

MESA LABORATORIES INC /CO  
Form 10-K  
June 29, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

(Mark one)

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITES EXCHANGE ACT OF 1934**

**For the fiscal year ended March 31, 2010**

**TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITES EXCHANGE ACT OF 1934**

**For the transition period from                      to**

**Commission File No: 0-11740**

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**MESA LABORATORIES, INC.**

(Exact name of registrant as specified in its charter)

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**Colorado**  
(State or other jurisdiction of  
Incorporation or organization)

**84-0872291**  
(I.R.S. Employer  
Identification number)

**12100 West Sixth Avenue**  
**Lakewood, Colorado**  
(Address of principal executive offices)

**80228**  
(Zip Code)

Registrant's telephone number, including area code: **(303) 987-8000**

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

| <b>Title of each class</b> | <b>Name of each exchange on which registered</b> |
|----------------------------|--|
| Common Stock, no par value | NASDAQ   |

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of the chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value, as of September 30, 2009, (the last business day of the registrant's second quarter) of the common stock of Mesa Laboratories Inc. held by non-affiliates (assuming, for this purpose, that all directors, officers and owners of 5% or more of the registrant's common stock are deemed affiliates) was approximately \$41,478,763.

The number of outstanding shares of the common stock as of May 31, 2010 was 3,210,155.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2010 Annual Meeting of Shareholders

Part III information is incorporated by reference from the Proxy Statement

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### Cautionary Statement

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

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

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### Introduction

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

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 a cash payment of \$11,722,000. After the completion of the acquisition the Company repaid \$278,000 of loans owed to the shareholders of SGM BIOTECH. On April 30, 2010, the Company also completed the acquisition of the facility that houses the SGM BIOTECH operations for \$2,150,000. To finance these acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for \$3,000,000 which was fully utilized at April 30, 2010, and a revolving line of credit for \$4,000,000 of which \$1,521,000 was utilized at April 30, 2010.

#### DATATRACE® Data Loggers

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The DATATRACE products are self-contained, wireless, high precision, data loggers that are used in critical manufacturing, quality control, and transportation applications. They are used to measure temperature, humidity and pressure inside a process or inside a product during manufacturing. In addition, the DATATRACE products can be used to validate the proper operation of laboratory or manufacturing equipment, either during its installation or for annual re-certifications. The product line consists of individual data loggers, PC interface and software and various accessories. A customer typically purchases a large number of data loggers along with a single PC interface and the software package. Specifically, the customer can purchase either the wireless Micropack III (MPIII) data loggers or the

Micropack Radio Frequency (MPRF) transmitting data loggers. Both DataTrace models work with the Data Trace Radio Frequency (DTRF) software package.

In practice, using the PC interface, the user programs the loggers to collect environmental data at a pre-determined interval, places the data loggers in the product or process, and then in the case of the MPIII model retrieves the data loggers and reads the data into a PC after placing them in the interface or with the MPRF models is continuously collecting the data via radio frequency transmissions. After this, the user can prepare tabular and graphical reports using the DTRF software.

The MPIII line is much smaller, has improved hardware compared to previous DataTrace loggers, has embedded software, includes a rapid read optical interface, and operates over a wide temperature range. The MPRF models include all the features and performance improvements of the MPIII version and adds the capability to transmit data to a PC in real time through the proprietary DTLinc RF network. The ability to view process or validation data instantly saves valuable time, and it can prevent costly processing mistakes. The DataTrace RF system allows the user to see results immediately and make appropriate decisions as necessary.

While there are a variety of different types of wireless data loggers available on the market, there are only a few that are rated as intrinsically safe and can operate at elevated temperatures, like the DATATRACE products. These are important differentiating factors for the DATATRACE products in the marketplace, and consequently, they are used by companies to control their most critical processes. Due to their higher accuracy and precision, along with the importance of the processes they are used to control, an important component of the DATATRACE product line is the calibration service that is provided by Mesa. Typically, each DATATRACE data logger is calibrated by Mesa's calibration laboratory prior to shipment and then annually, for a re-certification fee, to verify its accuracy. For instance, the MPIII/MPRF temperature data loggers have an operating range of -80 °C to +400 °C and can be calibrated to an accuracy of +/- 0.1°C over a portion of this range. This allows the DATATRACE loggers to be used to conduct quality control on critical processes, such as sterilization, one of the most important applications.

#### RAVEN Biological Indicators

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

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

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The RAVEN Biological Indicators are distinguished in the marketplace by their high level of quality, consistency and flexibility. A variety of different formats allows the RAVEN BI to be used in many different types of processes and products. For instance, the simple spore strips are used most often in the small table-top steam sterilizers in dental offices,

while a more complex self-contained BI such as the ProTest, may be used by a medical device manufacturer to assure the sterility in a complex ethylene oxide sterilization process. In either case, the number of spores contained on the carrier and the resistance of the spores to the sterilization process must be well characterized in order to accurately assess the effectiveness of sterilization. During manufacturing, extensive quality control steps are used to insure that the microorganism spores are well characterized and their resistance is known following placement on the target carrier. The RAVEN products are registered medical devices manufactured under ISO 13485 controlled processes. They are developed and used according to the guidelines developed under the auspices of the Association for the Advancement of Medical Instrumentation (AAMI), which are adopted as the worldwide standard under the International Standards Organization (ISO).

Raven has expanded its industrial product line by adding a biological indicator product for Chlorine Dioxide (ClO<sub>2</sub>) gas decontamination/sterilization. This increasingly popular process is often used with biological safety cabinets, medical devices and animal cages among other uses. Raven has also made some improvements in its existing products. ProTest, Raven's self-contained biological indicator for steam, is now cleared to be used in flash cycles (3 minutes and 10 minutes at 132° flash gravity displacement cycles) which are extremely important in healthcare and clinical settings for the immediate sterilization of instruments. This change makes Raven more competitive in the healthcare industry.

#### SGM BIOTECH Biological Indicators

In April 2010, the Company acquired SGM Biotech, Inc. of Bozeman, Montana. The SGM BIOTECH product line consists of Biological Indicators (BI) used to assess the effectiveness of sterilization processes, including steam, gas (such as ethylene oxide), and radiation. BIs consist of resistant spores of certain microorganisms which are applied on a convenient substrate. The spores are well characterized in terms of numbers and resistance to sterilization. In use, the BI is exposed to a sterilization process and then tested to determine the presence of surviving organisms. SGM BIOTECH's line of BIs includes both spore strips, which require post-processing transfer to a growth media, self-contained products which have the growth media already pre-packaged in crushable ampoules, industrial use BIs, and culture media. SGM BIOTECH products are used to validate equipment and monitor the effectiveness of a process in any industrial or healthcare setting which uses sterilization. Key markets for SGM BIOTECH include healthcare such as dental offices and hospitals, and industrial such as medical device and pharmaceutical manufacturing.

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

The SGM BIOTECH line of Biological Indicators is very similar to the RAVEN Biological Indicator line, and are distinguished in the marketplace by their high level of quality, consistency and flexibility. The number of spores contained on the carrier and the resistance of the spores to the sterilization process must be well characterized in order to accurately assess the effectiveness of sterilization. During manufacturing, extensive quality control steps are used to insure that the microorganism spores are well characterized and their resistance is known following placement on the target carrier. The SGM BIOTECH products are registered medical devices manufactured under ISO 13485 controlled processes. They are developed and used according to the guidelines developed under the auspices of the Association for the Advancement of Medical Instrumentation (AAMI), which are adopted as the worldwide standard under the International Standards Organization (ISO).



### MEDICAL Hemodialysis Products

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

Hemodialysis requires the treatment to be conducted on a dialysis machine through the use of a disposable cartridge known as a dialyzer. Blood is brought extra corporally to the dialysis machine for control and monitoring and passes through the dialyzer where waste products and excess water are removed. This treatment generally lasts three to four hours. While these hemodialysis procedures can be conducted in home, the bulk of the treatments are conducted in over 4,500 clinics and hospital centers in the U.S. Currently, there are over 300,000 patients in the U.S. undergoing dialysis therapy.

#### Dialysate Meters

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

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

The dialysis meters designed for use by dialysis nurses are known primarily for their ease of use and include the pHoenix, Hydra, and NEO-STAT+ models. Incorporating a patented, built-in syringe sampling system, these meters are used as the final quality control check on the dialysate just prior to starting a treatment. Their design allows the nurse to quickly and easily draw a small sample of the dialysate into the meter for measurement, and management believes that they have become the most popular meter in the point-of care testing in dialysis clinics. The pHoenix meter is the newest syringe sampling meter Mesa has introduced to the marketplace and is the leading seller by far of the three (3) hand held meter choices.

In addition to the dialysate meters, the Company markets a line of calibration standard solutions for use in dialysis clinics for calibration and testing. These standard solutions are regularly consumed by the dialysis clinics and this, along with calibration services, represents a recurring revenue stream for the Medical product line.

### TOROO Products

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The company's torque testing system is a durable and reliable computerized cap torque analyzer, which is setting a new standard for torque measurement throughout the packaging industry. With its on-board microprocessor, the TORQO makes torque testing simple, accurate and affordable. It is easy to use, easy to set up, easy to move and mostly maintenance free. Tooling is available for any threaded closure - including child resistant caps - and the TORQO's compact size delivers and stores precise results at the touch of a button.

The TORQO's appeal is high accuracy and consistency of measurement. Different operators will apply different forces to manual torque measuring devices, and the force applied directly relates to the torque measured. When torque is measured by using a manual torque meter, an operator's hand is responsible for applying the twisting force to the cap in order for the cap to rotate to the removal point or application point. At this point, torque data is recorded and displayed on the torque measurement device. During this process, an increase in the force applied by the operator to the cap, or an increase in the speed at which the force is applied, will result in an increase in the measured torque of the cap, and vice-versa. In order for accurate and reliable data to be obtained, each operator must apply precisely the same amount of force to the cap, testing cycle after testing cycle. With a motorized torque testing system like the TORQO, the force applied to a cap is precisely the same in each testing cycle, regardless of who may be operating the machine, or how strong they may be.

The TORQO system provides the information that helps the operator track events - and potential problems - during the manufacturing process. TORQO stores data by capping head number, making trends easily recognizable, so that corrections can be performed in a timely fashion. Because the test results are automatically stored, manual recording errors are eliminated and verification of the testing process becomes easy.

### NUSONICS Products

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

The NUSONICS products have been subject to strong competition in the marketplace in recent years primarily from larger, well established process control companies. Consequently, sales of NUSONICS products have decreased and currently represent less than 3% of the Company's total revenue. Today, most sales are made to existing NUSONICS customers who are replacing or adding to their current infrastructure.

### Manufacturing

The Company assembles the MEDICAL, RAVEN, SGM BIOTECH and DATATRACE products at its facilities in Lakewood, Colorado, Bozeman, Montana and Omaha, Nebraska. Currently the TORQO product line is manufactured in Amherst, New Hampshire but we plan to move all TORQO manufacturing to the Lakewood facility by approximately December, 2010. The Company's electronic products are manufactured primarily by assembling products from purchased components and testing the final products prior to release. The RAVEN and SGM BIOTECH products are manufactured by growing microbiological spores from raw materials, assembling the finished products through a series of process steps, and testing the finished Biological Indicators using established quality control tests.

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



Marketing and Distribution

The Company's domestic sales of its MEDICAL and DATATRACE products are generated by its direct sales and marketing staff, while outside the U.S., a number of distributors are utilized. The Company's TORQO, SGM BIOTECH and RAVEN products are distributed both directly, through a sales and marketing staff to end users and through a series of distributors both domestically and outside the U.S. International sales for all products are conducted through over 100 distributors. During the fiscal year ended March 31, 2010, approximately 73% of sales have been domestic and 27% have been international to countries throughout Europe, Africa, Australia, Asia and South America, as well as Canada and Mexico.

Sales promotions include attendance by Mesa representatives at trade shows, direct mail campaigns, internet advertising and other digital forms of advertising.

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

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

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

TORQO customers include numerous users in the food, beverage and pharmaceutical bottling markets who utilize the product primarily on their high speed filling lines for torque testing the caps as a quality control verification. The emphasis of the Company's marketing effort is to offer a quality product and demonstrate an ROI that provides a non-destructible cap torque test so as to allow for the products being tested to be put back on the production line and therefore incur no loss of product value.

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

During the fiscal year ended March 31, 2010, one customer represented approximately 14% of the Company's revenues and approximately 10% of the Company's accounts receivable balance. During the fiscal year ended March 31, 2009, one customer represented approximately 14% of the Company's revenues and approximately 12% of the Company's accounts receivable balance.

Competition

Mesa competes with major medical and instrumentation companies as well as a number of smaller companies, many of which are well established, with substantially greater capital resources and larger research and development capabilities. Furthermore, many of these companies have an established product line and a significant operating history.

Accordingly, the Company may be at a competitive disadvantage due to such factors as its limited resources and limited marketing and distribution network.

Companies with which Mesa's dialysis products compete include Myron L Company and IBP Medical GmbH. Companies with which Mesa's DATATRACE® data logger products compete include GE Kaye, Ellab and TMI Orion. Companies with which RAVEN's and SGM BIOTECH's biological indicator products compete include 3M and Steris. Companies with which Mesa's NUSONICS® products compete include Controlotron, Badger Meter, Rosemount, and GE Panametrics. Companies with which Mesa's a Torqo torque testing product competes with include SureTorque, Mecmesin and Steinfurth.

#### Government Regulation

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

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

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

#### Employees

On March 31, 2010, the Company had a total of 112 employees, of which 112 were full-time employees. Currently, 23 persons are employed for marketing and sales, six for research and development, 72 for manufacturing and quality assurance and 11 for administration.

#### Additional Information

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For the fiscal years ended March 31, 2010 and 2009, Mesa spent \$669,000 and \$636,000, respectively, on Company-sponsored research and development activities.

Compliance with federal, state and local provisions which have been enacted regarding the discharge of materials into the environment or otherwise relating to the protection of the environment has not had, and is not expected to have, any adverse effect upon capital expenditures, earnings or the competitive position of the Company. Mesa is not presently a



party to any litigation or administrative proceedings with respect to its compliance with such environmental standards. In addition, the Company does not anticipate being required to expend any significant capital funds in the near future for environmental protection in connection with its operations.

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

#### **Item 1A. RISK FACTORS**

##### **We face intense competition.**

The markets for some of our current and potential products are intensely competitive. We face competition from companies that possess both larger sales forces and more capital resources. In addition, there are growing numbers of competitors for certain of our products.

##### **Technological change could render our products obsolete or non-competitive.**

The market for the Company's products and services are characterized by rapid and substantial technological changes and swiftly evolving industry standards. As industry standards evolve rapidly, the Company may be required to develop new and competitive products to maintain or increase revenue. A competitive product requires substantial planning, design, development, and testing at the technological, product and manufacturing process stages. The Company can provide no assurance that its products will remain competitive in a rapidly changing environment. In addition, regulations and industry acceptance of new technologies may decelerate or eliminate meaningful revenue.

##### **Acquisition of businesses could potentially decrease profit margins and decrease net income.**

The Company maintains its growth strategy through product development and business and technology acquisition. Businesses acquired by the Company may provide marginal profitability or prove to be unprofitable. Additional risks include the competition among prospective buyers, the potential loss of key employees or clients of the acquired company, and the reallocation of capital from ongoing operating processes.

##### **We are utilizing variable rate financing.**

We have initiated a credit facility of \$7,000,000 which is split between a 36 month reducing line of credit of \$3,000,000 and a one year revolving line of credit of \$4,000,000. Both of these lines of credits have variable interest rates which are calculated daily at one percent under the national prime rate of the Bank of Oklahoma and are subject to a 3.25 percent floor. A change in interest rate market conditions could increase the Company's interest costs in the future.

**We may be unable to effectively protect our intellectual property.**

Our ability to compete effectively depends in part on developing and maintaining the proprietary aspects of our technology and processes. We cannot assure you that the patents we have obtained, or any patents we may obtain, will provide any competitive advantages for our products. We also cannot assure you that those patents will not be successfully challenged, invalidated or circumvented in the future. In addition, we cannot assure you that competitors, many of which have substantial resources and have made substantial investments in competing technologies, have not already applied for or obtained, or will not seek to apply for or obtain, patents that will prevent, limit or interfere with our ability to make, use and sell our products either in the United States or in international markets.

**We may have product liability claims.**

Our products involve a risk of product liability claims. Although we maintain product liability insurance at coverage levels which we believe are adequate, there is no assurance that, if we were to incur substantial liability for product liability claims, insurance would provide adequate coverage against such liability.

**Our company faces challenges in complying with certain sections of the Sarbanes-Oxley Act.**

Like many smaller public companies, our Company faces challenges in complying with the internal control requirements (Section 404) of the Sarbanes-Oxley Act. Under current frameworks, compliance in areas such as separation of duties, information system controls, etc. may prove problematic for a smaller company with limited human resources. Our Company may also be forced to incur significant expense in order to comply with the law under current control frameworks and deadlines for implementation.

**Changing accounting regulations may affect operating results.**

Our operating results may be adversely affected by new laws and accounting regulations that have either been recently enacted or which are under consideration, including costs associated with implementation of Section 404 of the Sarbanes-Oxley Act.

**Our operating results may fluctuate.**

Our results of operations may fluctuate significantly from quarter to quarter based on numerous factors including the following:

- the introduction of new products;
- the level of market acceptance of our products;

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- achievement of research and development milestones;
- timing of the receipt of orders from, and product shipment to major customers;
- timing of expenditures;
- variation in capital spending trends of our customers;
- timing of the expensing of employee stock options;
- delays in educating and training our distributors and representatives sales forces;
- manufacturing or supply delays;
- product returns;
- receipt of necessary regulatory approval;
- costs associated with implementing and maintaining compliance with the Sarbanes-Oxley Act;
- costs associated with expansion of the Company's direct sales capabilities; and
- changes in key components by our vendors.

**Changing Industry Trends May Affect Operating Results.**

Various changes within the industries we serve may limit future demand for our products and may include the following:

- changes in dialysis reimbursements;
- mergers within the dialysis provider industry have made the Company more dependent upon fewer large customers for its sales in this industry;
- price competition for key products; and
- increased competition.

**Our growth depends on introducing new products and the efforts of third party distributors.**

Our growth depends on the acceptance of our products in the marketplace, the penetration achieved by the companies which we sell to, and rely on, to distribute and represent our products, and our ability to introduce new and innovative products that meet the needs of the various markets we serve. There can be no assurance that we will be able to continue to introduce new and innovative products or that the products we introduce, or have introduced, will be widely accepted by the marketplace, or that the companies which we contract with to distribute and represent our products will continue to successfully penetrate our various markets. Our failure to continue to introduce new products or gain wide spread acceptance of our products would adversely affect our operations.

**We depend on attracting new distributors and representatives for our products.**

In order to successfully commercialize our products in new markets, we will need to enter into distribution arrangements with companies that can successfully distribute and represent our products into various markets.

**Our products are extensively regulated which could delay product introduction or halt sales.**

The process of obtaining and maintaining required regulatory approvals is lengthy, expensive and uncertain. Although we have not experienced any substantial regulatory delays to date, there is no assurance that delays will not occur in the future, which could have a significant adverse effect on our ability to introduce new products on a timely basis. Regulatory agencies periodically inspect our manufacturing facilities to ascertain compliance with good manufacturing practices and can subject approved products to additional testing and surveillance programs. Failure to comply with applicable regulatory requirements can, among other things, result in fines, suspension of regulatory approvals, product recalls, operating restrictions and criminal penalties. While we believe that we are currently in compliance, if we fail to comply with regulatory requirements, it could have an adverse effect on our results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

Not Applicable

**ITEM 2. PROPERTIES**

Mesa owns its 39,616 square foot facility at 12100 W. 6th Avenue, Lakewood, Colorado 80228. All Datatrace, Medical and Nusonics manufacturing, warehouse, marketing, research and general corporate administrative functions are based at this location. We currently plan to move our Torqo manufacturing into our Lakewood, CO facility by December 2010. The facility is approximately 80% utilized and the Company currently utilizes only one shift. The Company also owns an approximately 28,000 square foot facility at 8607 Park Drive, Omaha, Nebraska 68127. All RAVEN product manufacturing, warehouse, marketing, research and administrative functions are based at this location. The facility is

currently 95% utilized and the Company currently utilizes only one shift. On April 30, 2010, the Company completed the acquisition of the approximately 21,500 square foot facility that houses its new SGM Biotech operations. All SGM Biotech product manufacturing, warehouse, marketing, research and administrative functions are based at this location. The facility is located at 10 Evergreen Drive, Bozeman, Montana 59715 and it is currently 95% utilized and the Company currently utilizes only one shift.

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

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. RESERVED

## PART II

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

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

| Quarter Ended      | High     | Low      | Dividend |
|--------------------|----------|----------|----------|
| June 30, 2008      | \$ 24.40 | \$ 19.95 | \$ .10   |
| September 30, 2008 | \$ 24.65 | \$ 20.43 | \$ .10   |
| December 31, 2008  | \$ 22.55 | \$ 16.26 | \$ .10   |
| March 31, 2009     | \$ 20.25 | \$ 14.55 | \$ .10   |
| June 30, 2009      | \$ 22.30 | \$ 16.60 | \$ .10   |
| September 30, 2009 | \$ 22.97 | \$ 19.93 | \$ .10   |
| December 31, 2009  | \$ 26.27 | \$ 22.78 | \$ .11   |
| March 31, 2010     | \$ 28.80 | \$ 25.12 | \$ .11   |

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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, 2010, there were approximately 1200 record and beneficial holders of Mesa's common stock.



(c) During the fiscal year ended March 31, 2010, the Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

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

|                      | Shares Purchased | Avg. price Paid | Total Share Purchased as Part of Publicly Announced Plan | Remaining Shares to Purchase Under Plan |
|----------------------|------------------|-----------------|--|---|
| January 1- 31, 2010  | 240              | \$ 27.24        | 127,200  | 172,800                                 |
| February 1- 28,2010  |                  |                 | 127,200  | 172,800                                 |
| March 1 - 31, 2010   |                  |                 | 127,200  | 172,800                                 |
| Total Fourth Quarter | 240              | \$ 27.24        |  |   |

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, 2010

| 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     | 391,765   | \$ 17.37   | 201,570   |
| Equity compensation plans not approved by security holders |   |  |   |
| Total  | 391,765   | \$ 17.37   | 201,570   |

**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<br>EPS) | 2010      | 2009      | 2008      | 2007      | 2006      |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Operational Data</b>               |           |           |           |           |           |
| Net Sales                             | \$ 21,929 | \$ 21,536 | \$ 19,558 | \$ 17,242 | \$ 11,583 |
| Gross Profit                          | \$ 13,194 | \$ 13,817 | \$ 12,858 | \$ 10,895 | \$ 7,437  |
| Gross Margin                          | 60%       | 64%       | 66%       | 63%       | 64%       |
| Operating Income                      | \$ 7,368  | \$ 7,608  | \$ 7,061  | \$ 5,659  | \$ 4,110  |
| Operating Margin                      | 34%       | 35%       | 36%       | 33%       | 35%       |
| Net Profit                            | \$ 4,769  | \$ 4,790  | \$ 4,610  | \$ 3,958  | \$ 2,805  |
| Net Profit Margin                     | 22%       | 22%       | 24%       | 23%       | 24%       |
| Earnings Per Diluted Share            | \$ 1.45   | \$ 1.48   | \$ 1.41   | \$ 1.22   | \$ .92    |
| <b>Financial Position Data</b>        |           |           |           |           |           |
| Cash and Investments                  | \$ 10,471 | \$ 9,111  | \$ 5,770  | \$ 3,346  | \$ 5,711  |
| Trade Receivables (net)               | \$ 4,421  | \$ 4,307  | \$ 3,875  | \$ 3,817  | \$ 2,425  |
| Inventory (net)                       | \$ 4,820  | \$ 4,499  | \$ 4,020  | \$ 3,297  | \$ 2,374  |
| Current Assets                        | \$ 20,474 | \$ 18,593 | \$ 14,411 | \$ 10,842 | \$ 10,955 |
| Working Capital                       | \$ 18,530 | \$ 17,109 | \$ 12,824 | \$ 9,373  | \$ 9,753  |
| Current Ratio                         | 11:1      | 13:1      | 9:1       | 7:1       | 9:1       |
| Total Assets                          | \$ 33,639 | \$ 29,614 | \$ 25,533 | \$ 22,354 | \$ 16,450 |
| Current Liabilities                   | \$ 1,944  | \$ 1,484  | \$ 1,587  | \$ 1,469  | \$ 1,202  |
| Total Liabilities                     | \$ 2,442  | \$ 2,012  | \$ 1,794  | \$ 1,631  | \$ 1,531  |
| Total Stockholders' Equity            | \$ 31,197 | \$ 27,602 | \$ 23,739 | \$ 20,723 | \$ 14,919 |
| <b>Average Return Data</b>            |           |           |           |           |           |
| Stockholder Investment (1)            | 16%       | 19%       | 21%       | 22%       | 19%       |
| Assets                                | 15%       | 17%       | 19%       | 20%       | 17%       |
| Invested Capital (2)                  | 24%       | 26%       | 26%       | 29%       | 31%       |

(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 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

|                            | 2010          | 2009          | 2008          | 2007          |
|----------------------------|---------------|---------------|---------------|---------------|
| Cash and Investments       | \$ 10,471,000 | \$ 9,111,000  | \$ 5,770,000  | \$ 3,346,000  |
| Trade Receivables          | \$ 4,641,000  | \$ 4,587,000  | \$ 4,075,000  | \$ 4,017,000  |
| Days Sales Outstanding     | 61            | 74            | 60            | 63            |
| Inventory (Net)            | \$ 4,820,000  | \$ 4,499,000  | \$ 4,020,000  | \$ 3,297,000  |
| Inventory Turns            | 1.8           | 1.8           | 1.8           | 1.9           |
| Working Capital            | \$ 18,530,000 | \$ 17,109,000 | \$ 12,824,000 | \$ 9,373,000  |
| Current Ratio              | 11:1          | 13:1          | 9:1           | 7:1           |
| Average Return On:         |               |               |               |               |
| Stockholder Investment (1) | 16.2%         | 18.7%         | 20.7%         | 22.2%         |
| Assets                     | 15.1%         | 17.4%         | 19.3%         | 20.4%         |
| Invested Capital (2)       | 23.7%         | 25.8%         | 25.8%         | 29.2%         |
| Net Sales                  | \$ 21,929,000 | \$ 21,536,000 | \$ 19,558,000 | \$ 17,242,000 |
| Gross Profit               | \$ 13,194,000 | \$ 13,817,000 | \$ 12,858,000 | \$ 10,895,000 |
| Gross Margin               | 60%           | 64%           | 66%           | 63%           |
| Operating Income           | \$ 7,368,000  | \$ 7,608,000  | \$ 7,061,000  | \$ 5,659,000  |
| Operating Margin           | 34%           | 35%           | 36%           | 33%           |
| Net Profit                 | \$ 4,769,000  | \$ 4,790,000  | \$ 4,610,000  | \$ 3,958,000  |
| Net Profit Margin          | 22%           | 22%           | 24%           | 23%           |
| Earnings Per Diluted Share | \$ 1.45       | \$ 1.48       | \$ 1.41       | \$ 1.22       |
| Capital Expenditures (Net) | \$ 586,000    | \$ 676,000    | \$ 207,000    | \$ 1,780,000  |
| Head Count                 | 112           | 111           | 113           | 100           |
| Sales Per Employee         | \$ 196,000    | \$ 194,000    | \$ 173,000    | \$ 172,000    |

(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. Most of the indicators above have declined small amounts in the most recent fiscal year. A small decrease in net profit margin combined with increasing balance sheet levels during fiscal 2010 caused the average return calculations to decrease in the current fiscal year. Our company saw a small decrease in net profit margin in fiscal 2010 due to a decrease in gross profit margins and decreased interest income on invested cash due to lower interest rates.

## Results of Operations

### Net Sales

Net sales for fiscal 2010 increased two percent from fiscal 2009, and net sales for fiscal 2009 increased 10 percent from fiscal 2008. In dollars, net sales of \$21,929,000 in fiscal 2010 increased \$393,000 from \$21,536,000 in 2009, and net sales of \$21,536,000 in fiscal 2009 increased \$1,978,000 from \$19,558,000 in 2008.

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 Raven products are disposables and thus do not contribute to the Company's parts and service revenue. During fiscal years 2010, 2009 and 2008 our Company had parts and service revenue of \$3,560,000, \$3,642,000 and \$3,499,000. As a percentage of total revenue, parts and service revenues were 16% in 2010, 17% in 2009 and 18% in 2008.

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. For fiscal years 2010, 2009 and 2008, product sales for our company were \$18,369,000, \$17,894,000 and \$16,059,000.

During the twelve months of fiscal 2010, sales of the Company's Medical products and services increased two percent compared to the prior year periods. For the twelve month period, increases in shipments of meter accessories, standard solutions and parts and service were partially offset by a decrease in meter sales compared to prior year.

Sales for the twelve month period saw declines in Micropack III products and service which were partially offset by increased sales of the Micropack RF products. For the fourth quarter, Datatrace sales increased 24 percent compared to the same period last year, reducing the sales decrease to seven percent for the twelve month period compared to the same period last year. During most of fiscal 2010, capital spending was impacted negatively by the recession, but we have seen a recovery during the fourth quarter ended March 31, 2010 as many major customers

moved into a new budget year.

During the twelve months of fiscal 2010, sales of Raven biological indicator products increased seven percent compared to the prior year period. The increase in Raven sales for the twelve month period was due to increases in sales of disposable biological indicator and chemical indicator products. Most Raven sales are made to customers in medical related industries and did not suffer decline as a result of the recession. Sales during fiscal 2010 also

benefited from increased production capabilities and automation, which is allowing our company to better penetrate the market with additional product size configurations and increased production of key products.

Since the acquisition of the Torqo bottle cap testing equipment late in December 2009, shipments have totaled \$330,000. Over the same period, orders for the Torqo products were just under \$550,000. Like our other capital equipment products, we have seen strong order rates for the Torqo products in the quarter ended March 31, 2010, and we expect to see this product line make larger contributions to sales during fiscal 2011.

During fiscal 2010, sales of the Nusonics line of ultrasonic fluid measurement systems decreased 19 percent. The Nusonics products currently contribute less than three percent of the Company's total sales and are not expected to grow in the future.

During fiscal 2009, sales of the Company's medical products and services increased 16% for the fiscal year compared to the prior year period. For the year, Medical saw increased sales of meter products, disposables and service, which were partially offset by lower sales of the discontinued dialyzer reprocessor. Sales of our new 90XL Meter continued to progress well during fiscal 2009.

During fiscal 2009, sales of DataTrace data logger products performed at the same level as the prior year. For the year, DataTrace products did not experience an increase in sales due to existing economic trends which influenced some industrial customers to delay their capital equipment purchases. Sales for the twelve month period saw small declines though the various categories of Micropack III products which were off-set by increased sales of the new Micropack RF products.

Fiscal 2009 sales of Raven biological indicator products increased 15 percent compared to the prior year period. In fiscal 2009, Raven experienced an increase in biological indicator and chemical indicator sales. Sales during fiscal 2009 benefited from increased production capabilities and automation, which is allowing our company to better penetrate the market with increased production of key products.

During fiscal 2009, sales of the Nusonics line of ultrasonic fluid measurement systems increased by three percent compared to prior year. Sales of these products remained stable, but Nusonics products currently contribute less than four percent of the Company's total sales and are not expected to grow in the future.

#### Cost of Sales

Cost of sales as a percent of net sales in fiscal 2010 increased 4.0 percentage points from fiscal 2009 to 39.8 percent, and in fiscal 2009 increased 1.5 percentage points from fiscal 2008 to 35.8 percent from 34.3 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 nature of the market for biological indicators, the Raven products produce gross margins lower than DataTrace and Medical. Therefore, shifts in product mix toward higher sales of DataTrace and Medical products will tend to produce lower cost of sales expense and higher gross margins while shifts toward higher sales of Raven products will normally produce the opposite effect on cost of sales expense and gross margins.

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During fiscal 2010, our Company saw increases in Datatrace cost of sales as a percent of sales due to lower Datarace sales. This has combined with a shift in overall product mix between the Datatrace Logger and Raven Biological Indicator product lines resulting in a lower gross margin for the overall Company. 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 year. Once manufacturing of the Torqo products is consolidated at our Lakewood, CO facility we will expect to see cost of sales



decline to less than 50 percent as a percent of sales. While cost of sales have increased during the year as a percent of sales, these increases are being significantly offset by decreases in our operating expenses. The Company continues to monitor and implement cost reduction programs, price increases and improvements in freight cost recovery.

During fiscal 2009, our Company saw an increase in costs of sales due to flat Datatrace sales as a result of the economic downturn, and increases in Raven and Medical products. The Company continued to monitor and implement cost reduction programs, price increases and improvements in freight cost recovery.

#### Selling, General and Administrative

General and administrative expenses tend to be fairly fixed and stable from year-to-year. To the greatest extent possible, we work at containing and minimizing these costs. Total administrative costs were \$2,541,000 in fiscal 2010, \$2,522,000 in fiscal 2009 and \$2,420,000 in fiscal 2008, which represents a \$19,000 increase from fiscal 2009 to fiscal 2010 and a \$102,000 increase from fiscal 2008 to fiscal 2009. During fiscal 2010, we saw increases in professional fees related to acquisitions, which were partially offset by a decrease in amortization expense. As we progress into fiscal 2011, we expect to see a significant rise in amortization expense due to the Torqo acquisition and the recently completed SGM Biotech, Inc. acquisition. Fiscal 2009 general and administrative costs increased due to general increases in operating costs and the addition of a Controller position.

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 2010 and fiscal 2009 the Company continued to focus additional resources on its selling and marketing efforts. Since acquiring the Torqo bottle cap testing line we have been incorporating this line of products into our Datatrace direct sales channel for domestic sales.

In dollars, selling and marketing costs were \$2,616,000 in fiscal 2010, \$3,051,000 in fiscal 2009 and \$2,845,000 in fiscal 2008. As a percent of sales, selling cost were 11.9 percent in fiscal 2010, 14.2 percent in fiscal 2009 and 14.5 percent in fiscal 2008. During both fiscal 2010 and 2009, selling and marketing costs as a percent of sales declined. Fiscal 2010 selling and marketing costs declined due to a small decline in head count and a reduction of trade show costs during the fiscal year. Fiscal 2009 selling and marketing costs declined as a percent of sales due to sales increasing at a rate slightly higher than the growth of costs.

#### Research and Development

Company sponsored research and development cost was \$669,000 in fiscal 2010, \$636,000 in fiscal 2009 and \$532,000 in fiscal 2008. 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. Most of our work during fiscal 2008 was focused on the development of the new Micropack RF products as part of our Datatrace line.



## Net Income

Net income decreased to \$4,769,000 or \$1.45 per share on a diluted basis in fiscal 2010 from \$4,790,000 or \$1.48 per share on a diluted basis in fiscal 2009, and fiscal 2009 increased from \$4,610,000 or \$1.41 per share on a diluted basis in fiscal 2008. During fiscal 2010 profitability was impacted chiefly by an increase in cost of sales and a decrease in interest income, which was mostly offset by a decrease on sales and marketing costs and a decrease in income tax expense due to a decrease in state income taxes. For the fiscal year 2009, Mesa experienced net income growth of four percent, which was behind the sales growth rate of 10 percent for the fiscal year. This lower profitability growth in fiscal 2009, was due to flat Datatrace product growth and higher cost of sales

## Liquidity and Capital Resources

On March 31, 2010, we had cash and cash equivalents of \$10,471,000. In addition, we had other current assets totaling \$10,003,000 and total current assets of \$20,474,000. Current liabilities of our Company were \$1,944,000 which resulted in a current ratio of 11:1. For comparison purposes at March 31, 2009, we had cash and short term investments of \$9,111,000, other current assets of \$9,482,000, total current assets of \$18,593,000, current liabilities of \$1,484,000 and a current ratio of 13:1.

On December 18, 2009, Mesa announced that it had purchased the assets associated with the bottle cap torque testing products of Vibrac, LLC. The instruments acquired by Mesa include their original high-performance cap testing product, the Torqo I, along with the newer Torqo II and the innovative Smart Bottle. Under the terms of the agreement, Mesa agreed to pay approximately \$2,678,000 in total, and Vibrac has agreed to manufacture these products for a one year period. Currently, the Company owes a holdback amount of \$100,000 to Vibrac, LLC, which is to be paid in equal installments at June and December 2010. Due to the timing of the acquisition of these products, they only made a minor contribution to sales and gross profits in the fiscal year.

Our Company has made capital acquisitions of \$586,000 in fiscal 2010, and \$676,000 in fiscal 2009. Fiscal 2009 included approximately \$444,000 expended on equipment to automate certain manufacturing processes for our Raven products.

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.

During fiscal 2010, the Company paid regular quarterly dividends of \$.10 per share of common stock during the first two quarters of the year and increased the quarterly dividend rate to \$.11 per share of common stock during the last two quarters of the fiscal year. Total dividends paid during fiscal 2010 were \$.42 per share of common stock. For fiscal year 2009, dividends totaled \$.40 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.

At the end of fiscal 2010, the Company did not maintain a line of credit or any other form of debt. Nor did the Company guarantee the debt of any other entity. The Company has maintained a long history of surplus cash flow from operations. This surplus cash flow has been used in the past to fund acquisitions and stock buybacks and has been partially utilized to fund past special dividends.

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 a cash payment of \$11,722,000. After the completion of the acquisition the Company repaid \$278,000 of loans owed to the shareholders of SGM Biotech. On April 30, 2010, the Company also completed the acquisition of the facility that houses the SGM Biotech operations for \$2,150,000. To finance these acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for \$3,000,000 which was fully utilized at April 30, 2010, and a revolving line of credit for \$4,000,000 of which \$1,521,000 was utilized at April 30, 2010.

### **Contractual Obligations**

At March 31, 2010 we had contractual obligations for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. In addition, the Company is liable for payments to Vibrac, LLC of \$100,000 of holdback to be paid in two equal payments, June 2010 and in December 2010, with accumulated interest at a rate of three percent per annum.

### **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.

### **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, 2010 and 2009, the Company had recorded a reserve of \$200,000 and \$175,000 each year, 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, 2010, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

#### Stock Based Compensation

The Company implemented the provisions of SFAS 123(R) and now codified as ASC 718 effective April 1, 2006 using the modified prospective method. Under this transition method, stock based compensation expense for the year ended March 31, 2007 includes compensation expense for all stock based compensation awards granted subsequent to April 1, 2006 and previously granted awards not vested as of April 1, 2006. The Company uses the Black-Scholes valuation model to value option grants. We use historical data to estimate the expected price volatility, the expected option life and expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield in effect at the time of the grant for the estimated life of the option. The dividend yield is estimated based on the dividend payments made during the prior four quarters as a percent of

average stock price for that period.

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, 2010 and 2009, 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mesa Laboratories, Inc. as of March 31, 2010 and 2009, 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, 2010  
Denver, Colorado

## MESA LABORATORIES, INC.

## BALANCE SHEETS

|  | 2010              | March 31, | 2009              |
|--|-------------------|-----------|-------------------|
| <b>ASSETS</b>  |                   |           |                   |
| <b>CURRENT ASSETS:</b>   |                   |           |                   |
| Cash and cash equivalents  | \$ 10,471,000     | \$        | 9,111,000         |
| Accounts receivable -  |                   |           |                   |
| Trade, net of allowance for doubtful accounts of \$220,000 (2010) and \$280,000 (2009) | 4,421,000         |           | 4,307,000         |
| Other  | 5,000             |           | 16,000            |
| Inventories, net   | 4,820,000         |           | 4,499,000         |
| Prepaid expenses and other   | 381,000           |           | 318,000           |
| Deferred income taxes  | 376,000           |           | 342,000           |
| <b>TOTAL CURRENT ASSETS</b>  | <b>20,474,000</b> |           | <b>18,593,000</b> |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>  | <b>4,239,000</b>  |           | <b>3,879,000</b>  |
| <b>OTHER ASSETS:</b>   |                   |           |                   |
| Goodwill   | 6,265,000         |           | 5,301,000         |
| Other intangible assets, net   | 2,661,000         |           | 1,685,000         |
| Deferred income taxes long-term  |                   |           | 156,000           |
|  | \$ 33,639,000     | \$        | 29,614,000        |

See notes to financial statements.

## MESA LABORATORIES, INC.

## BALANCE SHEETS

|   | 2010              | March 31, | 2009              |
|---|-------------------|-----------|-------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                   |           |                   |
| <b>CURRENT LIABILITIES:</b>   |                   |           |                   |
| Accounts payable, trade   | \$ 480,000        | \$        | 296,000           |
| Accrued salaries and payroll taxes  | 1,190,000         |           | 1,033,000         |
| Accrued warranty expense  | 30,000            |           | 30,000            |
| Due to Vibrac, LLC  | 100,000           |           |                   |
| Other accrued liabilities   | 11,000            |           | 6,000             |
| Taxes payable   | 133,000           |           | 119,000           |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>1,944,000</b>  |           | <b>1,484,000</b>  |
| <b>LONG TERM LIABILITIES:</b>   |                   |           |                   |
| Deferred income taxes   | 498,000           |           | 528,000           |
| <b>COMMITMENTS</b>  |                   |           |                   |
| <b>STOCKHOLDERS EQUITY:</b>   |                   |           |                   |
| 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,<br>3,203,726 (2010) and 3,182,228 (2009) | 4,883,000         |           | 4,817,000         |
| Retained earnings   | 26,314,000        |           | 22,785,000        |
| <b>TOTAL STOCKHOLDERS EQUITY</b>  | <b>31,197,000</b> |           | <b>27,602,000</b> |
|   | \$ 33,639,000     | \$        | 29,614,000        |

See notes to financial statements.

## MESA LABORATORIES, INC.

## STATEMENTS OF INCOME

|   | Years Ended March 31, |               |
|---|-----------------------|---------------|
|   | 2010                  | 2009          |
| Sales                                       | \$ 21,929,000         | \$ 21,536,000 |
| Cost of Sales                               | 8,735,000             | 7,719,000     |
| Gross profit                                | 13,194,000            | 13,817,000    |
| Operating expenses                          |                       |               |
| Selling                                     | 2,616,000             | 3,051,000     |
| General and administrative                  | 2,541,000             | 2,522,000     |
| Research and development                    | 669,000               | 636,000       |
| Total operating expenses                    | 5,826,000             | 6,209,000     |
| Operating income                            | 7,368,000             | 7,608,000     |
| Other income                                | 36,000                | 86,000        |
| Earnings before income taxes                | 7,404,000             | 7,694,000     |
| Income taxes                                | 2,635,000             | 2,904,000     |
| Net income                                  | \$ 4,769,000          | \$ 4,790,000  |
| Net income per share (basic)                | \$ 1.49               | \$ 1.51       |
| Net income per share (diluted)              | \$ 1.45               | \$ 1.48       |
| Average common shares outstanding - basic   | 3,194,000             | 3,179,000     |
| Average common shares outstanding - diluted | 3,293,000             | 3,238,000     |

See notes to financial statements.

**MESA LABORATORIES, INC.**  
**STATEMENT OF STOCKHOLDERS EQUITY**

|   | Common Stock<br>Number of<br>Shares | Common Stock<br>Amount | Retained<br>Earnings | Total<br>Stockholders<br>Equity |
|---|-------------------------------------|------------------------|----------------------|---------------------------------|
| BALANCE, March 31, 2008   | 3,166,492                           | \$ 4,665,000           | \$ 19,074,000        | \$ 23,739,000                   |
| Common stock issued for conversion of stock options net of 5,682 shares returned to Company as payment  | 23,468                              | 165,000                |                      | 165,000                         |
| Purchase and retirement of treasury stock   | (7,732)                             | (13,000)               | (119,000)            | (132,000)                       |
| Dividends paid (\$.40 per share)  |                                     |                        | (1,272,000)          | (1,272,000)                     |
| Stock based compensation  |                                     |                        | 276,000              | 276,000                         |
| Tax benefit on exercise of non-qualified options  |                                     |                        | 36,000               | 36,000                          |
| Net income for the year   |                                     |                        | 4,790,000            | 4,790,000                       |
| 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)                     |
| Tax Benefit on exercise of non-qualified stock options  |                                     |                        | 59,000               | 59,000                          |
| Stock based compensation  |                                     |                        | 282,000              | 282,000                         |
| 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                   |

See notes to financial statements.

## MESA LABORATORIES, INC.

## STATEMENTS OF CASH FLOWS

|  | Years Ended March 31, |              |
|--|-----------------------|--------------|
|  | 2010                  | 2009         |
| Cash flows from operating activities:                        |                       |              |
| Net income   | \$ 4,769,000          | \$ 4,790,000 |
| Depreciation and amortization                                | 786,000               | 788,000      |
| Allowance for bad debt                                       | (60,000)              | 80,000       |
| Deferred income taxes  | 92,000                | 116,000      |
| Stock based compensation                                     | 282,000               | 276,000      |
| Change in assets and liabilities                             |                       |              |
| (Increase) decrease in accounts receivable                   | (43,000)              | (494,000)    |
| (Increase) decrease in inventories                           | (143,000)             | (479,000)    |
| (Increase) decrease in prepaid expenses                      | (63,000)              | 101,000      |
| Increase (decrease) in accounts payable, trade               | 184,000               | 123,000      |
| Increase (decrease) in accrued liabilities and taxes payable | 176,000               | (226,000)    |
| Net cash (used) provided by operating activities             | 5,980,000             | 5,075,000    |
| Cash flows from investing activities:                        |                       |              |
| Product line acquired  | (2,578,000)           |              |
| Deposits   |                       | 145,000      |
| Capital expenditures, net of retirements                     | (586,000)             | (676,000)    |
| Net cash (used) provided by investing activities             | (3,164,000)           | (531,000)    |
| Cash flow from financing activities:                         |                       |              |
| Tax benefit of nonqualified stock options                    | 59,000                | 36,000       |
| Dividends paid   | (1,343,000)           | (1,272,000)  |
| Net proceeds from issuance of stock                          | 93,000                | 165,000      |
| Treasury stock repurchases                                   | (265,000)             | (132,000)    |
| Net cash (used) provided by financing activities             | (1,456,000)           | (1,203,000)  |
| Net increase (decrease) in cash and cash equivalents         | 1,360,000             | 3,341,000    |
| Cash and cash equivalents at beginning of year               | 9,111,000             | 5,770,000    |
| Cash and cash equivalents at end of year                     | \$ 10,471,000         | \$ 9,111,000 |
| Supplemental disclosures of cash flow information:           |                       |              |
| Cash paid during the year for:                               |                       |              |
| Income taxes   | \$ 2,504,000          | \$ 2,665,000 |

Supplemental disclosure of non-cash activity:

The Company acquired certain assets of Vibrac LLC during the quarter ended December 31, 2009 (Note 2).

See notes to financial statements





**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, 2010, one customer represented approximately 14% of the Company's revenues and approximately 10% of the Company's accounts receivable balance. During the fiscal year ended March 31, 2009, one customer represented approximately 14% of the Company's revenues and approximately 12% 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, 2010 and 2009 the Company had recorded a reserve of \$200,000 and \$175,000, 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 and Torqo, is not subject to amortization, and is tested annually for impairment in accordance with current accounting standards. Certain intangible assets including patents, non-compete agreements and customer relationships were recognized as part of the Raven and Torqo acquisitions and are amortized over their estimated useful lives which range from 3 to 16 years.

**MESA LABORATORIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(CONTINUED)**

**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, 2010 and 2009, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

**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, 2010 and 2009 were \$669,000 and \$636,000 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, 2010 and 2009 were \$269,000 and \$368,000, 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.

## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

**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 and 59,000 additional shares in 2010 and 2009, respectively.

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, 2010 and 2009:

|  | Twelve Months Ended<br>March 31, |              |
|--|----------------------------------|--------------|
|  | 2010                             | 2009         |
| Net income available for shareholders            | \$ 4,769,000                     | \$ 4,790,000 |
| Weighted avg. outstanding shares of common stock | 3,194,000                        | 3,179,000    |
| Dilutive effect of stock options                 | 99,000                           | 59,000       |
| Common stock and equivalents                     | 3,293,000                        | 3,238,000    |
| Earnings per share:                              |                                  |              |
| Basic  | \$ 1.49                          | \$ 1.51      |
| Diluted  | \$ 1.45                          | \$ 1.48      |

For the twelve months ended March 31, 2010 and 2009, none and 184,970 shares, respectively, 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.

Effective April 1, 2008, the Company adopted the authoritative guidance that applies to all financial assets and liabilities required to be measured and reported on a fair value basis. Beginning April 1, 2009, the Company also applied the guidance to non-financial assets and liabilities measured at fair

## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

## (CONTINUED)

value on a nonrecurring basis, including long-lived assets initially measured at fair value. The 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 nonfinancial 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 a product line from Vibrac, LLC (Note 2) on a non-recurring basis as of March 31, 2010 by level within the fair value hierarchy:

|                            | Level 1 | Level 2    | Level 3      |
|----------------------------|---------|------------|--------------|
| <b>Assets</b>              |         |            |              |
| Goodwill                   | \$      | \$         | \$ 963,000   |
| Definite lived intangibles | \$      | \$         | \$ 1,415,000 |
| Property and equipment     | \$      | \$ 122,000 | \$           |
| Inventory                  | \$      | \$ 178,000 | \$           |

Intangible assets consist primarily of customer relationships and tradename, 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, growth rate for tradename. Property and equipment acquired in business combinations consists of inventory and property and equipment and are valued at replacement cost for used equipment.

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

March 31, 2010.

**Recently Issued Accounting Pronouncements** - In September 2006, ASC Topic 820 was issued which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC Topic 820 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. We adopted the



**MESA LABORATORIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(CONTINUED)**

provisions of ASC Topic 820 on January 1, 2009. The adoption of ASC Topic 820 did not have a significant impact on our consolidated financial statements.

On July 1, 2009, the FASB Accounting Standards Codification ( ASC ) became the single source of authoritative nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. All other non-grandfathered accounting literature became non-authoritative. The adoption of SFAS 168 did not have a material impact on our consolidated financial statements. As a result of the adoption of SFAS 168, all references to GAAP now refer to the codified ASC topic.

In December 2007, the FASB issued SFAS No. 141R (revised 2007), Business Combinations, now codified in ASC 805. ASC 805 retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. ASC 805 defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. ASC 805 also required that acquisition-related costs be recognized separately from the acquisition.

The Company was required to apply the guidance of ASC 805 to any business combinations completed on or after January 1, 2009. In April 2009, ASC Topic 855 was issued which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. We adopted ASC Topic 855 for the quarter ending June 30, 2009. The adoption did not have a material impact on our financial statements.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets, now codified as ASC 350-30-65-1. ASC 350-30-65-1 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets, now codified as ASC 350-30. ASC 350-30-65-1 was effective for the Company beginning April 1, 2009, and its implementation of FSP FAS 142-3 did not have an impact on the financial statements.

**2. Acquisition of Product Line:**

On December 18, 2009, Mesa announced that it had purchased certain assets associated with the bottle cap torque testing products of Vibrac LLC. The instruments acquired by Mesa include their original high-performance cap testing product, the Torqo I, along with the newer Torqo II and the innovative Smart Bottle. The purchase price consisted of a \$2,400,000 cash payment at closing, a cash payment of \$178,000 in January 2010 and a \$100,000 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 three percent per annum, and the ultimate payment may be reduced as defined in the asset purchase agreement. The purchase price was allocated to the assets acquired based on their estimated fair value at the acquisition date.



## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

Assets acquired consisted of:

|                        |    |           |
|------------------------|----|-----------|
| Inventory              | \$ | 178,000   |
| Property and Equipment |    | 122,000   |
| Customer Relationships |    | 1,028,000 |
| Non-compete Agreements |    | 37,000    |
| Trademarks             |    | 350,000   |
| Goodwill               |    | 963,000   |
|                        | \$ | 2,678,000 |

Due to the timing of the acquisition of these products, they only made a minor contribution to sales and gross profits in fiscal 2010. The Company will be able to deduct goodwill acquired for tax purposes.

The results of Torqo product operations have been included in the financial statements commencing from the acquisition date. The pro forma effect of the acquisition on the combined results of operations as if the acquisition had been completed on April 1, 2009 and 2008 are as follows:

|                                       | Year Ended<br>March 31,<br>2010<br>(Unaudited) |            | Year Ended<br>March 31,<br>2009<br>(Unaudited) |            |
|---------------------------------------|--|------------|--|------------|
| Total net sales                       | \$   | 23,335,000 | \$   | 23,111,000 |
| Net income from operations            | \$   | 7,563,000  | \$   | 7,566,000  |
| Net income                            | \$   | 4,926,000  | \$   | 4,760,000  |
| Net income per common share (Basic)   | \$   | 1.54       | \$   | 1.50       |
| Net income per common share (Diluted) | \$   | 1.50       | \$   | 1.47       |

### 3. Inventories:

Inventories consist of the following:

|                 | March 31     |              |
|-----------------|--------------|--------------|
|                 | 2010         | 2009         |
| Raw materials   | \$ 3,785,000 | \$ 3,092,000 |
| Work-in-process | 569,000      | 518,000      |

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|                |              |              |
|----------------|--------------|--------------|
| Finished goods | 666,000      | 1,064,000    |
| Less reserve   | (200,000)    | (175,000)    |
|                | \$ 4,820,000 | \$ 4,499,000 |

Work-in-process and finished goods include raw materials, direct labor and manufacturing overhead at March 31, 2010 and 2009.

**MESA LABORATORIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(CONTINUED)**

**4. Property, Plant and Equipment:**

Property, plant and equipment consist of the following:

|                               | March 31,    |              |
|-------------------------------|--------------|--------------|
|                               | 2010         | 2009         |
| Land                          | \$ 273,000   | \$ 273,000   |
| Building                      | 2,776,000    | 2,601,000    |
| Manufacturing equipment       | 3,535,000    | 3,081,000    |
| Computer equipment            | 534,000      | 487,000      |
| Furniture and fixtures        | 92,000       | 78,000       |
| Construction in progress      | 19,000       | 1,000        |
|                               | 7,229,000    | 6,521,000    |
| Less accumulated depreciation | (2,990,000)  | (2,642,000)  |
|                               | \$ 4,239,000 | \$ 3,879,000 |

Depreciation expense for the years ended March 31, 2010 and 2009 were \$347,000 and \$285,000, respectively.

**5. Goodwill and Other Intangible Assets**

As of March 31, 2010, goodwill amounted to \$6,265,000, which includes the addition in fiscal 2010 of \$963,000 for the acquisition of the Torqo Bottlecap Testing product line. Prior to the Torqo acquisition, goodwill amounted to \$5,301,000, which resulted from the acquisitions of Nusonics, Datatrace, Raven and Automata. The Company completed its annual impairment tests during the fourth quarters of fiscal 2010 and 2009 and determined there was no impairment. Other intangible assets are as follows:

|                        | As of March 31, 2010 |                             |              |             |
|------------------------|----------------------|-----------------------------|--------------|-------------|
|                        | Carrying<br>Amount   | Accumulated<br>Amortization | Net          | Useful Life |
| Patents                | \$ 37,000            | \$ 9,000                    | \$ 28,000    | 16 years    |
| Non-compete Agreements | 418,000              | 386,000                     | 32,000       | 3 years     |
| Trade Names            | 473,000              |                             | 473,000      | Indefinite  |
| Customer Relationships | 3,636,000            | 1,508,000                   | 2,128,000    | 7 years     |
|                        | \$ 4,564,000         | \$ 1,903,000                | \$ 2,661,000 |             |

As of March 31, 2009

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|                        | Carrying<br>Amount | Accumulated<br>Amortization | Net          | Useful Life |
|------------------------|--------------------|-----------------------------|--------------|-------------|
| Patents                | \$ 37,000          | \$ 7,000                    | \$ 30,000    | 16 years    |
| Non-compete Agreements | 382,000            | 371,000                     | 11,000       | 3 years     |
| Trade Names            | 123,000            |                             | 123,000      | Indefinite  |
| Customer Relationships | 2,608,000          | 1,087,000                   | 1,521,000    | 7 years     |
|                        | \$ 3,150,000       | \$ 1,465,000                | \$ 1,685,000 |             |

## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

Amortization expense was \$439,000 in 2010 and \$503,000 in 2009.

Estimated amortization expense based on the intangible assets in the table above for the fiscal years 2011 to 2015 is \$534,000, \$534,000, \$530,000, \$180,000 and \$149,000, respectively.

**6. Income Taxes:**

Effective April 1, 2007, we adopted the provisions of the Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting of Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 now codified in ASC 740. Under ASC 740, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We measure the tax benefits recognized in the consolidated financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to our subjective assumptions and judgments which can materially affect amounts recognized in our Balance Sheets and Statements of Income. The result of the reassessment of our tax positions in accordance with ASC 740 did not have a material impact on our financial statements. Our federal tax returns for all years after 2006 and our state tax returns after 2005 are subject to future examination by tax authorities for all our tax jurisdictions. We recognize interest and penalties related to income tax matters in other income (expense) and corporate, general and administration expenses, respectively.

The components of the provision for income taxes for the years ended March 31, 2010 and 2009 are as follows:

|                         | March 31,    |              |
|-------------------------|--------------|--------------|
|                         | 2010         | 2009         |
| Current tax provision   |              |              |
| Federal                 | \$ 2,284,000 | \$ 2,316,000 |
| State                   | 258,000      | 472,000      |
|                         | 2,542,000    | 2,788,000    |
| Deferred tax provision: |              |              |
| Federal                 | 84,000       | 97,000       |
| State                   | 9,000        | 19,000       |
|                         | 93,000       | 116,000      |
|                         | \$ 2,635,000 | \$ 2,904,000 |

Deferred taxes result from temporary differences in the recognition of income and expenses for financial and income tax reporting purposes and differences between the fair value of assets acquired in business combinations accounted for as a purchase and their tax bases. The components

of net deferred tax assets and liabilities as of March 31, 2010 and 2009 are as follows:



## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

|   | March 31,    |             |
|---|--------------|-------------|
|   | 2010         | 2009        |
| Current deferred tax assets:              |              |             |
| Accrued vacation                          | \$ 146,000   | \$ 133,000  |
| Bad debt expense                          | 81,000       | 104,000     |
| Inventory reserve                         | 74,000       | 65,000      |
| Warranty reserve                          | 11,000       | 11,000      |
| Other                                     | 64,000       | 29,000      |
|   | 376,000      | 342,000     |
| Long-term deferred tax asset (liability): |              |             |
| Depreciation and amortization             | (498,000)    | (372,000)   |
| Net deferred (liability)/asset            | \$ (122,000) | \$ (30,000) |

A reconciliation of the Company's income tax provision for the years ended March 31, 2010 and 2009, and the amounts computed by applying statutory rates to income before income taxes is as follows:

|  | March 31,    |              |
|--|--------------|--------------|
|  | 2010         | 2009         |
| Income taxes at statutory rates            | \$ 2,518,000 | \$ 2,616,000 |
| State income taxes, net of federal benefit | 216,000      | 225,000      |
| Tax benefit on stock option exercises      | 2,000        | 87,000       |
| Meals and entertainment                    | 13,000       | 13,000       |
| Key-man life                               | 4,000        | 6,000        |
| Sec. 199 manufacturing deduction           | (142,000)    | (148,000)    |
| Other                                      | 24,000       | 105,000      |
|  | \$ 2,635,000 | \$ 2,904,000 |

**7. Stock Repurchase:**

In November, 2005, the Company's Board of Directors approved a program to repurchase up to 300,000 shares of its outstanding common stock. Under the program, 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 cancelled and repurchases of shares will be funded through existing cash reserves. During the years ended March 31, 2010 and 2009, The Company repurchased 11,568 and 7,732 shares of common stock for \$265,000 and \$132,000, respectively.

**8. Employee Benefit Plan:**

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The Company adopted a 401(k) plan effective January 1, 2000. Participation is voluntary and employees are eligible to participate at age 21 and after six months of employment with the Company. The Company matches 50% of the employee's contribution up to 6% of the employee's salary. A participant vests in the Company's contributions at a rate of 25% per year, fully vesting at

**MESA LABORATORIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(CONTINUED)**

the end of the participant's fourth year of service. The Company contributed \$110,000 to the plan for fiscal 2010 and \$118,000 for fiscal 2009.

**9. Stockholders' Equity:**

The State of Colorado has eliminated the ability of Colorado corporations to retain treasury stock. As a result, the Company reduced common stock to its average share value and further reduced retained earnings for the remainder of the cost of treasury stock acquired in each fiscal year. In the most recent fiscal year, management estimated that approximately 10% of the price paid for repurchased shares was attributable to the original purchase of common stock, while the remainder was charged to retained earnings.

The Company has adopted incentive stock option plans for the benefit of the Company's key employees and outside directors. Under terms of the plans, options are granted at an amount not less than 100% of the bid price of the underlying shares at the date of grant. Options are exercisable for a term of five to ten years and, during such term, may be exercised as follows: 25% after each year, and 100% anytime after the fourth year until the end of the fifth to tenth year, or 10% after each of the first five years, 25% after each of the sixth and seventh years and 100% after the seventh year until the end of the tenth year.

On October 3, 1996, the Company adopted a nonqualified performance stock option plan for the benefit of the Company's outside Directors. The plan provides that the outside Directors will receive grants to be determined and approved by the Company's inside Directors and not to exceed 20,000 options per year per director. Under the terms of the plan, the options are exercisable for a term of ten years and, during such term are exercisable as follows: 25% after each year, and 100% anytime after the fourth year until the end of the tenth year. The purchase price of the common stock will be equal to 100% of the closing price of the common stock on the over-the-counter market on the date of grant. Effective March 24, 2006, this plan has expired, and no new grants can be made.

On October 21, 1999, the Company adopted a new stock compensation plan. The purpose of the plan is to encourage ownership of the Common Stock of the Company by certain officers, directors, employees and certain advisors of the Company in order to provide incentive to promote the success and business of the Company. A total of 300,000 shares of Common Stock were reserved for issuance under the plan and are subject to terms as set by the Compensation Committee of the Board of Directors at the time of grant. On October 18, 2004, the shareholders approved an amendment to the plan to reserve an additional 200,000 shares of Common Stock for issuance under the plan. This plan has expired and no new grants can be made.

On December 8, 2006, the Company adopted a new stock compensation plan. The purpose of the plan is to encourage ownership of the Common Stock of the Company by certain officers, directors, employees and certain advisors of the Company in order to provide incentive to promote the success and business of the Company. A total of 400,000 shares of Common Stock were reserved for issuance under the plan and are subject to terms as set by the Compensation Committee of the Board of Directors at the time of grant. On June 22, 2010, the Board of Directors approved an amendment to the Company's 2006 Stock Compensation Plan to increase the number of shares authorized for issuance under the 2006 Stock Compensation Plan from four hundred thousand (400,000) to eight hundred thousand (800,000), subject to the approval by the majority of the

Company's shareholders at the next annual meeting of shareholders.

## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

All option plans have been approved by the stockholders of the Company.

The following is a summary of options granted under the plans:

|  | FY 2010<br>WEIGHTED<br>AVG EXERCISE |          | FY 2009<br>WEIGHTED<br>AVG EXERCISE |          |
|--|-------------------------------------|----------|-------------------------------------|----------|
|  | SHARES                              | PRICE    | SHARES                              | PRICE    |
| Options outstanding at beginning of year | 358,725                             | \$ 16.68 | 324,455                             | \$ 14.92 |
| Options granted                          | 98,800                              | \$ 16.76 | 84,100                              | \$ 21.65 |
| Options forfeited                        | (7,075)                             | \$ 18.26 | (20,480)                            | \$ 18.49 |
| Options exercised                        | (58,685)                            | \$ 12.05 | (29,350)                            | \$ 10.10 |
| Options outstanding at end of year       | 391,765                             | \$ 17.37 | 358,725                             | \$ 16.68 |
| Options exercisable at end of year       | 144,680                             | \$ 15.80 | 133,330                             | \$ 13.21 |
| Shares available for future option grant | 201,570                             |          | 306,715                             |          |

The following is a summary of information about stock options outstanding as of March 31, 2010:

| Range of Exercise Prices | Number Outstanding as of 03/31/10 | Options Outstanding Remaining Contractual Life in Years |    | Weighted - Average Exercise Price | Options Exercisable Number Exercisable as of 03/31/10 |    | Weighted Average Exercise Price |
|--------------------------|-----------------------------------|---|----|-----------------------------------|---|----|---------------------------------|
|                          |                                   |   |    |                                   |   |    |                                 |
| \$5.91 - \$15.44         | 120,255                           | 3.6   | \$ | 13.64                             | 89,290  | \$ | 13.15                           |
| \$16.60 - \$19.75        | 189,860                           | 4.8   | \$ | 17.78                             | 33,190  | \$ | 18.97                           |
| \$20.75 - \$24.31        | 81,650                            | 3.8   | \$ | 21.90                             | 22,200  | \$ | 21.74                           |
| \$5.91 - \$24.31         | 391,765                           | 4.2   | \$ | 17.37                             | 144,680   | \$ | 15.80                           |

#### 10. Stock based compensation:

Effective April 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), now codified in ASC 718, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. ASC 718 supersedes our previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

We adopted the modified prospective transition method of applying ASC 718 which requires the application of the standard as of April 1, 2006 and requires us to record compensation cost related to unvested stock options as of April 1, 2006, by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after April 1, 2006 are valued at fair value in accordance with the provisions of ASC 718 and recognized on a straight line basis over the service periods of each award. We estimated forfeiture rates for the year based on historical experience.

## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

Amounts recognized in the financial statements related to stock-based compensation are as follows:

|   | 2010 | March 31 | 2009       |
|---|------|----------|------------|
| Total cost of stock based compensation charged against income before income tax | \$   | 282,000  | \$ 276,000 |
| Amount of income tax benefit recognized in Earnings                             |      | 100,000  | 99,000     |
| Amount charged against net income   | \$   | 182,000  | \$ 177,000 |
| Impact on net income per common share:  |      |          |            |
| Basic   | \$   | .06      | \$ .06     |
| Diluted   | \$   | .06      | \$ .05     |

Stock-based compensation expense was allocated as cost of sales and general and administrative expense in the statements of income.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes). We use historical data to estimate the expected price volatility, the expected option life and expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The dividend yield is calculated based upon the dividend payments made during the prior four quarters as a percent of the average stock price for that period. The following assumptions were used to estimate the fair value of options granted during fiscal 2010 and 2009 using the Black-Scholes model:

|                              | 2010     | 2009     |
|------------------------------|----------|----------|
| Stock options:               |          |          |
| Volatility                   | 34%      | 33-34%   |
| Risk-free interest rate      | 1.7-2.7% | 2.7-3.6% |
| Expected option life (years) | 5-10     | 5-10     |
| Dividend yield               | 2.0%     | 1.7-2.0% |

A summary of the option activity for fiscal 2010 is as follows:

|                               | Number of<br>Shares | Weighted-<br>average<br>Exercise<br>Price per<br>Share | Weighted-<br>average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|---------------------|--|--|---------------------------------|
| Outstanding at March 31, 2009 | 358,725             | \$ 16.68   | 4.6  |                                 |
| Options granted               | 98,800              | 16.76  | 4.7  |                                 |
| Options forfeited             | (7,075)             | 18.26  |  |                                 |

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|                               |          |    |       |     |              |
|-------------------------------|----------|----|-------|-----|--------------|
| Options expired               |          |    |       |     |              |
| Options exercised             | (58,685) |    | 12.05 |     |              |
| Outstanding at March 31, 2010 | 391,765  | \$ | 17.37 | 4.2 | \$ 3,367,000 |
| Exercisable at March 31, 2010 | 144,680  | \$ | 15.80 | 3.3 | \$ 1,469,000 |



## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

A summary of the option activity for fiscal 2009 is as follows:

|                               | Number of<br>Shares | Weighted-<br>average<br>Exercise<br>Price per<br>Share | Weighted-<br>average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|---------------------|--|--|---------------------------------|
| Outstanding at March 31, 2008 | 324,455             | \$ 14.92   | 5.1  |                                 |
| Options granted               | 84,100              | 21.65  | 4.8  |                                 |
| Options forfeited             | (20,480)            | 18.49  |  |                                 |
| Options expired               |                     |  |  |                                 |
| Options exercised             | (29,350)            | 10.10  |  |                                 |
| Outstanding at March 31, 2009 | 358,725             | \$ 16.68   | 4.6  | \$ (245,000)                    |
| Exercisable at March 31, 2009 | 133,330             | \$ 13.21   | 3.6  | \$ 372,000                      |

The weighted average exercise price fair value based on the Black-Scholes model for options granted in fiscal 2010 was \$16.76 and \$21.65 in fiscal 2009. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was \$676,000 and \$172,000 during fiscal 2010 and 2009, respectively.

A summary of the status of our unvested option shares as of March 31, 2010 is as follows:

|                            | Number of<br>Shares | Weighted-<br>average<br>Grant-Date<br>Fair Value |
|----------------------------|---------------------|--|
| Unvested at March 31, 2009 | 225,395             | \$ 5.92  |
| Options granted            | 98,800              | \$ 4.43  |
| Options forfeited          | (7,075)             | \$ 4.98  |
| Options vested             | (70,035)            | \$ 5.24  |
| Unvested at March 31, 2010 | 247,085             | \$ 5.51  |

As of March 31, 2010, there was \$739,000 of total unrecognized compensation cost related to unvested share-based compensation granted under our plans. That cost is expected to be recognized over a weighted-average period of 2.5 years.

#### 11. Segment Data:

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The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information now codified as ASC 280. ASC 280 designates the internal reporting that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. ASC 280 also requires disclosure about products and sources, geographic areas and major customers. The Company aggregates its segments as one reportable segment based on the similar characteristics of their operations.

## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

Revenues related to operations in the U.S. and foreign countries for the years ended March 31, 2010 and 2009 are presented below. Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported. Long-lived assets related to continuing operations in the U.S. and foreign countries as of the years ended March 31, 2010 and 2009 are as follows:

|   | Years Ended March 31 |               |
|---|----------------------|---------------|
|   | 2010                 | 2009          |
| Net revenues from unaffiliated customers: |                      |               |
| United States                             | \$ 16,251,000        | \$ 15,555,000 |
| Foreign (no country exceeds 10% of total) | \$ 5,678,000         | \$ 5,981,000  |
| Long-lived assets at end of year:         |                      |               |
| United States                             | \$ 13,165,000        | \$ 11,022,000 |

The following table summarizes total sales by product line for 2010 and 2009 respectively:

|                                | Year Ended March 31, |               |
|--------------------------------|----------------------|---------------|
|                                | 2010                 | 2009          |
| Dialysis Meter and Disposables | \$ 8,010,000         | \$ 7,827,000  |
| Datatrace Loggers              | 5,821,000            | 6,270,000     |
| Raven Biological Indicators    | 7,146,000            | 6,674,000     |
| Torqo Bottle Cap Test Systems  | 330,000              |               |
| Nusonics Ultrasonic Meters     | 622,000              | 765,000       |
| Total sales                    | \$ 21,929,000        | \$ 21,536,000 |

## 12. Quarterly Results (unaudited):

Quarterly financial information for fiscal 2010 and 2009 is summarized as follows:

| (\$ in thousands, except per share amounts) | First Qtr. |       | Second Qtr. |       | Third Qtr. |       | Fourth Qtr. |       |
|---|------------|-------|-------------|-------|------------|-------|-------------|-------|
| 2010  |            |       |             |       |            |       |             |       |
| Net revenue                                 | \$         | 4,977 | \$          | 5,407 | \$         | 5,318 | \$          | 6,227 |
| Gross profit                                | \$         | 2,983 | \$          | 3,311 | \$         | 3,298 | \$          | 3,602 |
| Net income                                  | \$         | 1,026 | \$          | 1,243 | \$         | 1,154 | \$          | 1,346 |
| Earnings per share basic                    | \$         | .32   | \$          | .39   | \$         | .36   | \$          | .42   |
| Earnings per share diluted                  | \$         | .31   | \$          | .38   | \$         | .35   | \$          | .41   |



## MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

| (\$ in thousands, except per share amounts)<br>2009 | First<br>Qtr. | Second<br>Qtr. | Third<br>Qtr. | Fourth<br>Qtr. |
|---|---------------|----------------|---------------|----------------|
| Net revenue   | \$ 5,054      | \$ 5,679       | \$ 5,337      | \$ 5,466       |
| Gross profit  | \$ 3,204      | \$ 3,646       | \$ 3,434      | \$ 3,533       |
| Net income  | \$ 1,016      | \$ 1,353       | \$ 1,216      | \$ 1,205       |
| Earnings per share basic                            | \$ .32        | \$ .43         | \$ .38        | \$ .38         |
| Earnings per share diluted                          | \$ .31        | \$ .42         | \$ .38        | \$ .37         |

**13. Related Party Transactions:**

On December 31, 2008, the Company purchased 2,000 shares of Mesa Laboratories, Inc. common stock in a related party transaction from its Chief Financial Officer, Mr. Steven Peterson, for \$34,840. This transaction was paid from the Company's existing cash balance, and the price paid of \$17.42 per common share was based on the weighted average of closing prices for the previous five trading days and compared favorably to the closing price on December 31, 2008 of \$17.50 per common share.

On April 30, 2010, the Company purchased the building housing the facilities of SGM Biotech, Inc. for \$2,150,000 from Surreal, LLC. Surreal, LLC is owned by the former owners of SGM Biotech, Inc., which was acquired by the Company on April 27, 2010.

**14. Subsequent Events:**

Subsequent to year end 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 \$11,122,013 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 is subject to a final working capital adjustment as defined in the Stock Purchase Agreement. After the completion of the acquisition, the Company repaid \$278,000 of loans owed to the shareholders of SGM Biotech. On April 30, 2010, the Company also completed the acquisition of the facility that houses the SGM Biotech, Inc. operations for \$2,150,000.

To finance these 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 was fully utilized at April 30, 2010, and a revolving line of credit for \$4,000,000 of which \$1,521,000 was utilized at April 30, 2010. Both of these lines of credit are subject to a variable rate of interest and a rate floor, both of which were 3.25% at the time these lines were initiated. We are currently in the process of completing the initial accounting and purchase price allocation for this acquisition. Due to the increase in intangible assets as a result of this acquisition, amortization expense is expected to rise significantly in fiscal 2011 and subsequent years.

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On June 22, 2010, the Board of Directors approved an amendment to the Company's 2006 Stock Compensation Plan to increase the number of shares authorized for issuance under the 2006 Stock Compensation Plan from four hundred thousand (400,000) to eight hundred thousand (800,000), subject to the approval by the majority of the Company's shareholders at the next annual meeting of shareholders.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A(T). CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this annual report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that material information relating to our company is made known to management, including our Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

**Management's Report on Internal Control over Financial Reporting**

Mesa Laboratories, Inc. management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of March 31, 2010.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during our fourth quarter of the year ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.



**Inherent Limitations of Disclosure Controls and Procedures and Internal Control over Financial Reporting**

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In designing and operating a control system, one must consider the potential benefits of controls relative to their costs and the reality of limited resources available to allocate to control activities, particularly in smaller companies. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any control will meet its objectives under all potential future conditions. Because of such inherent limitations in any control system, there can be no absolute assurance that control issues, misstatements, and/or fraud will be prevented or detected.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

Certain information required by Part III is incorporated by reference to the Company's Definitive Proxy Statement pursuant to Regulation 14A (the Proxy Statement) for its Annual Meeting of Shareholders to be held September 23, 2010 (Annual Meeting).

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by Item 10 is incorporated herein by reference to the sections entitled Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Code of Ethics and Business Conduct and Corporate Governance Audit Committee that appear in the Company's definitive Proxy Statement for its Annual Meeting. Information concerning executive officers John J. Sullivan, Glenn Adriance and Steven W. Peterson are included in the sections referred to above.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is incorporated herein by reference to the section entitled Executive Compensation that appears in the Company's definitive Proxy Statement for its Annual Meeting.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 relating to security ownership of certain beneficial owners and management and related shareholder matters is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" that appears in the Company's definitive Proxy Statement for its Annual Meeting.

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

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

On December 31, 2008 the Company purchased 2,000 shares of Mesa Laboratories, Inc. common stock in a related party transaction from its Chief Financial Officer, Mr. Steven Peterson, for \$34,840. This transaction was paid from the Company's existing cash balance, and the price paid of \$17.42 per common share was based on the weighted average of closing prices for the previous five trading days and compared favorably to the closing price on December 31, 2008 of \$17.50 per common share.

On April 30, 2010, the Company purchased the building housing the facilities of SGM Biotech, Inc. for \$2,150,000 from Surreal, LLC. Surreal, LLC is owned by the former owners of SGM Biotech, Inc., which was acquired by the Company on April 27, 2010.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 relating to principal accountant fees and services is incorporated herein by reference to the section entitled Disclosure of Fees Paid to Independent Auditors that appears in the Company's definitive Proxy Statement for its Annual Meeting of Shareholders

**PART IV**

**ITEM 15. EXHIBITS, AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements of Mesa Laboratories, Inc and its subsidiaries are included herein:

|  | <b>Page</b> |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u>                       | 23          |
| <u>Balance Sheets as of March 31, 2010 and 2009</u>                                  | 24-25       |
| <u>Statements of Income for the years ended March 31, 2010 and 2009</u>              | 26          |
| <u>Statement of Stockholders' Equity for the years ended March 31, 2010 and 2009</u> | 27          |
| <u>Statements of Cash Flows for the years ended March 31, 2010 and 2009</u>          | 28          |
| <u>Notes to Financial Statements</u>   | 29-43       |

(b) Exhibits

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- (3)(i) Articles of Incorporation and Articles of Amendment and Bylaws of Registrant -incorporated by reference to the Exhibits to the Registration Statement on Form S-18, file number 2-88647-D, filed December 21, 1983.
- (3)(ii) Articles of Amendment of Registrant - incorporated by reference to the Exhibit to the Report on Form 10-K for the fiscal year ended March 31, 1988.
- (3)(iii) Articles of Amendment of Registrant dated October 4, 1990 - incorporated by reference to the Exhibit to the Report on Form 10-K for the fiscal year ended March 31, 1991.

- (3)(iv) Articles of Amendment of Registrant dated October 20, 1992 - incorporated by reference to the Exhibit to the Report on Form 10-KSB for the fiscal year ended March 31, 1993.
- (23)(i) Consent of Ehrhardt Keefe Steiner & Hottman PC, independent registered public accounting firm, to the incorporation by reference in the Registration Statements on Form S-8 (file numbers 333-89808, 333-02074, 333-18161, 333-48556, 333-122911, 333-138619 and 333-152210) of their report dated June 29, 2010, included in the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2010.
- (31.1) Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
- (31.2) Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
- (32.1) Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 18 U.S.C. Section 1350.
- (32.2) Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 18 U.S.C. Section 1350.
- (b) Reports on Form 8-K. On February 12, 2010, the Registrant filed a Report on Form 8-K, under Item 2.02, reporting the issuance of a press release reporting revenues and earnings for the quarter and nine months ended December 31, 2009.

**SIGNATURES**

Pursuant to requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MESA LABORATORIES, INC.  
Registrant

Date: June 29, 2010 By: /s/John J. Sullivan, Ph.D.  
John J. Sullivan, Ph.D., CEO

Pursuant to the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name  | Title   | Date          |
|---|---|---------------|
| /s/Luke R. Schmieder<br>Luke R. Schmieder             | Chairman of the Board of Directors  | June 29, 2010 |
| /s/John J. Sullivan, Ph.D.<br>John J. Sullivan, Ph.D. | Chief Executive Officer, President, Treasurer and Director                          | June 29, 2010 |
| /s/Steven W. Peterson<br>Steven W. Peterson           | Vice President, Finance, Chief Financial and Chief Accounting Officer and Secretary | June 29, 2010 |
| /s/Paul D. Duke<br>Paul D. Duke                       | Director  | June 29, 2010 |
| /s/H. Stuart Campbell<br>H. Stuart Campbell           | Director  | June 29, 2010 |
| /s/Michael T. Brooks<br>Michael T. Brooks             | Director  | June 29, 2010 |
| /s/Robert V. Dwyer<br>Robert V. Dwyer                 | Director  | June 29, 2010 |
| /s/Evan Guillemain<br>Evan Guillemain                 | Director  | June 29, 2010 |

**EXHIBITS INDEX**

- (23)(i) Consent of Ehrhardt Keefe Steiner & Hottman PC, independent registered public accounting firm, to the incorporation by reference in the Registration Statements on Form S-8 (file numbers 333-89808, 333-02074, 333-18161, 333-48556, 333-122911, 333-138619 and 333-152210) of their report dated June 29, 2010, included in the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2010.
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