MESA LABORATORIES INC /CO
Form 10KSB
June 29, 2001

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, 2001

Commission File Number 0-11740

MESA LABORATORIES, INC.
(Name of small business issuer in its charter)

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

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

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

Common Stock, No Par Value
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State issuer's revenues for its most recent fiscal year: $9,099,963.

State the aggregate market value of the voting and non-voting equity held by non-affiliates of the Registrant: As of June 1, 2001: $12,870,319*.

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--3,493,560 shares as of June 1, 2001.

Documents incorporated by reference: none.

Transitional Small Business Disclosure Format: Yes ; No X .

* The 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 $5.05, the last sales price of the Registrant's common stock as of June 1, 2001, such date being within 60 days prior to the date of filing.

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 systems 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(R)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.

The Company presently markets the DATATRACE(R)and ELOGG(R)recording systems which are used in various industrial applications; NUSONICS(R) Concentration Analyzers, Pipeline Interface Detectors and Flow Meter products which are used in various industrial applications; and two product lines used in kidney dialysis [Dialysate Meters and the ECHO Reprocessing Products]. 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; the discontinuance of the practice of dialyzer reuse; 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(R)products belong currently exceeds $100 million and is expected to expand at a rate of between 9% and 11%.

The temperature and humidity recording markets are highly segmented. DATATRACE(R)products have developed application niches within major industry segments such as food processing, medical sterilization, pharmaceutical processing, transportation, electronics, aerospace, storage facilities and textile manufacturing. DATATRACE(R)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.

DATATRACE(R)Micropack Tracers, FRB Tracers and Flatpack Tracers

The Micropack Tracer utilizes the latest advances in microcircuitry, power supply and sensor technologies. The instrument is computer based and can be programmed by the user to take and store up to 1,000 temperature, temperature and humidity or temperature and pressure readings. A lithium battery is utilized so that the device is completely self-contained and requires no external wires or cables. The devices operate at temperatures from - 40(0)F to 680(0)F and provide both high accuracy and reliability. Currently, the Micropack Tracers for temperature are sold with various probe configurations in three temperature ranges: LoTemp(R)which records temperatures from -40(0)F to 185(0)F; Standard Temp(R), which records temperatures from 50(0)F to 302(0)F; and HiTemp(R), which records temperatures from 212(0)F to 680(0)F. The Flatpack Tracer provides the customer with a flat profile instrument in addition to the round Micropack Tracer. The Flatpack Tracer is offered in the same temperature ranges and probe configurations as the Micropack Tracer. Offering the same features but slightly larger than the Micropack Tracer, the FRB Tracer provides users with the ability to replace batteries at their facility, lowering operating cost and down time for factory replacement of the battery. Utilizing the same electronics and FRB Tracer packaging, the Company offers a humidity and temperature version of its FRB Tracer product and a pressure and temperature version of its FRB Tracer product.

The DATATRACE(R)Tracers can be placed completely inside a container or process to provide true time and temperature or time, temperature and humidity, or time, temperature and pressure profiles of manufacturing processes, transportation systems and storage facilities. Optional probe configurations and attachments allow the Tracers to be adapted to a wide variety of applications. By eliminating the need for wires or cable connections, the Tracer greatly reduces set up time while increasing measurement reliability.

DATATRACE(R)PC Interface

The DATATRACE(R)product line also includes a PC Interface Module and system software for user programming of the Tracer instruments for graphics software and displaying and analyzing results. Programming and retrieval of data from the Tracer is achieved by placing the instrument in the PC Interface Module which is linked to a personal computer. The system's software is menu driven, allowing the operator to quickly and easily program start time and date, sample intervals and run ID.

Programming can be accomplished within fifteen seconds by the operator. After a process run, data is retrieved by returning the Tracer to the PC Interface Module and following the menu instructions.

ELOGG(R)Dataloggers

The Company distributes the ELOGG(R)Datalogger product line in North America. The ELOGG(R)line is similar in concept to the DATATRACE(R)line, featuring different benefits to the end-user such as longer battery life, extended memory and humidity logging in certain models. Unlike the DATATRACE(R)products, the ELOGG(R)is a larger device which is not as environmentally resistant and is ideally suited for long-term monitoring applications, such as transportation and warehousing. The ELOGG(R)line also features a PC Interface Module and software for user programming.

Sonic Fluid Measurement

The Company's sonic fluid measurement product line consists of two major segments: Sonic Flow Meters and Concentration Monitors. While the total market for flow meters is very large, the NUSONICS(R)Sonic Flow Meters best serve applications where cleanliness, resistance to corrosives or portability are required. Specific applications where the NUSONICS(R)products are particularly well suited include water treatment, chemical processing and heating, ventilation and air conditioning (HVAC) applications.

The Concentration Monitor segment 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 and food processing, pharmaceutical processing and polymerization processes.

NUSONICS(R)Sonic Flow Meters

The Sonic Flow Meter line is a range of products which are suited to various measurement applications. Introduced during fiscal 1995, 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. The Model 90 Sonic Flow Meter features strap-on transducers and is sold in portable and fixed process versions. This product offers flexibility and portability for measuring flow and is totally noninvasive, measuring flow rates through the pipe wall. The Company offers flow measurement products directed toward the heating, ventilation and air conditioning (HVAC) market. The Balance Master Meter is a hand-held portable meter which quickly plugs into specialized flow stations with window seal ports. This meter allows the plant engineer to quickly read and adjust flow within a building. The CM800 Flow Meter utilizes the same window seal flow stations as the Balance Master to provide continuous flow monitoring for use in energy management systems. In addition, the Company markets doppler flow meters in both permanent and strap-on transducer models. Unlike the transit-time technology that the Company's other flow products utilize to measure clean fluids with dissolved solids, the doppler technology is utilized when the fluids to be measured contain either suspended solids or entrained gases. Over the past four 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 2001.

NUSONICS(R)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.

Composition Analyzers are marketed to various industrial users and are currently used to monitor 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 CP20 Analyzer is the Company's newest analyzer product. Incorporating state-of-the-art electronic design and a new transducer design, this product offers advanced features, smaller size, reduced manufacturing cost and simpler installation. In addition, the Company also offers its Model 86, Model 87 (a laboratory model) and the Model 88 Composition Meters.

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 needs to be 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. These hemodialysis procedures are performed in kidney dialysis centers, hospitals and in the 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). Each measures some combination of temperature, pressure, pH and conductivity to ensure that the dialysate has the proper constituency to promote the transfer of waste products from the blood to the dialysate. The meters are used to check the conductivity and other variables of the dialysate before the dialysis process begins. The meters provide a digital readout that the patient, physician or technician uses to verify that the dialysis unit is working within prescribed limits.

The Company's Western Meter product line consists of two different meters. Model 90BC is used by dialysis centers and measures conductivity, temperature and pressure. Model 90DX, the most advanced Western Meter, measures conductivity, temperature, pressure and pH. Model 90DX is microprocessor-based and features improved accuracy and user convenience and field calibration capabilities.

In December 1999, the Company acquired Automata Instrumentation, Inc. and its line of Dialysate Meters. This line features the NEO-2, Phoenix, Neo-Stat + and Hydra meters. The NEO-2 Meter, introduced in October 1999, is a next generation meter that replaces the Company's NEO-1 Meter and measures conductivity, pressure, temperature and pH. The remaining meters are smaller sample meters utilizing a patented, simple and unique syringe sampling system. With its ease of operation and lower cost, this group of meters is usually utilized by the patient care staff of hemodialysis facilities.

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. The approximate cost of the dialyzer is $15-$40, and each patient requires approximately 156 dialyzers annually if no reuse is employed. Although the Company has not conducted a scientific market survey, it estimates that more than 80% of the hemodialysis patients being treated in centers are involved with reuse programs.

The ECHO MM-1000 Dialyzer Reprocessor is a fully automated dialyzer reuse machine for which the Company received permission to market from the FDA in June 1982. 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. It is designed to accommodate virtually all manual reprocessing procedures in use today and can be programmed to automate them without extensive modification or rework. Manual procedures have been used to reprocess dialyzers effectively for over 30 years and are the basis of most automated systems in use today. Additionally, the system can be programmed to use prescribed chemicals. The ECHO System is totally self-contained, aside from water and chemicals, and requires no user adjustments.

The Reuse Data Management (RDM) System

During fiscal 1999, the Company began marketing its Reuse Data Management (RDM) System. The system consists of a custom database management software package, computer system, barcode scanner and label printer. The RDM System is stand alone, and is capable of operating with any reuse method whether automated or manual. Utilizing barcode technology, the RDM System automates much of the data entry involved in the record keeping process of managing reuse, and will provide record keeping and reporting to satisfy both patient management and regulatory requirements.

Manufacturing

The Company assembles its manufactured products at its facility in Lakewood, Colorado. The Company's manufacturing consists primarily of assembling and testing materials and component parts purchased from others.

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 schedules.

Marketing and Distribution

The Company's domestic sales of its dialysis products are generated by its in-house marketing staff while the Company maintains an organization of independent manufacturers' representatives to distribute its DATATRACE(R)and ELOGG(R)product lines. For its NUSONICS(R)product lines, a separate organization of manufacturers' representatives is maintained. International sales are conducted through over 50 distributors. During the fiscal year ended March 31, 2001, approximately 68% of sales have been domestic and 32% 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 conventions, the continuation of 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(R)and ELOGG(R)customers include numerous industrial users who utilize the products within a variety of manufacturing, transportation and storage 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 or humidity without interfering with the processing, transportation or storage of the product.

NUSONICS(R) 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, 2001, one customer represented approximately 13% of the Company's revenues. At March 31, 2001, this customer represented approximately 12% of the Company's account receivable balance. The Company does not believe that it is dependent upon a single customer or a few customers, whose loss would have a material long term adverse effect upon the Company's business.

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 facilities. 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 Minntech Corporation. Companies with which Mesa's DATATRACE(R)and ELOGG(R)

instrumentation products compete include Kaye Instruments, Testoterm, Inc. and Rustrak Instruments. Companies with which Mesa's NUSONICS(R) products compete include Controlotron, Badger Meter, Rosemount, Great Lakes Instruments and Panametrics.

In the area of dialyzer reuse, management believes that the availability of an automated reprocessing system which consistently cleans, rinses and disinfects dialyzers, as well as tests them for physical performance and leaks, can dramatically alter the reuse patterns. Mesa believes that it is the largest supplier of meters used to calibrate hemodialysis equipment, although it has not conducted independent market surveys. The DATATRACE(R)and ELOGG(R)products offer unique solutions to monitoring temperature or humidity and temperature or pressure and temperature through a continuous process or long-term transportation and warehousing applications. Although there are other solutions to temperature, humidity and pressure monitoring available, the DATATRACE(R)products offer a miniaturized, self-contained, environmentally resistant, wireless solution. NUSONICS(R)products offer solutions to monitoring of clean fluids as well as highly corrosive materials, which are either noninvasive or do not disturb the flow of the product through the pipe. NUSONICS(R)products also offer a unique solution to monitoring variations in a fluid's concentration as the fluid passes through a pipeline into or out of a process.

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.

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.

Employees

At March 31, 2001, the Company had a total of 52 employees, of which 51 were full-time employees. Currently, nine persons are employed for marketing, four for research and development, 32 for manufacturing and quality assurance and seven for administration.

Additional Information

For the fiscal years ended March 31, 2001 and 2000, Mesa spent approximately $308,166 and $281,651, 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 capital funds in the near future for environmental protection in connection with its operations.

The Company has been issued patents for its DATATRACE(R)temperature recording devices and its NUSONICS(R)sonic flow measurement and sonic concentration monitoring products. 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 manufacturing, warehouse, marketing, research and administrative functions are based at this location. The facility is approximately 80% 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.

The Annual Meeting of Shareholders of Mesa Laboratories, Inc. was held on January 18, 2001. Of the 3,653,015 Shares entitled to vote, 3,548,275 were represented either in person or by proxy. Four Directors were elected to serve until the next Annual Meeting of Shareholders.

The five directors elected were:

	FOR	WITHHELD
Michael T. Brooks	3,304,077	244,198
H. Stuart Campbell	3,315,177	233,098
Paul D. Duke	3,317,477	230,798
Luke R. Schmieder	3,317,477	230,798

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) Mesa's common stock is traded on the Nasdaq National Market under the symbol "MLAB". For the last two fiscal years, the high and low last 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
June 30, 1999	5 1/4	4 13/32
September 30, 1999	5 3/16	4 3/8
December 31, 1999	4 11/16	3 5/8
March 31, 2000	4 3/4	3 9/16

Quarter Ended	High	Low
June 30, 2000	6 1/4	4 3/16
September 30, 2000	7	5 1/4
December 31, 2000	6 3/4	5 3/8
March 31, 2001	6 1/2	5 1/8

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, 2001, there were approximately 1,500 record and beneficial holders of Mesa's common stock.

(c) The Company has not declared or paid any dividends to date.

(d) During the fiscal year ended March 31, 2001, the Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

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

Results of Operations

Net Sales

Net sales for fiscal 2001 increased 5% from fiscal 2000. In real dollars, net sales of $9,099,963 in fiscal 2001 increased $444,632 from $8,655,331 in 2000. Net sales increase in fiscal 2001 was due to an increase in sales resulting from the acquisition of Automata Instrumentation, Inc. on December 7, 1999. This increase was off-set by declines in Datatrace and Nusonics products. Sales of Datatrace products declined over 20% during fiscal 2001. While the world wide market for capital goods was weak, these products were significantly hurt by the decrease in the value of the EURO in comparison to the Dollar, which made the product more expensive in the European market during fiscal 2001. The market in Japan was also softer for these products during the year adding to the decline in international sales. The decline in Nusonics products was almost identical to the decline in Datatrace products during fiscal 2001, but reflects the declining investment in our flow meter products.

Net sales for fiscal 2000 increased 7% from fiscal 1999. In real dollars, net sales of $8,655,331 in fiscal 2000 increased $572,058 from $8,083,273 in 1999. Net sales increase in fiscal 2000 was due to an increase in Medical sales resulting from the acquisition of Automata Instrumentation, Inc. on December 7, 1999. Datatrace sales increased slightly for the year showing a gain in international sales which was mostly off-set by a decline in domestic sales. Nusonics sales suffered a sharper decline during the year due to decreased demand for its concentration analyzer products.

Cost of Sales

Cost of sales as a percent of net sales in fiscal 2001 increased 3.2% from fiscal 2000 to 39.4%. There were two main factors which impacted this increase during fiscal 2001. Incorporation of the Automata products into the sales mix for the full year had a slightly negative impact on the Company's mix of product gross margins. The decline in Datatrace product sales during the year had a further negative impact on the Company's sales mix, since these products currently provide our highest gross margin by product.

Cost of sales as a percent of net sales in fiscal 2000 increased 3.3% from fiscal 1999 to 36.2%. During fiscal 2000, the company incurred higher than normal obsolescence charges as it adjusted its flow meter product inventory. Fiscal 2000 was also impacted by the addition of the Automata products to the overall sales mix.

Selling, General and Administrative

Selling costs decreased 12% from fiscal 2000 to 2001. In dollars, selling costs declined $149,630 to $1,144,390 in fiscal 2001 from $1,294,020 in fiscal 2000. The decrease in selling expense during fiscal 2001 was due chiefly to a reduction in outside commission expenses. Decreases in sales of Datatrace and Nusonics products, which are sold primarily through independent sales representatives, led to a significant decrease in commissions. Increased medical product sales, which are primarily sold though direct sales personnel, led to higher salesperson commissions for the year, but these were partially off-set by lower bonuses.

General and administrative expenses were $1,252,812 in fiscal 2001 and $1,099,585 in fiscal 2000, which represents a $153,227 or 14% increase from fiscal 2000 to fiscal 2001. During fiscal 2001, increased amortization expense was incurred due to the Automata acquisition in fiscal 2000. The newly implemented 401 (k) plan also increased benefit expenses. These costs were partially off-set by decreased acquisition costs.

Selling costs decreased 6% from fiscal 1999 to fiscal 2000. In real dollars, selling expenses decreased $88,105 to $1,294,020 in fiscal 2000 from $1,382,125 in fiscal 1999. The decrease in selling expenses in fiscal 2000 was due to decreases in Nusonics and Datatrace selling expenses which were partially off-set by an increase in Medical expenses, which was due to the increased expense levels of the new Automata products.

General and administrative expenses were $1,099,585 in fiscal 2000 and $849,096 in fiscal 1999, which represents a $250,489 or 30% increase from fiscal 1999 to fiscal 2000. Increased costs in fiscal 2000 included approximately $100,000 of acquisition costs, $100,000 of amortization and increased consulting.

Research and Development

Company sponsored research and development cost $308,166 in fiscal 2001 and $281,651 in fiscal 2000, which represents a 9% increase from year to year. Increases in compensation and materials costs accounted for the increase in expense during fiscal 2001. Current projects in development include a new generation Datatrace instrument, enhancements to the Datatrace user software and feasibility work on a new meter product for the dialysis market.

Company sponsored research and development cost $281,651 in fiscal 2000 and $236,769 in fiscal 1999, which represents a 19% increase from year to year. The increase in fiscal 2000 was due to higher compensation costs for the year due to an increase in personnel later in fiscal 1999.

Net Income

Net income decreased to $1,832,268 or $.49 per share on a diluted basis in fiscal 2001 from $2,106,619 or $.55 per share on a diluted basis in fiscal 2000. The decrease in net income during fiscal 2001 was partially due to the changes in product mix highlighted in the Cost of Goods Sold section of this report. Additionally, increased charges against accounts receivable, inventory and fixed assets were taken during the year which are not expected to recur in fiscal 2002.

Net income increased to $2,106,619 or $.55 per share on a diluted basis in fiscal 2000 from $2,103,428 or $.50 per share on a diluted basis in fiscal 1999. Fiscal 2000 profits increased slightly from 1999 levels, as higher revenues were off-set by acquisition related expenses. Profits

for the year also benefited from a one time gain related to income tax savings on foreign sales.

Liquidity and Capital Resources

On March 31, 2001, the Company had cash and short term investments of $2,316,769. In addition, the Company had other current assets totaling $5,822,592 and total current assets of $8,139,361. Current liabilities of Mesa Laboratories, Inc. were $860,715 which resulted in a current ratio of 9:1. For comparison purposes at March 31, 2000, Mesa had cash and short term investments of $2,849,709, other current assets of $4,486,352, total current assets of $7,336,061, current liabilities of $807,114 and a current ratio of 9:1.

Mesa has made capital acquisitions of $80,053 during the past fiscal year. On December 7, 1999 the Company acquired Automata Instrumentation, Inc., utilizing $4,100,000 of its cash reserves.

The Company has instituted a program to repurchase up to 500,000 shares of its 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.

ITEM 7. FINANCIAL STATEMENTS.

MESA LABORATORIES, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Mesa Laboratories, Inc.
Lakewood, Colorado

We have audited the accompanying balance sheets of Mesa Laboratories, Inc. as of March 31, 2001 and 2000, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with auditing standards generally accepted in the United States of America.

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

May 10, 2001
Denver, Colorado

BALANCE SHEETS

	March 31,	
	2001	2000
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	$ 2,316,769	$ 2,849,709
Accounts receivable -		
trade, net of allowance for doubtful accounts of $50,000 (2001) and $70,000 (2000)	3,232,706	2,338,995
Other	53,631	46,808
Inventories	2,402,847	1,961,055
Prepaid expenses	27,508	38,331
Deferred income taxes	105,900	101,163
TOTAL CURRENT ASSETS	8,139,361	7,336,061
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $1,397,991 (2001) and $1,307,628 (2000)	1,471,662	1,574,698
OTHER ASSETS:		
Intangible Assets, net of accumulated amortization of $1,587,907 (2001) and $1,172,339 (2000)	4,207,942	4,623,510
	$13,818,965	$13,534,269

See notes to financial statements.