MESA LABORATORIES INC /CO
Form 10KSB
June 29, 2007
Table of Contents

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MARCH 31, 2007

Commission File Number 0-11740

MESA LABORATORIES, INC.

(Name of small business issuer in its charter)

Colorado	**84-0872291**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
12100 West Sixth Avenue Lakewood, Colorado	**80228**
(Address of principal executive offices)	**(Zip Code)**

Issuer s telephone number: (303) 987-8000

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	**Name of each exchange on which registered**
Common stock, no par value	**NASDAQ**

Securities registered under Section 12(g) of the Exchange Act: None

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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 ¨ NO x

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 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 x NO ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. x

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

State issuer s revenues for its most recent fiscal year: $17,242,000.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant: As of May 31, 2007: $58,129,063*.

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: No Par Value Common Stock 3,167,482 shares as of May 31, 2007.

Documents incorporated by reference: Proxy Statement for the 2007 Annual Meeting of Shareholders Part III information is incorporated by reference from the Proxy Statement.

Transitional Small Business Disclosure Format: Yes ¨; No x.

* Aggregate market value was determined by multiplying the number of outstanding shares (excluding those shares held of record by officers, directors and greater than five percent shareholders) by $24.65, the last sales price of the Registrant s common stock as of May 31, 2007, such date being within 60 days prior to the date of filing.

Table of Contents

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Introduction

Mesa Laboratories, Inc. (hereinafter referred to as the Company or Mesa) was incorporated as a Colorado corporation on March 26, 1982. The Company designs, develops, acquires, manufactures and markets instruments and disposable products utilized in connection with industrial applications and healthcare. For industrial applications, which includes pharmaceutical, food, medical devices, and petrochemical, the Company presently markets the DATATRACE® data logging systems, NUSONICS® Concentration Analyzers, Pipeline Interface Detectors and Flow Meter products and RAVEN Biological Indicators. For healthcare applications, the Company markets Dialysate Meters used in kidney dialysis and RAVEN Biological Indicators, which are used by hospitals and dental offices to assure sterility. The Company is continually performing research and development to expand the application of its technology.

All statements other than statements of historical fact included in this annual report regarding the Company s financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated, include but are not limited to general economic, financial and business conditions; competition in the data logging market; competition in the kidney dialysis market; competition in the fluid measurement market; competition in the biological indicator test market; the business abilities and judgement of personnel; the impacts of unusual items resulting from ongoing evaluations of business strategies; and changes in business strategy.

Mesa s executive offices are located at 12100 West Sixth Avenue, Lakewood, Colorado 80228, telephone (303) 987-8000.

DATATRACE® Data Loggers

The DATATRACE products are self-contained, wireless, high precision, data loggers that are used in critical manufacturing, quality control, and transportation applications. They are used to measure temperature, humidity and pressure inside a process or inside a product during manufacturing. In addition, the DATATRACE products can be used to validate the proper operation of laboratory or manufacturing equipment, either during its installation or for annual re-certifications. The product line consists of individual data loggers, a PC interface, DataTrace for Windows (DTW) reporting software and various accessories. A customer typically purchases a large number of data loggers along with a single PC interface and DTW software package. In practice, using the PC interface, the user programs the tracers to collect environmental data at a pre-determined interval, places the data loggers in the product or process, retrieves the data loggers and reads the data into a PC with the interface. After this, the user can prepare tabular and graphical reports using the DTW software. Different models of data loggers are available, including the older FRB loggers, along with the newest Micropack III line, which was introduced in March 2002. The latest generation Micropack III line is much smaller, has improved hardware and embedded software, includes a rapid optical interface, and operates over a wider temperature range. Product line sales are primarily the Micropack III line, with FRB sales being made only to customers who are adding loggers to their current inventory.

Table of Contents

While there are a variety of different types of wireless data loggers available on the market, there are only a few that are rated as intrinsically safe and can operate at elevated temperatures, like the DATATRACE products. These are important differentiating factors for the DATATRACE products in the marketplace, and consequently, they are used by companies to control their most critical processes. Due to their higher accuracy and precision, along with the importance of the processes they are used to control, an important component of the DATATRACE product line is the calibration service that is provided by Mesa. Typically, each DATATRACE data logger is calibrated by Mesa s calibration laboratory prior to shipment and then annually, for a re-certification fee, to verify its accuracy. For instance, the Micropack III temperature data loggers are calibrated to +/- 0.1ºC over their operating range of -20 ºC to +140 ºC. This allows the Micropack III data loggers to be used to conduct quality control on critical sterilization operations, one of the most important applications.

RAVEN Biological Indicators

In May, 2006, the Company acquired Raven Biological Laboratories, Inc. of Omaha, Nebraska. The RAVEN product line consists of Biological Indicators (BI) and Chemical Indicators (CI) used to assess the effectiveness of sterilization processes, including steam, gas (such as ethylene oxide), and radiation. Biological Indicators consist of resistant spores of certain microorganisms which are applied on a convenient substrate. The spores are well characterized in terms of numbers and resistance to sterilization. In use, the BI is exposed to a sterilization process and then tested to determine the presence of surviving organisms. The RAVEN BI include both spore strips, which require post-processing transfer to a growth media and self-contained products which have the growth media already pre-packaged in crushable ampoules. Chemical Indicators are similar to BI, except that a chemical change (generally determined by color) is used to assess the exposure to sterilization conditions. BI and CI are often used together to monitor processes. RAVEN products are used to validate equipment and monitor the effectiveness of a process in any industrial or healthcare setting which uses sterilization. Key markets for RAVEN include healthcare such as dental offices and hospitals, and industrial such as medical device and pharmaceutical manufacturing.

In addition to Biological and Chemical Indicators, the Company offers Contract and Testing Services to industrial companies for the development of sterilization processes. These testing services include organism identification, population verification, sterilization process development and custom BI production.

The RAVEN Biological Indicators are distinguished in the marketplace by their high level of quality, consistency and flexibility. A variety of different formats allows the RAVEN BI to be used in many different types of processes and products. For instance, the simple spore strips are used most often in the small table-top steam sterilizers in dental offices, while a more complex self-contained BI such as the ProTest may be used by a medical device manufacturer to assure the sterility in a complex ethylene oxide sterilization process. In either case, the number of spores contained on the carrier and the resistance of the spores to the sterilization process must be well characterized in order to accurately assess the effectiveness of sterilization. During manufacturing, extensive quality control steps are used to insure that the microorganism spores are well characterized and their resistance is known following placement on the target carrier. The RAVEN products are registered medical devices manufactured under ISO 13485 controlled processes. They are developed and used according to the guidelines developed under the auspices of the Association for the Advancement of Medical Instrumentation (AAMI), which are adopted as the worldwide standard under the International Standards Organization (ISO).

Hemodialysis Products

Patients with kidney failure (known as end stage renal disease, or ESRD) require the removal of toxic waste products and excess water through artificial means. This process is generally performed three times per week and is most often accomplished through the use of hemodialysis.

Table of Contents

Hemodialysis requires the treatment to be conducted on a dialysis machine through the use of a disposable cartridge known as a dialyzer. Blood is brought extracorporally to the dialysis machine for control and monitoring and passes through the dialyzer where waste products and excess water are removed. This treatment generally lasts three to four hours and is conducted three times per week. While these hemodialysis procedures can be conducted in home, the bulk of the treatments are conducted in over 3,500 clinics and hospital centers in the U.S. Currently, there are over 300,000 patients in the U.S. undergoing dialysis therapy.

In addition to the reimbursement policies of the United States Government and state agencies, the Company s revenues from its dialysis products can be expected to be dependent upon the policies of insurance companies and kidney foundations.

Dialysate Meters

Mesa s Dialysate Meters are instruments that are used to test various parameters of the dialysis fluid (dialysate), and the proper calibration and operation of the dialysis machine. Each measures some combination of temperature, pressure, pH and conductivity to ensure that the dialysate has the proper composition to promote the transfer of waste products from the blood to the dialysate. The meters provide a digital readout that the patient, physician or technician uses to verify that the dialysis unit is working within prescribed limits and delivering the properly prepared dialysate.

The Company manufactures two styles of Dialysate Meters; those designed for use by dialysis machine manufacturers and Biomedical Technicians and those used primarily by dialysis nurses or patient care technicians. The meters for technicians include the Models 90DX, NEO-2, and the newer 90XL. These meters are characterized by exceptional accuracy, stability, and flexibility and are used by the industry as the primary standard for the calibration of dialysis machines. The newest 90XL meter has four independent measurement channels, allowing the user to easily perform testing and calibration of multiple dialysis machines in a clinic or on the manufacturing floor.

The dialysis meters designed for use by dialysis nurses are known primarily for their ease of use and include the pHoenix, Hydra, and NEO-STAT+ models. Incorporating a patented, built-in syringe sampling system, these meters are used as the final quality control check on the dialysate just prior to starting a treatment. Their design allows the nurse to quickly and easily draw a small sample of the dialysate into the meter for measurement, and management believes that they have become the most popular meter in the point-of care testing in dialysis clinics.

The ECHO MM-1000 Dialyzer Reprocessor

Dialyzer reuse is a procedure in which a patient s dialyzer is cleaned, performance tested and disinfected before it is reused by the same patient at a later time. Each patient requires approximately 156 dialyzers annually if no reuse is employed. The ECHO MM-1000 Dialyzer Reprocessor is a fully automated dialyzer reuse machine. While reuse products were an important part of the Company s business in the past, the move to single-use dialyzers in developed countries has greatly limited this market. Reuse products now represent only a small part of the Company s business, and production of new units are being phased out, although service of existing units will continue.

Table of Contents

Sonic Fluid Measurement

The Company s sonic fluid measurement product line consists of two major components: Sonic Flow Meters and Concentration Monitors. While the total market for flow meters is very large, the NUSONICS® Sonic Flow Meters best serve applications where cleanliness and resistance to corrosives are required. Specific applications where the NUSONICS® products are particularly well suited include water treatment, chemical processing and heating, ventilation and air conditioning (HVAC) applications. The Concentration Monitor component of the product line consists of Pipeline Interface Detectors and Concentration Analyzers. The Pipeline Interface Detector serves a smaller market niche while the Concentration Analyzers serve a wider variety of industry application, such as chemical, food, pharmaceutical and polymerization processes.

The NUSONICS products have been subject to strong competition in the marketplace in recent years primarily from larger, well established process control companies. Consequently, sales of NUSONICS products have decreased and currently represent less than 5% of the Company s total sales. Today, most sales are made to existing NUSONICS customers who are replacing or adding to their current infrastructure.

Manufacturing

The Company assembles its manufactured products at its facilities in Lakewood, Colorado and Omaha, Nebraska. The Company s electronic products are manufactured primarily by assembling products from purchased components and testing the final products prior to release. The RAVEN products are manufactured by growing microbiological spores from raw materials, assembling the finished products through a series of process steps, and testing the finished Biological Indicators using established quality control tests.

Most of the materials and components used in the Company s product lines are available from a number of different suppliers. Mesa generally maintains multiple sources of supplies for most items but is dependent on a single source for certain items. Mesa believes that alternative sources could be developed, if required, for present single supply sources. Although the Company s dependence on these single supply sources may involve a degree of risk, to date, Mesa has been able to acquire sufficient stock to meet its production requirements.

Marketing and Distribution

The Company s domestic sales of its dialysis and DATATRACE products are generated by its direct sales and marketing staff, while outside the U.S., a number of distributors are utilized. The Company s RAVEN products are distributed both directly to end users and through a series of distributors both domestically and outside the U.S. For its NUSONICS® product lines, a separate organization of manufacturers representatives is maintained. International sales for all products are conducted through over 100 distributors. During the fiscal year ended March 31, 2007, approximately 74% of sales have been domestic and 26% have been international to countries throughout Europe, Africa, Australia, Asia and South America, as well as Canada and Mexico.

Sales promotions include attendance by Mesa representatives at trade shows, direct mail campaigns, internet advertising and trade journal advertising in industry related publications.

Customers of Mesa s dialysis products primarily include dialysis centers and dialysis equipment manufacturers. The primary emphasis of the Company s marketing effort is to offer quality products to the healthcare market which will aid in cost containment and improved patient well-being.

Table of Contents

DATATRACE® customers include numerous industrial users in the food, pharmaceutical and medical device markets who utilize the products within a variety of manufacturing, quality control and validation applications. The emphasis of the Company s marketing effort is to offer a quality product that provides a unique and flexible solution to monitoring temperature, pressure or humidity without interfering with the processing of the product.

RAVEN customers include various companies providing sterility assurance testing to the dental office market, hospitals, contract sterilizing services and various industrial users involved in pharmaceutical and medical device manufacturing. The Company s marketing focuses on providing high quality test products in a variety of different formats, which minimize incubation and test result time.

NUSONICS® customers include various industries such as water treatment, manufacturing, HVAC and petroleum product transportation. The Company s marketing efforts are focused on offering flow measurement and concentration monitoring in difficult environments where noninvasive monitoring techniques are required.

During the fiscal year ended March 31, 2007, one customer represented approximately 14% of the Company s revenues and approximately 12% of the Company s accounts receivable balance. During the fiscal year ended March 31, 2006, two customers represented approximately 21% and 10% of the Company s revenues and approximately 11% and 5% of the Company s accounts receivable balance.

Competition

Mesa competes with major medical and instrumentation companies as well as a number of smaller companies, many of which are well established, with substantially greater capital resources and larger research and development capabilities. Furthermore, many of these companies have an established product line and a significant operating history. Accordingly, the Company may be at a competitive disadvantage due to such factors as its limited resources and limited marketing and distribution network.

Companies with which Mesa s dialysis products compete include Myron L Company and Cantel Medical Corporation. Companies with which Mesa s DATATRACE® instrumentation products compete include GE Kaye, Ellab and TMI Orion. Companies with which Raven s biological indicator products compete include 3M, SGM and Steris. Companies with which Mesa s NUSONICS® products compete include Controlotron, Badger Meter, Rosemount, and GE Panametrics.

Government Regulation

Medical devices marketed by Mesa are subject to the provisions of the Federal Food, Drug and Cosmetic Act, as amended by the Medical Device Amendments of 1976 (hereinafter referred to as the Act). A medical device which was not marketed prior to May 28, 1976, or is not substantially equivalent to a device marketed prior to that date, may not be marketed until certain data is filed with the FDA and the FDA has affirmatively determined that such data justifies marketing under conditions specified by the FDA. A medical device is defined by the Act as an instrument which (1) is intended for use in the diagnosis or the treatment of disease, or is intended to affect the structure of any function of the human body; (2) does not achieve its intended purpose through chemical action; and (3) is not dependent upon being metabolized for the achievement of its principal intended purpose. The Act requires any company proposing to market a medical device to notify the FDA of its intention at least ninety days before doing so, and in such notification must advise the FDA as to whether the device is substantially equivalent to a device marketed prior to May 28, 1976. As of the date hereof, the Company has received permission from the FDA to market all of its products requiring such permission.

Table of Contents

Some of Mesa s products are subject to FDA regulations and inspections, which may be time-consuming and costly. This includes on-going compliance with the FDA s current Good Manufacturing Practices regulations which require, among other things, the systematic control of manufacture, packaging and storage of products intended for human use. Failure to comply with these practices renders the product adulterated and could subject the Company to an interruption of manufacture and sale of its medical products and possible regulatory action by the FDA.

The manufacture and sale of medical devices is also regulated by some states. Although there is substantial overlap between state regulations and the regulations of the FDA, some state laws may apply. Mesa, however, does not anticipate that complying with state regulations will create any significant problems. Foreign countries also have laws regulating medical devices sold in those countries, which may cause us to expend additional resources on compliance.

Employees

On March 31, 2007, the Company had a total of 100 employees, of which 98 were full-time employees. Currently, 20 persons are employed for marketing and sales, four for research and development, 65 for manufacturing and quality assurance and 11 for administration.

Additional Information

For the fiscal years ended March 31, 2007 and 2006, Mesa spent $392,000 and $358,000, respectively, on Company-sponsored research and development activities.

Compliance with federal, state and local provisions which have been enacted regarding the discharge of materials into the environment or otherwise relating to the protection of the environment has not had, and is not expected to have, any adverse effect upon capital expenditures, earnings or the competitive position of the Company. Mesa is not presently a party to any litigation or administrative proceedings with respect to its compliance with such environmental standards. In addition, the Company does not anticipate being required to expend any significant capital funds in the near future for environmental protection in connection with its operations.

The Company has been issued patents for its DATATRACE® temperature recording devices, its NUSONICS® sonic flow measurement and sonic concentration monitoring products and its pHoenix, Hydra and NeoStat+ dialysis meters and its RAVEN biological indicators. Several of these patents have now expired. Failure to obtain patent protection on the Company s remaining products may have a substantially adverse effect upon the Company since there can be no assurance that other companies will not develop functionally similar products, placing the Company at a competitive disadvantage. Further, there can be no assurance that patent protection will afford protection against competitors with similar inventions, nor can there be any assurance that the patents will not be infringed or designed around by others. Moreover, it may be costly to pursue and to prosecute patent infringement actions against others, and such actions could interfere with the business of the Company.

Table of Contents

ITEM 2. DESCRIPTION OF PROPERTY.

Mesa owns its 39,616 square foot facility at 12100 W. 6th Avenue, Lakewood, Colorado 80228. All Datatrace, Medical and Nusonics manufacturing, warehouse, marketing, research and general corporate administrative functions are based at this location. The facility is approximately 80% utilized and the Company currently utilizes only one shift. The Company also owns an approximately 28,000 square foot facility at 8607 Park Drive, Omaha, Nebraska 68127. All RAVEN product manufacturing, warehouse, marketing, research and administrative functions are based at this location. The facility is currently 90% utilized and the Company currently utilizes only one shift.

The Company does not invest in, and has not adopted any policy with respect to investments in, real estate or interests in real estate, real estate mortgages or securities of or interests in persons primarily engaged in real estate activities. It is not the Company s policy to acquire assets primarily for possible capital gain or primarily for income.

ITEM 3. LEGAL PROCEEDINGS.

No material legal proceedings to which the Company is a party or to which any of its property is the subject are pending, and no such proceedings are known by the Company to be contemplated. The Company is not presently a party to any litigation or administrative proceedings with respect to its compliance with federal, state and local provisions which have been enacted regarding the discharge of materials into the environment or otherwise relating to the protection of the environment and no such proceedings are known by the Company to be contemplated. No legal actions are contemplated nor judgments entered against any officer or director of the Company concerning any matter involving the business of the Company.

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

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

Table of Contents

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Mesa s common stock is traded on the Nasdaq Global Market under the symbol MLAB . For the last two fiscal years, the high and low sales prices of the Company s common stock as reported to the Company by Nasdaq were as follows:

Quarter Ended	High	Low	Dividend
June 30, 2005	$ 13.94	$ 11.64	$ .06
September 30, 2005	$ 13.54	$ 11.65	$ .06
December 31, 2005	$ 16.15	$ 11.76	$ .32*
March 31, 2006	$ 16.60	$ 13.21	$ .07
June 30, 2006	$ 16.00	$ 13.74	$ .07
September 30, 2006	$ 18.77	$ 14.58	$ .07
December 31, 2006	$ 20.24	$ 16.61	$ .18*
March 31, 2007	$ 23.00	$ 18.94	$ .08

The Nasdaq Global Market quotations set forth herein reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

(b) As of March 31, 2007, there were approximately 900 record and beneficial holders of Mesa s common stock.

(c) During the fiscal year ended March 31, 2007, the Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

(d) We made the following repurchases of our common stock, by month, within the fourth quarter of the fiscal year covered by this report:

	Shares Purchased	Avg. Price Paid	Total Share Purchased as Part of Publicly Announced Plan	Remaining Shares to Purchase Under Plan
January 1 31, 2007	1,346	$ 21.61	60,526	239,474
February 1 28, 2007	5,485	$ 20.67	66,011	233,989
March 1 31, 2007	3,856	$ 20.02	69,867	230,133
Total Fourth Quarter	10,687	$ 20.73		

On November 7, 2005, the Board of Directors of Mesa Laboratories, Inc. adopted a share repurchase plan which allows for the repurchase of up 300,000 of the company s common shares. This plan will continue until the maximum is reached or the plan is terminated by further action of the Board.

* On December 15, 2006, the Company paid a regular $.08 per common share quarterly dividend and a $.10 per common share special dividend to holders of record on December 1, 2006. On December 15, 2005, the Company paid a regular $.07 per common share quarterly dividend and a $.25 per common share special dividend to holders of record on December 1, 2005.

Table of Contents

For information regarding securities authorized for issuance under our equity compensation plans, please see Footnote 9 to the Financial Statements.

Equity Compensation Plan Information as of March 31, 2007

Plan Category	No. of securities to be Issued upon exercise of Outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining for future issuance under plan
Equity compensation plans approved by security holders	259,390	$ 12.32	471,200
Equity compensation plans not approved by security holders			
Total	259,390	$ 12.32	471,200

Table of Contents

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Overview

Mesa Laboratories, Inc. manufactures and distributes electronic measurement systems and disposable products for various niche applications, including renal treatment, food processing, medical sterilization, pharmaceutical processing and other industrial applications. Our Company follows a philosophy of manufacturing a high quality product and providing a high level of on-going service for those products. In order to optimize the performance of our Company and to build the value of the Company for its shareholders, we continually follow the trend of various key financial indicators. A sample of some of the most important of these indicators is presented in the following table.

Key Financial Indicators

	2007	2006	2005	2004
Cash and Investments	$ 3,346,000	$ 5,711,000	$ 6,882,000	$ 6,767,000
Trade Receivables	$ 4,017,000	$ 2,520,000	$ 2,017,000	$ 1,621,000
Days Sales Outstanding	63	61	62	55
Inventory	$ 3,297,000	$ 2,374,000	$ 1,941,000	$ 2,099,000
Inventory Turns	1.9	1.9	1.8	1.6
Working Capital	$ 9,373,000	$ 9,753,000	$ 10,141,000	$ 10,080,000
Current Ratio	7:1	9:1	11:1	16:1
Average Return On:				
Stockholder Investment (1)	22.2%	18.5%	15.0%	14.3%
Assets	20.4%	17.0%	14.1%	13.6%
Invested Capital (2)	29.2%	30.7%	26.4%	22.9%
Net Sales	$ 17,242,000	$ 11,583,000	$ 10,041,000	$ 9,126,000
Gross Profit	$ 10,895,000	$ 7,437,000	$ 6,320,000	$ 5,698,000
Gross Margin	63%	64%	63%	62%
Operating Income	$ 5,659,000	$ 4,110,000	$ 3,475,000	$ 3,249,000
Operating Margin	33%	35%	35%	36%
Net Profit	$ 3,958,000	$ 2,805,000	$ 2,312,000	$ 2,130,000
Net Profit Margin	23%	24%	23%	23%
Earnings Per Diluted Share	$ 1.22	$ .92	$ .74	$ .68
Capital Expenditures (Net)	$ 1,780,000	$ 115,000	$ 70,000	$ 34,000
Head Count	100	51.5	46.5	48.5
Sales Per Employee	$ 172,000	$ 225,000	$ 216,000	$ 188,000

Table of Contents

(1) Average return on stockholder investment is calculated by dividing total net income by the average of end of year and beginning of year total stockholder s equity.
(2) Average return on invested capital (invested capital = total assets current liabilities cash and short-term investments) is calculated by dividing total net income by the average of end of year and beginning of year invested capital.

While we continually try to optimize the overall performance and trends, the table above does highlight various exceptions. A review of the table above shows a decrease in the Company s Cash and Investments during fiscal 2006 and 2007. This reduction in Cash and Investments was due to buybacks of the Company s common stock, a special dividend, and the purchase of Raven Biological Laboratories and its building. The Current Ratio, while very healthy, decreased significantly in recent years from prior levels. This change is due to a number of factors including the impact on cash of stock buybacks, the special dividend and the Raven purchase.

Results of Operations

Net Sales

Net sales for fiscal 2007 increased 49 percent from fiscal 2006, and net sales for fiscal 2006 increased 15 percent from fiscal 2005. In real dollars, net sales of $17,242,000 in fiscal 2007 increased $5,659,000 from $11,583,000 in 2006, and net sales of $11,583,000 in fiscal 2006 increased $1,542,000 from $10,041,000 in 2005.

Our revenues come from two main sources, which include product revenues and parts and service revenues. Parts and service revenues are derived from on-going repair and recalibration or certification of our products. The certification or recalibration of product is usually a key component of the customer s own quality system and many of our customers operate in regulated industries, such as food processing or medical and pharmaceutical processing. For this reason, these revenues tend to be fairly stable and grow slowly over time. During fiscal years 2007, 2006 and 2005 our Company had parts and service revenue of $3,333,000, $2,982,000 and $2,893,000. As a percentage of total revenue, parts and service revenues were 19% in 2007, 26% in 2006 and 29% in 2005.

The performance of new product sales is dependent on several factors, including general economic conditions in the United States and abroad, capital spending trends and the introduction of new products. In recent years, general economic conditions have been improving, and more specifically, capital spending has been improving. New products released to the market over the past four fiscal years include the Datatrace Micropack III temperature loggers during the middle of fiscal 2003, the Datatrace Micropack III humidity and pressure loggers at the end of fiscal 2004 and the new 90XL Dialysate Meter for kidney dialysis was introduced late in fiscal 2006. For fiscal years 2007, 2006 and 2005 product sales for our company were $13,909,000, $8,601,000 and $7,148,000.

During fiscal 2007, sales of the Company s medical products and services increased 20 percent for the fiscal year compared to the prior year period. Sales of our new 90XL Meter progressed well during fiscal 2007, which helped boost total sales of technician

Table of Contents

meters, and the syringe meter, used primarily by Nephrology Nurses, also contributed to the medical sales increases. It is expected that sales of the 90XL will further improve as our large dialysis customers complete qualification testing in the months ahead.

During fiscal 2007, sales of Datatrace data logger products increased 3% compared to the prior year. Sales in the U.S. market, where the Company migrated to a direct sales force in recent years, were strong, but was offset by weakness outside the U.S. Going forward, the Company will focus efforts on increasing the effectiveness and number of distributors outside the U.S. to improve international sales.

During fiscal 2007, sales of the Nusonics line of ultrasonic fluid measurement systems decreased by 14% following three years of growth. Weakness in the NUSONICS line was the result of continuing competitive pressure, lack of new products, and a low level of sales and marketing investment. Currently, the NUSONICS products represent less than 5% of the Company s business and sales are being made primarily to existing customers looking to replace older products or expand their capacity.

During fiscal 2007 sales of the RAVEN products increased approximately 16% from the level established prior to acquisition by the Company. Sales increases in the RAVEN line are attributable to growth in the domestic healthcare markets and international distributor sales.

During fiscal 2006, sales of the Company s medical products and services increased nine percent for the fiscal year compared to the prior year period. Research and development efforts on our newest hand-held dialysate meter were completed during December 2005, and sales of our new 90XL Meter progressed well during the final quarter of fiscal 2006.

During fiscal 2006, sales of Datatrace data logger products increased 23 percent. In June, 2005, the company began a transition from independent manufacturer s representatives to direct sales personnel for domestic sales of its Datatrace products. This change to our sales channels increased our selling costs but our sales levels have risen, compensating for these cost increases.

During fiscal 2006, sales of the Nusonics line of ultrasonic fluid measurement systems increased by 17 percent. Fiscal 2006 was the third consecutive year of annual increases for these products. Nusonics products contribute less than 5 percent of the Company s total sales.

Cost of Sales

Cost of sales as a percent of net sales in fiscal 2007 increased 1.0 percent from fiscal 2006 to 36.8 percent, and in fiscal 2006 decreased 1.3 percent from fiscal 2005 to 35.8 percent. Most of our products enjoy gross margins in excess of 55 percent. Due to the fact that the dialysis products have sales concentrated with several companies that maintain large chains of treatment centers, the products that are sold to the renal market tend to be slightly more price sensitive than the data logging products. Also, due to the nature of the market for biological indicators, the RAVEN products produce gross margins somewhat lower than DATATRACE. Therefore, shifts in product mix toward higher sales of DATATRACE products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of medical or RAVEN products will normally produce the opposite effect on cost of goods sold expense and gross margins.

Over fiscal year 2007, our Company saw an increase in sales levels which were chiefly due to the addition of the new RAVEN products and a strong increase in dialysis product sales. This increase in sales led to an increase in cost of goods sold as a percent of sales as the mix of products was weighted with slightly lower margined products. During fiscal year 2006, our Company saw a shift in its mix to higher margined Datatrace product sales, which led to a decrease in cost of goods sold expense as a percent of sales compared to fiscal 2005.

Table of Contents

Selling, General and Administrative

General and administrative expenses tend to be fairly fixed and stable from year-to-year. To the greatest extent possible, we work at containing and minimizing these costs. Total administrative costs were $2,075,000 in fiscal 2007, $1,092,000 in fiscal 2006 and $1,084,000 in fiscal 2005, which represents an $983,000 increase from fiscal 2006 to fiscal 2007 and a $8,000 increase from fiscal 2005 to fiscal 2006. The increase in general and administrative expenses during fiscal 2007 over fiscal 2006 was directly attributable to costs associated with the RAVEN acquisition including amortization of newly acquired intangible assets and administrative costs associated with the new operation. In addition, equity compensation costs were added to fiscal 2007 due to implementation of SFAS 123(R). General and administrative costs were virtually unchanged during fiscal 2006 over fiscal 2005.

Our selling and marketing costs tend to be far more variable in relation to sales, although there are various exceptions. Some of these exceptions include the introduction of new products and the mix of international sales to domestic sales. For a product line experiencing introduction of a new product, costs will tend to be higher as a percent of sales due to higher advertising development and sales training programs. Our Company s international sales are usually discounted and recorded at the net discounted price, so that a change in mix between international and domestic sales may influence sales and marketing costs. One other major influence on sales and marketing costs is the mix of domestic dialysis product sales to all other domestic sales. Domestic dialysis product sales are made by direct telemarketing representatives, which gives us a lower cost structure, when compared to the field salesman and independent representative sales channels utilized by our other products. Through fiscal 2007 and going into fiscal 2008 the Company expects to continue to focus additional resources on its sales and marketing efforts. In June of fiscal 2006, the company began a transition from independent manufacturer s representatives to direct sales personnel for domestic sales of its Datatrace products. This change to our sales channels increased our selling costs in the current fiscal year, but our domestic sales levels have been rising to compensate for these cost increases. The past year s continuing transition to direct selling was focused on the western region of the country. As the new fiscal year progresses, we expect to solidify the transition to direct selling in the U.S. and work further on our RAVEN domestic sales effort and our international sales channels for all products.

In dollars, selling costs were $2,769,000 in fiscal 2007, $1,877,000 in fiscal 2006 and $1,403,000 in fiscal 2005. As a percent of sales, selling cost were 16.1 percent in fiscal 2007, 16.2 percent in fiscal 2006 and 14.0 percent in fiscal 2005. The increase in selling expense during fiscal 2007 over fiscal 2006 was due chiefly to addition of the RAVEN sales and marketing team along with the associated products and sales. In addition, costs associated with the dialysis and Datatrace products also increased due chiefly to higher compensation costs. For Datatrace products, we also incurred higher travel costs due to our change to direct sales personnel during fiscal 2007. The increase in selling expense during fiscal 2006 over fiscal 2005 was due to increased salary, commission and travel costs due to the conversion of domestic Datatrace sales from independent representatives to direct sales force channels, as well as the increased sales volume. In addition, we incurred compensation costs for the new Vice President of Marketing and Sales position hired in October 2004 over the entire fiscal year.

Research and Development

Company sponsored research and development cost was $392,000 in fiscal 2007, $358,000 in fiscal 2006 and $358,000 in

Table of Contents

fiscal 2005. We are currently executing a strategy of increasing the flow of internally developed products. Most of our work during fiscal 2007 was focused on new products which we expect to add to our Datatrace line, which are currently in beta testing at several customer sites. Late in fiscal 2007 we began work on a new generation of our syringe based, dialysis meters. During fiscal 2006, research and development efforts were focused on our new 90XL hand-held dialysate meter.

Net Income

Net income increased to $3,958,000 or $1.22 per share on a diluted basis in fiscal 2007 from $2,805,000 or $.92 per share on a diluted basis in fiscal 2006. The increase in net income during fiscal 2007 was due to higher sales. The contribution of the new RAVEN products added greatly to net income overcoming the new costs, such as amortization of intangible assets, and additional shares issued to the RAVEN shareholders to be accretive on a diluted earnings per share basis. Increased sales of dialysis and Datratrace products further helped to increase total net income during fiscal 2007.

Net income increased to $2,805,000 or $.92 per share on a diluted basis in fiscal 2006 from $2,312,000 or $.74 per share on a diluted basis in fiscal 2005. The increase in net income during fiscal 2006 was due to higher sales. As a percentage, net income increased at a higher rate than the sales increase due to improved gross margins while administrative and research and development costs remained almost unchanged. These contributions to net income were partially off-set by the increase in selling expenses both in dollars and as a percentage of sales.

Liquidity and Capital Resources

On March 31, 2007, we had cash and cash equivalents of $3,346,000. In addition, we had other current assets totaling $7,496,000 and total current assets of $10,842,000. Current liabilities of our Company were $1,469,000 which resulted in a current ratio of 7:1. For comparison purposes at March 31, 2006, we had cash and short term investments of $5,711,000, other current assets of $5,244,000, total current assets of $10,955,000, current liabilities of $1,202,000 and a current ratio of 9:1.

Our Company has made capital acquisitions of $1,780,000, of which $1,404,000 was attributable to the purchase of the RAVEN facility during fiscal 2007, and $115,000 during fiscal 2006.

We have instituted a program to repurchase up to 300,000 shares of our outstanding common stock. Under the plan, the shares may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares purchased will be canceled and repurchases will be made with existing cash reserves. We do not maintain a set policy for our buyback program. Most of our stock buybacks have occurred during periods when the price to earnings multiple has been near historical low points, or during times when selling activity in the stock is out of balance with buying demand. On February 27, 2007, the Company entered into an agreement to purchase 30,000 shares of Mesa Laboratories, Inc. common stock from one of its current Board of Directors members, Mr. Paul D. Duke. Under the terms of the agreement, Mesa Laboratories, Inc. would purchase 3,000 shares of Mesa Laboratories, Inc. common stock from Mr. Duke each month beginning in March 2007 through December 2007 at a per share price equal to the volume weighted average price (VWAP) of the common stock for the previous calendar month. While Mr. Duke s commitment to sell is binding through the entire term of the buyback period, the company and its Board retains the right to rescind the agreement at anytime during the period depending upon the circumstances existing at the time.

During the first half of fiscal 2007 the Company paid regular quarterly dividends of $.07 per share of common stock and raised the quarterly dividend to $.08 per common share of stock during the second half of the fiscal year. In addition, the Board of Directors

Table of Contents

declared a special one time dividend of $.10 per share of common stock which was paid on December 15, 2006. For fiscal year 2007, dividends totaled $.40 per common share of stock. During the first half of fiscal 2006 the Company maintained the regular quarterly dividend of $.06 per share of common stock and raised the quarterly dividend to $.07 per common share of stock during the second half of the fiscal year. In addition, the Board of Directors declared a special one time dividend of $.25 per share of common stock which was paid on December 15, 2005. For fiscal year 2006, dividends totaled $.51 per common share of stock.

Our Company invests its surplus capital in various interest bearing instruments, including money market funds, short-term treasuries and municipal bonds. All investments are fixed dollar investments with variable rates in order to minimize the risk of principal loss. In some cases, additional guarantees of the investment principal are provided in the form of bank letters of credit.

On May 4, 2006, Mesa acquired Raven Biological Laboratories, Inc. of Omaha, Nebraska. Raven, a privately held company, is a leading designer and manufacturer of biological indicators and provider of sterilization validation services. Under the terms of the transaction, Mesa Labs acquired all of the outstanding shares of Raven for approximately $6,750,000 which was comprised of $3,500,000 cash and 223,243 shares (valued at $3,250,000) of common stock.

The Company does not currently maintain a line of credit or any other form of debt. Nor does the Company guarantee the debt of any other entity. The Company has maintained a long history of surplus cash flow from operations. This surplus cash flow has been used in the past to fund acquisitions and stock buybacks and is currently being partially utilized to fund our special dividend. We are actively investigating opportunities to acquire new product lines or companies, for which we may utilize cash in the future.

Contractual Obligations

At March 31, 2007 most of our contractual obligations were for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. On February 27, 2007, the Company entered into an agreement to purchase 30,000 shares of Mesa Laboratories, Inc. common stock from one of its current Board of Directors members, Mr. Paul D. Duke. Under the terms of the agreement, Mesa Laboratories, Inc. would purchase 3,000 shares of Mesa Laboratories, Inc. common stock from Mr. Duke each month beginning in March 2007 through December 2007 at a per share price equal to the volume weighted average price (VWAP) of the common stock for the previous calendar month. While Mr. Duke s commitment to sell is binding through the entire term of the buyback period, the company and its Board retains the right to rescind the agreement at anytime during the period depending upon the circumstances existing at the time.

Forward Looking Statements

All statements other than statements of historical fact included in this annual report regarding our Company s financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated, include but are not limited to general economic, financial and business conditions; competition in the data logging market; competition in the kidney dialysis market; competition in the fluid measurement market; the business abilities and judgment of personnel; the impacts of unusual items resulting from ongoing evaluations of business strategies; and changes in business strategy.

Table of Contents

We do not intend to update these forward looking statements. You are advised to review the Additional Cautionary Statements section below for more information about risks that could affect the financial results of Mesa Laboratories, Inc.

Critical Accounting Policies and Estimates

The preparation of our 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 amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates.

We believe that there are several accounting policies that are critical to understanding the Company s historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management s judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, valuation of long-lived assets and stock based compensation. These policies, and the Company s procedures related to these policies, are described in detail below.