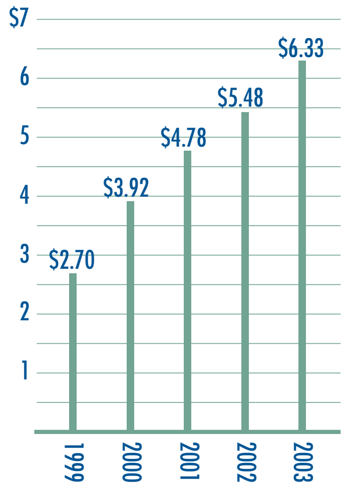
Over the years, we have learned that there are certain clear prerequisites to growth. Our path to growth is grounded on these basic fundamentals: Managing our assets wisely. Making products that meet specific market needs. And maintaining our keen focus on productivity and profitability. ■ It is our steady and consistent focus on the fundamentals that has enabled us to build strength and create an environment for growth, through favorable or unfavorable conditions in the market and the economy.

We manage our assets and resources carefully.

Our financial strategy centers on building the strength and stability that will position our company for ongoing growth. We approach the management of our resources with discipline and diligence, striking the balance that allows us to accomplish our objectives: Funding the current needs of the business, maintaining a strong financial foundation, and investing in the resources, technology and assets that will ensure operating efficiency and fuel future growth. The soundness of this strategy was reflected once again in our financial results for 2003.

EBITDA Per Diluted Share From Continuing Operations[(a)]



(a) This is a non-GAAP financial measure which is defined and reconciled to GAAP on page 7 of this report.

For the fifth consecutive year, Atrion's earnings per diluted share from continuing operations increased by more than 15 percent, rising from $2.18 in 2002 to $2.66 in 2003, a 22 percent improvement. In light of the economic pressures which have challenged virtually every business in recent years, we view five consecutive years of EPS growth—ranging from 16 percent to over 50 percent—as a sign of solid financial strength and a testament to the viability of our strategy. Including a gain from discontinued operations of $ .09 per share, net income totaled $2.75 per diluted share for 2003.

Revenues for 2003 increased five percent to $62.8 million, from $59.5 million in the prior year. Return on equity[(a)], which provides a good indication of how well we are utilizing investors' dollars, has steadily increased in recent years, from five percent in 1999 to 12 percent in 2003. This compares favorably to the average return on equity for our industry, reported at 10.7 percent by statistical research sources.

The company's ability to generate strong cash flow continued to flourish in 2003. This is a key strength for our company, as it enables us to pursue a number of value-creating initiatives.

- We initiated the payment of quarterly dividends on the company's common stock in September 2003. Recent changes in tax laws make this an efficient avenue for providing a return to our shareholders and, with continuing growth in earnings and cash flow, we plan to increase the dividend periodically.
- We repurchased 193,814 shares of our common stock in 2003. Over the last five years, we have repurchased nearly two million shares of our stock, a strategy we regard as a wise investment for our company and our stockholders.
- We reduced debt by $6 million, from $10.3 million at the end of 2002 to $4.3 million at year-end 2003.