

MESA LABORATORIES INC /CO  
Form 10KSB  
June 30, 2003

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, 2003

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

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(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

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(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  
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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: \$9,081,776.

State the aggregate market value of the voting and non-voting equity held by non-affiliates of the Registrant: As of May 31, 2003: \$17,362,657\*.

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--3,077,407 shares as of May 31, 2003.

Documents incorporated by reference: none.

Transitional Small Business Disclosure Format: Yes ; No X .

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\* 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 \$6.95, the last sales price of the Registrant's common stock as of May 31, 2003, 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.

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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 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. Late in March 2002, the Company introduced its Micropack III line of Tracers for temperature recording. The Micropack III offers many new features including reduced size, optical data transfer, wider temperature ranges and increased data points. 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 PC Interface Modules and system software for user programming of the Tracer instruments and data retrieval 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

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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 components: 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 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(R) 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. 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 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 2003.

### 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

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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 and Model 87 (a laboratory model) 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 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. 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, Model 90DX, 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,

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performance tested and disinfected before it is reused by the same patient. The approximate cost of the dialyzer is \$10-\$40, and 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 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

The Company markets 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, 2003, approximately 65% of sales have been domestic and 35% 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.

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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, pressure 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, 2003, one customer represented approximately 11% of the Company's revenues and approximately 6% of the Company's accounts receivable balance. During the fiscal year ended March 31, 2002 two customers represented approximately 12% and 11% of the Company's revenues, respectively. At March 31, 2002, these customers represented approximately 28% and 8% 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 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 Cantel Medical Corporation. Companies with which Mesa's DATATRACE(R) and ELOGG(R) instrumentation products compete include GE Kaye, Ellab and Orion. Companies with which Mesa's NUSONICS(R) products compete include Controlotron, Badger Meter, Rosemount, and GE 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

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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, which may cause us to expend additional resources on compliance.

### Employees

At March 31, 2003, the Company had a total of 47 employees, of which 46 were full-time employees. Currently, nine persons are employed for marketing, three for research and development, 28 for manufacturing and quality assurance and seven for administration.

### Additional Information

For the fiscal years ended March 31, 2003 and 2002, Mesa spent \$259,966 and \$289,939, 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(R) temperature recording devices, its NUSONICS(R)sonic flow measurement and sonic concentration monitoring products and its Automata dialysis meters. 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



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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.**

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.

## 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:

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| Quarter Ended<br>----- | High<br>---- | Low<br>--- |
|------------------------|--------------|------------|
| June 30, 2001          | 5.15         | 4.80       |
| September 30, 2001     | 4.80         | 4.20       |
| December 31, 2001      | 6.22         | 4.66       |
| March 31, 2002         | 7.70         | 6.01       |

  

| Quarter Ended<br>----- | High<br>---- | Low<br>--- |
|------------------------|--------------|------------|
| June 30, 2002          | 7.75         | 5.50       |
| September 30, 2002     | 6.45         | 5.46       |
| December 31, 2002      | 6.62         | 5.90       |
| March 31, 2003         | 7.03         | 6.06       |

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, 2003, there were approximately 1,000 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, 2003, the Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

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

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

#### **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, and valuation of long-lived assets. 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. 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.

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### 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, 2003 and 2002 the Company had recorded a reserve of \$110,000 and \$50,000, respectively, against slow moving inventory.

### Valuation of Long-Lived Assets

The Company assesses the realizable value of long-lived assets and goodwill 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 and goodwill, 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, 2003, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

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 generally accepted accounting principles, 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 7. Financial Statements" of this Annual Report on Form 10-KSB which contain accounting policies and other disclosures required by generally accepted accounting principles.

## **Results of Operations**

### **Fiscal Year 2003 Compared to Fiscal Year 2002**

#### Net Sales

Net sales for fiscal 2003 increased less than one percent from fiscal 2002. In real dollars, net sales of \$9,081,776 in fiscal 2003 increased \$37,932 from \$9,043,844 in 2002.

During fiscal 2003, revenues for the Datatrace brand of products performed exceptionally well increasing 28 percent. The new Micropack III temperature loggers were extremely successful during their first year in the marketplace, and propelled the temperature logging products to an increase of 40 percent for the fiscal year. Humidity logging instruments also produced a sharp increase for the fiscal year improving more than 140 percent. Datatrace products were further helped during the year by a decline in the value of the US dollar compared to the EURO which is helping these products realize sales gains in the European market.

During fiscal 2003 the company's medical products declined 16 percent for the fiscal year. The major share of this decrease was due to a decline in Echo

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Dialyzer Reprocessor sales, which had increased dramatically in the prior year due to a large order from a single customer that was not repeated in the current fiscal year. Also, the expanded use of single use dialyzers in the U.S. market has reduced Reprocessor demand. Sales of the hand-held meter portion of the medical products line decreased by 11 percent in the most recent fiscal year. This has come after several years of strong growth in previous fiscal years. Currently, research and development efforts are just beginning to further enhance our line of hand-held dialysate meters.

### Cost of Sales

Cost of sales as a percent of net sales in fiscal 2003 decreased 3.0% from fiscal 2002 to 37.4%. The main factor that impacted this decrease during fiscal 2003 was an increase in Datatrace logging device sales as a percent of total sales. The Company's logging instruments tend to have a higher gross margin over the other instruments which the Company produces and sells. This improvement in sales mix was partially off-set by an increase in Datatrace export sales, which are sold at a discount to the company's international distributors and produce a lower gross margin.

### Selling, General and Administrative

Selling costs in 2003 increased 9% from fiscal 2002. In dollars, selling costs increased \$109,550 to \$1,334,385 in fiscal 2003 from \$1,224,835 in fiscal 2002. The increase in selling expense during fiscal 2003 was due chiefly to increased selling and marketing cost for Datatrace products. In addition to increases in variable costs such as commissions, bonuses and travel, more discretionary expenses such as advertising and demonstration equipment costs were increased during the year to support the introduction of the Company's new Micropack III products. Selling costs for medical products decreased due chiefly to lower compensation costs, which were partially off-set by higher training costs. Selling expenses for the Nusonics brand of products also decreased during fiscal 2003 due to the reallocation of personnel resources to other areas of the Company.

General and administrative expenses were \$903,710 in fiscal 2003 and \$934,536 in fiscal 2002, which represents a \$30,826 or three percent decrease from fiscal 2002 to fiscal 2003. During fiscal 2003, lower costs for business development activities were partially off-set by higher compensation costs.

### Research and Development

Company sponsored research and development cost was \$259,966 in fiscal 2003 and \$289,939 in fiscal 2002, which represents a 10% decrease from year to year. During fiscal 2003, consulting expenses dropped significantly and was partially off-set by substantially higher material and supply expenses as work during the year focused more on hardware development and software development projects were completed. Besides completing the Micropack III product for temperature, work continued for other transducers to offer in the Micropack III package to measure additional parameters.

### Net Income

Net income increased to a record \$2,126,879 or \$.64 per share on a diluted basis in fiscal 2003 from \$2,030,947 or \$.59 per share on a diluted basis in fiscal 2002. The increase in net income during fiscal 2003 was partially due to the changes in product mix highlighted in the Cost of Sales section of this report. Additionally, higher sales and lower administration and research and development expenses helped to increase income. During the fiscal year, the Company repurchased 266,169 shares of our common stock. This program has continued into the new fiscal year, and depending on market conditions, is expected to continue throughout fiscal 2004. The stock repurchase program

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reduced outstanding common shares and allowed diluted earnings per share to grow at a faster rate than net income. While net income grew at a faster rate than net sales for the fiscal year, this growth was restrained by an increase in the net income tax rate compared to last year. This increase in the income tax rate was due chiefly to a change in the tax code which reduced the benefit of export sales.

### **Fiscal Year 2002 Compared to Fiscal Year 2001**

#### Net Sales

Net sales for fiscal 2002 decreased less than one percent from fiscal 2001. In real dollars, net sales of \$9,043,844 in fiscal 2002 decreased \$56,119 from \$9,099,963 in 2001. Net sales decreased in fiscal 2002 due to lower Datatrace sales, which were mostly off-set by higher medical product sales. A weak economy in the United States, the tragedies that occurred in September, 2001 and a strong US dollar in comparison to key foreign currencies all had a negative impact on Datatrace product sales in fiscal 2002. Overall, medical product sales were stronger during fiscal 2002. Medical sales were helped by a key sale during the year into the South American market, which resulted in over \$800,000 of sales of Dialysate Meters and ECHO Reprocessors.

#### Cost of Sales

Cost of sales as a percent of net sales in fiscal 2002 increased one percent from fiscal 2001 to 40.4%. During fiscal 2002 medical product sales continued to grow as a percentage of the overall sales mix. Gross margins for the medical products tend to be lower than the Datatrace products, which led to a small increase in cost of goods as a percentage of sales during the year.

#### Selling, General and Administrative

Selling costs increased 7% from fiscal 2001 to fiscal 2002. In real dollars, selling expenses increased \$80,445 to \$1,224,835 in fiscal 2002 from \$1,144,390 in fiscal 2001. The increase in selling expenses in fiscal 2002 was due to increases in Medical and Datatrace selling expenses which were partially off-set by a decrease in Nusonics expenses. The increases in Datatrace selling expenses were due chiefly to increased compensation costs during the year.

General and administrative expenses were \$934,536 in fiscal 2002 and \$1,252,812 in fiscal 2001, which represents a \$318,276 or 25% decrease from fiscal 2001 to fiscal 2002. Decreased costs in fiscal 2002 were due to the elimination of goodwill amortization in accordance with new accounting standards implemented during the year. This elimination of expense was partially off-set by increased consulting and business development costs.

#### Research and Development

Company sponsored research and development cost \$289,939 in fiscal 2002 and \$308,166 in fiscal 2001, which represents a 6% decrease from year to year. The decrease in fiscal 2002 was due to lower compensation and material costs for the year due to a decrease in permanent staff during the year. This decrease in compensation costs was partially off-set by increased consulting expense as specialized portions of projects were outsourced.

#### Net Income

Net income increased to \$2,030,947 or \$.59 per share on a diluted basis in fiscal 2002 from \$1,832,268 or \$.49 per share on a diluted basis in fiscal 2001. Fiscal 2002 profits increased 11% from 2001 levels, due chiefly to the elimination of amortization expense during the year. Diluted per share profits grew 20% from year to year due to the higher net income and lower average shares

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outstanding. The lower shares outstanding were due to the Company's continuing share buy back program. The elimination of amortization also lowered the Company's net income tax rate for the fiscal year, due to the fact that most of these expenses were not tax deductible.

### **Liquidity and Capital Resources**

On March 31, 2003, the Company had cash and short term investments of \$4,761,102. In addition, the Company had other current assets totaling \$4,842,556 and total current assets of \$9,603,658. Current liabilities of Mesa Laboratories, Inc. were \$586,706 which resulted in a current ratio of 16:1. For comparison purposes at March 31, 2002, Mesa had cash and short term investments of \$3,461,978, other current assets of \$5,137,405, total current assets of \$8,599,383, current liabilities of \$500,705 and a current ratio of 17:1.

Mesa has made capital acquisitions of \$64,933 during fiscal 2003 and \$41,824 during fiscal 2002. 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.

### **Forward Looking Statements**

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

### **Additional Cautionary Statements**

#### **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 possess more capital resources. In addition, there are growing numbers of competitor for certain of our products.

#### **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

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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, suspensions 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.

### 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. Patent applications are maintained in secrecy for a period after filing. We may not be aware of all of the patents and patent applications potentially adverse to our interests.

### 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 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;
- \* achievement of research and development milestones;

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- \* timing of the receipt of orders from, and product shipment to major customers;
- \* timing of expenditures;
- \* delays in educating and training our distributors' and representatives' sales forces;
- \* manufacturing or supply delays;
- \* product returns; and
- \* receipt of necessary regulation approval.

### 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:

- \* increasing usage of single use dialyzers;
- \* changes in dialysis reimbursements; and
- \* increased availability of donated organs.

## **ITEM 7. FINANCIAL STATEMENTS.**

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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, 2003 and 2002, 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



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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, 2003 and 2002, 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

April 29, 2003  
Denver, Colorado

**MESA LABORATORIES, INC.**  
**BALANCE SHEETS**

|   | March 31,    |              |
|---|--------------|--------------|
|   | 2003         | 2002         |
| <b>ASSETS</b>                                 |              |              |
|   | -----        | -----        |
| CURRENT ASSETS:                               |              |              |
| Cash and cash equivalents .....               | \$ 4,761,102 | \$ 3,461,978 |
| Accounts receivable -                         |              |              |
| Trade, net of allowance for doubtful accounts |              |              |
| of \$50,000 (2003) and (2002) .....           | 2,248,578    | 2,288,719    |
| Other .....                                   | 33,213       | 7,305        |
| Inventories, net .....                        | 2,328,999    | 2,443,091    |
| Prepaid expenses .....                        | 116,825      | 296,512      |
| Deferred income taxes .....                   | 114,941      | 101,778      |
|   | -----        | -----        |
| TOTAL CURRENT ASSETS .....                    | 9,603,658    | 8,599,383    |
| PROPERTY, PLANT AND EQUIPMENT, net .....      | 1,347,980    | 1,398,398    |
| OTHER ASSETS:                                 |              |              |
| Other long-term assets .....                  | --           | 231,000      |
| Goodwill .....                                | 4,207,942    | 4,207,942    |
|   | -----        | -----        |
|   | \$15,159,580 | \$14,436,723 |
|   | =====        | =====        |

See notes to financial statements.

**MESA LABORATORIES, INC.**  
**BALANCE SHEETS**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   | March 31,      |                |
|---|----------------|----------------|
|   | 2003           | 2002           |
| <b>CURRENT LIABILITIES:</b>   |                |                |
| Accounts payable, trade .....   | \$ 117,979     | \$ 88,894      |
| Accrued salaries and payroll taxes ...  | 332,537        | 310,272        |
| Accrued warranty expense .....  | 15,000         | 30,000         |
| Other accrued liabilities .....   | 85,698         | 36,878         |
| Taxes payable .....   | 35,492         | 34,661         |
| <b>TOTAL CURRENT LIABILITIES .....</b>  | <b>586,706</b> | <b>500,705</b> |
| <b>LONG TERM LIABILITIES:</b>   |                |                |
| Deferred income taxes .....   | 86,351         | 41,744         |
| <b>COMMITMENTS</b>  |                |                |
| <b>STOCKHOLDERS' EQUITY:</b>  |                |                |
| Preferred stock, no par value;<br>authorized 1,000,000 shares; none<br>issued .....   | --             | --             |
| Common stock, no par value; authorized<br>8,000,000 shares; issued and<br>outstanding, 3,098,907 (2003)<br>and 3,342,376 (2002) ..... | 1,284,887      | 1,791,758      |
| Retained earnings .....   | 13,201,636     | 12,102,516     |
|   | 14,486,523     | 13,894,274     |
|   | \$15,159,580   | \$14,436,723   |
|   | =====          | =====          |

See notes to financial statements.

**MESA LABORATORIES, INC.**

**STATEMENTS OF INCOME**

|                           | Years Ended March 31, |                  |
|---------------------------|-----------------------|------------------|
|                           | 2003                  | 2002             |
| Sales .....               | \$9,081,776           | \$9,043,844      |
| Cost of sales .....       | 3,397,239             | 3,652,435        |
| <b>Gross profit .....</b> | <b>5,684,537</b>      | <b>5,391,409</b> |

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|   |             |             |
|---|-------------|-------------|
|   | -----       | -----       |
| Operating expenses:                         |             |             |
| Selling .....                               | 1,334,385   | 1,224,835   |
| General and administrative .....            | 903,710     | 934,536     |
| Research and development .....              | 259,966     | 289,939     |
|   | -----       | -----       |
| Total operating expenses .....              | 2,498,061   | 2,449,310   |
|   | -----       | -----       |
| Operating income .....                      | 3,186,476   | 2,942,099   |
| Interest income .....                       | 55,160      | 78,511      |
|   | -----       | -----       |
| Earnings before income taxes .....          | 3,241,636   | 3,020,610   |
| Income taxes .....                          | 1,114,757   | 989,663     |
|   | -----       | -----       |
| Net income .....                            | \$2,126,879 | \$2,030,947 |
|   | =====       | =====       |
| Net income per share (basic) .....          | \$ .66      | \$ .60      |
|   | =====       | =====       |
| Net income per share (diluted) .....        | \$ .64      | \$ .59      |
|   | =====       | =====       |
| Average common shares outstanding - basic . | 3,226,848   | 3,407,649   |
|   | =====       | =====       |
| Average common shares outstanding - diluted | 3,299,435   | 3,452,159   |
|   | =====       | =====       |

See notes to financial statements.

**MESA LABORATORIES, INC.**

**STATEMENT OF STOCKHOLDERS' EQUITY**

|   | Common Stock        |              |               |               |
|---|---------------------|--------------|---------------|---------------|
|   | Number of<br>Shares | Amount       | Earnings      | Equity        |
|   | -----               | -----        | -----         | -----         |
| BALANCE, March 31, 2001 ....  | 3,542,160           | \$ 2,165,549 | \$ 10,767,409 | \$ 12,932,958 |
| Common stock issued for the<br>conversion of incentive<br>stock options net of 34,461<br>shares returned to Company |                     |              |               |               |

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|   |           |              |               |               |
|---|-----------|--------------|---------------|---------------|
| as payment .....  | 13,995    | 27,909       | --            | 27,909        |
| Purchase and retirement of<br>treasury stock .....  | (213,779) | (401,700)    | (695,840)     | (1,097,540)   |
| Net income for the year ....  | --        | --           | 2,030,947     | 2,030,947     |
|   | -----     | -----        | -----         | -----         |
| BALANCE, March 31, 2002 ....  | 3,342,376 | 1,791,758    | 12,102,516    | 13,894,274    |
| Common stock issued for the<br>conversion of incentive<br>stock options net of 29,704<br>shares returned to Company<br>as payment ..... | 22,700    | 86,441       | --            | 86,441        |
| Purchase and retirement of<br>treasury stock .....  | (266,169) | (593,312)    | (1,027,759)   | (1,621,071)   |
| Net income for the year ....  | --        | --           | 2,126,879     | 2,126,879     |
|   | -----     | -----        | -----         | -----         |
| BALANCE, March 31, 2003 ....  | 3,098,907 | \$ 1,284,887 | \$ 13,201,636 | \$ 14,486,523 |
|   | =====     | =====        | =====         | =====         |

See notes to financial statements.

**MESA LABORATORIES, INC.**

**STATEMENTS OF CASH FLOWS**

|   | Years Ended March 31, |              |
|---|-----------------------|--------------|
|   | 2003                  | 2002         |
|   | -----                 | -----        |
| Cash flows from operating activities:           |                       |              |
| Net income .....                                | \$ 2,126,879          | \$ 2,030,947 |
| Depreciation and amortization .....             | 115,351               | 115,088      |
| Provision for warranty reserve .....            | (15,000)              | 18,000       |
| Provision for inventory reserve .....           | 60,000                | (40,000)     |
| Deferred income taxes .....                     | 31,444                | 20,574       |
| Change in assets and liabilities-               |                       |              |
| (Increase) decrease in accounts receivable .... | 245,233               | 759,313      |
| (Increase) decrease in inventories .....        | 54,092                | (244)        |
| (Increase) decrease in prepaid expenses .....   | 179,687               | (269,004)    |
| Increase (decrease) in accounts payable, trade  | 29,085                | (264,625)    |
| Increase (decrease) in accrued liabilities      |                       |              |
| and taxes payable .....                         | 71,916                | (113,385)    |
|   | -----                 | -----        |
| Net cash provided by operating activities .     | 2,898,687             | 2,256,664    |
|   | -----                 | -----        |

Cash flows from investing activities:

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|  |              |             |
|--|--------------|-------------|
| Capital expenditures .....                                 | (64,933)     | (41,824)    |
|  | -----        | -----       |
| Net cash (used) provided by investing activities .....     | (64,933)     | (41,824)    |
|  | -----        | -----       |
| Cash flow from financing activities:                       |              |             |
| Net proceeds from issuance of stock .....                  | 86,441       | 27,909      |
| Common stock repurchases .....                             | (1,621,071)  | (1,097,540) |
|  | -----        | -----       |
| Net cash (used) provided by financing activities .....     | (1,534,630)  | (1,069,631) |
|  | -----        | -----       |
| Net increase (decrease) in cash and cash equivalents ..... | 1,299,124    | 1,145,209   |
| Cash and cash equivalents at beginning of year .....       | 3,461,978    | 2,316,769   |
|  | -----        | -----       |
| Cash and cash equivalents at end of year .....             | \$ 4,761,102 | \$3,461,978 |
|  | =====        | =====       |
| Supplemental disclosures of cash flow information:         |              |             |
| Cash paid during the year for:                             |              |             |
| Income taxes   | \$ 895,821   | \$1,366,200 |
|  | =====        | =====       |

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 and supplies.

**Concentration of Credit Risk** - Financial instruments which potentially subject the Company to concentrations of credit risk consist of money market funds and accounts receivable. The Company invests primarily all of its excess cash in money market funds administered by reputable financial institutions, debt instruments of the U.S. government and its agencies and grants credit to its customers who are located throughout the United States and several 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

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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, 2003, one customer represented approximately 11% of the Company's revenues and approximately 6% of the Company's accounts receivable balance. During the fiscal year ended March 31, 2002 two customers represented approximately 12% and 11% of the Company's revenues, respectively. At March 31, 2002, these customers represented approximately 28% and 8% of the Company's account receivable balances.

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

**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, 2003 and 2002 the Company had recorded a reserve of \$110,000 and \$50,000, 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 three to thirty-nine years.

**Goodwill** - Goodwill, which resulted from the acquisitions of Nusonics, Datatrace and Automata, is no longer subject to amortization, and is tested annually for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Intangible Assets."

**Valuation of Long-Lived Assets** - The Company assesses the realizable value of long-lived assets and goodwill 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 and goodwill, 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, 2003, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

**Revenue Recognition** - The Company recognizes revenues at the time products are shipped.

**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, 2003 and 2002 were \$259,966 and \$289,939, 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, 2003 and 2002 were \$140,728 and \$121,539, respectively.

**Earnings Per Share** - Basic earnings per share is calculated using the average number of common shares outstanding. Diluted earnings per share is

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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 72,587 and 44,510 additional shares in 2003 and 2002, respectively.

**Stock based compensation** - At March 31, 2003, the Company has stock based compensation plans, which are described more fully in Note 7. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards in 2003 and 2002 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amount indicated below:

|                          | March 31,    |              |
|--------------------------|--------------|--------------|
|                          | 2003         | 2002         |
| Net income - as reported | \$ 2,126,879 | \$ 2,030,947 |
| Net income - pro forma . | \$ 2,020,435 | \$ 1,868,798 |
| Income per diluted       |              |              |
| share - as reported ...  | \$ .64       | \$ .59       |
| Income per diluted       |              |              |
| share - pro forma .....  | \$ .61       | \$ .54       |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: dividend yield of 0%; expected volatility of approximately 20% (2003) and 30% (2002); discount rate of 3.0% (2003) and 4.9% (2002); and expected lives of 5 years.

**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 Financial Instruments** - The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximated fair value as of March 31, 2003 because of the relatively short maturity of these instruments.

**Recently Issued Accounting Pronouncements** - In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this standard did not have a material impact on the Company's financial statements at March 31, 2003.

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In November 2002, the FASB published interpretation No. 45 "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this standard did not have a material impact on the Company's financial statements at March 31, 2003.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure". This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based compensation. In addition, SFAS 148 amends the disclosure provision of SFAS 123 to require more prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation on reported net income. The effective date for this Statement is for fiscal years ended after December 15, 2002. The Company has incorporated the disclosure requirements of SFAS No. 148 at March 31, 2003, which require a tabular pro forma presentation of net income had SFAS No. 123 been adopted.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB 51 (FIN No. 46). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (Variable Interest Entities or "VIEs") and to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. The disclosure requirements of FIN No. 46 became effective for financial statements issued after January 31, 2003. The adoption of this standard did not have an impact on the Company's financial statements at March 31, 2003.

In April 2003, FASB issued SFAS No. 149, "Accounting for Derivative Instruments and Hedging Activities," which is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments including certain instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim



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period beginning after June 15, 2003. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

### 2. Inventories:

Inventories consist of the following:

|                  | March 31,              |                        |
|------------------|------------------------|------------------------|
|                  | -----<br>2003<br>----- | -----<br>2002<br>----- |
| Raw materials .. | \$ 1,898,599           | \$ 1,909,568           |
| Work-in-process. | 294,822                | 291,607                |
| Finished goods.. | 245,578                | 291,916                |
| Less reserve ..  | (110,000)              | (50,000)               |
|                  | -----                  | -----                  |
|                  | \$ 2,328,999           | \$ 2,443,091           |
|                  | =====                  | =====                  |

Work-in-process and finished goods include raw materials, direct labor and manufacturing overhead at March 31, 2003 and 2002.

### 3. Property, Plant and Equipment:

Property, plant and equipment consist of the following:

|                               | March 31,              |                        |
|-------------------------------|------------------------|------------------------|
|                               | -----<br>2003<br>----- | -----<br>2002<br>----- |
| Land .....                    | \$ 148,104             | \$ 148,104             |
| Building .....                | 1,247,010              | 1,247,010              |
| Manufacturing equipment ..... | 1,219,079              | 1,179,073              |
| Computer equipment .....      | 287,834                | 262,908                |
| Furniture and fixtures .....  | 74,383                 | 74,382                 |
|                               | -----                  | -----                  |
|                               | 2,976,410              | 2,911,477              |
| Less accumulated depreciation | (1,628,430)            | (1,513,079)            |
|                               | -----                  | -----                  |
|                               | \$ 1,347,980           | \$ 1,398,398           |
|                               | =====                  | =====                  |

### 4. Income Taxes:

The components of the provision for income taxes for the years ended March 31, 2003 and 2002 are as follows:

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|                         | March 31,   |            |
|-------------------------|-------------|------------|
|                         | 2003        | 2002       |
| Current tax provision:  |             |            |
| Federal .....           | \$ 949,488  | \$ 853,498 |
| State .....             | 133,825     | 116,386    |
|                         | -----       | -----      |
|                         | 1,083,313   | 969,884    |
|                         | -----       | -----      |
| Deferred tax provision: |             |            |
| Federal .....           | 27,671      | 17,405     |
| State .....             | 3,773       | 2,374      |
|                         | -----       | -----      |
|                         | 31,444      | 19,779     |
|                         | -----       | -----      |
|                         | \$1,114,757 | \$ 989,663 |
|                         | =====       | =====      |

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, 2003 and 2002 are as follows:

|                                | March 31,  |            |
|--------------------------------|------------|------------|
|                                | 2003       | 2002       |
| Depreciation and amortization  | \$(86,351) | \$(41,744) |
| Accrued vacation .....         | 48,169     | 50,306     |
| Bad debt expense .....         | 17,000     | 17,000     |
| Obsolete inventory .....       | 37,400     | 17,000     |
| Warranty reserve .....         | 5,100      | 10,200     |
| Other .....                    | 7,272      | 7,272      |
|                                | -----      | -----      |
| Net deferred (liability)/asset | \$ 28,590  | \$ 60,034  |
|                                | =====      | =====      |

A reconciliation of the Company's income tax provision for the years ended March 31, 2003 and 2002, and the amounts computed by applying statutory rates to income before income taxes is as follows:

|  | March 31,    |            |
|--|--------------|------------|
|  | 2003         | 2002       |
| Income taxes at statutory rates .....      | \$ 1,028,578 | \$ 935,358 |
| State income taxes, net of federal benefit | 140,009      | 118,760    |
| Foreign sales corporation exemption .....  | (53,830)     | (64,455)   |
|  | -----        | -----      |
|  | \$ 1,114,757 | \$ 989,663 |
|  | =====        | =====      |

**5. Stock Repurchase:**

In August, 2001, the Company's Board of Directors approved program to repurchase up to 500,000 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 repurchase of shares will be funded through existing cash reserves.

**6. Employee Benefit Plan:**

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 employees salary. A participant vests in the Company's contributions at a rate of 25% per year, fully vesting at the end of the participant's fourth year of service. The Company contributed \$52,617 to the plan for fiscal 2003, and \$44,906 for fiscal 2002.

**7. 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.

The Company has adopted incentive stock option plans for the benefit of the Company's key employees, excluding its outside directors. Under the 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. The options are exercisable for a term of five 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 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.

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 have been 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.

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

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

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|  | FY 2003                   |         | FY 2003                   |         |
|--|---------------------------|---------|---------------------------|---------|
|  | Weighted Average Exercise |         | Weighted Average Exercise |         |
|  | Shares                    | Price   | Shares                    | Price   |
| Options outstanding at beginning of year | 328,035                   | \$ 4.85 | 308,000                   | \$ 4.97 |
| Options granted .....                    | 75,600                    | \$ 5.89 | 94,300                    | \$ 4.56 |
| Options cancelled .....                  | (27,936)                  | \$ 5.42 | (25,809)                  | \$ 5.25 |
| Options exercised .....                  | (52,404)                  | \$ 5.20 | (48,456)                  | \$ 4.85 |
| Options outstanding at end of year ..... | 323,295                   | \$ 4.98 | 328,035                   | \$ 4.85 |
| Options exercisable at end of year ..... | 132,045                   | \$ 4.75 | 120,110                   | \$ 5.00 |
| Shares available for future option grant | 223,371                   |         | 271,395                   |         |

The following is a summary of information about stock options outstanding as of March 31, 2003:

| Range of Exercise Prices | Options Outstanding               |  |                                 | Options Exercisable               |                                 |
|--------------------------|-----------------------------------|--|---------------------------------|-----------------------------------|---------------------------------|
|                          | Number Outstanding as of 03/31/03 | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Number Exercisable as of 03/31/03 | Weighted Average Exercise Price |
| \$3.75 - \$4.25          | 61,660                            | 3.5  | \$3.85                          | 46,160                            | \$3.88                          |
| \$4.55                   | 80,850                            | 4.3  | \$4.55                          | 14,775                            | \$4.55                          |
| \$4.56 - \$5.25          | 50,985                            | 2.3  | \$5.01                          | 34,660                            | \$5.00                          |
| \$5.50                   | 55,900                            | 3.6  | \$5.50                          | 28,450                            | \$5.50                          |
| \$5.75 - \$7.00          | 73,900                            | 5.7  | \$5.97                          | 8,000                             | \$6.38                          |
| \$3.75 - \$7.00          | 323,295                           | 4.0  | \$4.98                          | 132,045                           | \$4.75                          |

**8. International Sales:**

For the past two fiscal years, the Company had foreign sales as follows:

|               | Years Ended March 31, |            |
|---------------|-----------------------|------------|
|               | 2003                  | 2002       |
| Asia .....    | \$1,190,136           | \$ 866,995 |
| Europe .....  | 1,254,597             | 1,151,233  |
| South America | 211,400               | 1,302,549  |
| Other .....   | 480,656               | 455,540    |

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-----  
 \$3,136,789     \$3,776,317  
 =====

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**PART III**

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.**

The names, addresses, ages and terms of office of the executive officers and directors of the Company are:

| Name and Address<br>-----   | Age<br>--- | Office<br>-----   | Term Expires(1)<br>----- |
|---|------------|---|--------------------------|
| Luke R. Schmieder<br>12100 West Sixth Avenue<br>Lakewood, Colorado  | 60         | President, Chief Executive<br>Officer, Treasurer and<br>Director                            | 2003                     |
| Steven W. Peterson<br>12100 West Sixth Avenue<br>Lakewood, Colorado | 46         | Vice President-Finance,<br>Chief Financial and Chief<br>Accounting Officer and<br>Secretary | 2003                     |
| Paul D. Duke<br>12100 West Sixth Avenue<br>Lakewood, Colorado       | 61         | Director  | 2003                     |
| H. Stuart Campbell<br>12100 West Sixth Avenue<br>Lakewood, Colorado | 73         | Director  | 2003                     |
| Michael T. Brooks<br>12100 West Sixth Avenue<br>Lakewood, Colorado  | 54         | Director  | 2003                     |

(1) The term of office of each officer of the Company is at the discretion of the Board of Directors.

Luke R. Schmieder, President, Chief Executive Officer, Treasurer and Director

Mr. Schmieder attended Ohio State University and Ohio University taking courses in mechanical engineering and business management. Mr. Schmieder was employed from 1970 to 1977 by Cobe Laboratories, Inc. (manufacturer of dialysis and cardiovascular equipment and supplies) as a designer and process controller on various projects. From 1977 to 1982, Mr. Schmieder served as president and principal of a consulting company for product and process development primarily in the medical field. Mr. Schmieder has served as president and a director of

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the Company since its inception in March 1982.

Steven W. Peterson, Vice President-Finance, Chief Financial and Chief Accounting Officer and Secretary

Mr. Peterson received his Bachelor of Arts degree in accounting from Lewis University in 1979. He was employed as an accountant and senior accountant by Valleylab, Inc. (a manufacturer of electrosurgical and IV infusion equipment) from 1980 to 1983. From 1983 to 1985, he was employed as assistant controller by Marquest Medical Products, Inc. (a manufacturer of disposable medical products). Mr. Peterson joined the Company in February 1985 as Controller and has served as an executive officer of the Company since June 1990.

Paul D. Duke, Director

Mr. Duke received his initial medical training while on active duty with the United States Navy and while attending the University of Alabama. Mr. Duke was employed from 1965 to 1969 by the University of Alabama Medical Center as chief hemodialysis technician and was employed by Cobe Laboratories, Inc. from 1969 to 1973 as field service and training technician. From 1973 to 1979, he served in various capacities for Cordis Dow Corporation (manufacturer of pacemakers and hemodialysis equipment and supplies), including sales, product management, European training manager and national service manager. From 1980 to 1982, Mr. Duke served as proprietor and president of a consulting company specializing in medical marketing, sales, service and training. Mr. Duke has served as vice president and a director of the Company since its inception in 1982. At March 31, 2002, Mr. Duke retired from his position as Vice President and now devotes such time as is necessary to the affairs of the Company.

H. Stuart Campbell, Director

Mr. Campbell received his Bachelor of Science degree from Cornell University in 1951. From 1960 through September 1982, Mr. Campbell served in various capacities for Johnson & Johnson and Ethicon, Inc., a domestic subsidiary of Johnson & Johnson. From 1977 through September 1982, he was a Company Group Chairman with Johnson & Johnson and served as Chief Executive Officer and Chairman of the Board of Directors of eight major corporate subsidiaries. Mr. Campbell owned and served as an officer of Highland Packaging Labs, Inc., Somerville, New Jersey (contract packaging business) until its sale in 2002. He also serves as a director of Atrix Laboratories, Inc. (pharmaceutical and contract research and development company). Mr. Campbell has served as a director of the Company since May 1983 and devotes such time as is necessary to the affairs of the Company.

Michael T. Brooks, Director

Mr. Brooks received his Bachelor of Arts in History from Ohio Wesleyan University in 1971. While pursuing a career in fluid power, he received a Masters in Business from the University of Denver in 1983. Mr. Brooks was an independent manufacturer's representative from 1982 - 1985 at which time he purchased an interest in Fiero Fluid Power which he presently owns and operates. Fiero Fluid Power is a Rep/Distributor selling pneumatic and instrumentation equipment. He has been a director since October, 1998 and devotes such time as is necessary to the affairs of the Company.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company pursuant to 17 C.F.R. 240.16a-3(e) during its most recent fiscal year and Forms 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and any written representation from the reporting person (as hereinafter defined) that no Form 5 is required, the Company is not aware of any person who, at any time during the fiscal year, was a director, officer, beneficial owner of more than ten percent of any class of

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equity securities of the Company registered pursuant to Section 12 of the Exchange Act ("reporting person"), that failed to file on a timely basis, as disclosed in the above Forms, reports required by Section 16(a) of the Exchange Act during the most recent fiscal year or prior fiscal years.

### **ITEM 10. EXECUTIVE COMPENSATION.**

The following table, and its accompanying explanatory footnotes, includes annual and long-term compensation information on the Company's Chief Executive Officer and Chief Financial Officer for services rendered in all capacities during the fiscal years ended March 31, 2003, March 31, 2002 and March 31, 2001. No other executive officer received total annual salary and bonus for the fiscal year ended March 31, 2003 in excess of \$100,000.

#### **SUMMARY COMPENSATION TABLE**

| Name and Principal Position<br>----- | Fiscal Year<br>----- | Salary<br>----- | Bonus (1)<br>----- | Options<br>----- |
|--------------------------------------|----------------------|-----------------|--------------------|------------------|
| L. Schmieder, CEO                    | 2003                 | \$113,885       | \$19,066           | 4,000            |
|                                      | 2002                 | \$108,985       | \$11,928           | 4,000            |
|                                      | 2001                 | \$106,867       | \$10,400           | 4,000            |
| S. Peterson, CFO                     | 2003                 | \$ 84,528       | \$16,228           | 4,000            |
|                                      | 2002                 | \$ 80,190       | \$ 9,619           | 6,000            |
|                                      | 2001                 | \$ 75,317       | \$ 7,400           | 6,000            |
| -----                                |                      |                 |                    |                  |

(1) Reflects bonus earned in fiscal year, but paid in the following fiscal year.

The following summary table sets forth information concerning grants of stock options made during the fiscal year ended March 31, 2003 to the Company's Chief Executive Officer and Chief Financial Officer.

#### Option Grants in Last Fiscal Year

| Name<br>----- | Options<br>Granted<br>----- | Percent of Total<br>Options Granted<br>in Fiscal Year<br>----- | Exercise<br>Price<br>----- | Expiration<br>Date<br>----- |
|---------------|-----------------------------|--|----------------------------|-----------------------------|
| L. Schmieder  | 4,000                       | 5%   | \$5.91                     | October 15, 2012            |
| S. Peterson   | 4,000                       | 5%   | \$5.91                     | October 15, 2007            |

### **Compensation of Directors**

On October 3, 1996, the Company adopted a new 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 bid price of the common stock on the over-the-counter market on the date of grant.

On October 16, 2002, Mr. Brooks and Mr. Campbell, outside directors, were granted options to purchase 4,000 shares of common stock at \$5.91 per share. Mr. Duke, a director who retired from his position as an executive officer in March 2002, was granted 6,000 shares of common stock at \$5.91 per share. Mr.

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Schmieder, the Company's inside director was granted options to purchase 4,000 shares of common stock at a price of \$5.91 per share. Currently, all outside directors receive cash compensation of \$500 for each Board of Directors meeting attended in person.

### **Incentive Stock Option Plans**

The Company has adopted three incentive stock option plans, approved by the shareholders of the Company in September 1984, October 1989 and November 1993, respectively, for the benefit of the Company's employees. The plans are administered by the non-participating members of the Board of Directors, who select the optionees and determine the terms and conditions of the stock option grant. The exercise price for options granted under the plans cannot be less than the fair market value of the stock at the date of grant or 110% of such fair market value with respect to options granted to any optionee who holds more than 10% of the Company's common stock. Options are not exercisable until one year after the date of grant and expire five years after the date of grant. All outstanding options are subject to vesting provisions whereby they become exercisable over a four-year period. The plans authorize options to purchase up to 200,000, 300,000 and 300,000 shares of common stock, respectively.

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 have been 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.

As of March 31, 2003, options to purchase a total of 323,295 shares were outstanding, at exercise prices ranging from \$3.75 to \$7.00 per share. Further, as of March 31, 2003, options to purchase an aggregate of 223,371 shares remained available for grant under the Company's stock option plans. The plan adopted in September 1984 was terminated effective June 1, 1993. Options were granted during the fiscal year ended March 31, 2003, pursuant to the Company's incentive stock option plans, to each of the Company's executive officers. Options to purchase 4,000 shares at \$5.91 per share were granted to Mr. Steven W. Peterson, Vice President-Finance. Mr. Luke R. Schmieder, President, was granted options to purchase 4,000 shares at \$5.91 per share.

### **Retirement Plan**

The Company has adopted a 401(k) plan for the benefit of its officers and employees. Subject to certain restrictions, a participant may defer up to 15% of their gross compensation into the plan. The Company currently matches up to 6% of the participant's contribution at a rate of 50% of the contribution. The plan also allows for additional contributions by the Company at its discretion.

### **ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.**

The following table sets forth the number of shares of the Company's common



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stock owned beneficially as of March 31, 2003 (unless otherwise noted), by each person known by the Company to have owned beneficially more than five percent of such shares then outstanding, by each officer and director of the Company and by all of the Company's officers and directors as a group. This information gives effect to securities deemed outstanding pursuant to Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, as amended. As far as is known to management of the Company, no person owns beneficially more than five percent of the outstanding shares of common stock as of March 31, 2003 except as set forth below.

| Name of Beneficial<br>Owner                            | Amount and<br>Nature of<br>Beneficial Owner | Percentage of<br>Class Benefi-<br>cially Owned |
|--|---|--|
| Luke R. Schmieder (1)                                  | 355,967 (2)                                 | 11.4   |
| Steven W. Peterson (1)                                 | 66,050 (3)                                  | 2.1  |
| Paul D. Duke (1)                                       | 127,466 (4)                                 | 4.1  |
| H. Stuart Campbell (1)                                 | 78,000 (5)                                  | 2.5  |
| Michael T. Brooks (1)                                  | 21,200 (6)                                  | 0.7  |
| FMR Corp. (9)  | 297,600 (7)                                 | 9.6  |
| All officers and<br>directors as a group (5 in number) | 648,683 (8)                                 | 20.5   |

- (1) The business address is 12100 West Sixth Avenue, Lakewood, Colorado 80228.
- (2) Includes 10,000 shares which Mr. Schmieder has the right to acquire within 60 days by exercise of stock options.
- (3) Includes 11,500 shares which Mr. Peterson has the right to acquire within 60 days by exercise of stock options.
- (4) Includes 6,000 shares which Mr. Duke has the right to acquire within 60 days by exercise of stock options.
- (5) Includes 22,000 shares which Mr. Campbell has the right to acquire within 60 days by exercise of stock options.
- (6) Includes 20,000 shares which Mr. Brooks has the right to acquire within 60 days by exercise of stock options.
- (7) Based upon information set forth in schedule 13G filed by FMR Corp. with the Securities and Exchange Commission dated February 14, 2003. Fidelity Management & Research Company ("Fidelity"), a wholly-owned subsidiary of FMR Corp., is the beneficial owner of 297,600 shares as a result of acting as investment advisor to several investment companies. The ownership by one investment company, Fidelity Low-Priced Stock Fund, amounted to 297,600 shares. Mr. Edward C. Johnson 3d, FMR Corp., through its control of Fidelity, and the aforementioned investment companies each has the power to dispose of the 297,600 shares.
- (8) Includes 69,500 shares which the officers and directors of the Company as a group have the right to acquire within 60 days by exercise of stock options.
- (9) The business address is 82 Devonshire Street, Boston, MA 02109.

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

### **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

None.

### **ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.**

- (a) 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.
- (10) (i) Stock Purchase Agreement between Linda V. Masano and Thomas Michael Masano (as sellers) and Mesa Laboratories, Inc. (as Purchaser) dated as of December 7, 1999 - Incorporated by reference to the exhibit to the report on form 8-K dated December 7, 1999, file number 0-11740.
- (23) (i) Consent of Ehrhardt Keefe Steiner & Hottman PC, independent public accountants, to the incorporation by reference in the Registration Statements on Form S-8 (file numbers 33-89808, 333-02074, 333-18161 and 333-48556) of their report dated April 29, 2003, included in the Registrant's Report on Form 10-KSB for the fiscal year ended March 31, 2003.
- (99.1) Certifications of the Chief Executive Officer.
- (99.2) Certifications of the Chief Financial Officer.
- (b) Reports on Form 8-K. During the last quarter of the period covered by this -----  
report, the Registrant did not file any Report on Form 8-K.

### **ITEM 14. CONTROLS AND PROCEDURES.**

Within the 90 days prior to the date of filing this Annual Report on Form 10-KSB, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 and 15d-14. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in our periodic SEC filings. Subsequent to the date of that evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls, nor were any corrective actions required with regard to significant deficiencies and material

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weaknesses.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MESA LABORATORIES, INC.

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Registrant

Date: June 30, 2003

By: /s/Luke R. Schmieder

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Luke R. Schmieder, President

In accordance with the Exchange Act, 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<br>-----<br>Date<br>-----                       | Title<br>-----   |               |
|--|--|---------------|
| /s/Luke R. Schmieder<br>-----<br>Luke R. Schmieder   | President, Chief Executive Officer,<br>Treasurer and Director                          | June 30, 2003 |
| /s/Steven W. Peterson<br>-----<br>Steven W. Peterson | Vice President, Finance, Chief Financial<br>and Chief Accounting Officer and Secretary | June 30, 2003 |
| /s/Paul D. Duke<br>-----<br>Paul D. Duke             | Director   | June 30, 2003 |
| /s/H. Stuart Campbell<br>-----<br>H. Stuart Campbell | Director   | June 30, 2003 |
| /s/Michael T. Brooks<br>-----<br>Michael T. Brooks   | Director   | June 30, 2003 |

CERTIFICATIONS

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I, Luke R. Schmieder, the Chief Executive Officer of Mesa Laboratories, Inc. (the "Company"), certify that:

1. I have reviewed this annual report on Form 10-KSB of Mesa Laboratories, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: June 30, 2003

By: /s/ Luke R. Schmieder

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Name: Luke R. Schmieder

Title: Chief Executive Officer

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I, Steven W. Peterson, the Chief Financial Officer of Mesa Laboratories, Inc. (the "Company"), certify that:

1. I have reviewed this annual report on Form 10-KSB of Mesa Laboratories, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material

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weaknesses. Date: June 30, 2003

By: /s/ Steven W. Peterson  
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Name: Steven W. Peterson

Title: Chief Financial Officer