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to charges for services performed. Further implementation of legislative or administrative reforms to the United States or international reimbursement systems in a manner that significantly reduces reimbursement for procedures using our products or denies coverage for such procedures may result in hospitals or physicians substituting lower cost products or other therapies for our products which, in turn, would have an adverse effect on our business, financial condition and results of operations. Additionally, uncertainty about whether and how changes may be implemented could also have a negative impact on the demand for our products.

- Healthcare policy changes, including recently enacted legislation reforming the United States healthcare system, may have a material adverse effect on our business, financial condition and results of operations.

The Affordable Care Act makes changes that may significantly impact the medical device industry. One of the principal aims of the Affordable Care Act as currently enacted is to expand health insurance coverage to approximately 32 million Americans who are currently uninsured. The consequences of a significant coverage expansion on the sales of our products are unknown and speculative at this point.

We expect that the Affordable Care Act, as well as other federal or state health care reform measures that may be adopted in the future, could have a material adverse effect on our industry generally and our ability to develop or market our products successfully. The taxes imposed by the new federal legislation and the expansion of the government's role in the United States healthcare industry may result in decreased profits to us, lower reimbursement by payors for our products, and reduced medical procedure volumes, all of which may adversely affect our business, financial condition and results of operations.

- We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities we engage in can be intense and we may not be able to hire qualified people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Severe weather, natural disasters, acts of war or terrorism or other external events could significantly impact our business.

We currently conduct all our development, manufacturing and management at three locations. Severe weather, natural disasters, acts of war or terrorism and other adverse external events at any one or more of these locations could have a significant impact on our ability to conduct business. We have the ability to transfer certain products from a facility affected by such events, but doing so would be expensive. Our disaster recovery policies and procedures may not be effective and the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. The insurance we maintain may not be adequate to cover our losses.

- Our stock price can be volatile.

Stock price volatility may make it more difficult for our stockholders to sell their common stock when they want and at prices they find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

actual or anticipated variations in quarterly results of operations;
recommendations by securities analysts;
operating and stock price performance of other companies that investors deem comparable to the Company;
perceptions in the marketplace regarding the Company and our competitors;
new technology used, or services offered, by competitors;
trading by funds with high-turnover practices or strategies;
significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or our competitors;
failure to integrate acquisitions or realize anticipated benefits from acquisitions;
changes in government regulations; and
geopolitical conditions such as acts or threats of terrorism or military conflicts.

Additionally, our public float is small which can result in large fluctuations in stock price during periods with increased selling or buying activity. General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

- Our sales and operations are subject to the risks of doing business internationally.

We are increasing our presence in international markets, which subjects us to many risks, such as:

economic problems that disrupt foreign healthcare payment systems;
the imposition of governmental controls;
less favorable intellectual property or other applicable laws;
protectionist laws and business practices that favor local competitors;
the inability to obtain any necessary foreign regulatory or pricing approvals of products in a timely manner;
changes in tax laws and tariffs; and
longer payment cycles.

Our operations and marketing practices are also subject to regulation and scrutiny by the governments of the other countries in which we operate. In addition, the Foreign Corrupt Practices Act, or FCPA, prohibits United States companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. In certain countries, the healthcare professionals we regularly interact with may meet the definition of a foreign official for purposes of the FCPA. Additionally, we are subject to other United States laws in our international operations. Failure to comply with domestic or foreign laws could result in various adverse consequences, including possible delay in approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, and/or the imposition of civil or criminal sanctions.

- A significant portion of our sales is to customers in foreign countries. We may lose revenues, market share and profits due to exchange rate fluctuations and other factors related to our international business.

Our international business is subject to economic, political and regulatory uncertainties and risks that are unique to each area of the world. Fluctuations in exchange rates may also affect the prices that our international customers are willing to pay and may put us at a price disadvantage compared to other competitors. Potentially volatile shifts in exchange rates may negatively affect our financial condition and operations.

- We may experience fluctuations in our quarterly operating results.

We have historically experienced, and may continue to experience, fluctuations in our quarterly operating results. These fluctuations are due to a number of factors, many of which are outside our control, and may result in volatility of our stock price. Future operating results will depend on many factors, including:

demand for our products;
pricing decisions, and those of our competitors, including decisions to increase or decrease prices;
regulatory approvals for our products;
timing and levels of spending for research and development; sales and marketing;
timing and market acceptance of new product introductions by us or our competitors;
development or expansion of business infrastructure in new clinical and geographic markets;

tax rates in the jurisdictions in which we operate;
shipping delays or interruptions;
customer credit holds;
timing and recognition of certain research and development milestones and license fees; and
ability to control our costs;

- If we make acquisitions, we could encounter difficulties that harm our business.

We may acquire companies, products or technologies that we believe to be complementary to our business. If we do so, we may have difficulty integrating the acquired personnel, operations, products or technologies and we may not realize the expected benefits of any such acquisition. In addition, acquisitions may dilute our earnings per share, disrupt our ongoing business, distract our management and employees and increase our expenses, any of which could harm our business.

- Political and economic conditions could materially and adversely affect our revenue and results of operations.

Our business may be affected by a number of factors that are beyond our control such as general geopolitical economic and business conditions, conditions in the financial markets, and changes in the overall demand for our products. A severe or prolonged economic downturn could adversely affect our customers' financial condition and the levels of business activity of our customers. Uncertainty about current global political or economic conditions could cause businesses to postpone spending in response to tighter credit, negative financial news or declines in income or asset values, which could have a material negative effect on the demand for our products.

The recent economic recession and the uncertainty in global economic conditions resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity, currency and fixed income markets. Although conditions have eased somewhat, uncertainty about current global economic conditions continues to pose a risk as customers may postpone spending in response to restraints on credit or uncertainties regarding demand for their products or services. There could be additional effects on our business from these economic developments including the insolvency of key suppliers or their inability to obtain credit, the inability of our customers to pay for or obtain credit to finance purchases of our products and increased pressure to reduce the prices of our products.

Continued turbulence in the United States and international markets and economies could have a material adverse impact on our business, operating results and financial condition. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, which could materially adversely affect our business and results of operations.

- If we fail to manage our exposure to financial and securities market risk successfully, our operating results could be adversely impacted.

We are exposed to financial market risks, including changes in interest rates, credit markets and prices of marketable equity and fixed-income securities. We do not use derivative financial instruments for speculative or trading purposes.

The primary objective of our investment activities is to preserve principal and maintain adequate liquidity while at the same time maximizing yields without significantly increasing risk. To achieve this objective, our marketable investments are primarily investment grade, liquid, fixed-income securities and money market instruments denominated in United States dollars. The Company's cash-equivalents and investments may be subject to adverse changes in market value.

- Provisions in our governing documents and Delaware law may discourage or prevent a change of control, which could cause our stock price to decline and prevent attempts by our stockholders to replace or remove our current management.

Our certificate of incorporation and bylaws contain provisions that may discourage, delay or prevent a change in the ownership of the Company or a change in our management. In addition, our Board of Directors has adopted a rights plan which is intended to provide our Board of Directors with flexibility in addressing any takeover attempt and give it an opportunity to negotiate a transaction that maximizes stockholder value. However, the rights plan could delay or prevent a change in control of us even if the change in control would generally be beneficial to our stockholders. We are also subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding common stock. Although a delay or prevention of a change of control transaction or of changes in our Board of Directors could be effective in improving stockholder value, they also carry a risk of causing the market price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own, in the aggregate, 97 acres of property located in Allen, Texas, Arab, Alabama and St. Petersburg, Florida. Our facilities at those locations comprise approximately 398,000 square feet, with each facility housing administrative, engineering, manufacturing and warehouse operations. Our corporate headquarters are located at our Allen, Texas facility.

We also own and maintain a 22-mile high-pressure steel pipeline that transports gaseous oxygen between Decatur and Courtland, Alabama.

ITEM 3. LEGAL PROCEEDINGS

We have no pending legal proceedings of the type described in Item 103 of Regulation S-K.

ITEM 4. RESERVED

Executive Officers of the Company

Name	Age	Title
Emile A. Battat	72	Chairman and Chief Executive Officer of the Company and Chairman or President of all subsidiaries
David A. Battat	41	President and Chief Operating Officer of the Company and President of Halkey-Roberts Corporation, one of our subsidiaries
Jeffery Strickland	52	Vice President and Chief Financial Officer, Secretary and Treasurer of the Company and Vice President or Secretary-Treasurer of all subsidiaries

Messrs. Emile Battat and Strickland currently serve as officers of the Company and all subsidiaries. Mr. David Battat currently serves as an officer of the Company and Halkey-Roberts Corporation (“Halkey-Roberts”). The officers of the Company and our subsidiaries are elected annually by the respective Boards of Directors of the Company and our subsidiaries at the first meeting of such Boards of Directors held after the annual meetings of stockholders of such entities. The next meetings of the stockholders of the Company and our subsidiaries are expected to be held in May 2011 and the Boards of Directors of the Company and our subsidiaries are expected to meet promptly thereafter. Accordingly, the terms of office of the current officers of the Company and our subsidiaries are anticipated to expire in May 2011.

There are no arrangements or understandings between any officer and any other person pursuant to which the officer was elected. The only family relationships between any of our executive officers or directors are that Mr. David Battat is the son of Mr. Emile Battat.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officers during the past ten years.

Brief Account of Business Experience During the Past Five Years

Mr. Emile Battat has been a director of the Company since 1987 and has served as Chairman of the Board of the Company since January 1998. He has served as Chief Executive Officer of the Company and as Chairman or President of all subsidiaries since October 1998 and as President of the Company from October 1998 until May 2007.

Mr. David Battat has been President and Chief Operating Officer of the Company since May 2007. He has served as President of Halkey-Roberts since January 2006 and served from February 2005 through December 2005 as Halkey-Roberts’ Vice President - Business Development and General Counsel.

Mr. Strickland has served as Vice President and Chief Financial Officer, Secretary and Treasurer of the Company since February 1, 1997 and has served as Vice President or Secretary-Treasurer for all the Company’s subsidiaries since January 1997. Mr. Strickland was employed by the Company or our subsidiaries in various other positions from

September 1983 through January 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market (Symbol ATRI). As of February 12, 2011, we had approximately 2,800 stockholders, including beneficial owners holding shares in nominee or “street name.” The high and low sales prices as reported by NASDAQ for each quarter of 2009 and 2010 are shown below.

Year Ended December 31, 2009:	High	Low
First Quarter	$ 99.74	$ 63.55
Second Quarter	$ 136.77	$ 81.74
Third Quarter	$ 147.75	$ 114.70
Fourth Quarter	$ 158.18	$ 118.00
Year Ended December 31, 2010:	High	Low
First Quarter	$ 164.56	$ 129.51
Second Quarter	$ 153.90	$ 127.01
Third Quarter	$ 157.51	$ 130.50
Fourth Quarter	$ 184.99	$ 154.63

We pay regular quarterly cash dividends on our common stock. We have increased our quarterly cash dividend payments in September of each of the past four years. The quarterly dividend was increased to $.24 per share in September of 2007, to $.30 per share in September of 2008, to $.36 per share in September of 2009 and to $.42 in September of 2010. On January 29, 2010 and December 23, 2010 we made special cash dividend payments to stockholders of $6.00 and $3.00 per share, respectively. We paid quarterly dividends totaling $3.2 million and special cash dividends totaling $18.1 million to our stockholders in 2010.

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.

During the year ended December 31, 2010, we did not sell any equity securities that were not registered under the Securities Act of 1933, and during the fourth quarter of 2010 we did not repurchase any of our equity securities.

The stock performance graph set forth in our 2010 Annual Report to Stockholders is incorporated by reference herein and is included in Exhibit 13.1 to this Annual Report on Form 10-K. However, the stock performance graph is not to be deemed to be “soliciting material” or to be “filed” with the SEC or subject to the liabilities of Section 18 under the Securities Exchange Act of 1934. In addition, it shall not be deemed incorporated by reference by any statement that incorporates this Annual Report on Form 10-K by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference.

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data
(In thousands, except per share amounts)

	2010	2009		2008	2007		2006
Operating Results for the Year ended December 31,							
Revenues	$ 108,569	$ 100,643		$ 95,895	$ 88,540		$ 81,020
Operating income	30,977	25,004	(a)	22,973	20,195	(b)	14,338
Income from continuing operations	20,952	16,843	(a)	15,667	14,006	(b)	10,600
Net income	20,952	16,843	(a)	15,667	14,006	(b)	10,765
Depreciation and amortization	7,041	7,163		6,353	5,534		5,005
Per Share Data:							
Income from continuing operations, per diluted share	10.32	8.36	(a)	7.82	7.06	(b)	5.43
Net income per diluted share	10.32	8.36	(a)	7.82	7.06	(b)	5.51
Cash dividends per common share	10.56	1.32		1.08	.88		.74
Average diluted shares outstanding	2,030	2,015		2,004	1,985		1,953
Financial Position at December 31,							
Total assets	134,652	132,749		115,353	99,313		95,772
Long-term debt	-	-		-	-		11,399

(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.

ITEM 7. 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 2010 approximately 40 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, 2010, we reported revenues of $108.6 million, operating income of $31.0 million and net income of $21.0 million.

Results of Operations

Our net income was $21.0 million, or $10.38 per basic and $10.32 per diluted share, in 2010, compared to net income of $16.8 million, or $8.51 per basic and $8.36 per diluted share, in 2009 and net income of $15.7 million, or $7.99 per basic and $7.82 per diluted share, in 2008. The 2009 results included a $643,000 net of tax pension termination settlement charge, or $0.32 per diluted share, related to the termination of our defined benefit pension plans. Revenues were $108.6 million in 2010, compared with $100.6 million in 2009 and $95.9 million in 2008. The 8 percent revenue increase in 2010 over 2009 and the 5 percent revenue increase in 2009 over 2008 were generally attributable to higher sales volumes.

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

	2010	2009	2008
Fluid Delivery	$ 39,442	$ 35,540	$ 32,209
Cardiovascular	31,280	29,051	29,263
Ophthalmology	19,370	19,452	15,192
Other	18,477	16,600	19,231
Total	$ 108,569	$ 100,643	$ 95,895

Our cost of goods sold was $57.7 million in 2010, compared with $55.3 million in 2009 and $53.3 million in 2008. 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 and the 4 percent increase in cost of goods sold for 2009 over 2008.

Gross profit in 2010 increased $5.6 million to $50.9 million, compared with $45.3 million in 2009 and $42.5 million in 2008. Our gross profit was 47 percent of revenues in 2010, 45 percent of revenues in 2009 and 44 percent of revenues in 2008. The increases in gross profit percentage in each of 2010 and 2009 from the prior year was primarily due to a favorable product mix, improvements in manufacturing efficiencies and the impact of cost-savings projects.

Operating expenses were $19.9 million in 2010, compared with $20.3 million in 2009 and $19.6 million in 2008. In 2010, decreases in selling expenses and research and development, or R&D, expenses were partially offset by increases in general and administrative, or 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. R&D expenses consist primarily of salaries and other related expenses of the R&D personnel as well as costs associated with regulatory matters. In 2010, selling expenses decreased $282,000 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, G&A expenses increased $277,000 over 2009 G&A expenses. G&A expenses in 2009 included a $989,000 settlement loss 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. G&A expenses consist primarily of salaries and other related expenses of administrative, executive and financial personnel and outside professional fees.

In 2009, increases in G&A expenses and R&D expenses were partially offset by decreases in selling expenses. G&A expenses increased $297,000, excluding the previously mentioned pension termination settlement charge, primarily as a result of increased compensation costs, outside services and taxes partially offset by decreased travel costs. R&D expenses increased $85,000 in 2009 as compared to 2008 primarily as a result of increased compensation costs and increased outside services. In 2009, selling expenses decreased $618,000 primarily as a result of decreased compensation, travel, advertising and promotional expenses.

Our operating income for 2010 was $31.0 million, compared with $25.0 million in 2009 and $23.0 million in 2008. 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. The increase in gross profit partially offset by the increase in operating expenses described above were the major contributors to the operating income improvements in 2009 compared to the previous year.

Our interest income for 2010 was $1.0 million compared with $578,000 in 2009 and $299,000 in 2008. The increases in 2010 and 2009 were primarily related to the increased level of cash and investments during 2010 and 2009. Results for 2010 were also favorably impacted by investing in bonds with slightly longer maturities and higher yields.

Income tax expense in 2010 totaled $11.0 million, compared with $8.7 million in 2009 and $7.6 million in 2008. The effective tax rates for 2010, 2009 and 2008 were 34.5 percent, 34.2 percent and 32.7 percent, respectively. Benefits from tax incentives for domestic production and R&D expenditures totaled $977,000 in 2010, $776,000 in 2009 and $896,000 in 2008. Expenses from changes in uncertain tax positions totaled $255,000 in 2010, $143,000 in 2009 and $231,000 in 2008. We expect our effective tax rate for 2011 to be approximately 35.0 percent.

Liquidity and Capital Resources

We have a $25.0 million revolving credit facility with a money center bank to be utilized for the funding of operations and for major capital projects or acquisitions, subject to certain limitations and restrictions (see Note 4 of Notes to Consolidated Financial Statements). 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. We had no outstanding borrowings under our credit facility as of or for the years ended December 31, 2010 and December 31, 2009. The credit facility, which expires November 12, 2012, and may be extended under certain circumstances, contains various restrictive covenants, none of which is expected to impact our liquidity or capital resources. At December 31, 2010, we were in compliance with all financial covenants and had $25.0 million available for borrowing under the credit facility. We believe that the bank providing the credit facility is highly-rated and that the entire $25.0 million under the credit facility is currently available to us. If that bank were unable to provide such funds, we expect that we would still be able to fund operations.

At December 31, 2010, we had a total of $41.7 million in cash and cash equivalents, short-term investments and long-term investments, an increase of $5.3 million from December 31, 2009. 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 $31.2 million in 2010 were primarily comprised of net income plus the net effect of non-cash expenses plus net changes in working capital items. Inventories, accounts payables and accrued liabilities were the primary contributors to the positive net change in working capital items. The change in inventories was primarily related to increased sales volumes during December 2010. The change in accounts payable and accrued liabilities was primarily related to increases in accrued compensation.

At December 31, 2010, we had working capital of $44.2 million, including $10.7 million in cash and cash equivalents and $10.7 million in short-term investments. The $5.3 million decrease in working capital during 2010 was primarily related to decreases in cash and cash equivalents and inventories partially offset by increases in short-term investments. The net increase in cash and short-term investments was primarily related to amounts generated from operations. The decrease in inventories was primarily related to increased sales volumes at year end. Working capital items consisted primarily of accounts receivable, short-term investments, accounts payable, inventories and other current assets and other current liabilities.

Capital expenditures for property, plant and equipment totaled $4.3 million in 2010, compared with $6.6 million in 2009 and $5.4 million in 2008. These expenditures were primarily for the addition of machinery and equipment. We expect 2011 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 $21.3 million, $2.6 million and $2.1 million during 2010, 2009 and 2008, 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, 2010:

	Payments due by period			
Contractual Obligations	Total	2011	2012 - 2013	2014 and thereafter
		(In thousands)		
Purchase Obligations	$ 11,909	$ 11,828	$ 78	$ 3
Total	$ 11,909	$ 11,828	$ 78	$ 3

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 $25.0 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 2011.

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 October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force, which amends the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. This ASU is effective for fiscal years beginning on or after June 15, 2010. The adoption of the guidance on January 1, 2011 is not expected to have a material impact on our consolidated 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 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, Intangibles—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 2008, 2009 and 2010, none of our critical accounting policy estimates required significant adjustments. We did not note any events or changes in circumstances indicating that the carrying value of material 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 on Form 10-K 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 2011, our 2011 effective tax rate, our 2011 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 and increases in 2011 in cash, cash equivalents and investments. Words such as "expects," "believes," "anticipates," "intends," "should," "plans," and variations of such words and similar expression 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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, 2010 and 2009, 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, 2010. Our audits of the basic consolidated financial statements included the financial statement schedule 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, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 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 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's internal control over financial reporting as of December 31, 2010, 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 11, 2011 expressed an unqualified opinion.

/s/ Grant Thornton LLP
Dallas, Texas
March 11, 2011

CONSOLIDATED STATEMENTS OF INCOME
For the year ended December 31, 2010, 2009 and 2008

	2010	2009	2008
	(In thousands, except per share amounts)		
Revenues	$ 108,569	$ 100,643	$ 95,895
Cost of Goods Sold	57,655	55,312	53,348
Gross Profit	50,914	45,331	42,547
Operating Expenses:			
Selling	5,368	5,650	6,268
General and administrative	11,900	11,623	10,337
Research and development	2,669	3,054	2,969
	19,937	20,327	19,574
Operating Income	30,977	25,004	22,973
Interest Income	1,009	578	299
Interest Expense	--	--	(10)
Other Income (Expense), net	2	2	1
Income before Provision for Income Taxes	31,988	25,584	23,263
Provision for Income Taxes	(11,036)	(8,741)	(7,596)
Net Income	$ 20,952	$ 16,843	$ 15,667
Net Income Per Basic Share	$ 10.38	$ 8.51	$ 7.99
Weighted Average Basic Shares Outstanding	2,018	1,979	1,961
Net Income Per Diluted Share	$ 10.32	$ 8.36	$ 7.82
Weighted Average Diluted Shares Outstanding	2,030	2,015	2,004
Dividends Per Common Share	$ 10.56	$ 1.32	$ 1.08

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
As of December 31, 2010 and 2009

Assets:		2010		2009
		(In thousands)		
Current Assets:				
Cash and cash equivalents	$	10,670	$	20,694
Short-term investments		10,715		4,230
Accounts receivable, net of allowance for doubtful accounts of $36 and $61 in 2010 and 2009, respectively		11,521		11,026
Inventories		17,400		18,675
Prepaid expenses and other current assets		1,050		981
Deferred income taxes		625		596
Total Current Assets		51,981		56,202
Property, Plant and Equipment		103,789		99,862
Less accumulated depreciation and amortization		53,125		46,721
		50,664		53,141
Other Assets and Deferred Charges:				
Patents and licenses, net of accumulated amortization of $10,419 and $10,147 in 2010 and 2009, respectively		1,249		1,520
Goodwill		9,730		9,730
Other		737		679
Long-term investments		20,291		11,477
		32,007		23,406
Total Assets	$	134,652	$	132,749

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

As of December 31, 2010 and 2009

Liabilities and Stockholders' Equity:	2010	2009
	(In thousands)	
Current Liabilities:		
Accounts payable	$2,550	$2,529
Accrued liabilities	4,650	3,596
Accrued income and other taxes	552	557
Total Current Liabilities	7,752	6,682
Line of credit	--	--
Other Liabilities and Deferred Credits:		
Deferred income taxes	8,188	7,850
Other	2,095	1,486
	10,283	9,336
Total Liabilities	18,035	16,018
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	24,331	20,356
Retained earnings	131,286	131,769
Treasury shares, 1,404 shares in 2010 and 1,440 shares in 2009, at cost	(39,342)	(35,736)
Total Stockholders' Equity	116,617	116,731
Total Liabilities and Stockholders' Equity	$134,652	$132,749

The accompanying notes are an integral part of these statements.

-27-

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended December 31, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Cash Flows From Operating Activities:			
Net income	$20,952	$16,843	$15,667
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,041	7,163	6,353
Deferred income taxes	309	608	1,096
Stock-based compensation	606	668	637
Pension charge	--	989	--
Other	--	--	37
	28,908	26,271	23,790
Changes in operating assets and liabilities:			
Accounts receivable	(495)	(151)	(1,274)
Inventories	1,275	1,494	(2,782)
Prepaid expenses and other current assets	(69)	(262)	764
Other non-current assets	(57)	434	(591)
Accounts payable and accrued liabilities	1,075	643	(867)
Accrued income and other taxes	(5)	(174)	216
Other non-current liabilities	609	144	231
	31,241	28,399	19,487
Cash Flows From Investing Activities:			
Property, plant and equipment additions	(4,293)	(6,591)	(5,412)
Purchase of investments	(19,117)	(15,485)	(4,629)
Proceeds from maturities of investments	4,000	--	--
Net change in accrued interest on investments	(183)	(155)	(63)
	(19,593)	(17,606)	(10,104)
Cash Flows From Financing Activities:			
Line of credit advances	--	--	3,000
Line of credit repayments	--	--	(3,000)
Exercise of stock options	542	459	543
Shares tendered for employees' taxes on stock-based compensation	(725)	(122)	(913)
Tax benefit related to stock options	1,239	121	1,635
Purchase of treasury stock	(1,407)	--	--
Dividends paid	(21,321)	(2,613)	(2,123)
	(21,672)	(2,155)	(858)
Net change in cash and cash equivalents	(10,024)	8,638	8,525
Cash and cash equivalents, beginning of year	20,694	12,056	3,531
Cash and cash equivalents, end of year	$10,670	$20,694	$12,056

Cash paid for:			
Interest (net of capitalization)	$--	$--	$10
Income taxes	9,080	8,170	3,781

The accompanying notes are an integral part of these statements.

-28-

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
For the year ended December 31, 2010, 2009 and 2008
(In thousands)

	Common Stock Shares Outstanding	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances, January 1, 2008	1,911	$ 342	1,509	$ (34,225)	$ 15,790	$ (486)	$ 104,021	$ 85,442
Net income							15,667	15,667
Actuarial gain on pension plan, net of income taxes of $25						(47)		(47)
Total comprehensive income						(47)	15,667	15,620
Tax benefit from exercise of stock options					1,635			1,635
Stock options and restricted stock	74		(74)	755	1,705			2,460
Shares surrendered in option exercises	(17)		17	(2,181)				(2,181)
Dividends							(2,134)	(2,134)
Balances, December 31, 2008	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 exercise of stock options					121			121
Stock options and restricted stock	15		(15)	171	1,105			1,276
Shares surrendered in option exercises	(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 exercise of stock options					1,239			1,239
Stock options and restricted stock	64		(64)	671	2,736			3,407
Shares surrendered in option exercises	(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

The accompanying notes are an integral part of this statement.

Atrion Corporation

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Atrion Corporation and its subsidiaries (“we,” “our,” “us,” “Atrion” or “the Company”) develop and manufacture produ 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 and certificates of deposits. 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.

Atrion Corporation
Notes to Consolidated Financial Statements – (continued)

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, 2010	December 31, 2009
Raw materials	$ 7,888	$ 8,541
Work in process	3,985	4,078
Finished goods	5,527	6,056
Total inventories	$ 17,400	$ 18,675

Accounts Payable
We reflect disbursements as trade accounts payable until such time as payments are presented to our bank for payment. At December 31, 2010 and 2009, disbursements totaling approximately $282,000 and $498,000, 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.

Atrion Corporation
Notes to Consolidated Financial Statements – (continued)

Property, Plant and Equipment

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

	December 31,		Useful
	2010	2009	Lives
Land	$ 5,260	$ 5,260	—
Buildings	29,798	29,662	30-40 yrs