FORWARD AIR CORP
Form S-3
October 28, 2003

**As filed with the Securities and Exchange Commission on October 28, 2003**

**Registration No. 333-**

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# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM S-3

**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**

# FORWARD AIR CORPORATION

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Tennessee** | **62-1120025** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. employer identification number)* |

**430 Airport Road**

**Greeneville, Tennessee 37745**
**(423) 636-7000**
*(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)*

**Matthew J. Jewell**

**Senior Vice President, General Counsel and Secretary**
**Forward Air Corporation**
**430 Airport Road**
**Greeneville, Tennessee 37745**
**(423) 636-7000**
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copies of communications to:***

| | |
|---|---|
| **Leigh Walton** | **Richard C. Tilghman, Jr.** |
| **Todd J. Rolapp** | **Jason Harmon** |
| **Bass, Berry & Sims PLC** | **Piper Rudnick LLP** |
| **315 Deaderick Street, Suite 2700** | **6225 Smith Avenue** |
| **Nashville, Tennessee 37238** | **Baltimore, Maryland 21209** |
| **(615) 742-6200** | **(410) 580-3000** |

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ____________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price per Unit(2) | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee |
|---|---|---|---|---|
| Common Stock, par value $.01 per share | 2,530,000 Shares | $30.23 | $76,481,900 | $6,187 |

(1) Includes 330,000 shares of common stock that the underwriters have the option to purchase from a selling shareholder to cover over-allotments, if any.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) on the basis of the average of the high and low sales prices of Forward Air Corporation common stock on October 24, 2003, as reported by The Nasdaq Stock Market s National Market.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**SUBJECT TO COMPLETION, DATED OCTOBER 27, 2003**

**PROSPECTUS**

# 2,200,000 Shares

## Common Stock

The shares of common stock are being sold by Scott M. Niswonger, our chairman and major shareholder. We will not receive any of the proceeds from the shares of common stock sold by the selling shareholder. The underwriters are purchasing the shares on a firm commitment basis. The underwriters have an option to purchase up to 330,000 additional shares from the East Tennessee Foundation to cover over-allotments of shares, if any.

Our common stock is listed on The Nasdaq Stock Market s National Market under the symbol FWRD. The last reported sale price on October 27, 2003 was $30.78 per share.

**Investing in our common stock involves risks. See Risk Factors beginning on page 6.**

| | Price to Public | Underwriting Discounts and Commissions | Net Proceeds to Selling Shareholder |
|---|---|---|---|
| Per Share | $ | $ | $ |
| Total | $ | $ | $ |

Delivery of the shares of common stock will be made on or about , 2003.

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

***Joint Book-Running Managers***

**Bear, Stearns & Co. Inc.** **Deutsche Bank Securities**

**BB&T Capital Markets**

The date of this prospectus is , 2003.

## PROSPECTUS SUMMARY

*The following summary highlights some of the information from this prospectus and may not contain all the information that is important to you. Before deciding to invest in our common stock, you should read the entire prospectus, including the section entitled Risk Factors and our consolidated financial statements and the related notes, and the documents incorporated by reference in this prospectus. Unless this prospectus indicates otherwise or the context otherwise requires, the terms we, our, our company, the company, Forward Air or us as used in this prospectus refer to Forward Air Corporation and its subsidiaries.*

## The Company

### Our Business

We are a leading provider of time definite surface transportation and related logistics services to the North American deferred air freight market. Our scheduled surface transportation services provide our customers a cost effective and reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate a network of 80 terminals located on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and eight regional hubs serving key markets. Our typical shipment consists of a pallet load of freight, such as electronics, telecommunications equipment, machine parts, trade show exhibit materials or medical equipment. During 2002, our average shipment weighed over 700 pounds. We utilize a flexible source of capacity that results in a largely variable cost model, with low capital requirements. We purchase our transportation requirements from owner-operators and, to a lesser extent, from other surface transportation providers.

We also offer customers a growing array of logistics services including: exclusive use vehicles (commonly referred to as truck brokerage); dedicated fleet; warehousing; customs brokerage; and shipment consolidation and handling. These services are critical to our air freight forwarder customers that do not provide logistics services themselves or that prefer to use one provider for all of their transportation needs. For two major international airlines, we manage all of their surface transportation and related logistics needs from the time the freight arrives in the United States until it is delivered to its final destination.

We market our services primarily to air freight forwarders, which are businesses that arrange transportation of cargo for third parties; integrated air cargo carriers; and passenger and cargo airlines. To serve this market, we offer customers a very high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We receive shipments at our terminals and transport them by truck to our central sorting facility or one of our regional hubs, where they are unloaded, sorted and reloaded. After reloading the shipments, we deliver them to the terminals nearest their destinations. We ship freight directly between terminals when justified by the volume of shipments. During 2002, approximately 33% of the shipments we handled were for overnight delivery, approximately 50% for delivery within two to three days and the balance for delivery in four to five days. We typically do not provide local pickup and delivery services and do not market our services directly to shippers. Because we do not place significant size or weight restrictions on shipments, we do not generally compete directly with integrated air cargo carriers such as United Parcel Service, Federal Express and DHL Worldwide in the overnight delivery of small parcels. In 2002, our five largest customers accounted for approximately 20% of our operating revenue, and no single customer accounted for more than 7% of our operating revenue.

For the nine month period ended September 30, 2003, we generated operating revenue of $176.3 million, an increase of 5.8% from $166.7 million for the same period in 2002. Our operating income for the nine month period ended September 30, 2003 was $28.6 million, an increase of 21.7% from $23.5 million for the same period in 2002. In 2002, we realized a pre-tax return on assets of 24.2% and a return on equity of 19.2%.

**Our Industry**

As businesses minimize inventory levels, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they more frequently require expedited delivery services. Expedited shipments are those shipments where the customer requires delivery the next day or within two to three days, usually at a specified time or within a specified time window. The Colography Group, Inc., an independent industry market research and consulting firm, expects the total U.S. expedited cargo market, including air and surface, to generate $81.4 billion in revenue in 2003. The U.S. domestic air freight market is estimated to be approximately $30.7 billion, or 37.7% of this market. Approximately $3.7 billion or 11.9% of that market is made up of heavyweight overnight and deferred air freight, representing the portion of the market within which Forward Air primarily competes.

Shippers with expedited delivery requirements have four principal alternatives to transport freight: freight forwarders; integrated air cargo carriers; less-than-truckload carriers; and passenger and cargo airlines. Shippers are outsourcing more of their transportation logistics needs to air freight forwarders because of their flexibility and cost effectiveness. In order to remain competitive, freight forwarders increasingly demand expedited logistics services from their transportation providers.

**Competitive Advantages**

We believe that the following competitive advantages are critical to our success as a leading provider of time definite surface transportation services and related logistics services to the deferred air freight market in North America:

- We focus on providing time definite surface transportation and related logistics services to the deferred air cargo industry. We believe this enables us to provide a higher level of service in a more cost effective manner than our competitors.

- Our expansive network of terminals and sorting facilities located on or near airport terminals throughout the United States and Canada would be difficult for our competitors to replicate.

- To avoid competing with our customers, we concentrate our marketing on air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines, and do not market our services directly to shippers.

- We adhere to a published schedule for transit times with specific cut-off and arrival times to provide our customers with the predictability necessary to deliver the highest level of service.

- Our flexible business model enables us to respond quickly to changing demands and opportunities in our industry and generate higher returns on assets due to our low capital requirements.

- We provide comprehensive logistics service offerings that are an essential part of some customers transportation needs and are not offered by many of our competitors.

- Our technology platform enables us to increase the volume of freight we handle in our network, improve the visibility of shipment information and reduce our operating costs and those of our customers.

**Growth Strategy**

Our growth strategy is to take advantage of our competitive strengths in the deferred air freight market to increase our profits and returns to shareholders. Principal components of our growth strategy are to:

- Increase the volume of freight transported through our network for our existing customers.

- Develop new customers.

- Improve the efficiency of our transportation network.

Expand our logistics services offerings.

Enhance our information systems.

Pursue selected strategic acquisitions that can increase our penetration of a geographic area, add new customers, increase freight density or allow us to offer additional logistics services.

**Company Information**

We are incorporated in Tennessee. Our principal executive offices are located at 430 Airport Road, Greeneville, Tennessee 37745. Our telephone number at that address is (423) 636-7000. Our Internet address is www.forwardair.com. The information contained on our web site is not part of this prospectus.

**Recent Developments**

On October 27, 2003, we announced that Bruce A. Campbell, our President and Chief Operating Officer, has been appointed to serve as our Chief Executive Officer. Mr. Campbell has served as our Chief Operating Officer since April 1990 and our President since August 1998. In these capacities, Mr. Campbell has been instrumental in directing our company s operations and growth. Scott M. Niswonger, the selling shareholder, will continue to serve as the non-executive Chairman of our Board of Directors.

**The Offering**

Mr. Niswonger is offering for sale 2,200,000 shares of our common stock owned by him. We will not receive any proceeds from this offering.

| | |
|---|---|
| Common stock offered | 2,200,000 shares |
| Common stock outstanding before and after this offering(1) | 21,439,190 shares |
| Use of proceeds | We will not receive any proceeds from the sale of our common stock in this offering. |
| Nasdaq National Market symbol | FWRD |

(1) The number of shares of our common stock to be outstanding before and after this offering:

- is based on shares of our common stock outstanding as of October 22, 2003;
- excludes 857,126 shares of common stock issuable upon the exercise of options outstanding as of October 27, 2003, at a weighted average exercise price of $15.68 per share; and
- excludes 208,214 shares of common stock reserved for future grants under our 1999 Stock Option and Incentive Plan.

Except as otherwise indicated, information in this prospectus assumes that the underwriters do not exercise their option to purchase 330,000 shares of our common stock from the East Tennessee Foundation to cover over-allotments, if any. In the event that the over-allotment option is exercised, any references to the selling shareholder in this prospectus includes a reference to the East Tennessee Foundation. All information in this prospectus has been adjusted to reflect a three-for-two stock split in January 2000 and a two-for-one stock split in March 1999.

**Summary Historical Consolidated Financial and Other Data**

We have derived the following summary consolidated income statement and income per share data for each of the years in the five year period ended December 31, 2002 from our audited consolidated financial statements. We have derived the summary consolidated income statement, income per share, and balance sheet data as of September 30, 2003 and for the nine months ended September 30, 2002 and 2003 from our unaudited condensed consolidated financial statements, which, in our opinion, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information. You should read the following summary consolidated financial and other data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes incorporated by reference in this prospectus. The information below is not necessarily indicative of our results for future periods.

| | Years Ended December 31, | | | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 1998(1) | 1999 | 2000 | 2001 | 2002 | 2002 | 2003 |
| | (in thousands, except per share and certain operating data) | | | | | | |
| **Income Statement Data:** | | | | | | | |
| Operating revenue | $130,438 | $170,843 | $214,907 | $227,500 | $226,072 | $166,699 | $176,333 |
| Total operating expenses | 114,427 | 144,399 | 177,606 | 195,842 | 193,335 | 143,203 | 147,726 |
| Income from operations | 16,011 | 26,444 | 37,301 | 31,658 | 32,737 | 23,496 | 28,607 |
| Other income (expense), net | (1,169) | (454) | 666 | 546 | 1,421 | 384 | 375 |
| Income from continuing operations before income taxes | 14,842 | 25,990 | 37,967 | 32,204 | 34,158 | 23,880 | 28,982 |
| Income taxes | 5,653 | 9,950 | 14,522 | 12,322 | 12,542 | 9,074 | 10,869 |
| Income from continuing operations | $ 9,189 | $ 16,040 | $ 23,445 | $ 19,882 | $ 21,616 | $ 14,806 | $ 18,113 |
| **Income Per Share Data:** | | | | | | | |
| Income from continuing operations per share: | | | | | | | |
| Basic | $ 0.49 | $ 0.80 | $ 1.11 | $ 0.92 | $ 1.00 | $ 0.69 | $ 0.85 |
| Diluted | $ 0.48 | $ 0.76 | $ 1.05 | $ 0.89 | $ 0.98 | $ 0.67 | $ 0.84 |
| **Operating Data:** | | | | | | | |
| Operating margin(2) | 12.3% | 15.5% | 17.4% | 13.9% | 14.5% | 14.1% | 16.2% |
| Return on equity(3)(4) | 26.4% | 43.3% | 33.9% | 20.9% | 19.2% | NM | NM |
| Capital expenditures | $ 11,764 | $ 7,412 | $ 16,547 | $ 4,844 | $ 3,913 | $ 3,618 | $ 2,515 |
| Depreciation and amortization | $ 4,346 | $ 4,996 | $ 5,783 | $ 8,410 | $ 7,461 | $ 5,615 | $ 5,440 |
| Average weekly volume (millions lbs) | 15.4 | 19.2 | 23.9 | 24.2 | 24.5 | 24.0 | 24.6 |

| | As of September 30, 2003 |
|---|---|
| | (in thousands) |
| **Balance Sheet Data:** | |
| Cash, cash equivalents and short-term investments | $ 76,660 |
| Working capital | 95,039 |
| Total assets | 166,637 |

| | |
|---|---|
| Total debt, including capital lease obligations | 1,025 |
| Shareholders equity | 138,374 |

(1) In September 1998, we spun off our truckload carrier business, operated as Landair Transport, Inc., to our shareholders. The financial results of this business were accounted for as a discontinued operation in our 1998 results of operations.

(2) Represents income from operations as a percentage of operating revenue.

(3) Represents income from continuing operations divided by the average of the current and previous years shareholders equity.

(4) Data for 1998 includes the effect of assets and liabilities from Landair Transport, Inc., a discontinued operation.

## RISK FACTORS

*You should carefully consider the risks described below before buying any shares of our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also significantly impair our business, financial condition and results of operations. If any of the following risks actually occur, our business, financial condition and results of operations could be materially harmed, the trading price of our common stock could decline and you may lose all or part of your investment.*

**In order to continue growth in our business, we will need to increase the volume and revenue per pound of the freight shipped through our system.**

Our continued growth depends in significant part on our ability to increase the amount and revenue per pound of the freight shipped through our network. The amount of freight shipped through our network and our revenue per pound depend on numerous factors, many of which are beyond our control, such as economic conditions and our competitors pricing. Therefore, we cannot assure you that the amount of freight shipped or the revenue per pound we realize on that freight will increase or even remain at current levels. If we fail to increase the volume of the freight shipped through our network or the revenue per pound of the freight shipped, we may be unable to increase our profitability.

**Our business is subject to general economic and business factors that are largely out of our control, any of which could have a materially adverse effect on our results of operations.**

Our business is dependent upon a number of factors that may have a materially adverse effect on the results of our operations, many of which are beyond our control. These factors include increases or rapid fluctuations in fuel prices, capacity in the trucking industry, insurance premiums, self-insured retention levels and difficulty in attracting and retaining qualified owner-operators and freight handlers. Our profitability would decline if we were unable to anticipate and react to increases in our operating costs, including purchased transportation and labor, or decreases in the amount or revenue per pound of freight shipped through our system. Due to competitive factors, we may be unable to raise our prices to meet increases in our operating costs, which would result in a materially adverse effect on our business, results of operations and financial condition.

Economic conditions may adversely affect our customers and the amount of freight available for transport. This may require us to lower our rates and result in lower volumes of freight flowing through our network. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses. Our results of operations may be affected by seasonal factors. Volumes of freight tend to be lower in the first quarter after the winter holiday season. In addition, it is not possible to predict the medium or long-term effects of the September 11, 2001, terrorist attacks and subsequent events on the economy or on customer confidence in the United States, or their impact, if any, on our future results of operations.

**Because a portion of our network costs are fixed, we will be adversely affected by any decrease in the volume or revenue per pound of freight shipped through our network.**

Our operations, particularly our network of hubs and terminals, represent substantial fixed costs. As a result, any decline in the volume or revenue per pound of freight we handle may have an adverse effect on our operating margin and our results of operations. Typically, we do not have contracts with our customers and we cannot assure you that our current customers will continue to utilize our services or that they will continue at the same levels. The actual shippers of the freight moved through our network include various manufacturers and distributors of electronics, telecommunications equipment, machine parts, trade show exhibit materials and medical equipment. Adverse business conditions affecting these shippers or adverse general economic conditions are likely to cause a decline in the volume of freight shipped through our network.

**We operate in a highly competitive and fragmented industry, and our business will suffer if we are unable to adequately address downward pricing pressures and other factors that may adversely affect our operations and profitability.**

The freight transportation industry is highly competitive, very fragmented and historically has had few barriers to entry. Our principal competitors include regional trucking companies that specialize in handling deferred air freight and national and regional less-than-truckload carriers. To a lesser extent, we compete with integrated air cargo carriers and passenger airlines. Our competition ranges from small operators that compete within a limited geographic area to companies with substantially greater financial and other resources, including greater freight capacity. We also face competition from air freight forwarders who decide to establish their own networks to transport deferred air freight. We believe competition is based on service, primarily on-time delivery, flexibility and reliability, as well as rates. Many of our competitors periodically reduce their rates to gain business, especially during times of economic decline. In the past several years, several of our competitors have reduced their rates to unusually low levels that we believe are unsustainable in the long-term, but that may materially adversely affect our business in the short-term. These competitors may cause a decrease in our volume of freight, require us to lower the prices we charge for our services and adversely affect both our growth prospects and profitability.

**Claims for property damage, personal injuries or workers compensation and related expenses could significantly reduce our earnings.**

Under United States Department of Transportation regulations, we are liable for property damage or personal injuries caused by owner-operators while they are operating on our behalf. We currently maintain liability insurance that we believe is adequate to cover third-party claims and we have a self-insured retention of $500,000 per occurrence for each such claim. We may also be subject to claims for workers compensation and we maintain a $250,000 self-insured retention for each such claim. We could incur claims in excess of our policy limits or incur claims not covered by our insurance. Any claims beyond the limits or scope of our insurance coverage may have a material adverse effect on us. Because we do not carry stop loss insurance, a significant increase in the number of claims that we must cover under our self-insurance retainage could adversely affect our profitability. In addition, we may be unable to maintain insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against losses.

**We have grown and plan to grow, in part, through acquisitions, which involve various risks, and we may not be able to identify or acquire companies consistent with our growth strategy or successfully integrate acquired business into our operations.**

We have grown through acquisitions and we intend to pursue opportunities to expand our business by acquiring other companies in the future. Acquisitions involve risks, including those relating to:

- identification of appropriate acquisition candidates;
- negotiation of acquisitions on favorable terms and valuations;
- integration of acquired businesses and personnel;
- implementation of proper business and accounting controls;
- ability to obtain financing, on favorable terms or at all;
- diversion of management attention;
- retention of employees and customers; and
- unexpected liabilities.

Acquisitions also may affect our short-term cash flow and net income as we expend funds, increase indebtedness and incur additional expenses. If we are not able to identify or acquire companies consistent with our growth strategy or if we fail to successfully integrate any acquired companies into our operations, we may not achieve anticipated increases in revenue, cost savings and economies of scale, and our operating results may actually decline.

**We may have difficulty effectively managing our growth, which could adversely affect our results of operations.**

Our growth plans will place significant demands on our management and operating personnel. Our ability to manage our future growth effectively will require us to regularly enhance our operating and management information systems and to continue to attract, retain, train, motivate and manage key employees. If we are unable to manage our growth effectively, our business, results of operations and financial condition will be adversely affected.

**If we fail to maintain and enhance our information technology systems, we may lose orders and customers or incur costs beyond expectations.**

We must maintain and enhance our information technology systems to remain competitive and effectively handle higher volumes of freight through our network. We expect customers to continue to demand more sophisticated, fully integrated information systems from their transportation providers. If we are unable to maintain and enhance our information systems to handle our freight volumes and meet the demands of our customers, our business and results of operations will be adversely affected. If our information systems are unable to handle higher freight volumes and increased logistics services, our service levels and operating efficiency may decline. This may lead to a loss of customers and a decline in the volume of freight we receive from customers.

**Our information technology systems are subject to risks that we cannot control.**

Our information technology systems are dependent upon global communications providers, web browsers, telephone systems and other aspects of the Internet infrastructure that have experienced significant system failures and electrical outages in the past. Our systems are susceptible to outages from fire, floods, power loss, telecommunications failures, break-ins and similar events. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. The occurrence of any of these events could disrupt or damage our information technology systems and inhibit our internal operations, our ability to provide services to our customers and the ability of our customers to access our information technology systems. This may result in the loss of customers or a reduction in demand for our services.

**If we have difficulty attracting and retaining owner-operators or freight handlers, our results of operations could be adversely affected.**

We depend on owner-operators for most of our transportation needs. In 2002, owner-operators provided 66.2% of our purchased transportation requirements. Competition for owner-operators is intense, and sometimes there are shortages of available owner-operators. In addition, we need a large number of freight handlers to operate our business efficiently. During periods of low unemployment in the areas where our terminals are located, we may have difficulty hiring and retaining a sufficient number of freight handlers. If we have difficulty attracting and retaining enough qualified owner-operators or freight handlers, we may be forced to increase wages and benefits, which would increase our operating costs. This difficulty may also impede our ability to maintain our delivery schedules, which could make our service less competitive and force us to curtail our planned growth. If our labor costs increase, we may be unable to offset the increased cost by increasing rates without adversely affecting our business. As a result, our profitability may be reduced.

**A determination by regulators that our independent owner-operators are employees could expose us to various liabilities and additional costs.**

At times, the Internal Revenue Service, the Department of Labor and state authorities have asserted that owner-operators are employees, rather than independent contractors. One or more governmental authorities may challenge our position that the owner-operators we use are not our employees. There also may be changes in applicable federal or state tax or other laws or interpretations of those laws. If this happens, we are likely to incur additional taxes, as well as higher workers compensation and employee benefit costs, and possibly penalties and interest for prior periods. This could have an adverse effect on our results of operations.

**We operate in a regulated industry, and increased costs of compliance with, or liability for violation of, existing or future regulations could have a materially adverse effect on our business.**

The U.S. Department of Transportation and various state agencies have been granted broad powers over our business. These entities generally regulate such activities as authorization to engage in property brokerage and motor carrier operations, safety and financial reporting. We are licensed by the Department of Transportation as a broker and motor carrier to arrange for the transportation of freight by truck. Our domestic customs brokerage operations are licensed by the United States Customs Service, and the Federal Maritime Commission regulates our ocean freight forwarding operations. If we fail to comply with any applicable regulations, our licenses may be revoked or we could be subject to substantial fines or penalties and to civil and criminal liability.

We are also subject to various environmental laws and regulations dealing with the handling of hazardous materials. Our operations involve the risks of fuel spillage or seepage. If we are involved in a spill or other accident involving hazardous substances, our business and operating results may be adversely affected. Changes to current environmental laws or regulations may increase our operating costs and adversely affect our results of operations.

The transportation industry is subject to legislative and regulatory changes that can affect the economics of our business by requiring changes in operating practices or influencing the demand for, and the cost of providing, transportation services. Heightened security concerns in the aftermath of the September 11, 2001 terrorist attacks may also result in increased regulations, including the implementation of various security measures, checkpoints or travel restrictions on trucks.

**We are dependent on our senior management team, and the loss of any such personnel could materially and adversely affect our business.**

Our future performance depends, in significant part, upon the continued service of our senior management team. We cannot assure you that we can retain these employees. The loss of the services of one or more of these or other key personnel could have a materially adverse effect on our business, operating results and financial condition. We must continue to develop and retain a core group of management personnel and address issues of succession planning if we are to realize our goal of growing our business. We cannot assure you that we will be able to do so.

**If our employees were to unionize, our operating costs are likely to increase.**

None of our employees are currently represented by a collective bargaining agreement. However, we have no assurance that our employees will not unionize in the future, which could increase our operating costs and force us to alter our operating methods. This could have a materially adverse effect on our operating results.

**The public market for our shares may be volatile and you may not be able to resell your shares at or above the price you paid, or at any price.**

The market price of our common stock may be highly volatile and could be subject to wide fluctuations in response to factors such as:

- changes in earnings estimates, recommendations, comments or coverage by securities analysts with respect to our securities or business or the securities or business of our competitors;
- announcements of mergers, acquisitions or investments by us or our competitors;
- announcements of new business and services by us or our competitors and customer acceptance of such businesses and services;
- fluctuations in the market price of our competitors publicly-traded stocks;
- adoption of new accounting standards affecting our industry; and
- general market and economic conditions and other factors over which we have no control.

Over the past several years, the stock markets have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many companies and that have been unrelated or disproportionate to the operating performance of those companies. These market factors may adversely affect the market price of our common stock and your ability to resell your shares at or above the price you paid, or at any price.

**Our shareholder rights plan, charter and bylaws and provisions of Tennessee law could discourage or prevent a takeover that you may consider favorable.**

We have a shareholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the shareholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors. In addition, our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage, delay or prevent a merger, acquisition or change in control that you may consider favorable. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors and take other corporate actions. Among other things, these provisions:

- authorize us to issue preferred stock, the terms of which may be determined at the sole discretion of our board of directors and may adversely affect the voting or economic rights of our shareholders;
- provide that directors may be removed only for cause;
- provide that any amendment or repeal of the provisions of our charter concerning the removal of directors must be approved by the affirmative vote of the holders of two-thirds of our outstanding shares; and
- establish advance notice requirements for nominations for election to the board of directors and for proposing matters that can be acted on by shareholders at a meeting.

Our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for our common stock and also could limit the price that investors are willing to pay in the future for shares of our common stock.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words anticipate, will, believe, estimate, expect, plan, project, intend, see expressions. These forward-looking statements are subject to risks, uncertainties and assumptions. Some important factors that could cause actual results to differ materially from the forward-looking statements we make or incorporate by reference in this prospectus are described under the caption Risk Factors in this prospectus and in the documents incorporated or deemed to be incorporated by reference in this prospectus.

If one or more of these risks or uncertainties materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this section. We undertake no obligation to publicly update or revise any forward-looking statements to reflect future events or developments.

## USE OF PROCEEDS

All of the shares covered by this prospectus are being offered by the selling shareholder. We will not receive any of the proceeds from the sale of the shares.

## DIVIDEND POLICY

We have not paid any cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. It is our intention to retain earnings to finance the growth of our business. Future payment of dividends will depend upon our financial condition, results of operations, contractual restrictions and capital requirements, as well as other factors deemed relevant by our board of directors.

## BUSINESS

We are a leading provider of time definite surface transportation and related logistics services to the North American deferred air freight market. We offer our customers scheduled surface transportation of cargo as a cost effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate through a network of 80 terminals located on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and eight regional hubs serving key markets. Our typical shipment consists of a pallet load of freight, often electronics, telecommunications equipment, machine parts, trade show exhibit materials or medical equipment. During 2002, our average shipment weighed over 700 pounds. We utilize a flexible source of capacity that results in a largely variable cost model, with low capital requirements. We purchase our transportation requirements from owner-operators and, to a lesser extent, from other surface transportation providers.

We also offer our customers a growing array of logistics services including: exclusive use vehicles (commonly referred to as truck brokerage); dedicated fleet; warehousing; customs brokerage; and shipment consolidation and handling. These services are critical to our air freight forwarder customers that do not provide logistics services themselves or that prefer to use one provider for all of their surface transportation needs. For two major international airlines, we manage all of their surface transportation and related logistics needs from the time the freight arrives in the United States until it is delivered to its final destination.

We market our services primarily to air freight forwarders, which are businesses that arrange transportation of cargo for third parties; integrated air cargo carriers; and passenger and cargo airlines. To serve this market, we offer customers a very high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We receive shipments at our terminals and transport them by truck to our central sorting facility or to one of our eight regional hubs, where they are unloaded, sorted and reloaded. After reloading the shipments, we deliver them to the terminals nearest their destinations. We ship freight directly between terminals when justified by the volume of shipments. During 2002, approximately 33% of the shipments we handled were for overnight delivery, approximately 50% for delivery within two to three days and the balance for delivery in four to five days. We typically do not provide local pickup and delivery services and do not market our services directly to shippers. Because we do not place significant size or weight restrictions on shipments, we generally do not compete directly with integrated air cargo carriers such as United Parcel Service, Federal Express and DHL Worldwide in the overnight delivery of small parcels. In 2002, our five largest customers accounted for approximately 20% of our operating revenue and no single customer accounted for more than 7% of our operating revenue.

For the nine month period ended September 30, 2003, we generated operating revenue of $176.3 million, an increase of 5.8% from $166.7 million for the same period in 2002. Our operating income for the nine month period ended September 30, 2003 was $28.6 million, an increase of 21.7% from $23.5 million for the same period in 2002. In 2002, we realized a pre-tax return on assets of 24.2% and return on equity of 19.2%.

### Our Industry

As businesses minimize inventory levels, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they more frequently require expedited delivery services. Expedited shipments are those shipments where the customer requires delivery the next day or within two to three days, usually at a specified time or within a specified time window. The Colography Group, Inc., an independent industry market research and consulting firm, expects the total U.S. expedited cargo market, including air and surface, to generate $81.4 billion in revenue in 2003. The U.S. domestic air freight market is estimated to be approximately $30.7 billion, or 37.7% of this market. Approximately $3.7 billion or 11.9% of that market is made up of heavyweight overnight and deferred air freight, representing the portion of the market within which we primarily compete.

Shippers with expedited delivery requirements have four principal alternatives to transport freight: freight forwarders; integrated air cargo carriers; less-than-truckload carriers; and passenger and cargo airlines.

Freight forwarders obtain requests for shipments from customers, make arrangements for transportation of the cargo by a third party carrier and usually arrange for both delivery from the shipper to the carrier and from the carrier to the recipient by a third party.

Integrated air cargo carriers provide pick-up and delivery services primarily using their own fleet of trucks and provide transportation services generally using their own fleet of aircraft.

Less-than-truckload carriers also provide pick-up and delivery services through their own fleet of trucks. These carriers operate terminals where freight is unloaded, sorted and reloaded multiple times in a single shipment. This additional handling increases transit time, handling costs and the likelihood of cargo damage.

Passenger or cargo airlines provide airport to airport service, but have limited cargo space and generally accept only shipments weighing less than 150 pounds.

Although expedited air freight is usually transported by aircraft, freight forwarders often elect to transport cargo by truck, especially for shipments requiring deferred delivery. Generally, the cost of shipping freight, especially heavy freight, by truck is substantially less than shipping by aircraft. We believe there are several trends that are increasing demand for lower-cost truck transportation of expedited air freight. These trends include:

*Increased Outsourcing of Logistics Management to Third Party Logistics Providers.* Air freight forwarders are playing an increasingly important role in logistics management. As the growing emphasis on just-in-time processes has added to the complexity of logistics management, companies are finding it more advantageous to outsource their logistics management functions to third parties. According to Armstrong and Associates, the United States third party logistics market has grown at a compound annual rate of approximately 14% between 1997 and 2002. In contrast to integrated air cargo carriers and less-than-truckload carriers that are focused on utilizing their own fixed-cost assets, air freight forwarders can select from various transportation modes and suppliers to meet their customers shipping requirements, thereby serving their customers less expensively. In addition, air freight forwarders generally handle shipments of any size and offer customized shipping options, unlike integrated air cargo carriers and less-than-truckload carriers.

*Integrated Air Cargo Carriers Focus on Overnight Freight.* Integrated air cargo carriers that transport heavy freight are targeting their marketing efforts at higher yielding overnight freight to better utilize their high fixed-cost infrastructures. As a result, these carriers are outsourcing deferred freight to surface transportation providers like us.

*Reduced Airline Cargo Capacity.* Since the 1980 s, when the domestic airlines eliminated many of their all-cargo aircraft, growth in demand for air cargo services has generally outpaced the growth of aircraft cargo capacity. Airlines have decreased fleet sizes and are utilizing smaller aircraft, including more regional jets, in many markets. The short supply of air cargo space has resulted in increased demand for surface transportation of cargo.

**Competitive Advantages**

We believe that the following competitive advantages are critical to our success as a leading provider of time definite surface transportation services and related logistics services to the deferred air freight market in North America:

*Focus on the Deferred Air Freight Market.* We focus on providing time definite surface transportation and related logistics services to the deferred air cargo industry. We believe that our focused approach has enabled us to provide a higher level of service in a more cost effective manner than our competitors.

*Expansive Network of Terminals and Sorting Facilities.* We have built a network of terminals and sorting facilities throughout the United States and Canada located on or near airports. We believe it would be difficult for a competitor to duplicate our network without the expertise and strategic facility locations we have acquired and without expending significant capital and management resources. Our network enables us to provide regularly scheduled service between most markets with low levels of freight damage or loss, all at rates generally significantly below air freight rates.

*Concentrated Marketing Strategy.* We provide our services mainly to air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines rather than directly serving shippers. We do not place significant size or weight restrictions on shipments and, therefore, do not compete with overnight parcel delivery services such as United Parcel Service, Federal Express and DHL Worldwide. We believe that our customers prefer to purchase their transportation services from us because we generally do not market our services to their shipper customers and, therefore, do not compete directly with them for customers.

*Superior Service Offerings.* Our published schedule for transit times with specific cut-off and arrival times generally provides our customers with the predictability they need. In addition, our network of terminals allows us to offer our customers later cut-off times, a higher percentage of direct shipments (which reduces damage and lost time caused by additional sorting and reloading) and shorter delivery times than most of our competitors.

*Flexible Business Model.* We purchase most of our transportation requirements from owner-operators or truckload carriers, rather than operating our own trucks. This allows us to respond quickly to changing demands and opportunities in our industry and generate higher returns on assets due to our low capital requirements.

*Comprehensive Logistics Service Offerings.* We offer an array of logistics services including: exclusive use vehicles (commonly referred to as truck brokerage), dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling. These logistics services are an essential part of some customers   transportation needs and are not offered by many of our competitors.

*Leading Technology Platform.* We are committed to using information technology to increase the volume of freight we can handle in our network, improve visibility of shipment information and reduce our operating costs. Our technology allows us to provide our customers with electronic bookings and real-time trackiin 0in 0in;width:3.74%;">

| | | | |
|---|---|---|---|
| | $ 26.27 | $ 22.78 | $ 0.11 |
| March 31, 2010 | $ 28.80 | $ 25.12 | $ 0.11 |
| | | | |
| June 30, 2010 | $ 26.25 | $ 22.91 | $ 0.11 |
| September 30, 2010 | $ 24.45 | $ 20.69 | $ 0.11 |
| December 31, 2010 | $ 31.49 | $ 22.41 | $ 0.12 |
| March 31, 2011 | $ 30.69 | $ 28.10 | $ 0.12 |

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, 2011, there were approximately 1,300 record and beneficial holders of Mesa s common stock.

(c) During the fiscal year ended March 31, 2011, 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 Shares Purchased as Part of Publicly Announced Plan** | **Remaining Shares to Purchase Under Plan** |
|---|---|---|---|---|
| January 1- 31, 2011 | 135 | $ 30.29 | 131,072 | 168,928 |
| February 1- 28,2011 | | | 131,072 | 168,928 |
| March 1 31, 2011 | 370 | $ 28.83 | 131,442 | 168,558 |
| Total Fourth Quarter | 505 | $ 29.22 | | |

On November 7, 2005, the Board of Directors of Mesa Laboratories, Inc. adopted a share repurchase plan which allows for the repurchase of up to 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.

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, 2011

| **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 | 443,642 | $ 20.10 | 479,895 |
| Equity compensation plans not approved by security holders | | | |
| Total | 443,642 | $ 20.10 | 479,895 |

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**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth the Company s selected historical financial data for each of the five years for the period ended March 31. The selected historical financial data set forth below has been derived from our audited financial statements included elsewhere in this annual report on Form 10-K. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited financial statements and related notes included elsewhere in this annual report on Form 10-K.

| **(Dollars in thousands, except EPS)** | **2011** | **2010** | **2009** | **2008** | **2007** |
|---|---|---|---|---|---|
| **Operational Data** | | | | | |
| Net Sales | $ 32,826 | $ 21,929 | $ 21,536 | $ 19,558 | $ 17,242 |
| Gross Profit | $ 19,568 | $ 13,194 | $ 13,817 | $ 12,858 | $ 10,895 |
| Gross Margin | 60% | 60% | 64% | 66% | 63% |
| Operating Income | $ 9,864 | $ 7,368 | $ 7,608 | $ 7,061 | $ 5,659 |
| Operating Margin | 30% | 34% | 35% | 36% | 33% |
| Net Profit | $ 6,183 | $ 4,769 | $ 4,790 | $ 4,610 | $ 3,958 |
| Net Profit Margin | 19% | 22% | 22% | 24% | 23% |
| Earnings Per Diluted Share | $ 1.86 | $ 1.45 | $ 1.48 | $ 1.41 | $ 1.22 |
| **Financial Position Data** | | | | | |
| Cash and Investments | $ 3,546 | $ 10,471 | $ 9,111 | $ 5,770 | $ 3,346 |
| Trade Receivables (net) | $ 7,017 | $ 4,421 | $ 4,307 | $ 3,875 | $ 3,817 |
| Inventory (net) | $ 5,714 | $ 4,820 | $ 4,499 | $ 4,020 | $ 3,297 |
| Current Assets | $ 17,262 | $ 20,474 | $ 18,593 | $ 14,411 | $ 10,842 |
| Working Capital | $ 7,331 | $ 18,530 | $ 17,109 | $ 12,824 | $ 9,373 |
| Current Ratio | 1.7:1 | 11:1 | 13:1 | 9:1 | 7:1 |
| Total Assets | $ 50,984 | $ 33,639 | $ 29,614 | $ 25,533 | $ 22,354 |
| Current Liabilities | $ 9,931 | $ 1,944 | $ 1,484 | $ 1,587 | $ 1,469 |
| Total Liabilities | $ 14,567 | $ 2,442 | $ 2,012 | $ 1,794 | $ 1,631 |
| Total Stockholders Equity | $ 36,417 | $ 31,197 | $ 27,602 | $ 23,739 | $ 20,723 |
| **Average Return Data** | | | | | |
| Stockholder Investment (1) | 18% | 16% | 19% | 21% | 22% |
| Assets | 15% | 15% | 17% | 19% | 20% |
| Invested Capital (2) | 21% | 24% | 26% | 26% | 29% |

(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.

**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**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

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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**

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Cash and Investments | $ 3,546,000 | $ 10,471,000 | $ 9,111,000 | $ 5,770,000 |
| | | | | |
| Trade Receivables Gross | $ 7,247,000 | $ 4,641,000 | $ 4,587,000 | $ 4,075,000 |
| Days Sales Outstanding | 60 | 61 | 74 | 60 |
| | | | | |
| Inventory (Net) | $ 5,714,000 | $ 4,820,000 | $ 4,499,000 | $ 4,020,000 |
| Inventory Turns | 2.3 | 1.8 | 1.8 | 1.8 |
| | | | | |
| Working Capital | $ 7,331,000 | $ 18,530,000 | $ 17,109,000 | $ 12,824,000 |
| Current Ratio | 1.7:1 | 11:1 | 13:1 | 9:1 |
| | | | | |
| Total Amortization and Depreciations | $ 1,844,000 | $ 786,000 | $ 788,000 | $ 746,000 |
| Earnings Before Amortization, Depreciation and Income Tax | $ 11,595,000 | $ 8,190,000 | $ 8,482,000 | $ 7,998,000 |
| | | | | |
| Average Return On: | | | | |
| Stockholder Investment (1) | 18.3% | 16.2% | 18.7% | 20.7% |
| Assets | 14.6% | 15.1% | 17.4% | 19.3% |
| Invested Capital (2) | 21.1% | 23.7% | 25.8% | 25.8% |
| | | | | |
| Net Sales | $ 32,826,000 | $ 21,929,000 | $ 21,536,000 | $ 19,558,000 |
| Gross Profit | $ 19,568,000 | $ 13,194,000 | $ 13,817,000 | $ 12,858,000 |
| Gross Margin | 60% | 60% | 64% | 66% |
| Operating Income | $ 9,864,000 | $ 7,368,000 | $ 7,608,000 | $ 7,061,000 |
| Operating Margin | 30% | 34% | 35% | 36% |
| Net Profit | $ 6,183,000 | $ 4,769,000 | $ 4,790,000 | $ 4,610,000 |
| Net Profit Margin | 19% | 22% | 22% | 24% |
| Earnings Per Diluted Share | $ 1.86 | $ 1.45 | $ 1.48 | $ 1.41 |
| | | | | |
| Capital Expenditures (Net) | $ 2,645,000 | $ 586,000 | $ 676,000 | $ 207,000 |
| | | | | |
| Head Count | 177 | 112 | 111 | 113 |
| Sales Per Employee | $ 185,000 | $ 196,000 | $ 194,000 | $ 173,000 |

(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. The indicators above show mixed results in the most recent fiscal year due to the impact of large increases in intangible assets as well as other assets through various acquisitions. A decrease in net profit margin combined with increasing balance sheet levels during fiscal 2011 caused the average return on assets and invested capital calculations to decrease in the current fiscal year. Our company saw a decrease in net profit margin in fiscal 2011 due to a decrease in gross profit margins resulting from the expansion of the Biological Indicator segment which typically has a lower

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gross margin and lower gross margins for the Torqo product lines as a result of high outside manufacturing costs for the first nine months of fiscal 2011.

## RESULTS OF OPERATIONS

### Net Sales

Net sales for fiscal 2011 increased 50 percent from fiscal 2010, and net sales for fiscal 2010 increased two percent from fiscal 2009. In dollars, net sales of $32,826,000 in fiscal 2011 increased $10,897,000 from $21,929,000 in 2010, and net sales of $21,929,000 in fiscal 2010 increased $393,000 from $21,536,000 in 2009.

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. Also, it is important to note that the Biological Indicator products are disposables and thus do not contribute to the Company s parts and service revenue. During fiscal years 2011, 2010 and 2009 our Company had parts and service revenue of $4,155,000, $3,560,000 and $3,642,000. As a percentage of total revenue, parts and service revenues were 13% in 2011, 16% in 2010 and 17% in 2009.

The performance of new product sales is dependent on several factors, including general economic conditions in the United States and abroad, capital spending trends, competition and the introduction of new products. New products released to the market over the past five fiscal years include the 90XL Dialysate Meter for kidney dialysis which was introduced late in fiscal 2006, and the Datatrace RF System which was introduced in early fiscal 2009. All Biological Indicator sales as well as the Torqo line of products also contribute to product sales. For fiscal years 2011, 2010 and 2009, product sales for our company were $28,671,000, $18,369,000 and $17,894,000.

Due to the addition of SGM Biotech earlier this fiscal year, the company is in the process of changing its reporting to better reflect its two distinct business segments, Biological Indicator Products and Instrumentation Products. The Instrumentation Products are based at the Company s Lakewood, CO facility and produce quality control instruments for various overlapping industries, while Biological Indicator Products are manufactured at our Bozeman, MT and Omaha, NE facilities and produce various disposables used to verify sterility. This segmentation provides a clearer picture of how changes in our product mix impact net sales and profitability, especially at the gross profit level.

For the current fiscal year, Biological Indicator products have increased to $16,457,000 or 130 percent from $7,146,000 in the prior year period, and Instrumentation products have increased to $16,369,000 or 11 percent from $14,783,000 in the prior year period. For the current year the increase in Biological Indicator products is chiefly due to the addition of the SGM Biotech products in late April of this year, the addition of the products purchased from Apex Laboratories, Inc. in December 2010, and strong organic growth of ten percent for the current year for our existing Biological Indicator business. During the current fiscal year, the increase in Instrumentation products and services was eleven percent, and was due primarily to the addition of the Torqo product line in December 2009. Sales of existing Instrumentation Products remained flat versus fiscal 2010 with an increase of less than one percent.

The total increase in revenues during fiscal 2011 was due chiefly to the additions of Torqo and SGM products which were acquired in December 2009 and April 2010, respectively, and Apex products in December 2010. For fiscal 2011, Torqo products contributed $1,617,000 and SGM Biotech products contributed $7,645,000 to the total increase in sales for the year. Apex products contributed another $919,000 to fiscal 2011 results. Our other products contributed an additional $716,000 or a three percent increase to revenues for the year.

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**Cost of Sales**

Cost of sales as a percent of net sales in fiscal 2011 increased 0.6 percentage points from fiscal 2010 to 40.4 percent, and in fiscal 2010 increased 4.0 percentage points from fiscal 2009 to 39.8 percent from 35.8 percent. Most of our products enjoy gross margins in excess of 50 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 more competitive nature of the market for Biological Indicators, those products produce gross margins lower than the Instrumentation products. Therefore, shifts in product mix toward higher sales of Instrumentation products will tend to produce lower cost of sales expense and higher gross margins while shifts toward higher sales of Biological Indicator products will normally produce the opposite effect on cost of sales expense and gross margins.

During fiscal 2011, our Company saw small increases in cost of sales as a percent of sales. This was due to the acquisition of SGM Biotech, Inc. The acquisition of the Torqo products also has had a negative effect on margins due to the use of Vibrac, LLC to manufacture these products for the first three quarters of fiscal 2011. Manufacturing of the Torqo products was consolidated at our Lakewood, CO facility in the fourth quarter of fiscal 2011 and we will expect to see cost of sales decline to less than 50 percent as a percent of sales. The acquisition of Apex had a small positive effect on gross margins in fiscal 2011. The addition of Apex and the move of Torqo manufacturing should have a high positive impact on gross margins in fiscal 2012.

**Selling, General and Administrative**

To the greatest extent possible, we work at containing and minimizing General and Administrative costs. Total administrative costs were $4,576,000 in fiscal 2011, $2,541,000 in fiscal 2010 and $2,522,000 in fiscal 2009, which represents a $2,035,000 increase from fiscal 2010 to fiscal 2011 and a $19,000 increase from fiscal 2009 to fiscal 2010. During fiscal 2011, we saw a $744,000 increase in amortization expenses due to amortizable intangible assets acquired during the current year and in late fiscal 2009. Salary and benefit increases resulting from acquisitions and an increase in Company headcount from 112 at the end of fiscal 2010 to 177 at the end of fiscal 2011 also contributed significantly to the overall increase in General and Administrative costs in fiscal 2011. As we progress into fiscal 2012, we expect to see most of these costs stabilize in total dollars spent and as a percent of net revenues, except amortization costs, which will increase due to the addition of Apex late in fiscal 2011. The annual rates of amortization going into fiscal 2012 are $375,000 for the Raven acquisition, $159,000 for the Torqo acquisition, $489,000 for the SGM Biotech acquisition, and $460,000 for the Apex acquisition.

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 selling and marketing costs. One other major influence on selling 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 2011 and fiscal 2010 the Company continued to focus additional resources on its selling and marketing efforts. In dollars, selling and marketing costs were $3,687,000 in fiscal 2011, $2,616,000 in fiscal 2010 and $3,051,000 in fiscal 2009. As a percent of sales, selling cost were 11.2 percent in fiscal 2011, 11.9 percent in fiscal 2010 and 14.2 percent in fiscal 2009. During both fiscal 2011 and 2010, selling and marketing costs as a percent of sales declined. Fiscal 2011 selling and marketing costs as a percent of sales declined due to a smaller level of increases in these costs versus the large increase in sales. Fiscal 2010 selling and marketing costs declined as a percent of sales due to cost savings initiatives implemented during the year.

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**Research and Development**

Company sponsored research and development cost was $1,441,000 in fiscal 2011, $669,000 in fiscal 2010 and $636,000 in fiscal 2009. Most of the increase in fiscal 2011 was related to the Biological Indicator business activity and consulting costs for future Instrumentation Products product improvements. We are currently executing a strategy of increasing the flow of internally developed products. Late in the first quarter of fiscal 2009, the Datatrace Micropack RF product was introduced, and on-going research to introduce this technology into the environmental monitoring segment of the market has proceeded during fiscal 2010 and 2011. Biological indicator research has been increased significantly in fiscal 2011 with the addition of the SGM Biotech operations. Work in the biological indicator business is to focus on products for new sterilization processes and on shorter sterility verification cycles.

**Net Income**

Net income increased to $6,183,000 or $1.86 per share on a diluted basis in fiscal 2011 from $4,769,000 or $1.45 per share on a diluted basis in fiscal 2010, and fiscal 2010 decreased from $4,790,000 or $1.48 per share on a diluted basis in fiscal 2009. During fiscal 2011 profitability was impacted chiefly by a large increase in revenues through acquisitions offset somewhat by increases in cost of sales as a percent of sales, amortization expenses related to acquisitions, and interest expense related to the debt used for acquisitions. For the fiscal year 2010, Mesa experienced a small net income decrease of four tenths of one percent, which was impacted chiefly by an increase in the cost of sales and a decrease in interest income offset by a decrease in sales and marketing costs and income taxes.

**Liquidity and Capital Resources**

On March 31, 2011, we had cash and cash equivalents of $3,546,000. In addition, we had other current assets totaling $13,716,000 and total current assets of $17,262,000. Current liabilities of our Company were $9,931,000 which resulted in a current ratio of 1.7:1. For comparison purposes at March 31, 2010, we had cash and short term investments of $10,471,000, other current assets of $10,003,000, total current assets of $20,474,000, current liabilities of $1,944,000 and a current ratio of 11:1. The acquisitions of SGM Biotech, Inc. and the assets of Apex Laboratories, Inc. required the use of much of the Company s cash reserves as well as the necessity of borrowing funds to complete these transactions. This led to a decrease in fiscal 2011 in current assets and a significant increase in current liabilities which resulted in the sharp drop in the current ratio.

Our Company has made capital acquisitions during the 2011 fiscal year of $2,645,000. Of this amount, approximately $2,150,000 was utilized to purchase the SGM Biotech facility.

On April, 27, 2010, the Company completed the purchase of SGM Biotech, Inc. located in Bozeman, MT. Under the terms of this acquisition the Company acquired all of the stock of SGM Biotech for $11,722,000. A cash payment of $11,122,000 was made at closing with an additional $600,000 placed into a joint escrow account. The $600,000 placed in escrow was paid to the sellers in $200,000 increments at three months, six months and one year following closing. The purchase price was subject to a final working capital adjustment as defined in the Stock Purchase Agreement, and the Company paid an additional $361,000 in October 2010. After the completion of the acquisition, the Company repaid $278,000 of loans owed to the shareholders of SGM Biotech. The Company incurred approximately $133,000 in third party acquisition costs related to this transaction during the current fiscal year.

On December 21, 2010, the Company completed the purchase of the biological indicator line of products of Apex Laboratories, Inc located in Sanford, NC. Under the terms of this acquisition the Company acquired certain assets of Apex Laboratories, Inc. for $6,490,000. A cash payment of $5,890,000 was made at closing with an additional $600,000 reserved as a holdback and payable in half increments at the six and 12 month anniversary date following the acquisition. The Company incurred approximately $39,000 in third party acquisition costs related to this transaction during the current fiscal year.

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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. Due to the Company s lower cash position and higher debt, the Company has greatly restricted stock buy backs during fiscal 2011 and expects to continue this policy in fiscal 2012.

During fiscal 2011, the Company paid regular quarterly dividends of $.11 per share of common stock during the first two quarters of the year and increased the quarterly dividend rate to $.12 per share of common stock during the last two quarters of the fiscal year. Total dividends paid during fiscal 2011 were $.46 per share of common stock. For fiscal year 2010, dividends totaled $.42 per common share of stock.

Our Company invests its surplus capital in various interest bearing instruments, including money market funds and short-term treasuries. All investments are fixed dollar investments with variable rates in order to minimize the risk of principal loss.

To finance acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for $3,000,000 and maturing at April 27, 2013, which has a remaining principal balance of $2,500,000 at March 31, 2011, and a revolving line of credit for $4,000,000 of which $4,000,000 was utilized as of March 31, 2011. Both of these lines are subject to a variable rate of interest and a rate floor, both of which are currently 3.25%. In December 2010 the bank agreed to suspend the regular payment of $250,000 which was due January 27, 2011 until maturity at April 27, 2013. This action allowed the Company to complete the acquisition of Apex Laboratories, Inc. without further alteration of the credit facility. The Company does not 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 on-going dividend and will be used to retire debt. If interesting candidates come to our attention, we may choose to pursue new acquisitions.

**Contractual Obligations**

At March 31, 2011 we had contractual obligations for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. To help finance the acquisition of SGM Biotech, Inc., the Company entered into two separate credit facilities which require remaining principal payments of $5,000,000, $1,000,000 and $500,000 in fiscal years 2012, 2013 and 2014, respectively. As part of the Apex Laboratories product line acquisition executed December 21, 2010, the Company is obligated to make two holdback payments of $300,000 plus 2 percent per annum interest to Apex Laboratories in June and December of 2011.

**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, competition in the biological indicator market; competition in the bottle cap torque testing 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. We do not intend to update these forward looking statements. You are advised to review the Item 1A. Risk Factors of this report for more information about risks that could affect the financial results of Mesa Laboratories, Inc.

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**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.

**Revenue Recognition**

We sell our products directly through our sales force and through distributors and manufacturer s representatives. Revenue from direct sales of our product is recognized upon shipment to the customer. Revenue from ongoing product service and repair is fully recognized upon completion and shipment of serviced product.

**Accounts Receivable**

At the time the accounts are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of the customer. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management s best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

**Research & Development Costs**

Research and development activities consist primarily of new product development and continuing engineering on existing products. Costs related to research and development efforts on existing or potential products are expensed as incurred.

**Valuation of Inventories**

Inventories are stated at the lower of cost or market, using the first-in, first-out method (FIFO) to determine cost. The Company s policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a reserve for any inventory considered slow moving or obsolete. As of March 31, 2011 and 2010, the Company had recorded a reserve of $290,000 and $200,000, respectively.

**Valuation of Long-Lived Assets**

The Company assesses the realizable value of long-lived assets for potential impairment at least annually or when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated fair value is less than its carrying value. In assessing the recoverability of our long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. In addition, we must make assumptions regarding the useful lives of these assets. As of March 31, 2011, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

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**Stock Based Compensation**

The Company records equity compensation at the grant date based on the fair value of the award. The Company recognizes the expense on a straight-line basis over the service period net of an estimated forfeiture rate, resulting in a compensation cost for only those shares expected to vest.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles, generally accepted in the United States of America, with no need for management s judgment in their application. There are also areas in which management s judgment in selecting any viable alternative would not produce a materially different result. See our audited financial statements and notes thereto which begin at Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K which contain accounting policies and other disclosures required by accounting principles, generally accepted in the United States of America.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Mesa Laboratories, Inc.

Lakewood, Colorado

We have audited the accompanying balance sheets of Mesa Laboratories, Inc. as of March 31, 2011 and 2010, and the related statements of income, stockholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Mesa Laboratories, Inc. as of March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Ehrhardt Keefe Steiner & Hottman PC
Ehrhardt Keefe Steiner & Hottman PC

June 29, 2011

Denver, Colorado

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**MESA LABORATORIES, INC.**

**BALANCE SHEET**

| | March 31st | | | |
|---|---|---|---|---|
| | | **2011** | | **2010** |
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ | 3,546,000 | $ | 10,471,000 |
| Accounts receivable - | | | | |
| Trade, net of allowance for doubtful accounts of $230,000 (2011) and $220,000 (2010) | | 7,017,000 | | 4,421,000 |
| Other | | 24,000 | | 5,000 |
| Inventories, net | | 5,714,000 | | 4,820,000 |
| Prepaid expenses and other | | 316,000 | | 381,000 |
| Deferred income taxes | | 645,000 | | 376,000 |
| TOTAL CURRENT ASSETS | | 17,262,000 | | 20,474,000 |
| | | | | |
| PROPERTY, PLANT AND EQUIPMENT, net | | 7,308,000 | | 4,239,000 |
| | | | | |
| OTHER ASSETS: | | | | |
| Goodwill | | 14,450,000 | | 6,265,000 |
| Other intangible assets, net | | 11,484,000 | | 2,661,000 |
| Deferred income taxes long-term | | 424,000 | | |
| Other | | 56,000 | | |
| | | | | |
| | $ | 50,984,000 | $ | 33,639,000 |

*See notes to financial statements.*

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**MESA LABORATORIES, INC.**

**BALANCE SHEET**

| | March 31st | | | |
|---|---|---|---|---|
| | | 2011 | | 2010 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable, trade | $ | 723,000 | $ | 480,000 |
| Accrued salaries and payroll taxes | | 2,332,000 | | 1,190,000 |
| Line of credit | | 4,000,000 | | |
| Current portion of long-term notes payable | | 1,000,000 | | |
| Acquisition holdbacks | | 600,000 | | 100,000 |
| Other accrued liabilities | | 176,000 | | 41,000 |
| Taxes payable | | 1,100,000 | | 133,000 |
| TOTAL CURRENT LIABILITIES | | 9,931,000 | | 1,944,000 |
| | | | | |
| LONG TERM LIABILITIES: | | | | |
| Long term notes payable | | 1,500,000 | | |
| Deferred income taxes | | 3,136,000 | | 498,000 |
| | | | | |
| COMMITMENTS | | | | |
| | | | | |
| STOCKHOLDERS EQUITY: | | | | |
| Preferred stock, no par value; authorized 1,000,000 shares; none issued | | | | |
| Common stock, no par value; Authorized 8,000,000 shares; issued and outstanding, 3,250,736 (2011) and 3,203,726 (2010) | | 5,505,000 | | 4,883,000 |
| Employee loans to purchase stock | | (437,000) | | |
| Retained earnings | | 31,349,000 | | 26,314,000 |
| | | | | |
| TOTAL STOCKHOLDERS EQUITY | | 36,417,000 | | 31,197,000 |
| | $ | 50,984,000 | $ | 33,639,000 |

*See notes to financial statements.*

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**MESA LABORATORIES, INC.**

**STATEMENT OF INCOME**

| | Years Ended March 31st | |
|---|---|---|
| | **2011** | **2010** |
| Sales | $ 32,826,000 | $ 21,929,000 |
| Cost of Sales | 13,258,000 | 8,735,000 |
| Gross profit | 19,568,000 | 13,194,000 |
| | | |
| Operating expenses | | |
| Selling | 3,687,000 | 2,616,000 |
| General and administrative | 4,576,000 | 2,541,000 |
| Research and development | 1,441,000 | 669,000 |
| Total operating expenses | 9,704,000 | 5,826,000 |
| | | |
| Operating income | 9,864,000 | 7,368,000 |
| Other income (expense) | (113,000) | 36,000 |
| Earnings before income taxes | 9,751,000 | 7,404,000 |
| | | |
| Income taxes | 3,568,000 | 2,635,000 |
| | | |
| Net income | $ 6,183,000 | $ 4,769,000 |
| | | |
| Net income per share (basic) | $ 1.91 | $ 1.49 |
| | | |
| Net income per share (diluted) | $ 1.86 | $ 1.45 |
| | | |
| Average common shares outstanding - basic | 3,231,000 | 3,194,000 |
| | | |
| Average common shares outstanding - diluted | 3,330,000 | 3,293,000 |

*See notes to financial statements.*

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**MESA LABORATORIES, INC.**

**STATEMENT OF STOCKHOLDERS EQUITY**

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Number of Shares** | | **Amount** | | **Retained Earnings** | | **Total Stockholders Equity** |
| BALANCE, March 31, 2009 | 3,182,228 | $ | 4,817,000 | $ | 22,785,000 | $ | 27,602,000 |
| Common stock issued for conversion of stock options net of 25,619 shares returned to Company as payment | 33,066 | | 93,000 | | | | 93,000 |
| Purchase and retirement of treasury stock | (11,568) | | (27,000) | | (238,000) | | (265,000) |
| Dividends paid ($.42 per share) | | | | | (1,343,000) | | (1,343,000) |
| Stock based compensation | | | | | 282,000 | | 282,000 |
| Tax benefit on exercise of non-qualified options | | | | | 59,000 | | 59,000 |
| Net income for the year | | | | | 4,769,000 | | 4,769,000 |
| BALANCE, March 31, 2010 | 3,203,726 | | 4,883,000 | | 26,314,000 | | 31,197,000 |
| Common stock issued for conversion of stock options net of 12,446 shares returned to Company as payment | 51,432 | | 633,000 | | | | 633,000 |
| Purchase and retirement of treasury stock | (4,422) | | (11,000) | | (94,000) | | (105,000) |
| Dividends paid ($.46 per share) | | | | | (1,488,000) | | (1,488,000) |
| Employee loans to purchase shares | | | (437,000) | | | | (437,000) |
| Stock based compensation | | | | | 383,000 | | 383,000 |
| Tax benefit on exercise of non-qualified options | | | | | 51,000 | | 51,000 |
| Net income for the year | | | | | 6,183,000 | | 6,183,000 |
| BALANCE, March 31, 2011 | 3,250,736 | $ | 5,068,000 | $ | 31,349,000 | $ | 36,417,000 |

*See notes to financial statements.*

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**MESA LABORATORIES, INC.**

**STATEMENT OF CASH FLOWS**

| | Years Ended March 31st 2011 | | 2010 | |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income | $ | 6,183,000 | $ | 4,769,000 |
| Depreciation and amortization | | 1,844,000 | | 786,000 |
| Allowance for bad debt | | 10,000 | | (60,000) |
| Deferred income taxes | | (414,000) | | 92,000 |
| Stock based compensation | | 383,000 | | 282,000 |
| Change in assets and liabilities | | | | |
| (Increase) decrease in accounts receivable, net | | (965,000) | | (43,000) |
| (Increase) decrease in inventories, net | | (72,000) | | (143,000) |
| (Increase) decrease in prepaid expenses | | 260,000 | | (63,000) |
| Increase (decrease) in accounts payable, trade | | (1,000) | | 184,000 |
| Increase (decrease) in accrued liabilities and taxes payable | | 1,645,000 | | 176,000 |
| Net cash provided by operating activities | | 8,873,000 | | 5,980,000 |
| | | | | |
| Cash flows from investing activities: | | | | |
| Deposits | | (56,000) | | |
| Acquisition of product lines and company | | (17,973,000) | | (2,578,000) |
| Capital expenditures, building | | (2,150,000) | | |
| Capital expenditures other, net of retirements | | (495,000) | | (586,000) |
| Net cash (used) by investing activities | | (20,674,000) | | (3,164,000) |
| | | | | |
| Cash flow from financing activities: | | | | |
| Bank borrowing | | 7,000,000 | | |
| Payments on long-term debt | | (500,000) | | |
| Repayment of SGM shareholder loans | | (278,000) | | |
| Dividends paid | | (1,488,000) | | (1,343,000) |
| Tax benefit of nonqualified stock options | | 51,000 | | 59,000 |
| Net proceeds from stock option exercises | | 196,000 | | 93,000 |
| Treasury stock repurchases | | (105,000) | | (265,000) |
| Net cash (used) provided by financing activities | | 4,876,000 | | (1,456,000) |
| Net increase (decrease) in cash and cash equivalents | | (6,925,000) | | 1,360,000 |
| Cash and cash equivalents at beginning of year | | 10,471,000 | | 9,111,000 |
| Cash and cash equivalents at end of year | $ | 3,546,000 | $ | 10,471,000 |
| | | | | |
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid during the year for: | | | | |
| Income taxes | $ | 3,528,000 | $ | 2,504,000 |
| Cash paid for interest | $ | 141,000 | | |

Supplemental disclosure of non-cash activity:

The Company acquired certain assets of Vibrac LLC during the fiscal year ended March 31, 2010.

The Company issued employee loans totaling $437,000 for the purchase of common stock during the twelve month period ended March 31, 2011.

The Company completed its purchase of SGM Biotech, Inc. during the fiscal year ended March 31, 2011. *See Note 2*.

The Company completed its purchase of certain assets of Apex Laboratories, Inc. during the fiscal year ended March 31, 2011. *See Note 2*.

*See notes to financial statements*

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**MESA LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS**

**1) Summary of Significant Accounting Policies:**

**General** - Mesa Laboratories, Inc. was incorporated under the laws of the State of Colorado on March 26, 1982, for the purpose of designing, manufacturing and marketing electronic instruments, supplies and disposable products.

**Concentration of Credit Risk** - Financial instruments which potentially subject the Company to concentrations of credit risk consist of money market funds, short-term investments and accounts receivable. The Company invests primarily all of its excess cash in money market funds administered by reputable financial institutions. The Company grants credit to its customers who are located throughout the United States and foreign countries. To reduce credit risk, the Company periodically evaluates the money market fund administrators and performs credit analysis of customers and monitors their financial condition. Additionally, the Company maintains cash balances in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

During the fiscal year ended March 31, 2011, no individual customer represented more than 10% of the Company s revenues or accounts receivable balance. During the fiscal year ended March 31, 2010, one customer represented approximately 14% of the Company s revenues and approximately 10% of the Company s accounts receivable balance.

**Cash Equivalents** - Cash equivalents include all highly liquid investments with an original maturity of three months or less.

**Accounts Receivable** - At the time the accounts are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of the customer. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management s best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

**Inventories** - Inventories are stated at the lower of cost or market, using the first-in, first-out method (FIFO) to determine cost. The Company s policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a reserve for any inventory considered slow moving or obsolete. As of March 31, 2011 and 2010 the Company had recorded a reserve of $290,000 and $200,000, respectively, against slow moving inventory.

**Property, Plant and Equipment** - Property, plant and equipment is stated at acquisition cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of 3 to 39 years.

**Goodwill and Other Intangible Assets** Goodwill, which resulted from the acquisitions of Nusonics, Datatrace, Raven, Automata, Torqo, SGM, and Apex is not subject to amortization, and is tested annually for impairment in accordance with current accounting standards. Certain intangible assets including intellectual property, non-compete agreements, and customer relationships were recognized as part of the Raven, Torqo, SGM, and Apex acquisitions and are amortized over their estimated useful lives which range from 3 to 16 years. Trade names were determined to have an indefinite life and therefore are not being amortized.

**Valuation of Long-Lived Assets** - The Company assesses the realizable value of long-lived assets for potential impairment at least annually or when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated fair value is less than its carrying value. In assessing the recoverability of our long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. In addition, we must make assumptions regarding the useful lives of these assets. As of March 31, 2011 and 2010, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

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**Revenue Recognition** - Revenue is recognized when persuasive evidence of an arrangement exists, when title and risk of ownership passes, the sales price is fixed or determinable, and collectibility is probable. The Company recognizes revenues at the time products are shipped. Revenue from ongoing product service and repair is fully recognized upon completion and shipment of serviced product.

Sales to distributors are made at their net discounted price. This net discounted price is net of any volume pricing that may be available. Customers who may be unsure of the appropriateness of our products for their application are offered demonstration equipment prior to purchase, thus no return rights are extended. Products are built to customer order and no price protections are offered.

Other than normal and customary on-going customer service, the Company does not have any post shipment contractual obligations to its customers, such as installation, training, etc.

**Research & Development Costs** - Costs related to research and development efforts on existing or potential products are expensed as incurred. Research and development costs for the fiscal years ended March 31, 2011 and 2010 were $1,441,000 and $669,000 each year, respectively.

**Accrued Warranty Expense** - The Company provides limited product warranty on its products and, accordingly, accrues an estimate of the related warranty expense at the time of sale.

**Advertising Costs** - Advertising costs are expensed as incurred. Advertising costs for the years ended March 31, 2011 and 2010 were $315,000 and $269,000, respectively.

**Income Taxes** - The Company accounts for income taxes under the liability method, which requires an entity to recognize deferred tax assets and liabilities. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

**Stock Based Compensation**  The Company records equity compensation at the grant date based on the fair value of the award. The Company recognizes the expense on a straight-line basis over the service period net of an estimated forfeiture rate, resulting in a compensation cost for only those shares expected to vest.

**Earnings Per Share** - Basic earnings per share is calculated using the average number of common shares outstanding. Diluted earnings per share is computed on the basis of the average number of common shares outstanding plus the effect of outstanding stock options using the treasury stock method, which totaled 99,000 additional shares in both 2011 and 2010.

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share is computed using the treasury stock method to compute the weighted average common stock outstanding assuming the conversion of potentially dilutive common shares.

The following table presents a reconciliation of the denominators used in the computation of net income per common share basic and net income per common share diluted for the twelve month periods ended March 31, 2011 and 2010:

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| | Twelve Months Ended March 31st 2011 | 2010 |
|---|---|---|
| Net income available for shareholders | $ 6,183,000 | $ 4,769,000 |
| | | |
| Weighted avg. outstanding shares of common stock | 3,231,000 | 3,194,000 |
| Dilutive effect of stock options | 99,000 | 99,000 |
| | | |
| Common stock and equivalents | 3,330,000 | 3,293,000 |
| | | |
| Earnings per share: | | |
| Basic | $ 1.91 | $ 1.49 |
| Diluted | $ 1.86 | $ 1.45 |

For the twelve months ended March 31, 2011 and 2010, no shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

**Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value of Measurements** - The Company s financial instruments include cash, accounts receivable, accounts payable, and accrued liabilities. The carrying value of these financial instruments is considered to be representative of their fair value due to the short maturity of these instruments. The carrying amount of the Company s debts outstanding approximates their fair values because interest rates on these instruments approximate the interest rate on debt with similar terms available to the Company.

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The financial and non-financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

| | |
|---|---|
| Level 1: | Quoted prices in active markets for identical assets or liabilities; |
| Level 2: | Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or |
| Level 3: | Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions. |

The following table presents the Company s financial assets and liabilities that were accounted for at fair value in connection with the Company s acquisition of SGM Biotech, Inc. and a product line from Apex Laboratories, Inc. (Note 2) on a non-recurring basis as of March 31, 2011 by level within the fair value hierarchy:

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| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | | | $ 5,827,000 |
| Definite lived intangibles | | | $ 10,005,000 |
| Property and equipment | | | $ 1,084,000 |

Intangible assets consist primarily of customer relationships, intellectual property and trade names, which are valued on the income approach valuation technique using certain key assumptions for customer attrition, growth rate for customer relationships and royalty discount rate, royalties avoided, and growth rate for trade name. Property and equipment acquired in business combinations are valued at replacement cost for used equipment.

**Acquisitions** - Effective April 1, 2009, transaction costs are expensed under new accounting guidance. The Company expensed $177,000 and $63,000 of transaction costs that was included in general and administrative expenses on the accompanying statement of income during the years ended March 31, 2011 and 2010, respectively.

**Recently Issued Accounting Pronouncements** In January 2010, authoritative guidance was issued requiring enhanced disclosures for fair value measurements. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurement using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. We adopted the updated guidance on April 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for us beginning April 1, 2011. The adoption of the required guidance did not have an impact on our financial statements. We do not expect that the adoption of the remaining guidance will have an impact on our financial statements.

In July 2010, FASB issued a new pronouncement that requires enhanced disclosures regarding the nature of credit risk inherent in an entity s portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for those changes in the allowance for credit losses. The new disclosures will require information for both the financing receivables and the related allowance for credit losses at more disaggregated levels. Disclosures related to information as of the end of a reporting period became effective for Mesa in the fourth quarter of Fiscal 2011. Specific disclosures regarding activities that occur during a reporting period, such as the disaggregated roll forward disclosures, will be required for Mesa beginning in the first quarter of Fiscal 2012. As these changes only relate to disclosures, they will not have an impact on Mesa s consolidated financial results.

In December 2010, the FASB issued amended guidance related to Business Combinations. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company will assess the impact of these amendments on its consolidated financial statements if and when an acquisition occurs.

In December 2010, the FASB issued amended guidance related to intangibles goodwill and other. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform

Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company does not believe that this guidance will have a material impact on its consolidated financial statements.

**2) Acquisition of Product Lines and Company:**

On April, 27, 2010, the Company completed the purchase of SGM Biotech, Inc. located in Bozeman, MT. Under the terms of this acquisition the Company acquired all of the stock of SGM Biotech for $11,722,000. A cash payment of $11,122,000 was made at closing with an additional $600,000 placed into a joint escrow account. The $600,000 placed in escrow is to be paid to the sellers in $200,000 increments at three months, six months and one year following closing. The purchase price was subject to a final working capital adjustment of $361,000 as defined in the Stock Purchase Agreement and was subsequently paid in October, 2010. After the completion of the acquisition, the Company repaid $278,000 of loans owed to the shareholders of SGM Biotech. The Company incurred approximately $168,000 in third party acquisition costs related to this transaction. On April 30, 2010, the Company also completed the acquisition of the facility that houses the SGM Biotech, Inc. operations for $2,150,000.

Due to the increase in intangible assets as a result of this acquisition, amortization expense rose significantly in fiscal 2011 and will continue at higher levels in subsequent years. The Company will not be able to deduct the step up from cost to fair value for the assets acquired for tax purposes and therefore have recorded a deferred tax liability and additional goodwill of $2,358,000 as of the acquisition date.

The purchase price was allocated to the assets acquired based on their estimated fair value at the acquisition date, and was subject to a final working capital adjustment. Intangible assets were valued using the income approach.

**Assets and liabilities acquired consisted of:**

| | | |
|---|---|---|
| Accounts Receivable | $ | 1,116,000 |
| Inventory | | 758,000 |
| Other Assets | | 195,000 |
| Property and Equipment | | 1,035,000 |
| Liabilities | | (1,021,000) |
| Customer Relationships | | 3,739,000 |
| Non-compete Agreements | | 104,000 |
| Trade Names | | 1,195,000 |
| Intellectual Property | | 396,000 |
| Goodwill | | 4,566,000 |
| | $ | 12,083,000 |

Intangible assets acquired are amortized over their estimated useful lives; customer relationships (8.5 years), non-compete agreements (5 years) and intellectual property (14 years). Trade names were determined to have an indefinite life and therefore are not being amortized.

On December 21, 2010, Mesa announced that it had purchased the assets associated with the biological indicator line of products of Apex Laboratories, Inc. The products acquired by Mesa include their biological indicators for use in vapor hydrogen peroxide disinfection processes. The purchase price consisted of a $5,890,000 cash payment at closing and a $600,000 holdback amount to be paid in two equal payments on the six month and one year anniversary of closing. The holdback amount accrues interest at two percent per annum, and the ultimate payment may be reduced as defined in the asset purchase agreement.

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**Assets acquired consisted of:**

| | | |
|---|---|---|
| Inventory | $ | 65,000 |
| Accounts Receivable | | 544,000 |
| Property and Equipment | | 49,000 |
| Goodwill | | 1,261,000 |
| Intellectual Property | | 3,483,000 |
| Customer Relationships | | 810,000 |
| Trade Names | | 278,000 |
| | $ | 6,490,000 |

Intangible assets acquired will be amortized over their estimated useful lives; customer relationships (7 years) and intellectual property (10 years). Trade names were determined to have an indefinite life and therefore are not being amortized.

To help finance these acquisitions, the Company entered into a credit facility c