

MESA LABORATORIES INC /CO
Form 10KSB
June 28, 2006
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MARCH 31, 2006

Commission File Number 0-11740

MESA LABORATORIES, INC.

(Name of small business issuer in its charter)

| | |
|--|--|
| 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) |
| Issuer's telephone number: (303) 987-8000 | |

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

Common Stock, No Par Value

(Title of Class)

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

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

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$11,583,000.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant: As of May 31, 2006: \$34,996,943*.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: No Par Value Common Stock 3,175,078 shares as of May 31, 2006.

Documents incorporated by reference: none.

Transitional Small Business Disclosure Format: Yes ; No .

* Aggregate market value was determined by multiplying the number of outstanding shares (excluding those shares held of record by officers, directors and greater than five percent shareholders) by \$14.99, the last sales price of the Registrant's common stock as of May 31, 2006, such date being within 60 days prior to the date of filing.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Introduction

Mesa Laboratories, Inc. (hereinafter referred to as the Company or Mesa) was incorporated as a Colorado corporation on March 26, 1982. The Company designs, develops, acquires, manufactures and markets instruments and disposable products utilized in connection with industrial applications and hemodialysis therapy. In August 1984, the Company acquired Western Laboratories Corp., a manufacturer and marketer of a line of instruments for use in calibrating hemodialysis proportioning equipment. In June 1989, the Company acquired the DATATRACE® product line of Ball Corporation. In February 1993, the Company acquired the assets of NUSONICS, Inc., a manufacturer of ultrasonic flow meters and analyzers. In December 1999, the Company acquired Automata Instrumentation, Inc., a manufacturer and marketer of a line of instruments for use in calibrating and verifying performance of hemodialysis equipment. Subsequent to this reporting period in May 2006, the Company acquired Raven Biological Laboratories, Inc., a manufacturer and marketer of a line of biological indicator products for use in validating and monitoring sterility of medical and other products.

For industrial applications, which includes pharmaceutical, food and petrochemical, the Company presently markets the DATATRACE® data logging systems, NUSONICS® Concentration Analyzers, Pipeline Interface Detectors and Flow Meter products and Raven Biological Indicators. For healthcare applications, the Company markets two product lines used in kidney dialysis [Dialysate Meters and the ECHO Reprocessing Products] and Raven Biological Indicators, which are used by hospitals and dental offices to assure sterility. The Company is also performing research and development to expand the application of its technology.

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

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

Data Logging

The world market for temperature sensors, indicators and recorders is currently estimated at over \$2 billion and is projected to grow at an annual rate of 4-6% over the next several years. The electronics-based thermal sensor market to which DATATRACE® products belong currently exceeds \$100 million.

The temperature and humidity recording markets are highly segmented. DATATRACE® products have developed application niches within major industry segments such as food processing, medical sterilization, pharmaceutical processing, and textile manufacturing. DATATRACE® products are used in any industry where temperature, pressure or humidity is critical to the manufacturing process, quality of the product or where product temperature, pressure or humidity profiles are required in a continuous or moving process environment.

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DATATRACE® Data Loggers

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

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 tracer is calibrated by Mesa's calibration laboratory prior to shipment and then annually, for a re-certification fee, to verify its accuracy. For instance, the Micropack III temperature tracers are calibrated to +/- 0.1°C over their operating range of -20°C to 140°C. This allows the Micropack III tracers to be used to conduct quality control on critical sterilization operations, one of the most important applications.

Raven Biological Indicator

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

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

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

Sonic Fluid Measurement

The Company's sonic fluid measurement product line consists of two major components: Sonic Flow Meters and Concentration Monitors. While the total market for flow meters is very large, the NUSONICS® Sonic Flow Meters best serve applications where cleanliness, resistance to corrosives or portability 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.

NUSONICS® Sonic Flow Meters

The Sonic Flow Meter line is a range of products which are suited to various fluid measurement applications. The Model CM800 Sonic Flow Meter is the Company's main wetted transducer meter. With transducers that are mounted through the pipe wall and in contact with the material flowing through the pipe, it is the most accurate type of ultrasonic flow meter. Over the past five years, the ultrasonic flow meter market has shifted preference to strap-on transducer flow meters and has become highly price competitive. While the Company continues to sell its flow meters for certain applications, demand for this product line has contracted and the contribution of this product line has declined to less than 5% of total revenues in fiscal 2006.

NUSONICS® Sonic Concentration Analyzers

Liquid composition can be determined by measuring sound velocity. Since the sound velocity of any liquid is unique, the relationship between sound velocity, liquid composition and temperature is different for every liquid. Once the relationship is known, sound velocity can be used to monitor changes in liquid composition, often with much greater precision than can be realized with other measuring devices.

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Composition Analyzers are marketed to various industrial users and have been tested on more than 250 different materials. On a real time basis, the analyzer will monitor the composition of materials for process control of blending operations or for tracking the progress of polymerization processes. The Company offers three different composition analyzers, the CP-20, 86 and 87 (a laboratory model).

Based on the same technology as the Composition Analyzers, the Company also markets Pipeline Interface Detectors to the petroleum pipeline industry. This instrument is used to monitor the interface of similar materials in a pipeline, such as different grades of unleaded fuel. By detecting these interfaces, the pipeline operator can accurately perform switching operations within the pipeline system.

Kidney Hemodialysis Treatment

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 extracorporally to the dialysis machine for control and monitoring and passes through the dialyzer where waste products and excess water are removed. This treatment generally lasts three to four hours and is conducted three times per week. While these hemodialysis procedures can be conducted in home, the bulk of the treatments are conducted in over 3,500 clinics and hospital centers. Currently, there are over 275,000 patients in the U.S. undergoing dialysis therapy.

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

Dialysate Meters

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

The Company manufactures two styles of Dialysate Meters; those designed for use by dialysis machine manufacturers and Biomedical Technicians and those used primarily by dialysis nurses. The meters for technicians include the Models 90DX, NEO-2, and the recently introduced 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 they have become the most popular meter in the point-of care testing in dialysis clinics.

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The ECHO MM-1000 Dialyzer Reprocessor

Dialyzer reuse is a procedure in which a patient's dialyzer is cleaned, performance tested and disinfected before it is reused by the same patient at a later time. Each patient requires approximately 156 dialyzers annually if no reuse is employed.

The ECHO MM-1000 Dialyzer Reprocessor is a fully automated dialyzer reuse machine. It automatically cleans, rinses, tests and delivers disinfectants to dialyzers after dialysis therapy, thereby allowing the dialyzer cartridges to be reused rather than disposed of after each use. While reuse products were an important part of the Company's business in the past, the move to single-use dialyzers in developed countries has greatly impacted this market. Reuse products now represent only a small part of the Company's business, and are primarily sold into developing countries.

Manufacturing

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

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

Marketing and Distribution

The Company's domestic sales of its dialysis and DATATRACE products are generated by its direct sales and marketing staff, while outside the U.S., a number of distributors are utilized. The Company's RAVEN products are distributed both directly to end users and through a series of distributors both domestically and outside the U.S. For its NUSONICS® product lines, a separate organization of manufacturers' representatives is maintained. International sales for all products are conducted through over 100 distributors. During the fiscal year ended March 31, 2006, approximately 69% of sales have been domestic and 31% 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 and trade journal advertising in industry related publications.

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

DATATRACE® customers include numerous industrial users in the food, pharmaceutical and medical device markets who utilize the products within a variety of manufacturing, transportation and storage

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applications. The emphasis of the Company's marketing effort is to offer a quality product that provides a unique and flexible solution to monitoring temperature, pressure or humidity without interfering with the processing of the product.

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

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

During the fiscal year ended March 31, 2006, two customers represented approximately 21% and 10% of the Company's revenues and approximately 11% and 5% of the Company's accounts receivable balance. During the fiscal year ended March 31, 2005 one customer represented approximately 15% of the Company's revenues and approximately 9% of the Company's account receivable balances.

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 medical products compete include Cantel Medical Corporation. Companies with which Mesa's DATATRA®E instrumentation products compete include GE Kaye, Ellab and TMI Orion. Companies with which Raven's biological indicator products compete include 3M, SGM and Steris. Companies with which Mesa's NUSONICS® products compete include Controlotron, Badger Meter, Rosemount, and GE Panametrics.

Government Regulation

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

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Mesa's medical 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, 2006, the Company had a total of 52 employees, of which 51 were full-time employees. Currently, 11 persons are employed for marketing and sales, four for research and development, 31 for manufacturing and quality assurance and six for administration.

Additional Information

For the fiscal years ended March 31, 2006 and 2005, Mesa spent \$358,000 in both years on Company-sponsored research and development activities.

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

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

ITEM 2. DESCRIPTION OF PROPERTY.

Mesa owns its 39,616 square foot facility at 12100 W. 6th Avenue, Lakewood, Colorado 80228. All Datatrace, Medical and Nusonics manufacturing, warehouse, marketing, research and general corporate administrative functions are based at this location. The facility is approximately 80% utilized and the Company

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currently utilizes only one shift. The Company currently leases an approximately 28,000 square foot facility at 8607 Park Drive, Omaha, Nebraska 68127. All Raven product manufacturing, warehouse, marketing, research and administrative functions are based at this location. The facility is currently 90% utilized and the Company currently utilizes only one shift.

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

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

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

| Quarter Ended | High | Low | Dividend |
|----------------------|-------------|------------|-----------------|
| June 30, 2004 | \$ 10.20 | \$ 9.53 | \$.05 |
| September 30, 2004 | \$ 12.50 | \$ 9.72 | \$.05 |
| December 31, 2004 | \$ 14.50 | \$ 11.01 | \$.26* |
| March 31, 2005 | \$ 13.75 | \$ 11.78 | \$.06 |
| June 30, 2005 | \$ 13.94 | \$ 11.64 | \$.06 |
| September 30, 2005 | \$ 13.54 | \$ 11.65 | \$.06 |
| December 31, 2005 | \$ 16.15 | \$ 11.76 | \$.32* |
| March 31, 2006 | \$ 16.60 | \$ 13.21 | \$.07 |

The Nasdaq National 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, 2006, there were approximately 900 record and beneficial holders of Mesa's common stock.
- (c) During the fiscal year ended March 31, 2006, 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 | Avg. Price | Total Share Purchased as Part of Publicly Announced Plan | Remaining Shares to Purchase Under Plan |
|-----------------------|---------------|-------------------|---|--|
| January 1 - 31, 2006 | 15,241 | \$ 15.61 | 35,135 | 264,865 |
| February 1 - 28, 2006 | 5,354 | \$ 15.29 | 40,489 | 259,511 |
| March 1 - 31, 2006 | 3,364 | \$ 14.31 | 43,853 | 256,147 |
| Total Fourth Quarter | 23,959 | \$ 15.36 | | |

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.

* On December 15, 2004, the Company paid a regular \$.06 per common share quarterly dividend and a \$.20 per common share special dividend to holders of record on December 1, 2004. On December 15, 2005, the Company paid a regular \$.07 per common share quarterly dividend and a \$.25 per common share special dividend to holders of record on December 1, 2005.

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For information regarding securities authorized for issuance under our equity compensation plans, please see Footnote 7 to the Financial Statements.

Equity Compensation Plan Information as of March 31, 2006

| Plan Category | No. of securities to be | Weighted-average | Number of securities |
|--|--------------------------------|----------------------------|-----------------------------|
| | Issued upon exercise of | exercise price | remaining for future |
| | Outstanding options | outstanding options | issuance under plan |
| Equity compensation plans approved by security holders | 249,470 | \$ 10.47 | 127,330 |
| Equity compensation plans not approved by security holders | | | |
| Total | 249,470 | \$ 10.47 | 127,330 |

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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

| | 2006 | 2005 | 2004 | 2003 |
|----------------------------|---------------|---------------|---------------|--------------|
| Cash and Investments | \$ 5,711,000 | \$ 6,882,000 | \$ 6,767,000 | \$ 4,761,000 |
| Trade Receivables | \$ 2,520,000 | \$ 2,017,000 | \$ 1,621,000 | \$ 2,299,000 |
| Days Sales Outstanding | 61 | 62 | 55 | 70 |
| Inventory | \$ 2,374,000 | \$ 1,941,000 | \$ 2,099,000 | \$ 2,329,000 |
| Inventory Turns | 1.9 | 1.8 | 1.6 | 1.5 |
| Working Capital | \$ 9,753,000 | \$ 10,141,000 | \$ 10,080,000 | \$ 9,017,000 |
| Current Ratio | 9:1 | 11:1 | 16:1 | 16:1 |
| Average Return On: | | | | |
| Stockholder Investment (1) | 18.5% | 15.0% | 14.3% | 15.0% |
| Assets | 17.0% | 14.1% | 13.6% | 14.4% |
| Invested Capital (2) | 30.7% | 26.4% | 22.9% | 21.0% |
| Net Sales | \$ 11,583,000 | \$ 10,041,000 | \$ 9,126,000 | \$ 9,082,000 |
| Gross Profit | \$ 7,437,000 | \$ 6,320,000 | \$ 5,698,000 | \$ 5,685,000 |
| Gross Margin | 64% | 63% | 62% | 63% |
| Operating Income | \$ 4,110,000 | \$ 3,475,000 | \$ 3,249,000 | \$ 3,186,000 |
| Operating Margin | 35% | 35% | 36% | 35% |
| Net Profit | \$ 2,805,000 | \$ 2,312,000 | \$ 2,130,000 | \$ 2,127,000 |
| Net Profit Margin | 24% | 23% | 23% | 23% |
| Earnings Per Diluted Share | \$.92 | \$.74 | \$.68 | \$.64 |
| Capital Expenditures (Net) | \$ 115,000 | \$ 70,000 | \$ 34,000 | \$ 65,000 |
| Head Count | 51.5 | 46.5 | 48.5 | 46.5 |
| Sales Per Employee | \$ 225,000 | \$ 216,000 | \$ 188,000 | \$ 195,000 |

- (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.

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

While we continually try to optimize the overall performance and trends, the table above does highlight various exceptions. A review of the table above shows a decrease in the Company's Cash and Investments during fiscal 2006. This reduction in Cash and Investments was due to buybacks of the Company's common stock and the special dividend. The Trade Receivables also increased significantly during fiscal 2006 due to higher sales during the last quarter of the fiscal year. The Current Ratio in fiscal 2006 and 2005, while very healthy, decreased significantly from prior levels. This change is due to a number of factors including the impact on cash of stock buybacks and the special dividend; lower inventory in relation to sales; increased accounts payable due to higher sales levels; and higher bonus accruals due to the higher sales level.

Results of Operations

Net Sales

Net sales for fiscal 2006 increased 15 percent from fiscal 2005, and net sales for fiscal 2005 increased 10 percent from fiscal 2004. In real dollars, net sales of \$11,583,000 in fiscal 2006 increased \$1,542,000 from \$10,041,000 in 2005, and net sales of \$10,041,000 in fiscal 2005 increased \$915,000 from \$9,126,000 in 2004.

Our revenues come from two main sources, which include product revenues and parts and service revenues. Parts and service revenues are derived from on-going repair and recalibration or certification of our products. The certification or recalibration of product is usually a key component of the customer's own quality system and many of our customers operate in regulated industries, such as food processing or medical and pharmaceutical processing. For this reason, these revenues tend to be fairly stable and grow slowly over time. During fiscal years 2006, 2005 and 2004 our Company had parts and service revenue of \$2,982,000, \$2,893,000 and \$2,644,000. As a percentage of total revenue, parts and service revenues were 26% in 2006, 29% in 2005 and 29% in 2004.

The performance of new product sales is dependent on several factors, including general economic conditions in the United States and abroad, capital spending trends and the introduction of new products. Over the past two fiscal years, general economic conditions have been improving, and more specifically, capital spending has been improving. New products released to the market over the past four fiscal years include the Datatrace Micropack III temperature loggers during the middle of fiscal 2003, the Datatrace Micropack III humidity and pressure loggers at the end of fiscal 2004 and the new 90XL Dialysate Meter for kidney dialysis was introduced late in fiscal 2006. For fiscal years 2006, 2005 and 2004 product sales for our company were \$8,601,000, \$7,148,000 and \$6,482,000.

During fiscal 2006, sales of the Company's medical products and services increased nine percent for the fiscal year compared to the prior year period. Research and development efforts on our newest hand-held dialysate meter were completed during December 2005, and sales of our new 90XL Meter progressed well during the final quarter of fiscal 2006. It is expected that sales of the 90XL will further improve as our large dialysis customers complete qualification testing in the months ahead.

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During fiscal 2006, sales of Datatrace data logger products increased significantly compared to the prior year. For the year, Datatrace sales increased 23 percent. In June, the company began a transition from independent manufacturer's representatives to direct sales personnel for domestic sales of its Datatrace products. This change to our sales channels increased our selling costs in the current fiscal year, but our sales levels have risen compensating for these cost increases. Last year's switch to direct selling was focused on the eastern and mid-western regions of the country. As the new fiscal year progresses we expect to continue the transition to direct selling in the western region of the country.

During fiscal 2006, sales of the Nusonics line of ultrasonic fluid measurement systems increased by 17 percent. This is the third consecutive year of annual increases for these products. Nusonics products contribute less than 10 percent of the Company's total sales. Increased sales activity for these products is a result of improved economic conditions, as they are typically purchased by large industrial users.

During fiscal 2005, sales of the Company's medical products increased 10 percent for the fiscal year compared to the prior year period. The major share of this increase was due to higher sales of the Company's meter products, accessories and service. Sales of the Company's dialyzer reprocessing products declined slightly during the year as the trend toward usage of single use dialyzers leveled out in the domestic marketplace. Research and development efforts were in process to further enhance our line of hand-held dialysate meters with a new generation full-featured meter near completion.

During fiscal 2005, sales of the Datatrace brand of products increased 10 percent from the prior year. Datatrace sales benefited during the year from increases in sales in the Company's humidity and pressure sensors. At the end of fiscal 2004, the Company released its Micropack III humidity and pressure loggers to customers. These new products have allowed customers who measure more than one parameter in their process to program and retrieve data from the same PC Interface device making all of the Company's Micropack III products more appealing to customers with more complex logging needs.

During fiscal 2005, sales of the Nusonics line of ultrasonic fluid measurement systems increased by 11 percent. Nusonics products contributed less than 10 percent of the Company's total sales, but these products are typically purchased by large industrial users. Increased sales activity for these products was being brought about by improved economic conditions.

Cost of Sales

Cost of sales as a percent of net sales in fiscal 2006 decreased 1.3 percent from fiscal 2005 to 35.8 percent, and in fiscal 2005 decreased one half of one percent from fiscal 2004 to 37.1 percent. Most of our products enjoy gross margins in excess of 55 percent. Due to the fact that the dialysis products have sales concentrated with several companies that maintain large chains of treatment centers, the products that are sold to the renal market tend to be slightly more price sensitive than the data logging products. Therefore, shifts in product mix toward higher sales of Datatrace logging products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of medical products will normally produce the opposite effect on cost of goods sold expense and gross margins.

During fiscal year 2006, our Company saw a shift in its mix to higher Datatrace product sales, which led to a decrease in cost of goods sold expense as a percent of sales compared to fiscal 2005. Our logging instruments have a higher gross margin over the other instruments which we produce and sell. Over fiscal year 2005, our Company saw an increase in sales levels which were fairly uniform throughout the product lines. This increase in sales led to a decrease in costs of goods sold as a percent of sales as fixed overhead decreased as a percent of sales.

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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 \$1,092,000 in fiscal 2006, \$1,084,000 in fiscal 2005 and \$906,000 in fiscal 2004, which represents an \$8,000 increase from fiscal 2005 to fiscal 2006 and a \$178,000 increase from fiscal 2004 to fiscal 2005. General and administrative costs were virtually unchanged during fiscal 2006 over fiscal 2005. The increase in general and administrative expenses during fiscal 2005 over fiscal 2004 were directly attributable to compensation, relocation and recruiting costs associated with the creation and hiring of a new Vice President of Sales and Marketing 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 sales and marketing costs. One other major influence on sales and marketing costs is the mix of domestic medical sales to all other domestic sales. Domestic medical 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 2006 and going into fiscal 2007 the Company expects to continue to focus additional resources on its sales and marketing efforts. In June of fiscal 2006, the company began a transition from independent manufacturer's representatives to direct sales personnel for domestic sales of its Datatrace products. This change to our sales channels increased our selling costs in the current fiscal year, but our sales levels have risen to compensate for these cost increases. Last year's switch to direct selling was focused on the eastern and mid-western regions of the country. As the new fiscal year progresses we expect to continue the transition to direct selling in the western region of the U.S.

In dollars, selling costs were \$1,877,000 in fiscal 2006, \$1,403,000 in fiscal 2005 and \$1,211,000 in fiscal 2004. As a percent of sales, selling cost were 16.2 percent in fiscal 2006, 14.0 percent in fiscal 2005 and 13.3 percent in fiscal 2004. The increase in selling expense during fiscal 2006 over fiscal 2005 was due to increased salary, commission and travel costs due to the conversion of domestic Datatrace sales from independent representatives to direct sales force channels, as well as the increased sales volume. In addition, we incurred compensation costs for the new Vice President of Marketing and Sales position hired in October 2004 over the entire fiscal year. The increase in selling expense during fiscal 2005 over fiscal 2004 was due chiefly to increased compensation and bonus expense created by higher sales and the addition of a new Vice President of Sales and Marketing position. In addition, increases in variable costs, such as commissions and travel expenses increased during the year due to the higher sales level.

Research and Development

Company sponsored research and development cost was \$358,000 in fiscal 2006, \$358,000 in fiscal 2005 and \$332,000 in fiscal 2004. We are currently executing a strategy of increasing the flow of internally developed products. This strategy has led to the introduction of two new Datatrace logging products in fiscal 2004 and a third Datatrace logging product early in fiscal 2005. During fiscal 2006, research and development efforts were completed on our new 90XL hand-held dialysate meter.

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Net Income

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

Net income increased to \$2,312,000 or \$.74 per share on a diluted basis in fiscal 2005 from \$2,130,000 or \$.68 per share on a diluted basis in fiscal 2004. The increase in net income during fiscal 2005 was due to higher sales. As a percent of sales, net income increased at a rate slightly less than the sales increase due to increased operating expenses during the second half of the fiscal year. The increase in operating expenses were directly attributable to compensation and recruiting costs associated with the creation and hiring of a new Vice President of Sales and Marketing position. Approximately \$115,000 of these costs, which were incurred during the second half of the fiscal year, did not recur in the next fiscal year.

Liquidity and Capital Resources

On March 31, 2006, we had cash and short term investments of \$5,711,000. In addition, we had other current assets totaling \$5,244,000 and total current assets of \$10,955,000. Current liabilities of our Company were \$1,202,000 which resulted in a current ratio of 9:1. For comparison purposes at March 31, 2005, we had cash and short term investments of \$6,882,000, other current assets of \$4,241,000, total current assets of \$11,123,000, current liabilities of \$982,000 and a current ratio of 11:1.

Our Company has made capital acquisitions of \$115,000 during fiscal 2006 and \$70,000 during fiscal 2005. 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 or schedule 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 the first half of fiscal 2005 the Company paid regular quarterly dividends of \$.05 per share of common stock and raised the quarterly dividend to \$.06 per common share of stock during the second half of the fiscal year. In addition, the Board of Directors declared a special one time dividend of \$.20 per share of common stock which was paid on December 15, 2004. For fiscal year 2005, dividends totaled \$.42 per common share of stock. During the first half of fiscal 2006 the Company maintained the regular quarterly dividend of \$.06 per share of common stock and raised the quarterly dividen