M E S A

L A B S

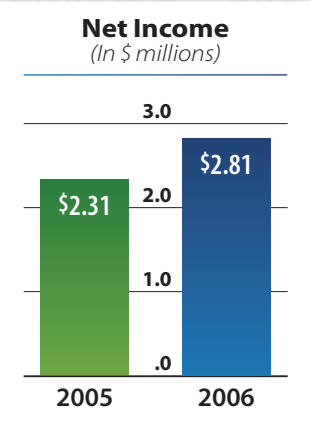
Mesa Laboratories, Inc.

# 2006 Annual Report

Fiscal Year Ended March 31, 2006

## NEWS BRIEFS

### NET INCOME INCREASES 21% FOR FISCAL 2006




Mesa Laboratories closed its fiscal 2006 year with an outstanding fourth quarter, reporting net sales increases of 31 percent for the three-month period ended March 31, 2006. On a full-year basis, the Company achieved a 21 percent increase in net income and a 15 percent increase in sales over fiscal 2005. DataTrace® data logger products were up 23 percent for the year, with fourth quarter sales increasing 64 percent, reflecting the impact of Mesa's transition from independent manufacturer's representatives to direct sales personnel for domestic sales.

### NEW MESA LABS PRESIDENT

Effective May 2006, **John J. Sullivan, Ph.D.** was promoted to the new position of President and Chief Operating Officer of Mesa Laboratories, Inc. Luke Schmieder, Mesa's President and CEO since the Company's founding in 1982, retains his position of CEO and has assumed the newly created position of Chairman of the Board of Directors.

Dr. Sullivan joined Mesa in 2004 as Vice President of Sales and Marketing and has played a key role in the Company's expanded sales and marketing efforts. Dr. Sullivan came to Mesa with 16 years of experience in analytical instrument manufacturing, where he served in various capacities in research and development, sales and marketing management and in business development. Prior to his work in private industry, Dr. Sullivan was with the Food and Drug Administration, where he was involved in the development of laboratory procedures. He holds a Bachelor's degree in Biology and a Ph.D. in Food Chemistry.

### RAVEN ACQUISITION CLOSES FOLLOWING FISCAL YEAR END


On May 4, 2006, Mesa Labs completed the acquisition of Raven Biological Laboratories, Inc. of Omaha, Nebraska for approximately $6.75 million. Founded in 1949, Raven produces annual revenues in excess of $4.3 million from the design, manufacture and sale of biological indicators used to provide quality control testing in sterilization processes. The company is a leader in the biological indicator industry and distributes its products worldwide. The acquisition is expected to be accretive to Mesa's earnings per share in fiscal 2007.

### ROBERT V. DWYER NAMED MESA DIRECTOR

**Robert V. Dwyer** was appointed to Mesa's Board of Directors following the acquisition of Raven Biological Laboratories. Mr. Dwyer currently serves as President of Mesa's Raven Labs operation. He was previously President and majority owner of Raven Biological Laboratories, Inc. and is also an Attorney at Law. Mr. Dwyer received his Bachelor of Arts in Philosophy and J.D. from Creighton University.

## IN THIS REPORT...

# Message to Our Shareholders

**Fiscal 2006** was a milestone year for Mesa Laboratories in both sales and profits. Net sales increased 15 percent to a record $11.6 million, while net income for the year was up 21 percent over fiscal 2005 topping $2.8 million or $.92 per diluted share. Our core businesses performed very well, ending the year with good momentum that should produce continued sales growth for the 2007 fiscal year.

For the year, sales of DataTrace data logger products were up 23 percent. Data logger sales experienced the greatest growth in the fourth quarter increasing 64 percent over the same quarter a year ago as Mesa's transition to a direct sales model in the eastern and midwestern regions of the U.S. began to have an impact. We will complete the transition to domestic direct selling in the western region of the U.S. in fiscal 2007 with the addition of two direct sales reps. DataTrace also experienced good sales growth in Japan, France and Italy where key distributors have increased their sales momentum.

Medical product sales were up 9 percent for the fiscal year, outpacing the growth of the dialysis industry. Our new 90XL hand-held dialysate meter was introduced during the final quarter of the fiscal year and has been well received. We are anticipating increased 90XL sales in fiscal 2007 as our customers complete their verification tests and incorporate the new meter in their quality assurance processes.

Improved economic conditions led to increased sales of Mesa's Nusonics ultrasonic fluid measurement systems as large industrial users increased capital spending.

The activity that will have the greatest impact on Mesa's growth in the years ahead, however, was the successful completion of Mesa's acquisition of Raven Biological Laboratories, closed after our fiscal year end on May 4, 2006.

### Impact of the Raven Acquisition

Raven Labs, founded in 1949, is a market leader in quality control products for sterilization processes. Raven manufactures biological indicators, distributes chemical indicators, and provides laboratory testing services to the pharmaceutical and medical device industries. Raven Labs has the most complete line of sterility assurance products and services available from a single manufacturer. It is a well run, technologically superior company with strong customer relationships and an excellent reputation for developing and marketing high quality, innovative products for the sterilization market.

While our core technologies are very different, biological indicators and data loggers are often used in tandem in quality assurance programs. As a result, there is considerable synergy in the markets Mesa and Raven serve with overlap among our existing customers and many opportunities to cross sell our products.

Raven's biological indicators will expand the products our direct sales personnel offer customers and diversify Mesa's revenues through a product line less impacted by

***John J. Sullivan Ph.D***
*President and Chief Operating Officer*

***Luke R. Schmieder***
*Chairman and Chief Executive Officer*

***Steven W. Peterson***
*Vice President and Chief Financial Officer*

## Ten Year Financial Highlights

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
Dividends paid

**Average Return On:**
Stockholder's investment
Assets
Invested capital

economic conditions. We also see opportunities to take advantage of Raven's excellent international sales network to enhance overseas DataTrace sales.

Raven Labs will continue to operate from its Omaha, Nebraska location. Mesa is in the process of purchasing the Raven building, which has been customized to meet the company's testing and production requirements. Our process development team is working with Raven to increase production efficiencies and we will be continuing to develop Raven's growing focus in providing sterilization process development and consulting.

Although acquisition costs will adversely impact returns in the first quarter of fiscal 2007, we expect the Raven acquisition to be immediately accretive to Mesa and to favorably impact sales and net income for fiscal 2007 and the years ahead.

## Noteworthy Achievements

This past fiscal year saw the completion of Mesa's new web site with improved search capabilities and expanded product data. We also began an electronic advertising campaign on one of the web's major search engines that produced a steady stream of new sales leads. Over the coming year, the Mesa site will be integrated with the new Raven Labs site (www.ravenlabs.com) which was also redesigned in fiscal 2006.

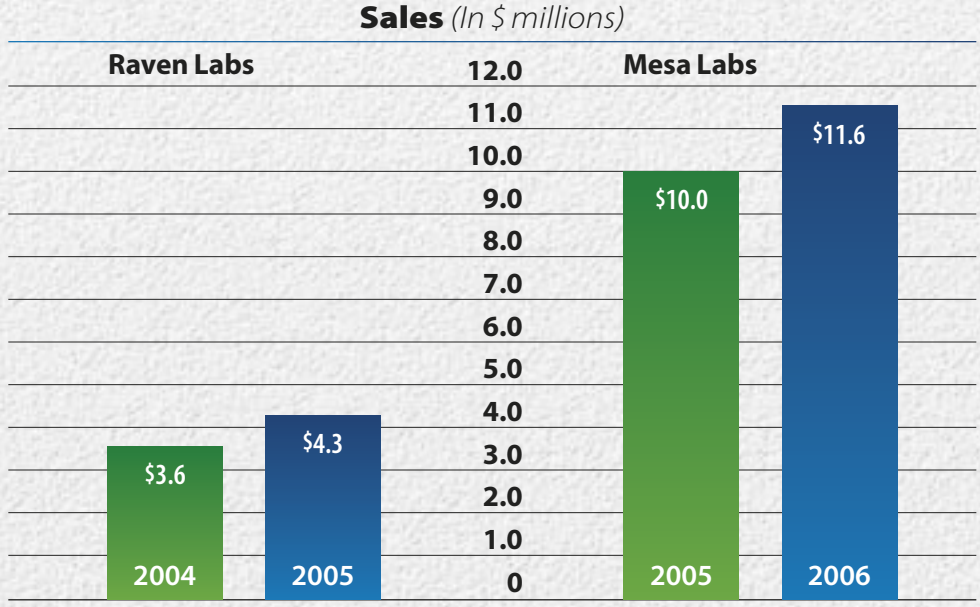
The 2005 mergers in the hemodialysis provider market, which resulted in two major dialysis providers, Fresenius Medical Care AG, and DaVita Inc., have proved to be to Mesa's advantage. In addition to a simplified sales process, we have been able to work closely with the companies in establishing systems to manage and service Mesa products. Both Fresenius and DaVita have purchased a number of the new 90XL meters

*Continued on page 4*

Mesa Laboratories, Inc.

| **2006** | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|
| **$ 11,583,000** | $ 10,041,000 | $ 9,126,000 | $ 9,082,000 | $ 9,044,000 | $ 9,100,000 | $ 8,655,000 | $ 8,083,000 | $ 7,922,000 | $ 7,774,000 |
| **$ 7,437,000** | $ 6,320,000 | $ 5,698,000 | $ 5,685,000 | $ 5,391,000 | $ 5,512,000 | $ 5,521,000 | $ 5,423,000 | $ 5,270,000 | $ 4,842,000 |
| **$ 4,468,000** | $ 3,833,000 | $ 3,581,000 | $ 3,446,000 | $ 3,232,000 | $ 3,114,000 | $ 3,127,000 | $ 3,192,000 | $ 3,166,000 | $ 2,757,000 |
| **$ 4,110,000** | $ 3,475,000 | $ 3,249,000 | $ 3,186,000 | $ 2,942,000 | $ 2,806,000 | $ 2,845,000 | $ 2,955,000 | $ 2,902,000 | $ 2,504,000 |
| **$ 2,805,000** | $ 2,312,000 | $ 2,130,000 | $ 2,127,000 | $ 2,031,000 | $ 1,832,000 | $ 2,107,000 | $ 2,103,000 | $ 2,052,000 | $ 1,720,000 |
| **$ .92** | $ .74 | $ .68 | $ .64 | $ .59 | $ .49 | $ .55 | $ .50 | $ .47 | $ .39 |
| **3,053,000** | 3,136,000 | 3,138,000 | 3,299,000 | 3,452,000 | 3,722,000 | 3,841,000 | 4,172,000 | 4,399,000 | 4,466,000 |
| **$ 10,955,000** | $ 11,123,000 | $ 10,737,000 | $ 9,604,000 | $ 8,599,000 | $ 8,139,000 | $ 7,336,000 | $ 10,286,000 | $ 9,218,000 | $ 7,614,000 |
| **$ 1,202,000** | $ 982,000 | $ 657,000 | $ 587,000 | $ 501,000 | $ 861,000 | $ 807,000 | $ 656,000 | $ 544,000 | $ 575,000 |
| **$ 9,753,000** | $ 10,141,000 | $ 10,080,000 | $ 9,017,000 | $ 8,099,000 | $ 7,279,000 | $ 6,529,000 | $ 9,631,000 | $ 8,674,000 | $ 7,039,000 |
| **9.1:1** | 11.3:1 | 16.3:1 | 16.4:1 | 17.2:1 | 9.5:1 | 9.1:1 | 15.7:1 | 16.9:1 | 13.2:1 |
| **$ 16,450,000** | $ 16,596,000 | $ 16,230,000 | $ 15,160,000 | $ 14,437,000 | $ 13,819,000 | $ 13,534,000 | $ 12,639,000 | $ 11,780,000 | $ 10,206,000 |
| **—** | — | — | — | — | — | — | — | — | — |
| **$ 14,919,000** | $ 15,379,000 | $ 15,384,000 | $ 14,487,000 | $ 13,894,000 | $ 12,933,000 | $ 12,599,000 | $ 11,906,000 | $ 11,161,000 | $ 9,568,000 |
| **$ 5.07** | $ 5.06 | $ 5.01 | $ 4.67 | $ 4.16 | $ 3.65 | $ 3.33 | $ 2.95 | $ 2.60 | $ 2.22 |
| **$ .51** | $ .42 | $ .25 | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| **19%** | 15% | 14% | 15% | 15% | 14% | 17% | 18% | 20% | 20% |
| **17%** | 14% | 14% | 14% | 14% | 13% | 16% | 17% | 19% | 18% |
| **31%** | 26% | 23% | 21% | 19% | 18% | 28% | 38% | 30% | 29% |

**Mesa Labs** and **Raven Labs** are characterized by steady growth, dominant market positions in their respective niches, healthy profit margins, technical excellence and the commitment to reliability, superior products and responsive customer service.




*For fiscal year ended October 31*

*In its most recent fiscal year, Raven produced in excess of $4.3 million in sales, an increase of 19% over the prior year.*

*For fiscal year ended March 31*

*Mesa Labs achieved a 15% increase in sales from a base roughly three times that of Raven Labs.*

for testing, and we anticipate seeing the meter become a standard within their operations.

## Outlook for Fiscal 2007

We anticipate a good year for Mesa Laboratories in fiscal 2007. Integrating Raven Labs into Mesa's corporate structure is going very well and we continue to be impressed with the high level of professionalism of the Raven staff. Our sales momentum is strong. The Raven, DataTrace and Medical product groups are well suited to their niche applications, technically superior to the competition and supported by dedicated staff. Mesa's strong financial condition gives us the ability to continue to seek synergistic acquisitions and new markets for our products.

Perhaps our greatest concern going forward is the eventual impact of the Sarbanes-Oxley Act of 2002 and its cost both in dollars and management time. The SEC is just beginning to draft guidance for small companies. While we plan to do whatever is necessary to comply with the inevitable regulatory requirements, implementation of SOX will adversely impact our bottom line.

As always, we very much appreciate the support of our shareholders and look forward to reporting the news of our progress. For more information on our products and their capabilities, visit our websites at www.mesalabs.com and www.ravenlabs.com.

Sincerely,

Luke R. Schmieder
Chairman and
Chief Executive Officer

John J. Sullivan, Ph.D.
President and
Chief Operating Officer

## Operations Overview

**Mesa Laboratories' products** serve niche markets where the Company can establish dominant market positions and set standards for the industry in accuracy, reliability, ease of use and service. Key products include:

### DataTrace® temperature, humidity, and pressure data loggers used in quality control applications world-wide.

DataTrace monitors are versatile, compact, wireless data loggers that are programmed and downloaded via a PC interface module. Mesa's willingness to work with customers to adapt DataTrace monitors to specific requirements has built a loyal world-wide customer base and contributed to new design concepts.

### Meters and calibration solutions used by dialysis equipment manufacturers and hemodialysis clinics.

Mesa serves the needs of hemodialysis providers through a full range of meters from the new versatile 90XL to routine syringe meters and lab-quality calibration solutions. Dialysis meters are used to test various parameters of the dialysis fluid, such as temperature, pressure, pH and conductivity and to validate new equipment and processes.


### Biological Indicators used to validate sterilization processes as well as in sterility process development and validation services.

Raven Labs' biological indicators and other products and services are used across a wide range of industries and applications where sterility assurance is important. Raven serves the needs of dental and medical offices, hospitals, pharmaceutical companies, medical device manufacturers, and other industries.

### Service and accessories used for Mesa's product lines.

As the base of installed Mesa products has increased over the years, service revenues and accessories have become a significant share of net sales.

# Optimizing Mesa's Involvement in the Sterilization Market

Sterilization impacts so many markets and products that its total impact is difficult to quantify. From band-aids to baby food, dental offices to food preparation, pharmaceuticals and medical instruments to hospital linens, the list of sterilization applications is quite large.

Mesa's DataTrace data loggers, with their ability to monitor temperature, pressure and humidity, are used in many applications from heat sterilization to ethylene oxide sterilization to verify that sterilization parameters have been met. With the addition of the Raven Labs products, Mesa's offerings now include high quality biological and chemical indicators for sterility compliance, providing our customers with a full line of products for their sterilization quality control needs.

A biological indicator accompanies products through a sterilization procedure to monitor the adequacy of the sterilization process. The indicator consists of a known number of microorganisms with a known resistance to the chosen sterilization process. Subsequent growth or failure of the microorganisms to grow under suitable conditions indicates the effectiveness of the sterilization.

Raven's biological indicators are sold into the healthcare, dental, pharmaceutical, medical device, cosmetic, food, environmental and water industries for use in sterilization systems using:

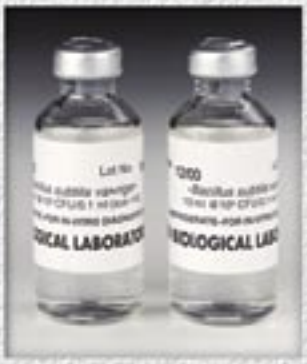
- Steam
- Ethylene Oxide
- Dry heat
- Hydrogen peroxide
- System 1®
- Gamma
- Peracetic acid
- and other sterilization techniques.

Raven Labs also provides incubators and sterilization verification services using state-of-the-art technologies, including custom biological indicator development, culturing of biological indicators and organism identification. Each biological indicator is manufactured in compliance with the Quality Systems Regulations of the U.S. Food and Drug Administration and Raven's Quality System is registered to ISO 13485:2003 standards.


A

B

C



D

E

*Raven offers a full line of industrial use biological indicators to address the unique requirements of the medical device and pharmaceutical industries.*

**A** ***Spore Strips*** *are the most commonly used indicators in healthcare and industrial applications.*

**B** *Biological indicators can be prepared on many different surfaces.* ***Woven cotton threads*** *have been used at the interface of a syringe and plunger to show sterilant penetration and efficacy at that point.* ***Steel wires*** *are intended for use in steam sterilization and can be placed in very small lumens.* ***Steel coupons*** *are intended for use in dry heat ovens at depyrogenation temperatures.*

**C** ***ProSpore Ampoule*** *is a self-contained biological indicator intended for use as a challenge to steam sterilization at 121°C. It is ideal for use in validating the sterilization of volumes of liquid that take a longer time to reach sterilizing conditions.*

**D** ***Spore Suspensions*** *are used to directly inoculate (and therefore challenge) a material or solution with a known concentration of spores.*

**E** ***micro-Strips*** *can be used in areas where standard spore strips are difficult to use because of their size. Raven's micro-Strips (2 mm x 10 mm) can be used in lumens or other small areas and are available inoculated with Bacillus atrophaeus or with Geobacillus stearothermophilus.*

## Integrating Process and Sterilization Verification

A medical products manufacturer, developing an Ethylene Oxide sterilization process for a new medical device, is required to demonstrate that the proper process was used and that the process is capable of killing bacterial spores. ***DataTrace Micropack III*** temperature and humidity data loggers and ***Raven Biological Indicators*** provide the manufacturer with that verification.

Ethylene Oxide (EtO) sterilization is one of the most widely applied sterilization processes used by medical device manufacturers worldwide. In addition to its effectiveness sterilizing common use items such as bedding, blades, paper, plastics, rubber tubing, flasks and drains, EtO is very useful when dealing with combinations of medical devices, materials and packaging placed into a single complex kit. These kits require a sterilization method suitable for all materials while maintaining stringent sterility assurance levels.

EtO requires elevated levels of temperature and humidity in order to maintain its effectiveness as a sterilization agent. An important part of the validation process is monitoring and recording temperature and humidity throughout the product load.


*ProTest is a self-contained Biological Indicator for use in either steam or ethylene oxide sterilization. A failed sterilization cycle is indicated by turbidity and/or a color change.*

In order to ensure effective sterilization, Biological Indicators are placed at various locations around the product. After the cycle is completed, the indicators are transferred and/or activated to test for growth. The sterilization process is validated if observation of the culture media shows that all spores in the device have been killed.

DataTrace data loggers are ideal for EtO sterilization applications — quick to set up, intrinsically safe in the explosive EtO environment, extremely accurate and the data is stored in a form compliant with FDA's 21 CFR Part 11 requirements. Raven provides a complete line of spore strips, BioThreads, Wires and Steel Carriers and self-contained ProTest biological Indicators for EtO sterilization. As a result, Mesa is now is a full service supplier for medical device manufacturers' sterilization quality control needs.

*DataTrace data loggers monitor humidity and pressure independently or in conjunction with temperature, recording as many as 16,000 individual readings before downloading.*

## Marketing Mesa's DataTrace Data Loggers

The versatility of Mesa's DataTrace® product line both facilitates and complicates the marketing of the small, wireless temperature, humidity and pressure data loggers. DataTrace products have applications in medical sterilization, food processing, pharmaceutical processing, transportation, electronics, aerospace, storage facilities, textile manufacturing, and more industries and applications yet to be explored. Because no wiring is required, set up can be as simple as placing a Tracer in the product or process to be monitored.

DataTrace loggers can monitor temperatures from -20°C (-4°F) to +400°C (+752°F); pressures from 0 PSIA (0 BAR) to 150 PSIA (10 BAR), and relative humidity across the full range, from 0 percent to 100 percent. Easy-to-use, intrinsically safe, virtually indestructible, and extremely reliable, DataTrace data loggers offer significant advantages over competing products in terms of accuracy, reliability and ease of use. Tracers are programmed and downloaded via a PC interface using Windows®-compatible DataTrace software.

By transitioning to a direct sales organization in the U.S., Mesa Labs is now better positioned to market its DataTrace product line across industries and applications. Through a trained direct sales force, the Company can provide the product demonstration, training and validation of the monitors' capabilities that are often necessary to open new niche markets and expand uses of the data loggers. In addition to product demonstrations and participation at industry trade shows, Mesa Labs now offers courses in Sterilization Process Validation directed toward the pharmaceutical and medical device industries.

Mesa's willingness to customize DataTrace products to meet the needs of a specific application is a competitive advantage that helps the Company penetrate and dominate niche markets. This has led to the development of the DataTrace Thermal Barriers for high temperature applications, customized probes and expanded software capabilities.

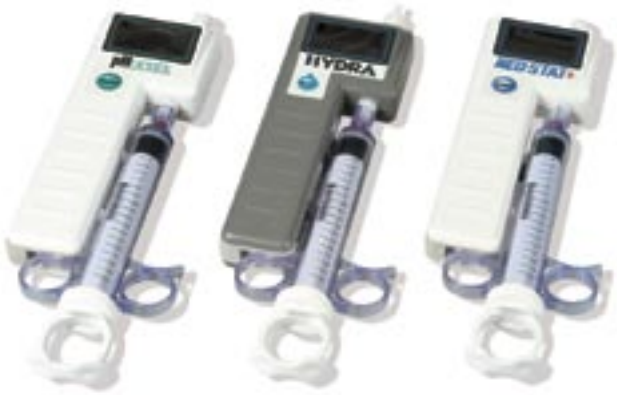
*At less than one inch in height without its probe, the Micropack III is the smallest of the DataTrace monitors with the capacity to record up to 16,000 individual readings before downloading.*

*Custom probes allow the Micropack III and other DataTrace loggers to be used in a wide range of applications.*

*While temperature monitoring is the most commonly used application, humidity and pressure monitoring are areas of growth for DataTrace.*

## Hemodialysis Is a Steadily Growing Market

Hemodialysis is the treatment of individuals with kidney failure, known as end stage renal disease (ESRD), and involves the removal of toxic waste products and excess water from the blood. The number of dialysis patients is currently growing at a steady rate of 6–7 percent annually through the addition of new patients and the increased longevity of existing hemodialysis patients.




*Mesa's patented syringe meters are typically used in the dialysis clinic to check the dialysis solution before each treatment.*

Although ESRD is found worldwide, Mesa markets its meters primarily to U.S. dialysis providers, which have more stringent standards for monitoring dialysate fluids. Industry quality assurance guidelines recommend that the conductivity, pH and temperature of the final dialysate are checked with an independent reference meter before every treatment.

Mesa's new 90XL meter is a top-of-the-line handheld dialysis meter, capable of simultaneously monitoring four sensor modules in any combination of conductivity, pH, temperature, and pressure. The 90XL offers increased accuracy over competing meters, including Mesa's 90DX and Neo-2, long-time standards in the dialysis industry. The XL's display module screen shows the parameters of each sensor in a large, easy to read display.

For routine monitoring, Mesa offers hand-held syringe style meters including the pHoenix, Neo-Stat+ and HYDRA water quality meter. These meters are specifically designed for ease of use by nephrology nurses at dialysis clinics.

Mesa Labs' care and calibration stations provide a fast, convenient method to perform the necessary rinsing, disinfection, and on-site verification and calibration of the meters. The Company also provides calibration and repair services through its main facility in Lakewood, Colorado. These services have become an increasingly important part of revenues as the installed base of Mesa's dialysis meters has grown.


*The 90XL and its predecessors, the 90DX and Neo-2, with their ability to test multiple variables, are often used by technicians to validate equipment and processes.*

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## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of Mesa Laboratories, Inc. as of March 31, 2006 and 2005, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mesa Laboratories, Inc. as of March 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Ehrhardt Keefe Steiner & Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

May 19, 2006
Denver, Colorado

## Overview

Mesa Laboratories, Inc. manufactures and distributes electronic measurement systems and disposable products for various niche applications, including renal treatment, food processing, medical sterilization, pharmaceutical processing and other industrial applications. Our Company follows a philosophy of manufacturing a high quality product and providing a high level of on-going service for those products. In order to optimize the performance of our Company and to build the value of the Company for its shareholders, we continually follow the trend of various key financial indicators. A sample of some of the most important of these indicators is presented in the following table.

**Key Financial Indicators**

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

1 Average return on stockholder investment is calculated by dividing total net income by the average of end- of-year and beginning-of-year total stockholder's equity.

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

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

## Results of Operations

### Net Sales

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

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

*Continued on page 12*

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

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

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

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

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

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

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

**Cost of Sales**

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

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

**Selling, General and Administrative**

General and administrative expenses tend to be fairly fixed and stable from year-to-year. To the greatest extent possible, we work at containing and minimizing these costs. Total administrative costs were $1,092,000 in fiscal 2006, $1,084,000 in fiscal 2005 and $906,000 in fiscal 2004, which represents an $8,000 increase from fiscal 2005 to fiscal 2006 and a $178,000 increase from fiscal 2004 to fiscal 2005. General and administrative costs were virtually unchanged during fiscal 2006 over

fiscal 2005. The increase in general and administrative expenses during fiscal 2005 over fiscal 2004 were directly attributable to compensation, relocation and recruiting costs associated with the creation and hiring of a new Vice President of Sales and Marketing position.

Our selling and marketing costs tend to be far more variable in relation to sales, although there are various exceptions. Some of these exceptions include the introduction of new products and the mix of international sales to domestic sales. For a product line experiencing introduction of a new product, costs will tend to be higher as a percent of sales due to higher advertising development and sales training programs. Our Company's international sales are usually discounted and recorded at the net discounted price, so that a change in mix between international and domestic sales may influence sales and marketing costs. One other major influence on sales and marketing costs is the mix of domestic medical sales to all other domestic sales. Domestic medical sales are made by direct telemarketing representatives, which gives us a lower cost structure, when compared to the field salesman and independent representative sales channels utilized by our other products. Through fiscal 2006 and going into fiscal 2007, the Company expects to continue to focus additional resources on its sales and marketing efforts. In June of fiscal 2006, the company began a transition from independent manufacturer's representatives to direct sales personnel for domestic sales of its Datatrace products. This change to our sales channels increased our selling costs in the current fiscal year, but our sales levels have risen to compensate for these cost increases. Last year's switch to direct selling was focused on the eastern and mid-western regions of the country. As the new fiscal year progresses we expect to continue the transition to direct selling in the western region of the U.S.

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

**Research and Development**

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

**Net Income**

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

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

## Liquidity and Capital Resources

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

Our Company has made capital acquisitions of $115,000 during fiscal 2006 and $70,000 during fiscal 2005. We have instituted a program to repurchase up to 300,000 shares of our outstanding common stock.

*Continued on page 14*

Under the plan, the shares may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares purchased will be canceled and repurchases will be made with existing cash reserves. We do not maintain a set policy or schedule for our buyback program. Most of our stock buybacks have occurred during periods when the price to earnings multiple has been near historical low points, or during times when selling activity in the stock is out of balance with buying demand.

During the first half of fiscal 2005, the Company paid regular quarterly dividends of $.05 per share of common stock and raised the quarterly dividend to $.06 per common share of stock during the second half of the fiscal year. In addition, the Board of Directors declared a special one time dividend of $.20 per share of common stock which was paid on December 15, 2004. For fiscal year 2005, dividends totaled $.42 per common share of stock. During the first half of fiscal 2006 the Company maintained the regular quarterly dividend of $.06 per share of common stock and raised the quarterly dividend to $.07 per common share of stock during the second half of the fiscal year. In addition, the Board of Directors declared a special one time dividend of $.25 per share of common stock which was paid on December 15, 2005. For fiscal year 2006, dividends totaled $.51 per common share of stock.

Our Company invests its surplus capital in various interest bearing instruments, including money market funds, short-term treasuries and municipal bonds. All investments are fixed dollar investments with variable rates in order to minimize the risk of principal loss. In some cases, additional guarantees of the investment principal are provided in the form of bank letters of credit.

Subsequent to the year end, Mesa on May 4, 2006, acquired Raven Biological Laboratories, Inc. of Omaha, Nebraska. Raven, a privately held company, is a leading designer and manufacturer of biological indicators and provider of sterilization validation services. Under the terms of the transaction, Mesa Labs has acquired all of the outstanding shares of Raven for approximately $6,750,000 which was comprised of $3,500,000 cash and 223,243 shares (valued at $3,250,000) of common stock.

The Company does not currently maintain a line of credit or any other form of debt. Nor does the Company guarantee the debt of any other entity. The Company has maintained a long history of surplus cash flow from operations. This surplus cash flow has been used in the past to fund acquisitions and stock buybacks and is currently being partially utilized to fund our special dividend. We are actively investigating opportunities to acquire new product lines or companies, for which we may utilize cash in the future.

## Contractual Obligations

At March 31, 2006 our only contractual obligations were open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year.

## Forward Looking Statements

All statements other than statements of historical fact included in this annual report regarding our Company's financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated, include but are not limited to general economic, financial and business conditions; competition in the data logging market; competition in the kidney dialysis market; competition in the fluid measurement market; the business abilities and judgment of personnel; the impacts of unusual items resulting from ongoing evaluations of business strategies; and changes in business strategy. We do not intend to update these forward looking statements. You are advised to review the "Additional Cautionary Statements" section below for more information about risks that could affect the financial results of Mesa Laboratories, Inc.

## Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates.

We believe that there are several accounting policies that are critical to understanding the Company's historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, 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 & 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, 2006 and 2005 the Company had recorded a reserve of $125,000 and $90,000, respectively, against slow moving inventory.

**Valuation of Long-Lived Assets and Goodwill**

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, 2006, 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 accounting principles, generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any viable alternative would not produce a materially different result. See our audited financial statements and notes thereto which begin at "Item 7. Financial Statements" of this Annual Report on Form 10-KSB which contain accounting policies and other disclosures required by accounting principles, generally accepted in the United States of America.

## 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 widespread acceptance of our products would adversely affect our operations.

**We Depend on Attracting New Distributors and Representatives for Our Products.**

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

**Our Products are Extensively Regulated, Which Could Delay Product Introduction or Halt Sales.**

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

*Continued on page 16*

**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 Company Faces Challenges in Complying with Certain Sections of the Sarbanes-Oxley Act.**

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

**Changing Accounting Regulation May Affect Operating Results.**

Our Operating results may be adversely affected by new laws and accounting regulations that have either been recently enacted or which are under consideration and may include the following:

* various regulations of the Sarbanes-Oxley Act, and
* the mandatory expensing of employee stock options.

**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;
* timing of the expensing of employee stock options;
* delays in educating and training our distributors' and representatives' sales forces;
* manufacturing or supply delays;
* product returns;
* receipt of necessary regulatory approval;
* costs associated with implementing and maintaining compliance with the Sarbanes-Oxley Act; and
* costs associated with expansion of the Company's direct sales capabilities.

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

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

* changes in dialysis reimbursements;
* increased availability of donated organs; and
* mergers within the dialysis provider industry may make the Company more dependent upon fewer large customers for its sales.

The management of Mesa Laboratories, Inc. is responsible for the integrity of the financial information presented in the annual report and for establishing and maintaining effective internal controls over financial reporting. This is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles appropriate in the circumstances.

Management relies upon the Company's system of internal controls in meeting its responsibilities for maintaining reliable financial records. This system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's intentions. Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

The Audit Committee of the Board of Directors meets regularly with management, with the Company's internal accounting staff and with its independent auditors to discuss audit scope and results, internal control evaluations and other accounting, reporting and financial matters. The independent auditors have access to the Board of Directors without management's presence.

Luke R. Schmieder
Chief Executive Officer

Steven W. Peterson
Chief Financial Officer

April 2006
Lakewood, Colorado

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | **$ 4,466,000** | $ 4,978,000 |
| Short-term investments | **1,245,000** | 1,904,000 |
| Accounts receivable - | | |
| Trade, net of allowance for doubtful accounts of $95,000 (2006) and $45,000 (2005) | **2,425,000** | 1,972,000 |
| Other | **19,000** | 20,000 |
| Inventories, net | **2,374,000** | 1,941,000 |
| Prepaid expenses and other | **245,000** | 184,000 |
| Deferred income taxes | **181,000** | 124,000 |
| **Total Current Assets** | **10,955,000** | 11,123,000 |
| **Property, Plant and Equipment,** net | **1,287,000** | 1,265,000 |
| **Other Assets:** | | |
| Goodwill | **4,208,000** | 4,208,000 |
| | **$16,450,000** | $ 16,596,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities:** | | |
| Accounts payable, trade | **$ 290,000** | $ 262,000 |
| Accrued salaries and payroll taxes | **782,000** | 558,000 |
| Accrued warranty expense | **30,000** | 15,0000 |
| Other accrued liabilities | **49,000** | 72,0000 |
| Taxes payable | **51,000** | 75,0000 |
| **Total Current Liabilities** | **1,202,000** | 982,000 |
| **Long Term Liabilities:** | | |
| Deferred income taxes | **329,000** | 235,000 |
| **Commitments** | | |
| **Stockholders' Equity:** | | |
| 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, 2,945,291 (2006) and 3,038,822 (2005) | **1,313,000** | 1,335,000 |
| Retained earnings | **13,606,000** | 14,044,000 |
| **Total Stockholders' Equity** | **14,919,000** | 15,379,000 |
| | **$16,450,000** | $ 16,596,000 |

See notes to financial statements.

## Statements of Income

Mesa Laboratories, Inc.

| | Years Ended March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Sales | **$11,583,000** | $ 10,041,000 |
| Cost of sales | **4,146,000** | 3,721,000 |
| Gross profit | **7,437,000** | 6,320,000 |
| Operating expenses: | | |
| Selling | **1,877,000** | 1,403,000 |
| General and administrative | **1,092,000** | 1,084,000 |
| Research and development | **358,000** | 358,000 |
| Total operating expenses | **3,327,000** | 2,845,000 |
| Operating income | **4,110,000** | 3,475,000 |
| Interest income | **193,000** | 98,000 |
| Earnings before income taxes | **4,303,000** | 3,573,000 |
| Income taxes | **1,498,000** | 1,261,000 |
| Net income | **$ 2,805,000** | $ 2,312,000 |
| Net income per share (basic) | **$ .94** | $ .76 |
| Net income per share (diluted) | **$ .92** | $ .74 |
| Average common shares outstanding - basic | **2,989,000** | 3,060,000 |
| Average common shares outstanding - diluted | **3,053,000** | 3,136,000 |

See notes to financial statements.

## Statement of Stockholders' Equity

Mesa Laboratories, Inc.

| | Common Stock | | | |
|---|---|---|---|---|
| | Number of Shares | Amount | Retained Earnings | Total Stockholders' Equity |
| **Balance,** March 31, 2004 | 3,072,815 | $ 1,330,000 | $ 14,054,000 | $ 15,384,000 |
| Common stock issued for the conversion of incentive stock options net of 31,534 shares returned to Company as payment | 65,169 | 120,000 | — | 120,000 |
| Purchase and retirement of treasury stock | (99,162) | (115,000) | (1,040,000) | (1,155,000) |
| Dividends paid ($.42 per share) | — | — | (1,282,000) | (1,282,000) |
| Net income for the year | — | — | 2,312,000 | 2,312,000 |
| **Balance,** March 31, 2005 | 3,038,822 | 1,335,000 | 14,044,000 | 15,379,000 |
| Common stock issued for the conversion of incentive stock options net of 21,048 shares returned to Company as payment | 56,719 | 177,000 | — | 177,000 |
| Purchase and retirement of treasury stock | (150,250) | (199,000) | (1,788,000) | (1,987,000) |
| Dividends paid ($.51 per share) | — | — | (1,552,000) | (1,552,000) |
| Tax benefit on exercise of nonqualified stock options | — | — | 97,000 | 97,000 |
| Net income for the year | — | — | 2,805,000 | 2,805,000 |
| **Balance,** March 31, 2006 | 2,945,291 | $ 1,313,000 | $ 13,606,000 | $ 14,919,000 |

See notes to financial statements.

| | Years Ended March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Cash flows from operating activities: | | |
| Net income | **$ 2,805,000** | $ 2,312,000 |
| Depreciation and amortization | **93,000** | 90,000 |
| Allowance for bad debt | **50,000** | 5,000 |
| Provision for inventory reserve | **35,000** | 35,000 |
| Deferred income taxes | **37,000** | 31,000 |
| Tax benefit of nonqualified stock options | **97,000** | — |
| Change in assets and liabilities- | | |
| (Increase) decrease in accounts receivable | **(503,000)** | (394,000) |
| (Increase) decrease in inventories | **(468,000)** | 123,000 |
| (Increase) decrease in prepaid expenses | **(60,000)** | (26,000) |
| Increase (decrease) in accounts payable, trade | **28,000** | 152,000 |
| Increase (decrease) in accrued liabilities and taxes payable | **192,000** | 173,000 |
| Net cash provided by operating activities | **2,306,000** | 2,501,000 |
| Cash flows from investing activities: | | |
| Short-term investments purchased | **(506,000)** | (996,000) |
| Short-term investments redeemed | **1,165,000** | 1,190,000 |
| Capital expenditures | **(115,000)** | (70,000) |
| Net cash (used) provided by investing activities | **544,000** | 124,000 |
| Cash flow from financing activities: | | |
| Dividends paid | **(1,552,000)** | (1,282,000) |
| Net proceeds from issuance of stock | **177,000** | 120,000 |
| Common stock repurchases | **(1,987,000)** | (1,155,000) |
| Net cash used by financing activities | **(3,362,000)** | (2,317,000) |
| Net increase (decrease) in cash and cash equivalents | **(512,000)** | 308,000 |
| Cash and cash equivalents at beginning of year | **4,978,000** | 4,670,000 |
| Cash and cash equivalents at end of year | **$ 4,466,000** | $ 4,978,000 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Income taxes | **$ 1,443,000** | $ 1,251,000 |

See notes to financial statements.

## NOTE 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, short-term investments 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, adjustable rate, fixed dollar municipal debt 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, 2006, two customers represented approximately 21 percent and 10 percent of the Company's revenues and approximately 11 percent and 5 percent of the Company's accounts receivable balance. During the fiscal year ended March 31, 2005 one customer represented approximately 15 percent of the Company's revenues and approximately 9 percent 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.

**Short-term Investments —** Short-term investments consist of U.S Treasury bills and municipal bonds and are classified as "available for sale." Short-term investments are carried in the financial statements at cost, which approximates fair value.

**Accounts Receivable —** At the time the accounts are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of the customer. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

**Inventories —** Inventories are stated at the lower of cost or market, using the first-in, first-out method (FIFO) to determine cost. The Company's policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a reserve for any inventory considered slow moving or obsolete. As of March 31, 2006 and 2005 the Company had recorded a reserve of $125,000 and $90,000, 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, 2006, we evaluated our long-lived assets for potential impairment. Based on our evaluation, no impairment charge was recognized.

**Revenue Recognition —** Revenue is recognized when persuasive evidence of an arrangement exists, when title and risk of ownership passes, the sales price is fixed or determinable, and collectibility is probable. The Company recognizes revenues at the time products are shipped. Revenue from ongoing product service and repair is fully recognized upon completion and shipment of serviced product.

Sales to distributors are made at their net discounted price. This net discounted price is net of any volume pricing that may be available. Customers who may be unsure of the appropriateness of our products for their application are offered demonstration equipment prior to purchase, thus no return rights are extended. Products are built to customer order and no price protections are offered. The Company does not conduct a rebate or other incentive programs at this time.

Other than normal and customary on-going customer service, the Company does not have any post shipment contractual obligations to its customers, such as installation, training, etc.

**Research & Development Costs —** Costs related to research and development efforts on existing or potential products are expensed as incurred. Research and development costs for the fiscal years ended March 31, 2006 and 2005 were $358,000 each year.

**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, 2006 and 2005 were $129,000 and $138,000, respectively.

**Income Taxes —** The Company accounts for income taxes under the liability method, which requires an entity to recognize deferred tax assets and liabilities. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

*Continued on page 22*

**Stock Based Compensation —** At March 31, 2006, 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 2006 and 2005 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, | |
|---|---|---|
| | **2006** | 2005 |
| Net income — as reported | **$2,805,000** | $ 2,312,000 |
| Add: Stock based employee compensation expense included in net income, net of related tax effects | — | — |
| Less: Total stock based compensation expense determined under fair value based method for all awards net of related tax effects | **(260,000)** | (109,000) |
| Net income - pro forma | **$2,545,000** | $ 2,203,000 |
| Income per basic share — as reported | **$ .94** | $ .76 |
| Income per basic share — pro forma | **$ .85** | $ .72 |
| Income per diluted share — as reported | **$ .92** | $ .74 |
| Income per diluted share — pro forma | **$ .83** | $ .70 |

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 approximately 3.5 percent to 3.7 percent (2006) and 3.6 percent (2005); expected volatility of approximately 36 percent – 39 percent (2006) and 19 percent – 29 percent (2005); discount rate of 3.72 percent – 4.66 percent (2006) and 3.35 percent – 4.62 percent (2005); and expected lives of 5 to 10 years.

**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 64,000 and 76,000 additional shares in 2006 and 2005, respectively.

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share is computed using the treasury stock method to compute the weighted average common stock outstanding assuming the conversion of potential dilutive common shares.

The following table presents a reconciliation of the denominators used in the computation of net income per common share — basic and net income per common share — diluted for the twelve month periods ended March 31, 2006 and 2005:

| | Twelve Months Ended March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Net income available for shareholders | **$2,805,000** | $ 2,312,000 |
| Weighted avg. outstanding shares of common stock | **2,989,000** | 3,060,000 |
| Dilutive effect of stock options | **64,000** | 76,000 |
| Common stock and equivalents | **3,053,000** | 3,136,000 |
| Earnings per share: | | |
| Basic | **$ .94** | $ .76 |
| Diluted | **$ .92** | $ .74 |

For the twelve months ended March 31, 2006 and 2005, 46,100 and no shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

**Use of Estimates —** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value of Financial Instruments —** The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, short-term investments, accounts payable and accrued expenses approximated fair value as of March 31, 2006 because of the relatively short maturity of these instruments.

**Recently Issued Accounting Pronouncements —** In December 2004, the FASB issued Statement 123 (revised 2004), Share-Based Payment (Statement 123(R)). This Statement requires that the costs of employee share-based payments be measured at fair value on the awards' grant date using an option-pricing model and recognized in the financial statements over the requisite service period. This Statement does not change the accounting for stock ownership plans, which are subject to American Institute of Certified Public Accountants SOP 93-6, "Employer's Accounting for Employee Stock Ownership Plans." Statement 123(R) supersedes Opinion 25, Accounting for Stock Issued to Employees and its related interpretations, and eliminates the alternative to use Opinion 25's intrinsic value method of accounting, which the Company is currently using.

Statement 123(R) allows for two alternative transition methods. The first method is the modified prospective application whereby compensation cost for the portion of awards for which the requisite service has

not yet been rendered that are outstanding as of the adoption date will be recognized over the remaining service period. The compensation cost for that portion of awards will be based on the grant-date fair value of those awards as calculated for pro forma disclosures under Statement 123, as originally issued. All new awards and awards that are modified, repurchased, or cancelled after the adoption date will be accounted for under the provisions of Statement 123(R). The second method is the modified retrospective application, which requires that the Company restates prior period financial statements. The modified retrospective application may be applied either to all prior periods or only to prior interim periods in the year of adoption of this statement. We have chosen the modified prospective application (MPA) method for implementing SFAS No. 123(R). Under the MPA method, new awards will be valued and accounted for prospectively upon adoption. Outstanding prior awards that are unvested will be recognized as compensation expense over the remaining requisite service period.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43" ("FAS 151"), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. FAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company has evaluated the impact of this standard on the consolidated financial statements, and has determined that the current idle plant capacity has been accounted for properly.

In December 2004, the FASB issued SFAS No. 153 "Exchanges of Nonmonetary Assets — amendment of APB Opinion No. 29". Statement 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, defined as transactions that are not expected to result in significant changes in the cash flows of the reporting entity. This statement is effective for exchanges of non-monetary assets occurring after June 15, 2005. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

The FASB has issued SFAS No. 154, "Accounting Changes and Error Corrections". This new standard replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements". Among other changes, SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of SFAS 154 is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments" ("FAS 155"), which amends FASB Statement No. 133 and FASB Statement 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for these instruments. Specifically, FASB Statement No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not intend to issue or acquire the hybrid instruments included in the scope of FAS 155 and does not expect the adoption of FAS 155 to affect future reporting or disclosures.

## NOTE 2
## INVENTORIES

Inventories consist of the following:

| | March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Raw materials | **$ 1,796,000** | $ 1,690,000 |
| Work-in-process | **412,000** | 174,000 |
| Finished goods | **291,000** | 167,000 |
| Less reserve | **(125,000)** | (90,000) |
| | **$ 2,374,000** | $ 1,941,000 |

Work-in-process and finished goods include raw materials, direct labor and manufacturing overhead at March 31, 2006 and 2005.

## NOTE 3
## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Land | **$ 148,000** | $ 148,000 |
| Building | **1,260,000** | 1,260,000 |
| Manufacturing equipment | **1,364,000** | 1,268,000 |
| Computer equipment | **348,000** | 329,000 |
| Furniture and fixtures | **75,000** | 75,000 |
| | **3,195,000** | 3,080,000 |
| Less accumulated depreciation | **(1,908,000)** | (1,815,000) |
| | **$ 1,287,000** | $ 1,265,000 |

*Continued on page 24*

## NOTE 4
## INCOME TAXES

The components of the provision for income taxes for the years ended March 31, 2006 and 2005 are as follows:

| | | March 31, | |
|---|---|---|---|
| | | **2006** | 2005 |
| Current tax provision: | Federal | **$ 1,260,000** | $ 1,076,000 |
| | State | **201,000** | 149,000 |
| | | **1,461,000** | 1,225,000 |
| Deferred tax provision: | Federal | **32,000** | 32,000 |
| | State | **5,000** | 4,000 |
| | | **37,000** | 36,000 |
| | | **$ 1,498,000** | $ 1,261,000 |

Deferred taxes result from temporary differences in the recognition of income and expenses for financial and income tax reporting purposes and differences between the fair value of assets acquired in business combinations accounted for as a purchase and their tax bases. The components of net deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

| | March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Depreciation and amortization | **$ (301,000)** | $ (245,000) |
| Accrued vacation | **74,000** | 64,000 |
| Bad debt expense | **32,000** | 15,000 |
| Inventory reserve | **43,000** | 31,000 |
| Warranty reserve | **10,000** | 5,000 |
| Other | **(6,000)** | 19,000 |
| Net deferred (liability)/asset | **$ (148,000)** | $ (111,000) |

A reconciliation of the Company's income tax provision for the years ended March 31, 2006 and 2005, and the amounts computed by applying statutory rates to income before income taxes is as follows:

| | March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Income taxes at statutory rates | **$ 1,463,000** | $ 1,257,000 |
| State income taxes, net of federal benefit | **228,000** | 114,000 |
| Foreign sales corporation exemption | **(38,000)** | (47,000) |
| Tax benefit on stock option exercises | **(97,000)** | — |
| Other | **(58,000)** | (63,000) |
| | **$ 1,498,000** | $ 1,261,000 |

## NOTE 5
## STOCK REPURCHASE

In November, 2005, the Company's Board of Directors approved a program to repurchase up to 300,000 shares of its outstanding common stock. Under the program, shares may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares purchased will be cancelled and repurchase of shares will be funded through existing cash reserves.

## NOTE 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 percent of the employee's contribution up to 6 percent of the employees salary. A participant vests in the Company's contributions at a rate of 25 percent per year, fully vesting at the end of the participant's fourth year of service. The Company contributed $66,000 to the plan for fiscal 2006 and $58,000 for fiscal 2005.

## NOTE 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. In the most recent fiscal year, management estimated that approximately 10 percent of the price paid for repurchased shares was attributable to the original purchase of common stock, while the remainder was charged to retained earnings.

The Company has adopted incentive stock option plans for the benefit of the Company's key employees, excluding its outside directors. Under terms of the plans, options are granted at an amount not less than 100 percent of the bid price of the underlying shares at the date of grant. Options are exercisable for a term of five years and, during such term, may be exercised as follows: 25 percent after each year, and 100 percent 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 percent after each year, and 100 percent anytime after the fourth year until the end of the tenth year. The purchase price of the common stock will be equal to 100 percent of the closing price of the common stock on the over-the-counter market on the date of grant. Effective March 24, 2006, this plan has expired.

On October 21, 1999, the Company adopted a new stock compensation plan. The purpose of the plan is to encourage ownership of the Common Stock of the Company by certain officers, directors, employees and certain advisors of the Company in order to provide incentive to promote the success and business of the Company. A total of 300,000 shares of Common Stock were reserved for issuance under the plan and are subject to terms as set by the Compensation Committee of the Board of Directors at the time of grant. On October 18, 2004, the shareholders approved an amendment to the plan to reserve an additional 200,000 shares of Common Stock for issuance under the plan.

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

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

| | **FY 2006** | | FY 2005 | |
|---|---|---|---|---|
| | **SHARES** | **WEIGHTED AVERAGE EXERCISE PRICE** | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Options outstanding at beginning of year | **241,767** | **$ 7.82** | 265,070 | $ 5.77 |
| Options granted | **96,620** | **$ 13.57** | 93,600 | $ 10.64 |
| Options cancelled | **(11,150)** | **$ 9.13** | (20,200) | $ 7.08 |
| Options exercised | **(77,767)** | **$ 6.29** | (96,703) | $ 5.07 |
| Options outstanding at end of year | **249,470** | **$ 10.47** | 241,767 | $ 7.82 |
| Options exercisable at end of year | **43,750** | **$ 7.04** | 54,459 | $ 5.80 |
| Shares available for future option grant | **127,330** | | 263,700 | |

The following is a summary of information about stock options outstanding as of March 31, 2006:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding as of 03/31/06 | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Number Exercisable as of 03/31/06 | Weighted Average Exercise Price |
| $ 4.55 – $ 7.00 | 78,300 | 3.6 | $ 6.47 | 34,000 | $ 6.24 |
| $ 9.81 – $ 11.91 | 100,070 | 5.0 | $ 10.81 | 9,750 | $ 9.85 |
| $ 12.56 – $ 15.44 | 71,100 | 7.8 | $ 14.40 | — | — |
| $ 4.55 – $ 15.44 | 249,470 | 5.4 | $ 10.47 | 43,750 | $ 7.04 |

*Continued on page 26*

## NOTE 8
## SEGMENT DATA

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

Revenues related to operations in the U.S. and foreign countries for the years ended March 31, 2006 and 2005, are presented below. Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported. Long-lived assets related to continuing operations in the U.S. and foreign countries as of the years ended March 31, 2006 and 2005, are as follows:

| | Years Ended March 31, | |
|---|---|---|
| | **2006** | 2005 |
| Net revenues from unaffiliated customers: | | |
| United States | **$ 7,935,000** | $ 7,113,000 |
| Foreign (no country exceeds 10% of total) | **$ 3,648,000** | $ 2,928,000 |
| Long-lived assets at end of year: | | |
| United States | **$ 5,495,000** | $ 5,473,000 |

## NOTE 9
## QUARTERLY RESULTS (UNAUDITED)

Quarterly financial information for fiscal 2006 and 2005 is summarized as follows:

($ in thousands, except per share amounts)

| **2006** | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Net revenue | $ 2,440 | $ 2,961 | $ 2,741 | $ 3,441 |
| Gross profit | $ 1,538 | $ 1,962 | $ 1,695 | $ 2,242 |
| Net income | $ 540 | $ 801 | $ 637 | $ 827 |
| Earnings per share — basic | $ .18 | $ .27 | $ .22 | $ .28 |
| Earnings per share — diluted | $ .17 | $ .26 | $ .21 | $ .27 |

($ in thousands, except per share amounts)

| **2005** | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Net revenue | $ 2,539 | $ 2,337 | $ 2,530 | $ 2,634 |
| Gross profit | $ 1,603 | $ 1,451 | $ 1,565 | $ 1,700 |
| Net income | $ 625 | $ 548 | $ 563 | $ 575 |
| Earnings per share — basic | $ .20 | $ .18 | $ .18 | $ .19 |
| Earnings per share — diluted | $ .20 | $ .17 | $ .18 | $ .18 |

## NOTE 10
## SUBSEQUENT EVENTS

Subsequent to the year end, Mesa on May 4, 2006, acquired Raven Biological Laboratories, Inc. of Omaha, Nebraska. Raven, a privately held company, is a leading designer and manufacturer of biological indicators and provider of sterilization validation services. Under the terms of the transaction, Mesa Labs has acquired all of the outstanding shares of Raven for approximately $6,750,000 which was comprised of $3,500,000 cash and 223,243 shares (valued at $3,250,000) of common stock.

# Corporate Data

## Officers and Directors

**Luke R. Schmieder**
Chairman, Chief Executive Officer,
Treasurer and Director

**John J. Sullivan, Ph.D.**
President, Chief Operating Officer

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

**Paul D. Duke**
Director
Member of the Audit and
Nominating Committees

**H. Stuart Campbell**
Director
Member of the Audit, Compensation and
Nominating Committees

**Michael T. Brooks**
Director
Member of the Audit, Compensation and
Nominating Committees

**Robert V. Dwyer**
Director

## 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, 2006, is available upon written request to the Company's executive offices, and can be found through the Corporate Section of Mesa's website at www.mesalabs.com.

## Websites

www.mesalabs.com
www.Ravenlabs.com

# Common Stock Performance

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

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

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

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.

During the fiscal year ended March 31, 2006, the Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

On November 7, 2005, the Board of Directors of Mesa Laboratories, Inc. adopted a share repurchase plan which allows for the repurchase of up 300,000 of the company's common shares. This plan will continue until the maximum is reached or the plan is terminated by further action of the Board. During fiscal year 2006, 150,250 shares were repurchased at a weighted average price of $13.23. There are currently 256,147 shares that can still be repurchased under the current plan.

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

## Profile

Mesa Laboratories, Inc. (Nasdaq: MLAB) develops, acquires, manufactures and markets electronic instruments and disposable products for industrial, pharmaceutical and medical applications. In May 2006, Mesa acquired Raven Biological Laboratories, Inc, a leading designer and manufacturer of biological indicators and provider of sterilization validation services. Founded in 1982, Mesa Laboratories is based in Lakewood, Colorado. The Company's products are characterized by technical excellence and marketed internationally.

### Mesa's Products Include:

- **DataTrace®** — patented, wireless data loggers for measuring and recording temperature, humidity, and pressure.

- **Medical** — meters, a dialyzer reprocessor system and related accessories used by hemodialysis clinics worldwide to ensure quality care and patient safety.

- **Nusonics®** — a line of industrial flow meters and sonic concentration analyzers used by petroleum, chemical and food manufacturing companies to ensure quality and control their processes.

- **Raven Labs** — biological and chemical indicators for quality assurance of sterilization processes in the medical, dental, and industrial markets.

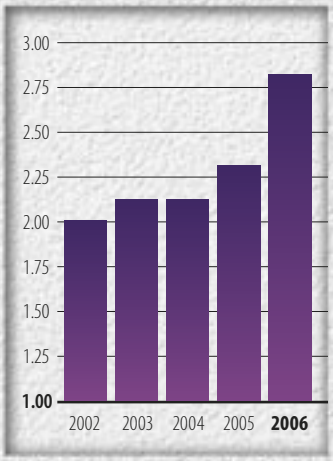


## Financial Highlights

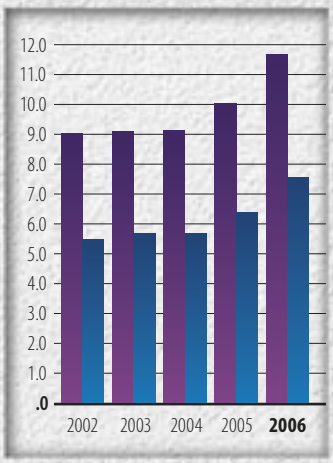


| | Year Ended March 31, 2005 | **2006** | % Change |
|---|---|---|---|
| Net sales | $10,041,000 | **$11,583,000** | 15.4% |
| Gross profit | $ 6,320,000 | **$ 7,437,000** | 17.7% |
| Operating income | $ 3,475,000 | **$ 4,110,000** | 18.3% |
| Net income | $ 2,312,000 | **$ 2,805,000** | 21.3% |
| Net income per share — diluted | $ .74 | **$ .92** | 24.3% |
| Total assets | $16,596,000 | **$16,450,000** | -0.9% |
| Average common shares outstanding — diluted | 3,136,000 | **3,053,000** | -2.6% |
| Number of employees | 47 | **52** | 10.6% |
| Average inventory turns per year | 1.8 | **1.9** | |
| Current ratio | 11:1 | **9:1** | |
| **Average Return On:** | | | |
| Stockholders' investment | 15.0% | **18.5%** | |
| Assets | 14.1% | **17.0%** | |
| Invested capital | 26.4% | **30.7%** | |

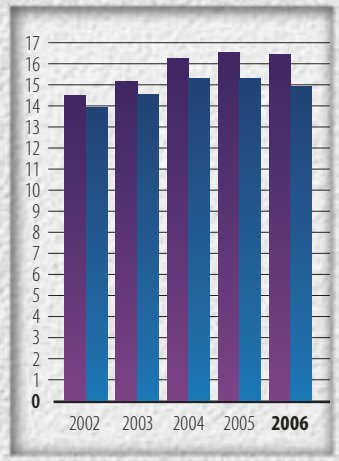
**Net Income**
*(in Millions)*




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




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

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