

# Report to Shareholders

**Mesa Laboratories, Inc.**

*Fiscal Year Ended March 31, 2003*

## To Our Shareholders:



*Luke Schmieder,  
President  
and CEO*

**In fiscal 2003**, Mesa Laboratories reported record net income of \$2.1 million or \$.64 per share on a diluted basis. Net sales showed a slight gain in an economic environment in which many companies faltered.

The new DATATRACE® Micropack III temperature logger began to fulfill its promise in the third quarter, driving DATATRACE sales increases for the fiscal year. DATATRACE humidity logging instruments also saw a good increase in sales, while medical products sales leveled off, returning to their trendline prior to fiscal 2002's record sale of \$800,000 to a single customer.

Mesa's fiscal 2003 and 2002 years clearly illustrate the benefits of the Company's diversification in very different niche markets — markets where demand for high quality products and superior servicing create good margins.

In the year ending March 31, 2003, DATATRACE performed, counterbalancing lower medical product sales. In fiscal 2002 our medical products division shone, offsetting slower sales in the DATATRACE line. The result has been steadily increasing net income and strong sales for over a decade.

Consistent profitability and a conservative approach to fixed costs enhance our financial

*continues on page 2*

## Diversification Benefits Strong Revenue Performance

In fiscal 2002, strong medical products sales kept Mesa's revenues on target. In fiscal 2003, DATATRACE sales led medical product sales. This balance of products serving different markets has helped Mesa report steady growth for over a decade.

Net sales for fiscal 2003 increased to \$9,081,776 compared to \$9,043,844 in fiscal 2002, a change of less than 1%. Net income increased 4.7% overall and 8.5% on a per share basis to a record \$2,126,879 or \$0.64 per share on a diluted basis compared with \$2,030,947 or \$0.59 per share on a diluted basis

*continues on page 3*

*The world market for electronics-based thermal sensors, to which DATATRACE® products belong, currently exceeds \$100 million.*



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## To Our Shareholders:

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strength. With no debt and a build-on-demand manufacturing system, we have been able to control overhead and avoid overcapacity. Mesa's strong financial position also allows us to focus on doing what is best for our customers and ultimately benefits the Company long term.

### **Increasing Shareholder Value**

Lacking what we consider good acquisition candidates during the past fiscal year, we focused on increasing shareholder value by repurchasing shares, driving further improvements in earnings per share. During fiscal 2003, the Company repurchased 266,169 shares of our common stock. On June 19, 2003, the board authorized the repurchase of an additional 300,000 shares at management's discretion.

### **Looking Forward for Mesa**

Our on-going strategy is to achieve a higher internal growth rate, driven by product line growth. To do so, we are focused on strengthening product and distribution channel development and broadening markets for our products. We have an executive search underway currently for a corporate vice president of marketing, who can bring Mesa experience in these areas and strengthen our marketing efforts.

Mesa's research and development activity is being expanded with specific focus on the development of three new versions of the Micropack III tracer that will measure parameters beyond temperature. This effort is proceeding well and should result in new product introductions later in fiscal 2004. Development of our next generation of meters for kidney dialysis is underway and we anticipate introducing new products in fiscal 2005. Our first priority is a

full-featured, state-of-the-art meter for the dialysis technician.

The Micropack III is proving an excellent product. Sales have been steadily gaining strength as the market recognizes the technological advances of the new tracer. Micropack III sales are expected to continue to drive revenue growth in fiscal 2004. While the market for DATATRACE's humidity tracer is smaller, this product is experiencing rapid growth in the medical products sterilization industry where DATATRACE technology has clearly demonstrated the ability to increase productivity. With the introduction slated this year of a humidity Micropack III, Mesa's offerings to this market continue to expand.

We have found the greatest opportunities for growing sales in our medical products division in developing countries. Korea, China and South America have been exceptionally good markets recently. While the sometimes fragile economies of developing nations can make sales somewhat irregular, we try to work with financially strong partners that mitigate economic instabilities.

Mesa serves a small, stable customer base for its flow meter and concentration analyzers. These customers tend to have specific applications to which our technology is particularly suited. The flow meter business has not been as price competitive recently, leading to some new sales. While these sales can be highly lucrative, we continue to see limited growth opportunities and are not investing to expand these lines at this time.

### **In Conclusion**

Mesa continues to be a financially

solid, profitable company. We've weathered the economic downturn very well. Our product lines meet the needs of clearly defined niches and we believe there are good opportunities to grow our business.

As always, we thank you for your support and look for ways to reward that support through increased shareholder value. I look forward to reporting our progress as the year moves forward.

Sincerely,



Luke R. Schmieder  
President and Chief Executive Officer  
Mesa Laboratories, Inc.

Year ended March 31,

### **Operation Data**

Net sales  
Gross profit  
Profit after selling, general and administrative  
Operating income  
Net income  
Diluted earnings per share  
Weighted average number of shares  
outstanding - diluted

### **Financial Position Data:**

Current assets  
Current liabilities  
Working capital  
Current ratio  
Total assets  
Long-term debt  
Stockholders' equity  
Stockholders' equity per share

### **Average Return On:**

Stockholder's investment  
Assets  
Invested capital

## Diversification Benefits Strong Revenue Performance

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**DATATRACE products have the highest gross margin of all Mesa products, contributing to Mesa's increased profitability.**

in fiscal 2002. The improvements in earnings per share favorably reflect the impact of fewer shares outstanding as a result of Mesa's ongoing buyback program.

The increase in net income resulted from continuing productivity gains and the shift in product mix. Net income growth was actually restrained by an increase in the tax rate on net income compared to fiscal 2002. The tax rate increase resulted from a reduction in the benefit of export sales.

During 2003, revenues for the DATATRACE line of products increased 28%. The majority of the increase came from sales of Mesa's new Micropack III temperature loggers, followed by sales of humidity logging instruments. Growth in humidity logger sales has been driven by increased use by sterilizers of medical products.

DATATRACE export sales also benefited from a decline in the value of the U.S. dollar when compared to the EURO and other foreign currencies.

Medical product sales leveled off in 2003, slightly down from the prior fiscal year after several years of good growth. Much of the decline was due to a decrease in ECHO® Dialyzer Reprocessor sales, which had enjoyed the single largest sale in the Company's history in fiscal 2002. Follow-on products, support, and accessories for the hemodialysis market enjoyed good gains. Crucial to growing sales in this area will be the internal development of new products that bring technological advances to Mesa's product mix.

MESA LABORATORIES, Inc.

## Ten Year Financial Highlights

2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
\$ 9,081,776	\$ 9,043,844	\$ 9,099,963	\$ 8,655,331	\$ 8,083,273	\$ 7,921,949	\$ 7,774,050	\$ 8,062,561	\$ 6,603,603	\$ 6,160,937
\$ 5,684,537	\$ 5,391,409	\$ 5,511,697	\$ 5,520,503	\$ 5,423,056	\$ 5,269,535	\$ 4,841,825	\$ 4,974,673	\$ 4,077,197	\$ 3,840,153
\$ 3,446,442	\$ 3,232,038	\$ 3,114,495	\$ 3,126,898	\$ 3,191,835	\$ 3,166,170	\$ 2,757,313	\$ 2,696,997	\$ 2,171,757	\$ 1,955,886
\$ 3,186,476	\$ 2,942,099	\$ 2,806,329	\$ 2,845,247	\$ 2,955,066	\$ 2,902,019	\$ 2,503,652	\$ 2,402,171	\$ 1,813,276	\$ 1,553,504
\$ 2,126,879	\$ 2,030,947	\$ 1,832,268	\$ 2,106,619	\$ 2,103,428	\$ 2,052,314	\$ 1,719,805	\$ 1,623,959	\$ 1,235,714	\$ 1,027,049
\$ .64	\$ .59	\$ .49	\$ .55	\$ .50	\$ .47	\$ .39	\$ .37	\$ .29	\$ .23
<b>3,299,435</b>	3,452,159	3,722,317	3,840,865	4,172,398	4,399,373	4,466,128	4,366,057	4,329,889	4,417,298
\$ 9,603,658	\$ 8,599,383	\$ 8,139,361	\$ 7,336,061	\$ 10,286,177	\$ 9,218,374	\$ 7,614,321	\$ 6,111,148	\$ 4,312,209	\$ 4,283,109
\$ 586,706	\$ 500,705	\$ 860,715	\$ 807,114	\$ 655,527	\$ 544,221	\$ 575,473	\$ 695,756	\$ 515,672	\$ 626,626
\$ 9,016,952	\$ 8,098,678	\$ 7,278,646	\$ 6,528,947	\$ 9,630,650	\$ 8,674,153	\$ 7,038,848	\$ 5,415,392	\$ 3,796,537	\$ 3,656,483
<b>16.4:1</b>	17.2:1	9.5:1	9.1:1	15.7:1	16.9:1	13.2:1	8.8:1	8.4:1	6.8:1
\$15,159,580	\$14,436,723	\$13,818,965	\$13,534,269	\$12,639,151	\$11,780,092	\$10,206,430	\$ 8,791,869	\$ 6,865,733	\$ 6,106,728
—	—	—	—	—	—	—	—	—	—
\$14,486,523	\$13,894,274	\$12,932,958	\$12,599,464	\$11,905,624	\$11,160,871	\$ 9,568,157	\$ 8,037,978	\$ 6,284,411	\$ 5,444,277
\$ 4.67	\$ 4.16	\$ 3.65	\$ 3.33	\$ 2.95	\$ 2.60	\$ 2.22	\$ 1.86	\$ 1.48	\$ 1.25
<b>15%</b>	15%	14%	17%	18%	20%	20%	23%	21%	21%
<b>14%</b>	14%	13%	16%	17%	19%	18%	21%	19%	18%
<b>21%</b>	19%	18%	28%	38%	30%	29%	27%	23%	22%

# One Inch, 16,000 Measurements

In September 2002, Mesa began its first major shipments of the DATATRACE Micropack III temperature logger. At less than one inch high and weighing less than 0.5 ounces without its probe, Mesa's Micropack III Tracer is a powerful blend of the latest advances in microcircuitry, power supply and sensor technologies.



*In addition to the Micropack III, Tracers are available in the larger Micropack II Tracer, Flatpack (with a flat profile rather than rounded) and Field Replaceable Battery configurations. These Tracers are available in three temperature ranges, LoTemp (-40° to 185°F), StandardTemp (50°F to 302°F) and HiTemp (212°F to 680°F), as well as pressure and humidity sensors.*

## DATATRACE in Japan



Japan has long been one of Mesa's strongest markets for its DATATRACE temperature,

humidity and pressure monitors.

Relationships with Mesa customers go back nearly two decades and have been the

source of many innovations in the DATATRACE product line. The Flatpack Tracer was developed initially for this market and the

Micropack III has been exceptionally well received in Japan.

Behind the popularity of DATATRACE monitors in Japan is the drive to assure product quality by understanding what is happening throughout a manufacturing process or lifecycle of a product. An important application is in the food industry, specifically producing small size products for vending machines.

The Micropack III is capable of taking 16,000 individual readings before downloading. Its virtually indestructible design has taken the Micropack III through deep freeze, ovens, tumblers and explosive environments.

Micropack III is the latest entry in Mesa's DATATRACE line of temperature, humidity and pressure monitors. Among its many enhanced features are reduced size, optical data transfer, an expanded temperature range from -4° to 680°F and increased data points.

Temperature probe configurations include (1) Rigid with a bullet, tapered or needle tip and (2) Flexible, including stainless steel and Teflon Flex in a tapered or needle tip. Probe lengths are often customized for specific applications and have varied from one inch to 48 inches. Humidity and pressure tips are standardized, but allow for different pressure ranges.

Because Tracers do not require wires or cable connections, monitoring productivity is enhanced, set up time is greatly reduced and measurement reliability increased. All Tracer calibrations are NIST traceable, and carry CE certification.

## Support Software with Power and Simplicity

*Menu-driven, Windows® based software facilitates the use of Mesa's products.*



Mesa's product lines include system software to facilitate use of the instruments. This software is designed to be easy to operate, menu driven and secure, yet tremendously flexible. By making it easy to understand and analyze data, Mesa's software provides customers with a powerful tool for increased productivity.

A PC Interface Module, linked to a personal computer allows programming and retrieval of data from DATATRACE temperature, pressure or humidity loggers. The system software then facilitates analysis of the data, including graphing and display and transfer to other programs.

All Mesa software systems are designed to prevent unauthorized access to data and data corruption. DATATRACE software complies with FDA 21 CFR Part 11. This, along with improved IR communications and batch programming, allows the system to handle data faster and more securely while meeting FDA standards for password protected access, electronic signatures and automatic documentation for audit trails.

## International Dialysis Market Creates Growth Opportunities

Hemodialysis, the process of removing toxic waste products and excess water from the blood of individuals suffering kidney failure, has been an established procedure in Europe and North America for over three decades. Growth rates in these geographic regions tend to fall between 5-7% as new patients are diagnosed with kidney problems. A typical patient will undergo hemodialysis three times a week, and with dialysis, can live a relatively normal life.

In developing nations, kidney dialysis has traditionally not been widely available. Over the past ten years, this has begun to change. Mesa Labs' greatest growth in medical product sales has occurred in developing nations where therapy cost is a critical factor.

Mesa's ECHO Dialyzer Reprocessor offers dialysis providers an opportunity to reduce dialysis costs by cleaning, testing and disinfecting dialyzers for re-use by the same patient. Its dialysis meter products, ranging from the full-feature 90DX and NEO-2 meters to meters that measure a single parameter at the point of therapy, give therapy providers an opportunity to control costs and safety in the dialysis process. The flexibility of these products and their ease of use, also contribute to their desirability for use in developing nations.

In developed nations, new demand could be created for the ECHO Reprocessor through a move to provide hemodialysis in-home. The ECHO was originally designed for in-home use when earlier trends appeared to be moving that direction and its simplicity of operation was geared toward non-technician use. Whether in-home dialysis becomes a common therapy remains to be seen.

*The NEO-2 Meter, introduced in October 1999, measures conductivity, pressure, temperature and pH to ensure that the dialysate solution has the proper constituency to promote the transfer of waste products from the blood.*



## The Search for New Applications

New applications have long been a source of growth for Mesa's DATATRACE products. In many of these applications, once a DATATRACE logger proves successful, it often becomes a process standard. This has been particularly influential in sales to the medical industry where validating processes is a time consuming and costly process. In sterilization of medical products, the intrinsically safe DATATRACE Micropack humidity tracer has become the preferred monitoring solution.

The challenge to Mesa is to continue to develop new applications where Tracers, with their compact size and ease of use, assist in assuring product and process quality.

Current applications include uses in

- ◆ pharmaceuticals,
- ◆ food and beverages,
- ◆ medical device sterilization,
- ◆ product handling and storage,
- ◆ textile manufacturing, and
- ◆ other critical thermal processing.

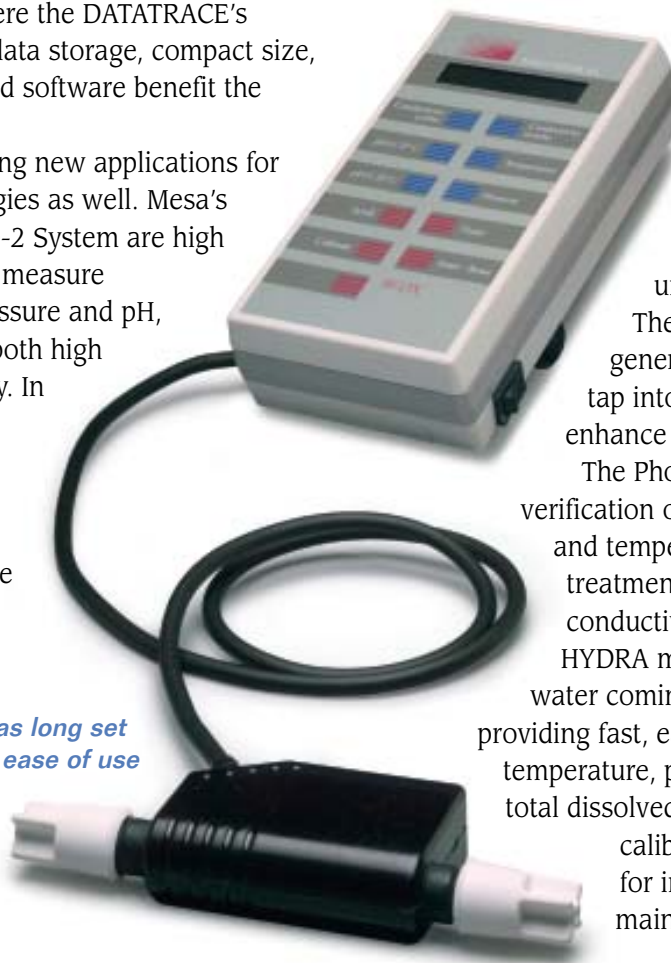
These are applications where the DATATRACE's superior accuracy, expanded data storage, compact size, wire-free use and sophisticated software benefit the monitoring process.

Mesa is exploring developing new applications for its medical products technologies as well. Mesa's 90DX Western Meter and NEO-2 System are high precision instruments used to measure conductivity, temperature, pressure and pH, offering extreme accuracy in both high and low ranges of conductivity. In addition to their use in the dialysis clinic, they are commonly used by manufacturers of dialysis equipment to test and calibrate dialysis delivery systems and water purification equipment.

*Mesa's 90DX dialysis meter has long set the standard for accuracy and ease of use in monitoring dialysis solutions and processes and is widely used by dialysis technicians and manufacturers of dialysis equipment.*



*The DATATRACE Tracers can be placed completely inside a container or process to provide true time, temperature, humidity and/or pressure profiles of manufacturing processes, transportation systems and storage facilities.*



Hand-held meters, including the Phoenix, NEO-STAT+ and HYDRA Water Quality

Instrument, are designed to be more efficient at point-of-care in the dialysis procedure. They use a patented, simple and unique syringe sampling system.

The development of a new generation of these instruments will tap into technological advances and enhance their usability.

The Phoenix is used for pre-treatment verification of final dialysate pH, conductivity and temperature. NEO-STAT+ provides pre-treatment verification of final dialysate conductivity and temperature, while the HYDRA monitors the treatment system for water coming into the dialysis procedure, providing fast, easy measurement of water temperature, pH, resistivity, conductivity and total dissolved solids. Mesa also provides

calibration solutions and accessories for instrument calibration and maintenance.

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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 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

## 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.

#### Research and 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 the 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 1% 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%. 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% for the fiscal year. Humidity logging instruments also produced a sharp increase for the fiscal year improving more than 140%. 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% for the fiscal year. The major share of this decrease was due to a decline in Echo 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% 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 3% 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 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 1% 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 U.S. 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 1% 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.

*Continued on page 10*

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 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 competitors 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 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;
- 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.

**Balance Sheets**

	March 31,	
	2003	2002
<b>ASSETS</b>		
<b>Current Assets:</b>		
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
<b>Total Current Assets</b>	<b>9,603,658</b>	<b>8,599,383</b>
<b>Property, Plant and Equipment, net</b>	<b>1,347,980</b>	<b>1,398,398</b>
<b>Other Assets:</b>		
Other long-term assets	—	231,000
Goodwill	4,207,942	4,207,942
	<b>\$15,159,580</b>	<b>\$ 14,436,723</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<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; authorized 1,000,000 shares; none issued	—	—
Common stock, no par value; authorized 8,000,000 shares; issued and outstanding, 3,098,907 (2003) and 3,342,376 (2002)	1,284,887	1,791,758
Retained earnings	13,201,636	12,102,516
	<b>14,486,523</b>	<b>13,894,274</b>
	<b>\$15,159,580</b>	<b>\$ 14,436,723</b>

See notes to financial statements.

## Statements of Income

	Year Ended March 31,	
	2003	2002
<b>Sales</b>	<b>\$ 9,081,776</b>	\$ 9,043,844
<b>Cost of sales</b>	<b>3,397,239</b>	3,652,435
<b>Gross profit</b>	<b>5,684,537</b>	5,391,409
<b>Operating expenses:</b>		
Selling	<b>1,334,385</b>	1,224,835
General and administrative	<b>903,710</b>	934,536
Research and development	<b>259,966</b>	289,939
<b>Total operating expenses</b>	<b>2,498,061</b>	2,449,310
<b>Operating income</b>	<b>3,186,476</b>	2,942,099
<b>Interest income</b>	<b>55,160</b>	78,511
<b>Earnings before income taxes</b>	<b>3,241,636</b>	3,020,610
<b>Income taxes</b>	<b>1,114,757</b>	989,663
<b>Net income</b>	<b>\$ 2,126,879</b>	\$ 2,030,947
<b>Net income per share (basic)</b>	<b>\$ .66</b>	\$ .60
<b>Net income per share (diluted)</b>	<b>\$ .64</b>	\$ .59
<b>Average common shares outstanding - basic</b>	<b>3,226,848</b>	3,407,649
<b>Average common shares outstanding - diluted</b>	<b>3,299,435</b>	3,452,159

See notes to financial statements.

## Statements of Stockholders' Equity

	Common Stock		Retained Earnings	Total Stockholders' Equity
	Number of Shares	Amount		
<b>Balance, March 31, 2001</b>	3,542,160	\$ 2,165,549	\$ 10,767,409	\$ 12,932,958
Common stock issued for the conversion of incentive stock options net of 34,461 shares returned to Company as payment	13,995	27,909	—	27,909
Purchase and retirement of treasury stock	(213,779)	(401,700)	(695,840)	(1,097,540)
Net income for the year	—	—	2,030,947	2,030,947
<b>Balance, March 31, 2002</b>	3,342,376	1,791,758	12,102,516	13,894,274
Common stock issued for the conversion of incentive stock options net of 29,704 shares returned to Company as payment	22,700	86,441	—	86,441
Purchase and retirement of treasury stock	(266,169)	(593,312)	(1,027,759)	(1,621,071)
Net income for the year	—	—	2,126,879	2,126,879
<b>Balance, March 31, 2003</b>	3,098,907	\$ 1,284,887	\$ 13,201,636	\$ 14,486,523

See notes to financial statements.

**Statements of Cash Flows**

	Years Ended March 31,	
	2003	2002
Cash flows from operating activities:		
Net income	<b>\$ 2,126,879</b>	\$ 2,030,947
Depreciation and amortization	<b>115,351</b>	115,088
Provision for warranty reserve	<b>(15,000)</b>	18,000
Provision for inventory reserve	<b>60,000</b>	(40,000)
Deferred income taxes	<b>31,444</b>	20,574
Change in assets and liabilities –		
(Increase) decrease in accounts receivable	<b>245,233</b>	759,313
(Increase) decrease in inventories	<b>54,092</b>	(244)
(Increase) decrease in prepaid expenses	<b>179,687</b>	(269,004)
Increase (decrease) in accounts payable, trade	<b>29,085</b>	(264,625)
Increase (decrease) in accrued liabilities and taxes payable	<b>71,916</b>	(113,385)
Net cash provided by operating activities	<b>2,898,687</b>	2,256,664
Cash flows from investing activities:		
Capital expenditures	<b>(64,933)</b>	(41,824)
Net cash (used) provided by investing activities	<b>(64,933)</b>	(41,824)
Cash flow from financing activities:		
Net proceeds from issuance of stock	<b>86,441</b>	27,909
Common stock repurchases	<b>(1,621,071)</b>	(1,097,540)
Net cash (used) provided by financing activities	<b>(1,534,630)</b>	(1,069,631)
Net increase (decrease) in cash and cash equivalents	<b>1,299,124</b>	1,145,209
Cash and cash equivalents at beginning of year	<b>3,461,978</b>	2,316,769
Cash and cash equivalents at end of year	<b>\$ 4,761,102</b>	\$ 3,461,978
Supplemental disclosures of cash flow information:		
Cash paid during the year for: Income taxes	<b>\$ 895,821</b>	\$ 1,366,200

See notes to financial statements.

## 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 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 and Business Combinations** — 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 and 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 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:

*Continued on page 16*

## Notes to Financial Statements, *continued*

	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.

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 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,	
	2003	2002
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)
	<b>\$2,328,999</b>	<b>\$ 2,443,091</b>

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,	
	2003	2002
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
	<b>2,976,410</b>	<b>2,911,477</b>
Less accumulated depreciation	(1,628,430)	(1,513,079)
	<b>\$ 1,347,980</b>	<b>\$ 1,398,398</b>

## 4. Income Taxes:

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

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

Deferred taxes result from temporary differences in the recognition of income and expenses for financial and income tax report-

ing 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	<b>\$ 28,590</b>	<b>\$ 60,034</b>

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)
	<b>\$1,114,757</b>	<b>\$ 989,663</b>

## 5. Stock Repurchase:

In August, 2001, the Company's Board of Directors approved a 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 employee's 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.

Continued on page 18

## Notes to Financial Statements, *continued*

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:

	FY 2003		FY 2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise 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	<b>323,295</b>	<b>\$ 4.98</b>	328,035	\$ 4.85
Options exercisable at end of year	<b>132,045</b>	<b>\$ 4.75</b>	120,110	\$ 5.00
Shares available for future option grant	<b>223,371</b>		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	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
<b>\$3.75 - \$7.00</b>	<b>323,295</b>	<b>4.0</b>	<b>\$4.98</b>	<b>132,045</b>	<b>\$4.75</b>

## 8. International Sales:

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

	Year 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
	<b>\$3,136,789</b>	<b>\$ 3,776,317</b>

## Corporate Data

### BOARD OF DIRECTORS

Michael T. Brooks  
H. Stuart Campbell  
Paul D. Duke  
Luke R. Schmieder

### EXECUTIVE OFFICERS

Luke R. Schmieder  
*President, Chief Executive Officer  
and Treasurer*  
Steven W. Peterson  
*Vice President Finance  
and Secretary*

### CORPORATE OFFICES

Mesa Laboratories, Inc.  
12100 West Sixth Avenue  
Lakewood, Colorado 80228  
(303) 987-8000  
Fax: (303) 987-8989

### TRANSFER AGENT

Computershare Investor Services  
Denver, Colorado

### INDEPENDENT AUDITORS

Ehrhardt Keefe Steiner & Hottman PC  
Denver, Colorado

### SEC COUNSEL

Andrew N. Bernstein, PC  
Denver, Colorado

### FORM 10-KSB

A copy of the Company's 10-KSB Report, as filed with the Securities and Exchange Commission for the year ended March 31, 2003, is available upon written request to the Company's executive offices.

## Common Stock Performance

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:

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
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

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
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

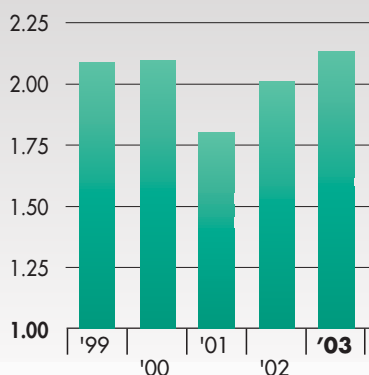
The Nasdaq National Market quotations set forth herein reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

As of March 31, 2003, there were approximately 1,000 record and beneficial holders of Mesa's common stock. The Company has not declared or paid any dividends to date.

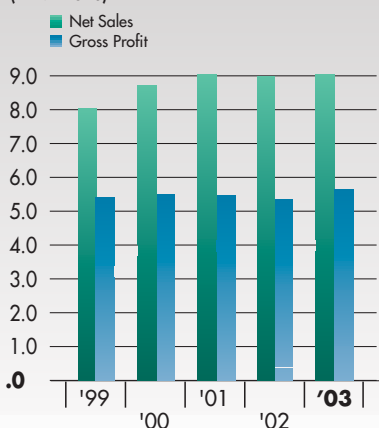
# Financial Highlights

	Year Ended March 31,		Percent Change
	2003	2002	
Net sales	\$ 9,081,776	\$ 9,043,844	0.4%
Gross profit	\$ 5,684,537	\$ 5,391,409	5.4%
Operating income	\$ 3,186,476	\$ 2,942,099	8.3%
Net income	\$ 2,126,879	\$ 2,030,947	4.7%
Net income per share — diluted	\$ 0.64	\$ 0.59	8.5%
Total assets	\$ 15,159,580	\$ 14,436,723	5.0%
Average common shares outstanding — diluted	3,299,435	3,452,159	-4.4%
Number of employees	47	52	-9.6%
Average inventory turns per year	1.4	1.5	
Current ratio	16.4:1	17.2:1	
<b>Average Return On:</b>			
Stockholders' investment	15%	15%	
Assets	14%	14%	
Invested capital	21%	19%	

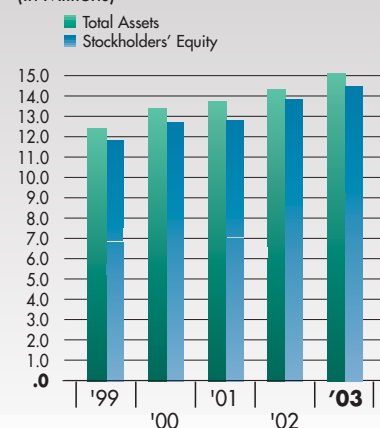
**Net Income**  
(In Millions)



**Net Sales/Gross Profits**  
(In Millions)



**Total Assets/Stockholders' Equity**  
(In Millions)

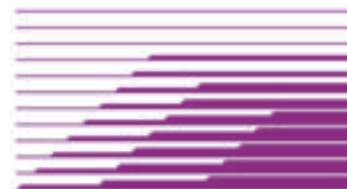


## Profile

Mesa Laboratories, Inc. designs, develops, acquires, manufactures and markets instruments and systems used in industrial applications and hemodialysis therapy worldwide.

Mesa's products are characterized by high reliability, ease of use and superior industry reputations. They are used to assure product and process quality and to solve measurement and control problems in niche markets in consumer products, industrial, pharmaceutical and medical applications.

These products include DATATRACE® self-contained instruments for measuring and recording temperature, humidity and pressure; product lines used in kidney dialysis — Western Meters,™ NEO-2,™ pHoenix,™ Neo-Stat™ and Hydra Water Quality Instrument,™ and the ECHO® Dialyzer Reprocessor — and NUSONICS® Flow Meters and Sonic Concentration Analyzers. Mesa also provides servicing and accessories used by its product lines.



## Mesa Laboratories, Inc.

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