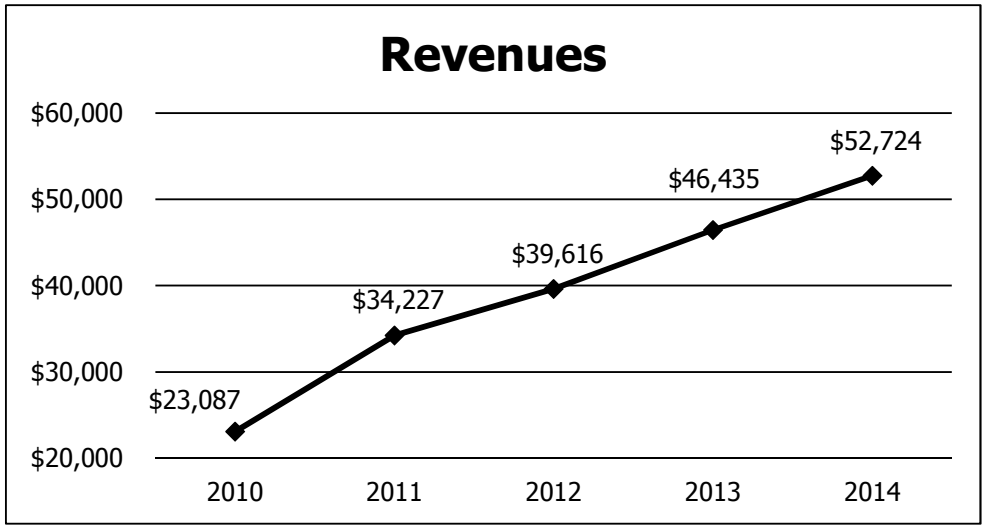
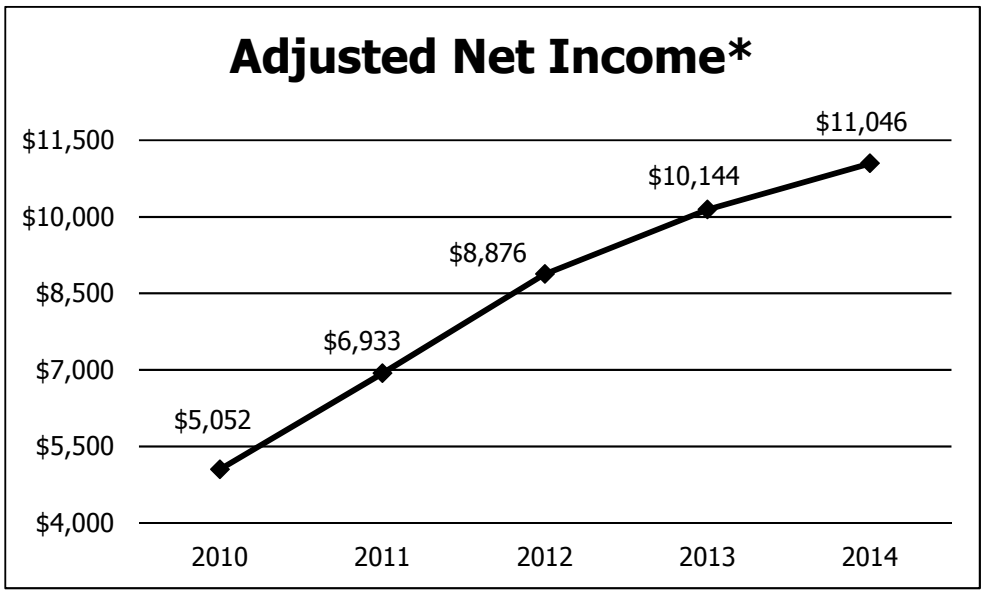
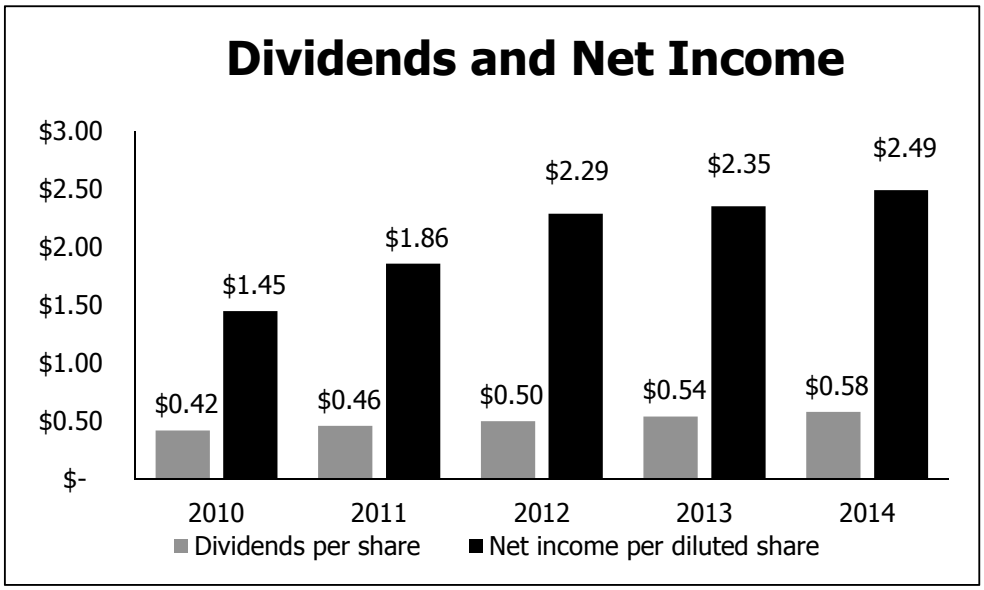
MesaLabs

2014 Annual Report

Year Ended March 31st







In thousands, except per share data

*The non-GAAP measure of adjusted net income is defined to exclude the non-cash impact of amortization of intangible assets, net of tax.

Letter to Our Shareholders, August 14, 2014

I am happy to report that Mesa Laboratories, Inc. ("Mesa" or the "Company") had another excellent year in fiscal 2014, in which the Company grew significantly and achieved new records for revenues, net income and adjusted net income. In some respects, fiscal 2014 was a year of transformation for Mesa. Beyond the growth initiatives that resulted in record revenues, we entered new markets and made significant improvements in our business processes and management team. We completed three business acquisitions during the fiscal year, and two more shortly after the end of the fiscal year. All of the newly acquired U.S. businesses are synergistic with Mesa's existing product lines. The acquisition of our French biological indicator ("BI") distributor ("Amilabo"), immediately after the end of the fiscal year, lays the groundwork for increased direct selling of Mesa's BI products into Europe, which will enable us to be more competitive and profitable. This was a significant first step in building a more effective international sales and support organization for our products. We also invested in building out our infrastructure and management team during fiscal 2014 to support our anticipated growth, both this year and for years ahead. We are in a much better position now with our ability to expand the business than we were previously.

Growth

Organic revenues growth was approximately five percent during fiscal 2014, which when combined with approximately nine percent revenues growth through acquisitions, resulted in a healthy growth rate of 14 percent, compared to fiscal 2013. I am particularly happy about Mesa's continued ability to grow at a rate above the average for other companies in our industries. Our adjusted net income, which excludes the non-cash impact of amortization of intangible assets, net of tax associated with Mesa's past acquisitions, grew nine percent, exceeding $3.00 per diluted share for the first time. We believe that adjusted net income is a good measure of profitability for an acquisitive company like Mesa, as the exclusion of these acquisition related expenses provides the ability to understand the benefits of acquisitions based on their cash returns. We expect that the momentum we have established in our traditional product lines and the recent acquisitions we have made will fuel additional growth in the years ahead.

Acquisitions

Business acquisitions have been an important part of Mesa's strategy for many years, and I am happy to report that fiscal 2014 was no different. During, or shortly after the end of the year, we purchased businesses that have allowed us to enter new markets or solidify our position in existing ones. Early in the fiscal year, we acquired the SureTorque line of bottle cap torque testing instruments. Our existing Torqo products have gained wide acceptance in the beverage industry, with somewhat limited acceptance in the pharmaceutical industry. The SureTorque products, on the other hand, are widely used in the pharmaceutical and biotechnology industries for quality control of bottling processes. With the combination of the two lines of bottle cap torque testing instrumentation, we will be able to offer a wider range of products to a broader set of potential customers. We already are seeing signs of this strategy starting to play out.

In November, we acquired two businesses involved in continuous monitoring which focuses on the measurement of critical environmental parameters in a variety of regulated industries. We have wanted to enter the continuous monitoring market for several years, as a complement to our closely related data logger product line, and the acquisition of the Amega and TempSys businesses provides an ideal platform to accomplish this. (More on continuous monitoring later.)

Immediately after the end of the fiscal year, we acquired our first business outside the United States; Amilabo, our distributor of BI's in France. This acquisition allows us to sell directly to BI end users, and it may allow us to expand direct sales of BI products to other countries as well which we believe would further improve gross margins for this product line.

Lastly, in April 2014, we acquired the BGI business. This acquisition is synergistic with Mesa's Bios line of gas flow calibrators, which are used extensively for the calibration of air samplers in both industrial hygiene and environmental monitoring applications. The combined Bios/BGI product lines will offer a more complete solution to Mesa's existing customers and worldwide distributors. We will be moving the BGI product line to the Bios facility and anticipate an improved cost structure as a result.

Positioning for Growth

In order to better position the Company for future growth, we continued our efforts to improve our infrastructure by adding key talent to the management team. We also kicked off a major project to replace Mesa's antiquated ERP system with a modern, cloud-based system that is better suited to support Mesa's expanding operations, including our international subsidiary. The bulk of this project should be completed in fiscal 2015, but follow-on enhancements will extend into the following fiscal year. While a new ERP system is costly to implement, the efficiencies that will be realized should help control costs and support growth for years to come. On the personnel front, we enhanced the senior management team by adding a General Counsel, and Vice Presidents of both Engineering and European Operations. These new positions are critical in supporting our expanding organization and driving the engineering efforts to support future organic growth.

Outlook

There were two recent events that should have a major impact on Mesa's future. The first was our entry into the continuous monitoring market, and the other was our first international acquisition. Why continuous monitoring? A major trend in many industries, and even in the consumer world, is to provide more and more information that can be acted upon to improve efficiency, enhance safety and increase security. Sensor networks are cropping up everywhere, including manufacturing, healthcare, retail, the home and even your automobile. Mesa now provides sensor networks to critical monitoring applications in regulated industries, primarily in healthcare and pharmaceutical manufacturing. As institutions realize the advantages of an integrated sensor network, we should see steady growth from this product line for many years to come. Additionally, the nature of this market lends itself to an ever expanding base of repeat business. Since regulators require frequent re-calibration of the sensors installed in these networks, the initial sale of a system is only the beginning of a long-term relationship with the customer. Most customers require the vendor to provide annual calibration and service of the installed sensors, providing an annuity that should grow continually, as the installed base expands. To support this effort, Mesa now has a large field service organization in the U.S., which we can leverage across our other product lines or into other services, such as performance validation of critical equipment. Entering the continuous monitoring market this past year provides not only a growing field service business, but also the opportunity to expand into new markets.

Equally as important as continuous monitoring will be to Mesa in the years ahead, so was Mesa's first international acquisition. The purchase of Amilabo provides a platform, from which Mesa can further expand direct BI sales and possibly launch other products into Europe. Amilabo is one of Mesa's largest and most profitable BI distributors in Europe. This acquisition allows Mesa to capture the profits from these sales, and it puts the Company in more direct contact with our end users in Europe. Expansion internationally, including the capability of performing local calibration services, will be important in our ability to take all of our product lines to new levels of growth outside the U.S.

Lastly, I would like to thank our shareholders for their continued support. We look forward to reporting our fiscal 2015 progress to you in the months ahead. As always, you can track our progress by visiting our web site at www.mesalabs.com.

Sincerely,

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2014

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____

Commission File No: 0-11740

MESA LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: **(303) 987-8000**

Securities registered under Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, no par value	NASDAQ

Securities registered under Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ☐ **NO** ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ☐ **NO** ☒

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ☒ **NO** ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of the chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **YES** ☒ **NO** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value as of September 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), of the voting and non-voting common equity of Mesa Laboratories Inc. held by non-affiliates (assuming, for this purpose, that all directors, officers and owners of 5% or more of the registrant's common stock are deemed affiliates) computed by reference to the price at which the common equity was last sold ($67.36 per share) was $164,839,000.

The number of outstanding shares of the common stock as of May 28, 2014 was 3,502,433.

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FORWARD-LOOKING STATEMENTS

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "anticipate," "estimate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to revenue growth and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, "Item 1A. Risk Factors" and elsewhere in this report and those described from time to time in our future reports to be filed with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

Introduction

Mesa Laboratories, Inc. was incorporated under the laws of the State of Colorado on March 26, 1982. The terms "we," "us," "our," the "Company" or "Mesa" are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted. We pursue a strategy of focusing primarily on quality control products, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into three divisions across seven physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene and semiconductor industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments.

Our Lakewood, Colorado; Butler, New Jersey; and Waltham, Massachusetts facilities manufacture our Instruments Division products, which include the DataTrace®, Dialyguard®, Bios DryCal®, Challenger®, TetraCal®, OMNI FT™, Torqo®, and SureTorque® brands. Our Omaha, Nebraska and Bozeman, Montana locations manufacture our Biological Indicators Division products – the Mesa and Apex™ brands, while our Lakewood, Colorado facility also manufactures our Continuous Monitoring Division products, which include the CheckPoint®, ViewPoint and AmegaView brands.

Our philosophy is to manufacture a quality product and provide a high level of on-going service for those products. Our revenues come from two main sources – product sales and services. Our strategic goals involve continuing to grow revenues and profits through three key strategies – a) improving our distribution channels, b) introducing new products to the market, and c) seeking out companies or product lines to acquire.

In April 2014, we completed a business combination (the "BGI Acquisition") whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI, Incorporated and BGI Instruments, Inc., (collectively "BGI"), businesses focused on the sale of equipment primarily used for particulate air sampling.

In April 2014, we completed a business combination (the "Amilabo Acquisition") whereby we acquired all of the common stock of Amilabo SAS ("Amilablo"), a distributor of our biological indicator products.

In November 2013, we completed a business combination (the "TempSys Acquisition") whereby we acquired all of the common stock of TempSys, Inc. ("TempSys"), a company in the business of providing continuous monitoring systems to regulated industries.

In November 2013, we completed a business combination (the "Amega Acquisition") whereby we acquired substantially all the assets and certain liabilities of Amega Scientific Corporation's ("Amega") business which provides continuous monitoring systems to regulated industries.

In August 2013, we entered into an agreement whereby we sold our NuSonics product line.

In July 2013, we completed a business combination (the "Suretorque Acquisition") whereby we acquired substantially all of the assets of ST Acquisitions, LLC's ("ST Acquisitions") business involving the design, manufacturing, sale and service of its SureTorque line of bottle cap torque testing instrumentation.

In May 2012, we completed a business combination (the "Bios Acquisition") whereby we acquired substantially all of the assets and certain liabilities of Bios International Corporation's ("Bios") business involving the design, manufacturing, sale and service of flow calibration equipment.

Our principal executive offices and corporate headquarters are located at 12100 West Sixth Ave., Lakewood, Colorado 80228, and our telephone number is 303-987-8000. Our website is www.mesalabs.com. The information contained or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

Instruments Division

Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene and semiconductor industries. Generally, our instrument products are used for testing, quality control, safety, validation and regulatory compliance. Our Instruments Division products include: 1) Data loggers, which are used in critical manufacturing and quality control processes in the food, pharmaceutical and medical device industries; 2) Medical meters and calibration solutions, which are used for quality control in dialysis clinics and dialysis machine manufacturing operations; 3) Gas flow calibration and air sampling equipment, which are used for industrial hygiene assessments, calibration of gas metering equipment and environmental air monitoring by a variety of organizations, including metrology labs, manufacturing companies and government agencies; and 4) torque testing systems, which are used to measure bottle cap tightness in the beverage and pharmaceutical industries.

Data Loggers

Our data logger products are self-contained, wireless, high precision instruments that are used in critical manufacturing, quality control and validation applications. They are used to measure temperature, humidity and pressure inside a process or a product during manufacturing. In addition, data loggers can be used to validate the proper operation of laboratory or manufacturing equipment, either during its installation or for annual re-certifications. The products consist of individual data loggers, a personal computer ("PC") interface, software and various accessories. A customer typically purchases a large number of data loggers along with a single PC interface and the software package. In practice, using the PC interface, the user programs the loggers to collect environmental data at a pre-determined interval, places the data loggers in the product or process, and then collects stored process data from the data logger either through the PC interface or wirelessly via a radio link. The user can then prepare tabular and graphical reports using the software. Unique aspects of our data loggers are their ability to operate at elevated temperatures and in explosive environments – important differentiating factors in the marketplace and, consequently, they are used by companies to control their most critical processes, such as sterilization. Industries utilizing the data loggers include food processing, pharmaceutical manufacturing, medical device companies and contract sterilizers.

Medical Meters and Calibration Solutions

Our medical meters are used to test various parameters of the dialysis fluid (dialysate), and the proper calibration and operation of the dialysis machine. Each measures some combination of temperature, pressure, pH and conductivity to ensure that the dialysate has the proper composition to promote the transfer of waste products from the blood to the dialysate. The

meters provide a digital readout that the patient, physician or technician uses to verify that the dialysis machine is working within prescribed limits and delivering properly prepared dialysate. We manufacture two styles of medical meters; those designed for use by dialysis machine manufacturers and biomedical technicians, and those used primarily by dialysis nurses. The meters for technicians are characterized by exceptional accuracy, stability and flexibility, and are used by the industry as the primary standard for the calibration of dialysis machines. The meters designed for use by dialysis nurses are known primarily for their ease of use and incorporate a patented, built-in syringe sampling system. These meters are used as the final quality control check on the dialysate just prior to starting a treatment. In addition to the dialysate meters, we market a line of standard solutions for use in dialysis clinics for calibration and testing. These standard solutions are regularly consumed by the dialysis clinics thus, along with calibration services, are less impacted by general economic conditions than instrument sales. Customers that utilize these products include dialysis facilities, medical device manufacturers and biomedical service companies.

Gas Flow Calibration and Air Sampling Equipment

We manufacture a variety of instruments and equipment for gas flow calibration and for environmental air sampling. In the air sampling area, our technology is used primarily for the determination of particulate concentrations in air as a measure of urban or industrial air pollution, and for industrial hygiene assessments. The primary products include air samplers, particle separators and pumps. In the environmental area, our particle samplers were some of the first on the market and they were recognized early-on as "reference samplers" by the U.S. Environmental Protection Agency.

We also manufacture gas flow calibration instruments to support the use of our air sampling equipment, and for broader industrial applications. Our gas flow calibration instruments provide the precise standards required by laboratories and industry in the design, development, manufacture, installation and calibration of various gas flow meters and air sampling devices. Our flow meters are used in many industries where professionals require the superior accuracy, reliability and ease of operation that our flow meters provide, including 1) industrial hygienists, 2) calibration and research laboratories, 3) manufacturers who design, develop and manufacture gas flow meters, and 4) industrial engineering and manufacturing companies that utilize gas flow meters.

Torque Testing Systems

Our automated torque testing systems are durable and reliable motorized cap torque analyzers used throughout the packaging industry. The primary advantages of our torque instruments are their high accuracy and long term consistency of measurement. Unlike manual torque testing instruments, our motorized torque systems eliminate the effects on the measurement results of different operators and different cap removal speeds. With a motorized torque testing system, the force applied to a cap is precisely the same in each testing cycle, regardless of who may be operating the machine, or how strong they may be. Our torque systems provide the information that helps the packaging operation track events, and potential problems, during the manufacturing process so that corrections can be performed in a timely fashion. Industries utilizing these instruments include food processors, beverage companies, pharmaceutical, and consumer product manufacturers.

Biological Indicators Division

Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas (such as Ethylene Oxide or Chlorine Dioxide), hydrogen peroxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our biological indicators are registered medical devices manufactured under International Standards Organization ("ISO") 13485 controlled processes. They are developed and used according to the Association for the Advancement of Medical Instrumentation ("AAMI") guidelines, which are adopted as the worldwide standard under ISO.

Biological indicators consist of resistant spores of certain microorganisms that are applied on a convenient substrate, such as a small piece of filter paper. The spores are well characterized in terms of numbers and resistance to sterilization. In use, the biological indicator is exposed to a sterilization process and then tested to determine the presence of surviving organisms. Our biological indicators include a) spore strips, which require post-processing transfer to a growth media, b) self-contained products, which have the growth media already pre-packaged in crushable ampoules, and c) culture media. Chemical indicators are similar to biological indicators, except that a chemical change (generally determined by color) is used to assess the exposure to sterilization conditions. Biological indicators and chemical indicators are often used together to monitor processes. Biological indicators are used to validate equipment and monitor the effectiveness of a process in any industrial or

healthcare setting which uses sterilization. Key markets include healthcare, such as dental offices and hospitals, and industrial, such as medical device and pharmaceutical manufacturers.

Our biological indicators are distinguished in the marketplace by their high level of quality, consistency and flexibility. A variety of different formats allows our biological indicators to be used in many different types of processes and products. For example, the simple spore strips are used most often in the small table-top steam sterilizers in dental offices, while a more complex self-contained biological indicator may be used by a medical device manufacturer to assure the sterility in a complex ethylene oxide sterilization process. In either case, the number of spores contained on the carrier and the resistance of the spores to the sterilization process must be well characterized in order to accurately assess the effectiveness of sterilization. During manufacturing, extensive quality control steps are used to insure that the microorganism spores are well characterized and their resistance is known following placement on the target carrier.

Continuous Monitoring Division

Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained. Continuous monitoring systems are used in controlled environments such as refrigerators, freezers, warehouses, laboratory incubators, clean rooms and a number of other settings. The continuous monitoring systems consist of wireless sensors that are placed in controlled environments, hardware modules to receive the wireless data, and various software programs to collect, store and process the data. Our systems are designed to operate continuously, providing data around the clock, 365 days per year. A critical function of our systems is the ability to provide local alarms and notifications via e-mail, text or telephone, in the case where established environmental conditions are exceeded. Key markets for our continuous monitoring systems are hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments.

Among the important competitive differentiators for our continuous monitoring systems, are 1) their high degree of reliability and up-time; 2) a large variety of sensor types to meet the needs of most applications; 3) a large, distributed installation and service team; and 4) a full-featured and validated software program, providing extensive reporting and alarm capability. An important aspect of our continuous monitoring business is the ability to provide post-installation service and support. For most systems, annual re-calibration of each sensor is required, and we provide this service through our large, dedicated service organization.

Market Factors

Product sales are dependent on several factors, including general economic conditions, both domestic and international, customer capital spending trends, competition, introduction of new products and acquisitions. Biological indicator products are disposable and are used on a routine basis for quality control, thus product sales are less sensitive to general economic conditions. Instrument products and continuous monitoring systems have a longer life, and their purchase by our customers is somewhat discretionary, so sales are more sensitive to general economic conditions. Service demand is driven by our customers' quality control and regulatory environments, which require periodic repair and recalibration or certification of our instrument products and continuous monitoring systems. We typically evaluate costs and pricing annually. Our policy is to price our products competitively and, where possible, we try to pass along cost increases in order to maintain our margins.

Manufacturing

We conduct research, manufacturing and support of our Instruments Division products from our facilities in Lakewood, Colorado; Butler, New Jersey; and Waltham, Massachusetts. Our instrument products are manufactured primarily by assembling the products from purchased components and calibrating the final products prior to release. The manufacture and support of our Continuous Monitoring Division systems are conducted from our facility in Lakewood, Colorado. Our continuous monitoring systems are manufactured primarily by assembling the systems from purchased components and calibrating the final system at the point of installation at the customer's facility. Facilities in Bozeman, Montana and Omaha, Nebraska are used for the Biological Indicators Division. Our biological indicator products are manufactured by growing microbiological spores from raw materials, forming the finished products and testing the finished biological indicators using established quality control tests.

Most of the materials and components used in our product lines are available from a number of different suppliers. We generally maintain multiple sources of supply, but are dependent on a single source for certain items. We believe that

alternative sources could be developed, if required, for present single supply sources. Although our dependence on these single supply sources may involve a degree of risk, to date we have been able to acquire sufficient stock to meet our production requirements.

Marketing and Distribution

Domestically, we generate sales to end users through our sales and marketing staff and distributors. We use approximately 290 distributors throughout Europe, Africa, Asia, South America, Australia, Canada and Central America for international sales and distribution. Sales promotions include trade shows, direct mail campaigns, internet and other digital forms of advertising.

Our Instruments Division marketing effort is focused on offering quality products to our customers that will aid them in containing cost, improving the quality of their products and services, and helping them meet their regulatory requirements. Customers primarily include manufacturers of foods, beverages, pharmaceutical products, medical devices, contract sterilizing services and dialysis clinics.

Our Biological Indicators Division marketing focuses on providing quality test products in a variety of different formats, which minimize incubation and test result time. Customers include companies providing sterility assurance testing to dental offices, hospitals, contract sterilization services and various industrial users involved in pharmaceutical and medical device manufacturing.

Our Continuous Monitoring Division marketing focuses on providing quality systems to our customers that monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained. Customers include hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments.

As of and for the years ended March 31, 2014, 2013 and 2012, no individual customer represented more than 10% of our accounts receivable or revenues.

Competition

Our products compete across several industries with a variety of companies, many of which are well established, with substantially greater capital resources and larger research and development capabilities. Furthermore, many of these companies have established product lines and a significant operating history. Accordingly, we may be at a competitive disadvantage with some competitors due to their respective size and market presence.

Companies with which our Instruments Division products compete include the Myron L Company, IBP Medical GmbH, GE Kaye, Inc., Ellab, TMI Orion, Danaher, Inc., Thermo Fisher Scientific, Inc., Mecmesin and Steinfurth. Our Biological Indicators Division products compete with 3M, Terragene, NAMSA and Steris, among others. Our Continuous Monitoring Division systems compete with Rees Scientific Corporation, GE Kaye, Inc. and Cooper-Atkins, among others.

Research and Development

We are committed to an active research and development program dedicated to innovating new products and improving the quality and performance of our existing products. We spent $2,320,000, $2,011,000 and $1,534,000 for the years ended March 31, 2014, 2013 and 2012, respectively, on research and development activities, including amounts capitalized as intangible assets.

Government Regulation

While our quality system and manufacturing processes are generally the same throughout the Instruments Division, specific products are compliant under ISO 13485, ISO 17025, ISO 9001 and certain U.S. Federal regulations. Compliance requires us to obtain third party certification for certain products.

Several products in both the Instruments and Biological Indicators Divisions are medical devices subject to the provisions of the Federal Food, Drug and Cosmetic Act, as amended by the Medical Device Amendments of 1976 (hereinafter referred to as the "Act"). The Act requires any company proposing to market a medical device to notify the Food and Drug Administration

("FDA") of its intention at least ninety days before doing so and in such notification must advise the FDA as to whether the device is substantially equivalent to a device marketed prior to May 28, 1976. We have received permission from the FDA to market all of the products requiring such permission.

Some of our facilities are subject to FDA regulations and inspections, which may be time-consuming and costly. This includes on-going compliance with the FDA's current Good Manufacturing Practices regulations that require, among other things, the systematic control of manufacture, packaging and storage of products intended for human use. Failure to comply with these practices renders the product adulterated and could subject us to an interruption of manufacturing and selling these products, and possible regulatory action by the FDA.

The manufacture and sale of medical devices is also regulated by some states. Although there is substantial overlap between state regulations and the regulations of the FDA, some state laws may apply. We do not anticipate that complying with state regulations, however, will create any significant problems. Foreign countries also have laws regulating medical devices sold in those countries, which may cause us to expend additional resources on compliance.

Employees

On March 31, 2014, we had 273 employees, of which 162 are employed for manufacturing and quality assurance, 24 for research and development and engineering, 51 for sales and marketing, and 36 for administration.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Annual Report on Form 10-K and other documents we filed with the SEC, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations in future periods. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition.

Conditions in the global economy, the markets we serve and the financial markets may adversely affect our business and results of operations.

Our business is sensitive to general economic conditions and since 2008 the effects of the global financial crisis have adversely impacted the global economy. Slower global economic growth, the credit market crisis and European debt crisis, uncertainty relating to the Euro, high levels of unemployment, reduced levels of capital expenditures, changes in government fiscal and monetary policies, government deficit reduction and budget negotiation dynamics, sequestration, other austerity measures and other challenges affecting the global economy could affect us and our distributors, customers and suppliers, including having the effect of:

- reducing demand for our products and services, limiting financing available to our customers, increasing order cancellations and resulting in longer sales cycles;
- increasing the difficulty in collecting accounts receivable and the risk of excess and obsolete inventories; and
- increasing the risk that counterparties to our contractual arrangements will become insolvent or otherwise unable to fulfill their contractual obligations, which could increase the risks identified above.

Improvement in the global economy remains uneven and uncertain. If slower growth in the global economy or in any of the markets we serve continues for a significant period, if there is a significant deterioration in the global economy or such markets, or if improvements in the global economy don't benefit the markets we serve, our business and results of operations could be adversely affected.

We face competition and if we are unable to compete effectively, we may experience decreased demand and decreased market share.

The markets for some of our current and potential products are competitive. Because of the range of products we sell and the variety of markets we serve, we encounter a wide variety of competitors, including several that possess both larger sales forces and more capital resources. In order to compete effectively, we must retain longstanding relationships with major customers, continue to grow our business by establishing relationships with new customers, continually develop new products and services to maintain and expand our brand recognition and leadership position in various product and service categories, and penetrate new markets, including in developing countries. Our failure to compete effectively and/or pricing pressures resulting from competition may adversely impact our results of operations, and our expansion into new markets may result in greater-than-expected risks, liabilities and expenses.

Changing industry trends may affect our results of operations.

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

- changes in dialysis reimbursements;
- mergers within the dialysis provider industry, concentrating our medical meter and solutions sales with a few, large customers;
- mergers within other industries we serve, making us more dependent upon fewer, larger customers for our sales;
- decreased product demand, driven by changes in our customer's regulatory environments or standard industry practices; and
- price competition for key products.

Our growth depends in part on the timely development and commercialization, and customer acceptance, of new and enhanced products and services and the efforts of third party distributors.

Our growth depends on the acceptance of our products and services 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. We can offer no assurance that we will be able to continue to introduce new and enhanced products, that the products we introduce, or have introduced, will be widely accepted by the marketplace, or that the companies that we contract with to distribute and represent our products will continue to successfully penetrate our various markets. Our failure to continue to introduce new and enhanced products or gain widespread acceptance of our products and services could adversely affect our results of operations. In order to successfully commercialize our products and services in new markets, we will need to enter into distribution arrangements with companies that can successfully distribute and represent our products and services into various markets.

Any inability to consummate acquisitions at our historical rate and at appropriate prices could negatively impact our growth rate and stock price.

Our ability to grow revenues, earnings and cash flow at or above our historic rates depends in part upon our ability to identify and successfully acquire and integrate businesses at appropriate prices and realize anticipated synergies. We may not be able to consummate acquisitions at rates similar to the past, which could adversely impact our growth rate and our stock price. Promising acquisitions are difficult to identify and complete for a number of reasons, including high valuations, competition among prospective buyers, the availability of affordable funding in the capital markets and the need to satisfy applicable closing conditions. In addition, competition for acquisitions in our current and anticipated business areas is significant and may result in higher purchase prices. Changes in accounting or regulatory requirements, or instability in the credit markets could also adversely impact our ability to consummate acquisitions.

Our acquisition of businesses could negatively impact our results of operations.

As an important part of our business strategy, we acquire businesses, some of which may be material. Please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional details. Our acquisitions involve a number of financial, accounting, managerial, operational, legal and other risks and challenges, including the following, any of which could adversely affect our results of operations:

- any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, or not perform in accordance with our anticipated timetable;
- we may incur or assume significant debt in connection with our acquisitions;
- acquisitions could cause our results of operations to differ from our own or the investment community's expectations in any given period, or over the long-term;
- pre-closing and post-closing acquisition-related earnings charges could adversely impact our results of operations in any given period, and the impact may be substantially different from period to period;
- acquisitions could create demands on our management, operational resources and financial and internal control systems that we are unable to effectively address, or for which we may incur additional costs;
- we could experience difficulty in integrating personnel, operations, financial and other systems, and in retaining key employees and customers;
- we may be unable to achieve cost savings or other synergies anticipated in connection with an acquisition;
- we may assume by acquisition unknown liabilities, known contingent liabilities that become realized, known liabilities that prove greater than anticipated, internal control deficiencies or exposure to regulatory sanctions resulting from the acquired company's activities. The realization of any of these liabilities or deficiencies may increase our expenses, adversely affect our financial position or cause us to fail to meet our public financial reporting obligations;
- in connection with acquisitions, we often enter into post-closing financial arrangements such as purchase price adjustments, earn-out obligations and indemnification obligations, which may have unpredictable financial results; and
- as a result of our acquisitions, we have recorded significant goodwill and other intangible assets on our consolidated balance sheet. If we are not able to realize the value of these assets, we may be required to incur charges relating to the impairment of these assets, which could materially impact our results of operations.

The contingent consideration from the Bios Acquisition may negatively impact our available cash and results from operations.

As part of the Bios Acquisition, we are required to make a contingent consideration payment based on revenue growth related to the acquired assets over a three year earn-out period. The ultimate amount we pay may differ significantly from the liability we recorded at the time of the acquisition. If we are required to pay more than the amount initially recorded, the difference will be recorded as expense in our consolidated statements of income, which could materially impact our results of operations.

The contingent consideration from the Amega Acquisition may negatively impact our available cash and results from operations.

As part of the Amega Acquisition, we are required to make a contingent consideration payment if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The ultimate amount we pay may differ significantly from the liability we recorded at the time of the acquisition. If we are required to pay more than the amount initially recorded, the difference will be recorded as expense in our consolidated statements of income, which could materially impact our results of operations.

If we do not or cannot adequately protect our intellectual property, or if third parties infringe our intellectual property rights, we may suffer competitive injury or expend significant resources enforcing our rights.

We own numerous patents, trademarks, copyrights, trade secrets and other intellectual property and licenses to intellectual property owned by others, which in aggregate are important to our business. The intellectual property rights that we obtain, however, may not be sufficiently broad or otherwise may not provide us a significant competitive advantage, and patents may not be issued for pending or future patent applications owned by or licensed to us. In addition, the steps that we and our licensors have taken to maintain and protect our intellectual property may not prevent it from being challenged, invalidated, circumvented or designed-around, particularly in countries where intellectual property rights are not highly developed or protected. In some circumstances, enforcement may not be available to us because an infringer has a dominant intellectual property position or for other business reasons, or countries may require compulsory licensing of our intellectual property. Our failure to obtain or maintain intellectual property rights that convey competitive advantage, adequately protect our intellectual property, detect or prevent circumvention or unauthorized use of such property, and the cost of enforcing our intellectual property rights could adversely impact our competitive position and results of operations.

We also rely on nondisclosure and noncompetition agreements with employees, consultants and other parties to protect, in part, our trade secrets and other proprietary rights. There can be no assurance that these agreements will adequately protect our trade secrets and other proprietary rights, will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to our trade secrets or other proprietary rights.

Several of 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, we can offer 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.

Product defects and unanticipated use or inadequate disclosure with respect to our products could adversely affect our business, reputation and our results of operations.

Manufacturing or design defects in, unanticipated use of, safety or quality issues with respect to, or inadequate disclosure of risks relating to the use of products that we make or sell (including in products or components that we source from third parties) can lead to personal injury or property damage. These events could lead to recalls or safety alerts relating to our products, and result in product liability claims being brought against us. Recalls and product liability claims can result in significant costs, as well as negative publicity and damage to our reputation that could reduce demand for our products and have an adverse effect on our results of operations and financial condition.

Catastrophic events or environmental conditions may disrupt our business.

A disruption or failure of our systems or operations because of a major weather event, cyber-attack, terrorist attack, or other catastrophic event could cause delays in completing sales, providing services or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or IT systems could harm our ability to conduct normal business operations. Abrupt political change, terrorist activity, and armed conflict pose a risk of general economic disruption in affected countries, which may increase our operating costs or adversely affect our revenues. These conditions also may add uncertainty to the timing and budget for purchase/investment decisions by our customers, and may result in supply chain disruptions for hardware manufacturers, either of which may adversely affect our revenue. The long-term effects of climate change on the global economy in general or the Industrial Instruments industry in particular are unclear. Environmental regulations or changes in the supply, demand or available sources of energy may affect the availability or cost of goods and services, including natural resources, necessary to run our business. Changes in weather where we operate may increase the costs of powering and maintaining the equipment we need to produce our product lines.

We may be required to recognize impairment charges that could materially affect our results of operations.

We assess our goodwill and other intangible assets, and our other long-lived assets as and when required by accounting principles generally accepted in the United States ("GAAP") to determine whether they are impaired. If they are impaired, we would record appropriate impairment charges. It is possible that we may be required to record significant impairment charges in the future and, if we do so, our results of operations could be materially adversely affected.

Changes in accounting standards could affect our reported financial results.

New accounting standards or pronouncements that may become applicable to our Company from time to time, or changes in the interpretation of existing standards and pronouncements, could have a significant effect on our reported results of operations for the affected periods.

Our business is subject to sales tax in numerous states

The application of indirect taxes, such as sales tax, is a complex and evolving issue. A company is required to collect and remit state sales tax from certain of its customers if that company is determined to have "nexus" in a particular state. The determination of nexus varies by state and often requires knowledge of each jurisdiction's tax case law. The application and implementation of existing, new or future laws could change the states in which we collect and remit sales taxes. Historically, if we have not properly identified states in which we have nexus, we could be held responsible for payment of sales taxes for the years in which it is determined we had nexus. We have determined that we most likely have an obligation for sales taxes in numerous states and as a result, we have recorded accruals of approximately $1,500,000 to cover this exposure. This estimate was based upon facts and circumstances known at such time and our ultimate liability may change as further analysis is completed and state sales tax returns are filed. The ultimate amount due will depend upon a number of factors, including the amount of sales that were made to customers who already paid the tax or who are exempt, the number of years of exposure, and any penalties and interest. If the assumptions used in our estimate are not correct or if it is determined that we have "nexus" in additional states that we have not contemplated, it could have an adverse effect on our results of operations and financial condition.

We are utilizing variable rate financing.

In February 2012, we entered into a three year agreement (the "Credit Facility") for a $20,000,000 revolving line of credit ("Line of Credit") and up to $1,000,000 of letters of credit. Under the Credit Facility, indebtedness bears interest at either: (1) LIBOR, as defined plus an applicable margin, ranging from 1.25% to 2.00%, or (2) the bank's commercial bank floating rate ("CBFR"), which is the greater of the bank's prime rate or one month LIBOR + 2.50%, adjusted down, from 1.25% to 0.50%.

In April 2014, the Credit Facility was amended to include a $15,000,000 term loan (the "Term Loan") and to extend the maturity date of the Credit Facility to June 30, 2017. The Term Loan bears interest at LIBOR, as defined plus 2% and requires 11 quarterly principal payments (the first due date being July 15, 2014) in the amount of $750,000 with the remaining balance of principal and accrued interest due on April 15, 2017.

A change in interest rate market conditions could increase our interest costs in the future and may have an adverse effect on our results of operations.

Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial statements.

As of May 31, 2014, we had $27,000,000 in outstanding indebtedness. In addition, based on the availability under our Credit Facility, we have the ability to incur an additional $8,000,000 of indebtedness. Our debt level and related debt service obligations can have negative consequences, including (1) requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which reduces the funds we have available for other purposes such as acquisitions and capital investment; (2) reducing our flexibility in planning for or reacting to changes in our business and market conditions; and (3) exposing us to interest rate risk since our debt obligations are at variable rates. We may incur significantly more debt in the future, particularly to finance acquisitions.

We may face continuing challenges in complying with certain sections of the Sarbanes-Oxley Act.

Like many public companies, we face challenges in complying with the internal control requirements of the Sarbanes-Oxley Act (Section 404). 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. We may also be forced to incur on-going expense in order to comply with the law under current control frameworks or if the framework changes. These expenses may have a material adverse effect on our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Set forth below is a listing of our facilities. The Lakewood, Butler, Bozeman, Omaha and Waltham facilities all have manufacturing, research and development, marketing and administrative functions. The Marlton and Chassieu facilities have marketing and administrative functions.

Location	Operations	Square Feet	
Lakewood, Colorado	Instruments and corporate headquarters	40,000	Owned
Butler, New Jersey	Instruments	13,900	Leased
Bozeman, Montana	Biological Indicators	22,500	Owned
Omaha, Nebraska	Biological Indicators	28,000	Owned
Marlton, New Jersey	Continuous Monitoring	6,910	Leased
Chassieu, France	Biological Indicators	3,380	Leased
Waltham, Massachusetts	Instruments	5,840	Leased

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Market ("NASDAQ") under the symbol "MLAB."

The following table sets forth the high and low market prices per share for our common stock, as reported by NASDAQ, and dividend per share information:

Quarter Ended	High	Low	Dividends Per Share
June 30, 2013	$ 55.26	$ 47.12	$ 0.14
September 30, 2013	71.32	53.71	0.14
December 31, 2013	82.76	65.74	0.15
March 31, 2014	94.21	73.88	0.15

Quarter Ended	High	Low	Dividends Per Share
June 30, 2012	$ 51.45	$ 38.64	$ 0.13
September 30, 2012	48.94	40.00	0.13
December 31, 2012	52.00	45.10	0.14
March 31, 2013	57.00	49.38	0.14

While we have paid dividends to holders of our common stock on a quarterly basis since 2003, the declaration and payment of future dividends will depend on many factors, including, but not limited to, our earnings, financial condition, business development needs and regulatory considerations, and is at the discretion of our Board of Directors.

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

As of March 31, 2014, there were approximately 164 record holders of our common stock. This amount does not include "street name" holders or beneficial holders of our common stock, whose holder of record are banks, brokers and other financial institutions.

During the year ended March 31, 2014, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

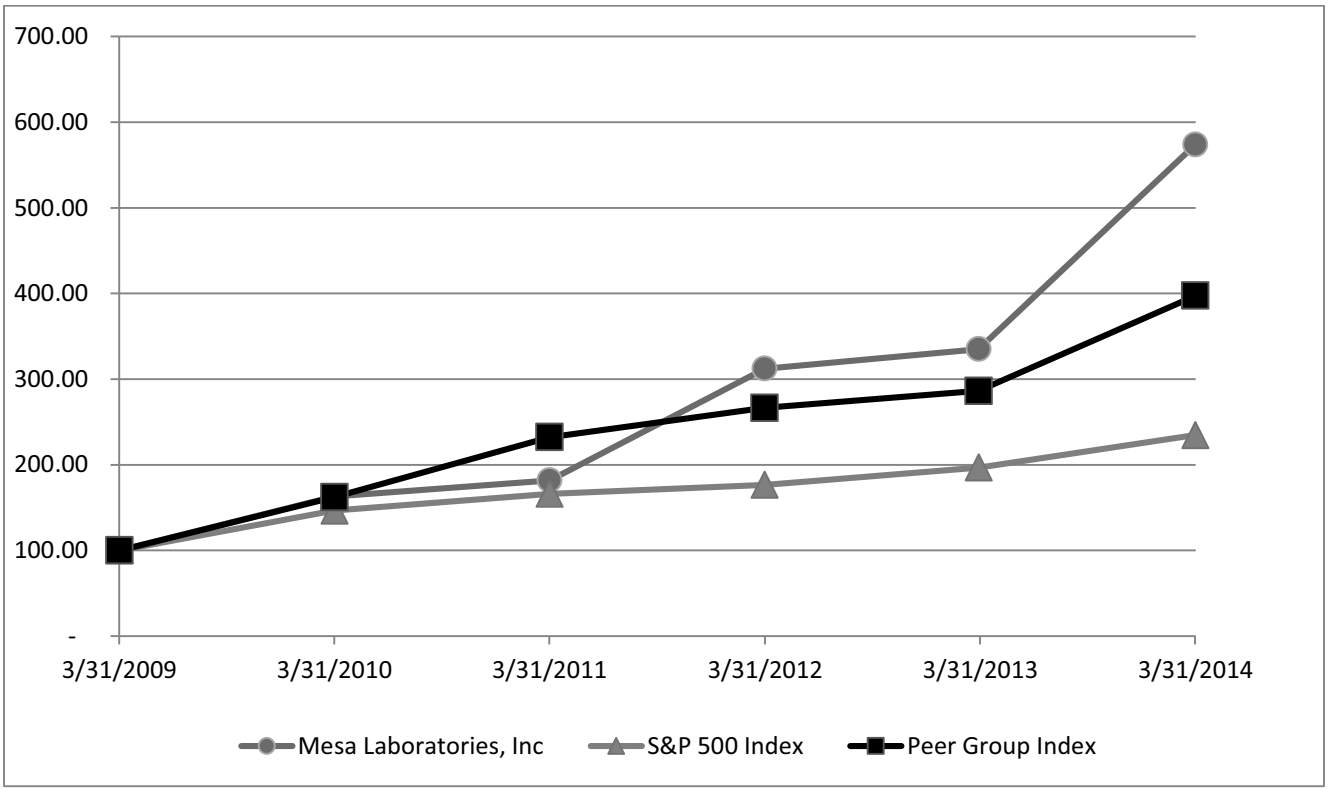
We made the following repurchases of our common stock, by month, within the fourth quarter of the year covered by this report:

	Shares Purchased	Avg. price Paid	Total Shares Purchased as Part of Publicly Announced Plan	Remaining Shares to Purchase Under Plan
January 1 – 31, 2014	675	$ 76.11	162,306	137,694
February 1 – 29, 2014	--	--	162,306	137,694
March 1 – 31, 2014	--	--	162,306	137,694
Total	675	76.11		

On November 7, 2005, our Board of Directors adopted a share repurchase plan which allows for the repurchase of up to 300,000 of our common shares. This plan will continue until the maximum is reached or the plan is terminated by further action of the Board of Directors.

We have certain equity compensation plans, all of which were approved by our shareholders. As of March 31, 2014, 398,172 shares of common stock may be issued upon exercise of outstanding options, with a weighted-average exercise price of $38.75 and 210,888 shares are available for future issuance under the plans. Please see notes contained in "Item 8. Financial Statements and Supplementary Data" of this report for additional details.

Set forth below is a line graph comparing, for the period March 31, 2009 through March 31, 2014, the cumulative total stockholder return on our common stock against the cumulative total return of (a) the S&P Composite Stock Index and (b) a self-selected peer group, comprised of the following companies: Danaher Corp., ARCA Biopharma, Inc., Steris Corp., MOCON Inc., Utah Medical Products, Inc., Cantel Medical Corp., Merit Medical Systems, Inc., Transcat Inc., Electro-Sensors Inc., Rudolph Technologies Inc., and Measurement Specialties Inc. The graph shows the value at March 31 of each year, assuming an original investment of $100 in each and reinvestment of cash dividends.



ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and financial statements and notes hereto contained in "Item 8. Financial Statements and Supplementary Data" of this report.

(In thousands, except per share data)	As Of And For The Year Ended March 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Cash and cash equivalents	$ 5,575	$ 4,006	$ 7,191	$ 3,546	$ 10,471
Working capital	$ 16,351	$ 14,793	$ 14,899	$ 7,387	$ 18,530
Average return on:					
Stockholder investment (1)	15%	17%	20%	18%	16%
Assets	11%	14%	16%	15%	15%
Invested capital (2)	13%	18%	21%	21%	24%
Revenues	$ 52,724	$ 46,435	$ 39,616	$ 34,227	$ 23,087
Gross profit	$ 31,688	$ 28,862	$ 23,511	$ 19,568	$ 13,194
Gross profit margin	60%	62%	59%	57%	57%
Net income	$ 9,000	$ 8,450	$ 7,919	$ 6,183	$ 4,769
Net income margin	17%	18%	20%	18%	21%
Net income per diluted share	$ 2.49	$ 2.35	$ 2.29	$ 1.86	$ 1.45
Adjusted net income (3)	$ 11,046	$ 10,144	$ 8,876	$ 6,933	$ 5,052

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

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

(3) Adjusted net income is defined to exclude the non-cash impact of amortization of intangible assets, net of tax. The tax effect is calculated using the average corporate rate for that year multiplied by the amortization.

Reconciliation of Non-GAAP Measure

Adjusted net income (which excludes the non-cash impact of amortization of intangible assets, net of tax), is used by management as a supplemental performance and liquidity measure, primarily to exclude the impact of acquisition-related intangible assets in order to compare current financial performance to historical performance, assess the ability of our assets to generate cash and the evaluation of potential acquisitions.

Adjusted net income should not be considered an alternative to, or more meaningful than, net income, operating income, cash flow from operating activities or any other measure of financial performance presented in accordance with GAAP as measures of operating performance or liquidity.

The following table sets forth our reconciliation of adjusted net income, a non-GAAP measure:

(In thousands)	Year Ended March 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Net income	$ 9,000	$ 8,450	$ 7,919	$ 6,183	$ 4,769
Amortization of intangible assets, net of tax	2,046	1,694	957	750	283
Adjusted net income	$ 11,046	$ 10,144	$ 8,876	$ 6,933	$ 5,052

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We pursue a strategy of focusing primarily on quality control products, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into three divisions across seven physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene and semiconductor industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments. We follow a philosophy of manufacturing a high quality product and providing a high level of on-going service for those products.

Our revenues come from two main sources – product sales and services. Product sales are dependent on several factors, including general economic conditions, both domestic and international, customer capital spending trends, competition, introduction of new products and acquisitions. Biological indicator products are disposable and are used on a routine basis for quality control, thus product sales are less sensitive to general economic conditions. Instrument products and continuous monitoring systems have a longer life, and their purchase by our customers is somewhat discretionary, so sales are more sensitive to general economic conditions. Service demand is driven by our customers' quality control and regulatory environments, which require periodic repair and recalibration or certification of our instrument products and continuous monitoring systems. We typically evaluate costs and pricing annually. Our policy is to price our products and systems competitively and, where possible, we try to pass along cost increases in order to maintain our margins.

Gross profit is affected by our product mix, manufacturing efficiencies and price competition. Historically, as we have integrated our acquisitions and taken advantage of manufacturing efficiencies, our gross margins for some of the products have improved. There are, however, differences in gross margins between different product lines, and ultimately the mix of sales may continue to impact our overall gross margin.

Selling expense is driven primarily by labor costs, including salaries and commissions. Accordingly, it may vary with sales levels. Labor costs and amortization of intangible assets drive the substantial majority of general and administrative expense. Research and development expense is predominantly comprised of labor costs and third party consultants.

In April 2014, we completed the BGI Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI for $9,900,000, subject to a post-closing adjustment.

In November 2013, we completed the Amega Acquisition whereby we acquired substantially all of the assets and certain liabilities of Amega for $12,268,000 (subject to a post-closing adjustment). The asset acquisition agreement (the "Amega Agreement") also includes a provision for contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels.

In November 2013, we completed the TempSys Acquisition whereby we acquired all of the common stock of TempSys for $9,826,000 (subject to a post-closing adjustment).

In May 2012, we completed the Bios Acquisition whereby we acquired substantially all of the assets and certain liabilities of Bios for $16,660,000. The asset acquisition agreement (the "Bios Agreement") also included a provision for contingent consideration based on revenues growth over a three year earn-out period.

In August 2013, we entered into an agreement whereby we sold our NuSonics product line (the "NuSonics Disposal") for $661,000, which resulted in a pre-tax gain of $468,000.

General Trends and Outlook

Our strategic objectives include both growth organically and through further acquisitions. During the year ended March 31, 2014, we continued to build our infrastructure to prepare for future growth, including the addition of key personnel to our operations, research and development, and finance teams. We also invested in upgrading our information systems and intend to continue doing so.

The markets for our biological indicators remain strong, as the disposable nature of these products makes them less sensitive to general economic conditions. The worldwide market for biological indicators is growing as more countries focus on verifying the effectiveness of sterilization processes. General economic conditions over the past few years have hampered the organic growth of our instruments business, due to the discretionary nature of these products. Additionally, uncertainty about global economic conditions may cause businesses to postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values. Worldwide and regional economic conditions could also reduce the demand for our products and services, as our customers reduce or delay capital equipment and other types of purchases. Demand for our instruments products and our newly acquired continuous monitoring systems, however, is still strong and we strive to maintain or grow revenues going forward.

We are working on several research and development projects that, if completed, may result in new products for both existing customers and in new markets. We are hopeful that both our Biological Indicators and Instruments Divisions will have new products available for sale in the coming year.

Results of Operations

The following table sets forth, for the periods indicated, condensed consolidated statements of income data. The table and the discussion below should be read in conjunction with the accompanying consolidated financial statements and the notes thereto appearing elsewhere in "Item 8. Financial Statements and Supplementary Data" (in thousands, except percent data):

	Year Ended March 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	Change	Percent Change	Change	Percent Change
Revenues	$ 52,724	$ 46,435	$ 39,616	$ 6,289	14%	$ 6,819	17%
Cost of revenues	21,036	17,573	16,105	3,463	20%	1,468	9%
Gross profit	$ 31,688	$ 28,862	$ 23,511	$ 2,826	10%	$ 5,351	23%
Gross profit margin	60%	62%	59%	(2%)		3%	
Operating Expenses:							
Selling	$ 6,119	$ 4,630	$ 3,909	$ 1,489	32%	$ 721	18%
General and administrative	11,464	9,117	5,416	2,347	26%	3,701	68%
Research and development	2,320	2,011	1,359	309	15%	652	48%
Impairment of intangibles	--	--	350	--	--	(350)	(100)%
	$ 19,903	$ 15,758	$ 11,034	$ 4,145	26%	$ 4,724	43%
Operating income	$ 11,785	$ 13,104	$ 12,477	$(1,319)	(10)%	$ 627	5%
Net income	$ 9,000	$ 8,450	$ 7,919	$ 550	7%	$ 531	7%
Net profit margin	17%	18%	20%	(1%)		(2)%	

Revenues

The following table summarizes our revenues by source (in thousands, except percent data):

	Year Ended March 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	Change	Percent Change	Change	Percent Change
Biological Indicators							
Product	$ 22,111	$ 20,641	$ 19,653	$ 1,470	7%	$ 988	5%
Service	881	823	769	58	7%	54	7%
	22,992	21,464	20,422	1,528	7%	1,042	5%
Instruments							
Product	20,858	19,949	15,548	909	5%	4,401	28%
Service	5,531	5,022	3,646	509	10%	1,376	38%
	26,389	24,971	19,194	1,418	6%	5,777	30%
Continuous Monitoring							
Product	1,570	--	--	1,570	100%	--	--
Service	1,773	--	--	1,773	100%	--	--
	3,343	--	--	3,343	100%	--	--
Total	$ 52,724	$ 46,435	$ 39,616	$ 6,289	14%	$ 6,819	17%

Year ended March 31, 2014 versus March 31, 2013

Biological Indicators revenues increased as a result of continued organic growth which was achieved through existing customers, expansion into new markets and price increases.

Instruments revenues increased primarily from organic growth in our gas flow calibration equipment, the acquisition of the SureTorque product line and the timing of the Bios Acquisition in the prior year, partially offset by the disposal of our Nusonics product line in August 2013. Our other Instruments product lines remained relatively unchanged.

Continuous Monitoring revenues were negatively impacted by integration activities that commenced soon after the Amega and TempSys acquisitions were completed. These integration activities, which are ongoing, are expected to be substantially completed by the start of the second half of our year ending March 31, 2015, at which time we expect that revenues will increase.

Year ended March 31, 2013 versus March 31, 2012

Biological Indicators revenues increased as a result of continued organic growth which was achieved through existing customers, expansion into new markets and price increases. Instruments revenues increased as a result of the Bios Acquisition, while legacy Instruments product line revenues remained relatively unchanged.

Gross Profit

The following table summarizes our gross profit by segment (in thousands, except percent data)

	Year Ended March 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	Change	Percent Change	Change	Percent Change
Biological Indicators	$ 13,187	$ 12,365	$ 11,236	$ 822	7%	$ 1,129	10%
Gross profit margin	57%	58%	55%	(1)%		3%	
Instruments	$ 16,904	$ 16,497	$ 12,275	$ 407	2%	$ 4,222	34%
Gross profit margin	64%	66%	64%	(2)%		2%	
Continuous Monitoring	$ 1,597	--	--	1,597	100%		
Gross profit margin	48%	--%	--%	--		--	--
Total gross profit	$ 31,688	$ 28,862	$ 23,511	$ 2,826	10%	$ 5,351	23%
Gross profit margin	60%	62%	59%	(2)%		3%	

Year ended March 31, 2014 versus March 31, 2013

Biological Indicators gross profit margin percentage remained relatively flat as compared to the prior year.

Instruments gross profit margin percentage decreased as compared to the prior year. The current year was negatively impacted from the application of purchase accounting and increased manufacturing costs associated with migrating the operations associated with the Suretorque Acquisition to our Lakewood facility and minor decreases in our legacy Instrument products, partially offset by an increase in our gas flow calibration equipment product line due to increased revenues and the timing of the Bios Acquisition in the prior year.

Continuous Monitoring gross profit margin percentage was negatively impacted by integration activities that commenced soon after the Amega and TempSys acquisitions were completed. These integration activities, which are ongoing, are expected to be substantially completed by the start of the second half of our year ending March 31, 2015, at which time we expect that the gross profit margin percentage for this segment will be closer to our historical results.

Year ended March 31, 2013 versus March 31, 2012

Biological Indicator gross profit margin percentage increased as a result of improved manufacturing efficiencies which were driven by successfully completing the integration of the SGM Acquisition and Apex Acquisition, and increased sales. Instruments gross profit margin percentage increased as a result of the Bios Acquisition, while legacy Instruments product line gross profit remained relatively unchanged.

Operating Expenses

The following table summarizes the change in our operating expenses (in thousands):

	Increase (Decrease) Year Ended March 31,	
	2014 vs 2013	**2013 vs 2012**
Selling	$ 1,489	$ 721
General and administrative		
Chief Financial Officer transition	(526)	526
ERP system upgrade and SOX compliance	(86)	245
Acquisition costs	252	150
Amortization	462	1,110
Personnel costs	470	1,144
Taxes and fees	1,408	(88)
Other, net	367	614
	2,347	3,701
Research and development	309	652
Impairment of intangible asset	--	(350)
Operating expenses	$ 4,145	$ 4,724

Selling

Year ended March 31, 2014 versus March 31, 2013

Selling expense increased primarily as a result of the Bios, Amega, TempSys and SureTorque acquisitions. As a percentage of revenues, selling expense increased to 11.6% as compared to 10% in the prior year. The increase was due primarily to additional sales personnel associated with the Amega and TempSys acquisitions along with a revenues run rate associated with Continuous Monitoring that was negatively impacted as a result of integration activities.

Year ended March 31, 2013 versus March 31, 2012

Selling expense increased due to the Bios Acquisition, with minor increases in other product lines. As a percentage of revenues, selling expense remained relatively flat.

General and Administrative

Year ended March 31, 2014 versus March 31, 2013

General and administrative expenses increased due to the recording of a $1,408,000 accrual associated with not properly collecting and remitting sales tax in states in which we most likely had established nexus during prior periods, increased amortization and personnel costs resulting primarily from the Amega and TempSys acquisitions and increased acquisition costs associated with the Amega, TempSys, Amilabo and BGI acquisitions, partially offset by Chief Financial Officer transition costs incurred in the prior year.

Year ended March 31, 2013 versus March 31, 2012

As part of our Chief Financial Officer transition, certain unvested options were modified, resulting in incremental stock option expense of approximately $240,000. The balance of the Chief Financial Officer transition impact includes a severance package and miscellaneous other costs. All costs associated with the transition were expensed during the year ended March 31, 2013. We upgraded our ERP system and implemented computer-based controls as part of our Sarbanes-Oxley compliance efforts, which we believe makes us better prepared for any future growth we may experience. Amortization expense increased

due to the Bios Acquisition, in May 2012, and the amortization of trademarks, which began in February 2012. We recorded estimated sales tax liabilities of $100,000 and $250,000, respectively, for the years ended March 31, 2013 and 2012. Personnel costs increased primarily due to the Bios Acquisition, but also for additional personnel and salary adjustments. The remaining increase primarily consists of expenses associated with the acquired operations from the Bios Acquisition and general growth initiatives.

Research and Development

Year ended March 31, 2014 versus March 31, 2013

Research and development expenses increased as compared to the prior year as a result of the Bios Acquisition and timing of external research and development consulting costs, as we continue our commitment to research and development.

Year ended March 31, 2013 versus March 31, 2012

The increase is due to additional internal personnel added as a result of the Bios Acquisition, and external research and development consulting costs, as we continue our commitment to research and development. The cost of intangible assets that are purchased from others for use in research and development activities and have alternative future uses, however, are capitalized and amortized over their expected useful life. During the year ended March 31, 2012, we capitalized $175,000 of Biological Indicator research as an intangible asset, as it had alternative future uses, and are amortizing it through research and development expense over ten years.

Impairment of Intangible Asset

We determined that the carrying value of an Instruments indefinite-lived intangible asset was greater than its estimated fair value and in February, 2012 we recorded an impairment charge of $350,000. Fair value was estimated using the royalty replacement approach, whereby a royalty percentage was applied to forecasted revenues and discounted to determine the present value. While gross profit and cash flows had shown improvement since the intangible asset was acquired, revenues had not grown at the level originally used to value the intangible asset.

Net Income

Other income (expense) increased primarily as a result of a $1,020,000 gain associated with the revision of our estimate on the amount that will ultimately be paid associated with contingent consideration related to the Bios Agreement and the $468,000 gain on the Nusonics Disposal. Please see “Item 8. Financial Statements and Supplementary Data” for additional discussion. Our income tax rate for the current year was impacted by several items including an increase in our research and development credit which reduced our effective rate to 31.3%. Our tax rate will continue to vary based upon many factors but in general, we anticipate our future income tax rate to approximate 35%. Otherwise, net income varied with the changes in revenues, gross profit and operating expenses.

Liquidity and Capital Resources

Our sources of liquidity may include cash generated from operations, working capital, capacity under our Credit Facility and potential equity and debt offerings. We believe that cash generated from these sources will be sufficient to meet our short-term and long-term needs. Our more significant uses of resources include quarterly dividends to shareholders, payment of debt obligations, long-term capital equipment expenditures and potential acquisitions. In addition, over the next 10-16 months, we expect to implement a new ERP system which may require a significant use of cash.

Working capital is the amount by which current assets exceed current liabilities. We had working capital of $16,351,000 and $14,793,000, respectively, at March 31, 2014 and 2013. The increase in working capital is primarily due to an increase in deferred income taxes partially offset by the impact of purchase accounting associated with the Amega and TempSys acquisitions.

In February 2012, we entered into the Credit Facility for a $20,000,000 revolving line of credit and up to $1,000,000 of letters of credit. Funds from the Credit Facility may be used for general working capital and corporate needs, retiring existing debt, or to support acquisitions and capital expenditures. Under the Credit Facility, indebtedness bears interest at either: (1) LIBOR,

as defined plus an applicable margin, ranging from 1.25% to 2.00%, or (2) the bank's commercial bank floating rate ("CBFR"), which is the greater of the bank's prime rate or one month LIBOR + 2.50%, adjusted down, from 1.25% to 0.50%.

In April 2014, the Credit Facility was amended to include a $15,000,000 term loan and to extend the maturity date of the Credit Facility to June 30, 2017. The Term Loan bears interest at LIBOR, as defined plus 2% and requires 11 quarterly principal payments (the first due date being July 15, 2014) in the amount of $750,000 with the remaining balance of principal and accrued interest due on April 15, 2017. The proceeds from the Term Loan may be used to support acquisition financing and to repay amounts outstanding under the Line of Credit.

The Credit Facility is secured by all of our assets and requires us to maintain a ratio of funded debt to our trailing four quarters of EBIDTA, as defined, of 2.5 to 1.0, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with these covenants at March 31, 2014.

As of May 31, 2014, we had $27,000,000 in outstanding indebtedness and unused capacity under our Credit Facility of $8,000,000.

On October 1, 2012, we amended our articles of incorporation to increase the number of authorized shares of common stock from 8 million to 25 million.

We routinely evaluate opportunities for strategic acquisitions. Future material acquisitions may require that we obtain additional capital, assume third party debt or incur other long-term obligations. We believe that we have the option to utilize both equity and debt instruments as vehicles for the long-term financing of our investment activities and acquisitions.

On November 7, 2005, our Board of Directors authorized a program to repurchase up to 300,000 shares of our outstanding common stock. Under the plan, the shares may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares purchased are canceled and repurchases are made with existing cash reserves. We do not maintain a set policy or schedule for our buyback program. We have purchased 162,306 shares of common stock under this program from inception through March 31, 2014.

We have been paying regular quarterly dividends since 2003. Dividends per share paid by quarter were as follows:

	Year Ended March 31,		
	2014	**2013**	**2012**
First quarter	$ 0.14	$ 0.13	$ 0.12
Second quarter	0.14	0.13	0.12
Third quarter	0.15	0.14	0.13
Fourth quarter	0.15	0.14	0.13

On April 23, 2014, our Board of Directors declared a quarterly cash dividend of $0.15 per share of common stock, payable on June 16, 2014, to stockholders of record at the close of business on May 30, 2014.

Cash Flow – Operating, investing and financing activities were as follows (in thousands):

	Year Ended March 31,		
	2014	**2013**	**2012**
Net cash provided by operating activities	$ 12,373	$ 11,402	$ 12,489
Net cash used in investing activities	(23,138)	(17,568)	(1,420)
Net cash provided by (used in) financing activities	12,334	2,981	(7,424)

Generally, net cash provided by operating activities changes primarily due to increases in revenues and corresponding net income, offset by the timing of certain working capital expenditures. The year ended March 31, 2014 was impacted by positive results from our efforts to collect long-outstanding receivables offset by significant increases in inventory purchases associated with the Amega and TempSys acquisitions. The year ended March 31, 2013 saw an increase in accounts receivable due to our expanding international customer base, which has extended payment terms, and an increase in inventory, as we

strive to take advantage of volume discounts for raw materials. The year ended March 31, 2012 saw an increase in sales levels, which resulted in a reduction in inventory levels.

Net cash used in investing activities was driven primarily by the Amega and TempSys acquisitions in November 2013, the SureTorque Acquisition in July 2013 and the Bios Acquisition in May 2012. The final payment for the acquisition of Apex Laboratories, Inc. was made in December 2011. Purchases of property, plant and equipment were $1,041,000, $908,000 and $683,000, respectively, for the years ended March 31, 2014, 2013 and 2012.

Financing activities for the year ended March 31, 2014 resulted from borrowings under our Line of Credit of $21,000,000 and proceeds from the exercise of stock options of $1,845,000, partially offset by payments on long-term debt of $8,500,000 and the payment of dividends of $1,989,000. Financing activities for the year ended March 31, 2013 resulted from borrowings under our Line of Credit of $11,000,000 and proceeds from the exercise of stock options of $894,000, partially offset by payments on long-term debt of $7,000,000 and the payment of dividends of $1,815,000. Financing activities for the year ended March 31, 2012 resulted from the repayment of debt of $6,500,000 and the payment of dividends of $1,645,000, partially offset by proceeds from the exercise of stock options of $813,000.

At March 31, 2014, we had contractual obligations for open purchase orders of approximately $1,500,000 for routine purchases of supplies and inventory, which were payable in less than one year. In September 2011, we entered into a license agreement for certain biological indicator technology. Under the terms of this agreement, we made payments of $175,000 for rights to the technology. Up to $225,000 of additional payments may be made in the future, depending on meeting certain development and performance milestones.

Under the terms of the Amega Agreement, we are required to pay contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from $0 to $10,000,000 and is based upon a sliding scale of three-year cumulative revenues between $31,625,000 and $43,500,000. Based upon both historical and projected growth rates, we recorded $500,000 of contingent consideration payable which represents our best estimate of the amount that will ultimately be paid. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our consolidated statements of income. We will continue to monitor the results of our Continuous Monitoring Division and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the third quarter of our year ending March 31, 2017.

Under the terms of the Bios Agreement, we are required to pay contingent consideration if the cumulative revenues related to the acquisition for the three years subsequent to the acquisition exceed $22,127,000. The potential future payment that we could be required to make ranges from $0 to $6,710,000. Based upon historical growth rates, we initially recorded $2,140,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. Based upon actual results and current run rates, during the year ended March 31, 2014, we revised our estimate of the ultimate contingent liability that would be paid, which resulted in reducing the contingent consideration payable to $1,120,000. Any further changes to the contingent consideration ultimately paid will result in additional income or expense in our consolidated statements of income. We will continue to monitor the results associated with the Bios Acquisition and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the first quarter of our year ending March 31, 2016.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates, judgments, and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We believe that the following are the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations. Management has discussed the development, selection, and disclosure of critical accounting policies and estimates with the Audit Committee of our Board of Directors. While our estimates and assumptions are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. For a discussion of our significant accounting policies, please see Note 1 of Notes to Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

Accounts Receivable

We estimate an allowance for doubtful accounts based on overall historic write-offs, the age of our receivable balances, and the payment history and creditworthiness of the customer. If actual results are not consistent with our assumptions and judgments or our assumptions and estimates change due to new information, we may experience material changes in our allowance for doubtful accounts and bad debt expense.

Inventories

Inventories are stated at the lower of cost or market, based on standards using the first-in, first-out method (FIFO) to determine cost. We evaluate standard costs annually, unless circumstances necessitate a mid-year evaluation for specific items. Our work in process and finished goods inventory includes labor and overhead, which are estimated based on trailing twelve months of expense and standard labor hours for each product. Our biological indicator inventory is tracked by lot number, thus labor is generally based on actual hours.

We monitor inventory cost compared to selling price in order to determine if a lower of cost or market reserve is necessary. At year end we perform a complete physical inventory observation. Throughout the year, we estimate and maintain an inventory reserve, as needed, for such matters as obsolete inventory, shrink and scrap. This reserve may fluctuate as our assumptions change due to new information, discrete events, or changes in our business, such as entering new markets or discontinuing a specific product.

Recoverability of Long-lived Assets

For property, plant and equipment, and amortizable intangible assets, recoverability and/or impairment tests are required only when conditions exist that indicate the carrying value may not be recoverable. We monitor the same conditions for our goodwill, but an annual evaluation is also required. For years ended March 31, 2012 and earlier, indefinite-lived intangible assets were evaluated for impairment by comparing the fair value to the carrying amount.

Monitoring these conditions requires significant management judgment, including evaluating general economic conditions, industry and market considerations, changes in production costs, cash flow trends, and other relevant entity-specific events such as changes in management, key personnel, strategy or customers.

If conditions exist that indicate the carrying value may not be recoverable, we would be required to estimate the fair value of the asset, asset group, or reporting unit. We determine fair value using widely accepted valuation techniques, primarily discounted cash flow and market multiple analyses. These techniques are also used when initially allocating the purchase price to acquired assets and liabilities. These types of analyses require us to make assumptions and estimates regarding industry and economic factors, the profitability of future business strategies, and cash flow.

We did not record any impairment charges for the year ended March 31, 2014. If actual results are not consistent with our assumptions and estimates, or our assumptions and estimates change due to new information, we may be exposed to an impairment charge in the future.

Purchase Accounting for Acquisitions

We apply the acquisition method of accounting for a business combination. In general, this methodology requires companies to record assets acquired and liabilities assumed at their respective fair market values at the date of acquisition. Any amount of the purchase price paid that is in excess of the estimated fair value of the net assets acquired is recorded as goodwill. For the Amega and Bios Acquisitions, we also recorded a liability for contingent consideration based on estimated future revenues. We monitor our assumptions surrounding these estimated future cash flows and, if there is a significant change, would record an adjustment to the contingent consideration liability and a corresponding adjustment to either income or expense.

We determine fair value using widely accepted valuation techniques, primarily discounted cash flow and market multiple analyses. These types of analyses require us to make assumptions and estimates regarding industry and economic factors, the profitability of future business strategies, and cash flow.

If actual results are not consistent with our assumptions and estimates, or our assumptions and estimates change due to new information, we may be exposed to an impairment charge in the future. If the contingent consideration paid for either the Bios or Amega Acquisition differs from the amount initially recorded, we would record either income or expense.

Stock-based Compensation

We estimate the fair value of option grants using the Black-Scholes model, which requires us to estimate the volatility and forfeiture rate. Under our current stock-based compensation plan, we recognize the expense on a straight-line basis over the service period.

Contingent Liabilities

We accrue a loss for contingencies if it is probable that an asset has been impaired or a liability has been incurred, and when the amount of loss can be reasonably estimable. When no accrual is made because one or both of these conditions does not exist, we disclose the contingency if there is at least a reasonable possibility that a loss may be incurred. We estimate contingent liabilities, such as for state sales taxes, based on the best information available at the time. If there is a range of possible outcomes, we accrue the low end of the range.

Recent Accounting Standards and Pronouncements

None

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Off-Balance Sheet Arrangements

In accordance with the definition under SEC rules, the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantee contracts;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- any obligation under certain derivative instruments; and
- any obligation arising out of a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

As of March 31, 2014, we have no obligations or interests which qualify as off-balance sheet arrangements.

Contractual Obligations

As of March 31, 2014, our contractual obligations, including payments due by period, are as follows (in thousands):

		Payments Due For Years Ending March 31,			
	Total	**2015**	**2016-2017**	**2018-2019**	**Thereafter**
Purchase Commitments	$ 1,500	$ 1,500	$ --	$ --	$ --
Line of Credit	16,500	--	16,500	--	--
Other	476	355	121	--	--
Total	$ 18,476	$ 1,855	$ 16,621	$ --	$ --

Our purchase commitments consist primarily of open purchase orders, which we have established to take advantage of volume discounts for materials and to ensure a reliable supply of critical parts.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no derivative instruments and minimal exposure to foreign currency and commodity market risks.

We are subject to interest rate volatility with regard to existing and future issuances of debt, as our current credit facility is variable-rate. Based on annualized variable-rate debt for the year ended March 31, 2014, a one percentage point increase in interest rates would have increased interest expense by $74,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Mesa Laboratories, Inc. and Subsidiaries (the "Company") as of March 31, 2014 and 2013 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2014. We have also audited the Company's internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting of TempSys, Inc. ("TempSys Acquisition"), which was acquired on November 6, 2013, and whose financial statements constitute approximately 16% of total assets and 3% of net sales of the financial amounts of the Company as of and for the year ended March 31, 2014. Accordingly, our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the TempSys Acquisition. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ EKS&H LLLP
EKS&H LLLP

June 4, 2014
Denver, Colorado

Mesa Laboratories, Inc.
Consolidated Balance Sheets
(In thousands, except share amounts)

	March 31,	
ASSETS	**2014**	**2013**
Current assets:		
Cash and cash equivalents	$ 5,575	$ 4,006
Accounts receivable, net	9,278	8,474
Inventories, net	7,771	5,576
Prepaid expenses and other	2,064	553
Deferred income taxes	1,878	846
Total current assets	26,566	19,455
Property, plant and equipment, net	7,680	7,406
Intangibles, net	25,417	15,418
Goodwill	37,866	23,640
Total assets	$ 97,529	$ 65,919
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,019	$ 1,010
Accrued salaries and payroll taxes	3,567	2,085
Unearned revenues	1,886	--
Other accrued expenses	2,743	422
Income taxes payable	--	1,145
Total current liabilities	10,215	4,662
Deferred income taxes	4,861	2,364
Long-term debt	16,500	4,000
Contingent consideration	1,620	2,140
Total liabilities	33,196	13,166
Commitments and Contingencies (Note 12)	--	--
Stockholders' equity:		
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,490,628 shares (March 31, 2014) and 3,388,548 shares (March 31, 2013)	15,796	11,352
Employee loans to purchase stock	(24)	(149)
Retained earnings	48,561	41,550
Total stockholders' equity	64,333	52,753
Total liabilities and stockholders' equity	$ 97,529	$ 65,919

See accompanying notes to consolidated financial statements.

Mesa Laboratories, Inc.
Consolidated Statements of Income
(In thousands, except per share data)

	Year Ended March 31,		
	2014	**2013**	**2012**
Revenues			
Product	$ 44,539	$ 40,590	$ 35,201
Service	8,185	5,845	4,415
Total revenues	52,724	46,435	39,616
Cost of revenues			
Cost of products	16,062	15,489	12,505
Cost of services	4,974	2,084	3,600
Total cost of revenues	21,036	17,573	16,105
Gross profit	31,688	28,862	23,511
Operating expenses			
Selling	6,119	4,630	3,909
General and administrative	11,464	9,117	5,416
Research and development	2,320	2,011	1,359
Impairment of intangible asset	--	--	350
Total operating expenses	19,903	15,758	11,034
Operating income	11,785	13,104	12,477
Other income (expense), net	1,318	(126)	(146)
Earnings before income taxes	13,103	12,978	12,331
Income taxes	4,103	4,528	4,412
Net income	$ 9,000	$ 8,450	$ 7,919
Net income per share:			
Basic	$2.61	$ 2.52	$ 2.41
Diluted	2.49	2.35	2.29
Weighted average common shares outstanding:			
Basic	3,445	3,357	3,285
Diluted	3,611	3,593	3,462

See accompanying notes to consolidated financial statements.

Mesa Laboratories, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands, except share amounts)

	Common Stock				
	Number of Shares	Amount	Employee Loans	Retained Earnings	Total
March 31, 2011	3,250,736	$ 7,180	$ (437)	$ 29,674	$ 36,417
Common stock issued for conversion of stock options net of 12,634 shares returned as payment	88,043	1,277	41	--	1,318
Purchase and retirement of common stock	(16,814)	(60)	--	(537)	(597)
Dividends paid	--	--	--	(1,645)	(1,645)
Stock-based compensation	--	441	--	--	441
Tax benefit on exercise of stock options	--	62	--	--	62
Net income	--	--	--	7,919	7,919
March 31, 2012	3,321,965	8,900	(396)	35,411	43,915
Common stock issued for conversion of stock options net of 15,572 shares returned as payment	77,753	1,101	(203)	--	898
Purchase and retirement of common stock	(11,170)	(56)	450	(496)	(102)
Dividends paid	--	--	--	(1,815)	(1,815)
Stock-based compensation	--	1,112	--	--	1,112
Tax benefit on exercise of stock options	--	295	--	--	295
Net income	--	--	--	8,450	8,450
March 31, 2013	3,388,548	11,352	(149)	41,550	52,753
Common stock issued for conversion of stock options net of 13,021 shares returned as payment	104,864	1,845	--	--	1,845
Purchase and retirement of common stock	(2,784)	(147)	125	--	(22)
Dividends paid	--	--	--	(1,989)	(1,989)
Stock-based compensation	--	840	--	--	840
Tax benefit on exercise of stock options	--	1,906	--	--	1,906
Net income	--	--	--	9,000	9,000
March 31, 2014	3,490,628	$ 15,796	$ (24)	$ 48,561	$ 64,333

See accompanying notes to consolidated financial statements.

Mesa Laboratories, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended March 31,		
	2014	**2013**	**2012**
Cash flows from operating activities:			
Net income	$ 9,000	$ 8,450	$ 7,919
Depreciation and amortization	3,844	3,432	2,215
Gain on dispositions, net	(420)	--	--
Deferred income taxes	(43)	(291)	(258)
Stock-based compensation	840	1,112	464
Impairment of intangible asset	--	--	350
Contingent consideration	(1,020)	--	--
Change in assets and liabilities, net of effects of acquisitions and dispositions			
Accounts receivable, net	697	(1,510)	493
Inventories, net	(1,300)	(228)	1,276
Prepaid expenses and other	(1,479)	(189)	38
Accounts payable	754	437	(150)
Accrued liabilities and taxes payable	1,192	189	142
Unearned revenues	308	--	--
Net cash provided by operating activities	12,373	11,402	12,489
Cash flows from investing activities:			
Acquisitions	(22,758)	(16,660)	(737)
Proceeds from disposition	661	--	--
Purchases of property, plant and equipment	(1,041)	(908)	(683)
Net cash used in investing activities	(23,138)	(17,568)	(1,420)
Cash flow from financing activities:			
Proceeds from the issuance of debt	21,000	11,000	-
Payments on debt	(8,500)	(7,000)	(6,500)
Dividends	(1,989)	(1,815)	(1,645)
Proceeds from the exercise of stock options	1,845	898	1,318
Purchase and retirement of common stock	(22)	(102)	(597)
Net cash provided by (used in) financing activities	12,334	2,981	(7,424)
Net increase (decrease) in cash and cash equivalents	1,569	(3,185)	3,645
Cash and cash equivalents at beginning of year	4,006	7,191	3,546
Cash and cash equivalents at end of year	$ 5,575	$ 4,006	$ 7,191
Cash paid during the year for:			
Income taxes	$ 4,714	$ 4,778	$ 4,457
Cash paid for interest	133	116	176
Supplemental non-cash activity:			
Employee loans issued for exercise of stock options	$ --	$ 203	$ 396
Repayment of employee loans for stock options	92	450	437
Contingent consideration as part of an acquisition	500	2,140	-

In December 2011, we settled the $600 holdback amount from our acquisition of the assets of Apex Laboratories, Inc. by paying $562 and returning $38 of accounts receivable.

See accompanying notes to consolidated financial statements.

Mesa Laboratories, Inc.
Notes to Consolidated Financial Statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Mesa Laboratories, Inc. was incorporated under the laws of the State of Colorado on March 26, 1982. The terms "we," "us," "our," the "Company" or "Mesa" are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted. We pursue a strategy of focusing primarily on quality control products, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into three divisions across seven physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene and semiconductor industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The consolidated financial statements include the accounts of Mesa Laboratories, Inc. and its subsidiaries. Intercompany transactions and balances have been eliminated. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements and accompanying notes. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Furthermore, when testing assets for impairment in future periods, if management uses different assumptions or if different conditions occur, impairment charges may result.

On October 1, 2012 our articles of incorporation were amended to increase the number of authorized shares of common stock from 8,000,000 to 25,000,000.

Certain amounts for the years ended March 31, 2013 and 2012 were reclassified to conform to the March 31, 2014 presentation.

For the year ended March 31, 2013, $5,239,000 of other revenues was reclassified to product revenues with the remaining amount of $5,845,000 being renamed as service revenues. For the year ended March 31, 2012, $4,805,000 of other revenues was reclassified to product revenues with the remaining amount of $4,415,000 being renamed as service revenues. There were no changes to total revenues for either period. For the years ended March 31, 2013 and 2012, total cost of revenues was segregated between cost of products and cost of services. There were no changes to total cost of revenues for either period.

As of March 31, 2011, $272,000 of cumulative tax benefit on exercise of stock options was reclassified from retained earnings to common stock. For the years ended March 31, 2013 and 2012, tax benefit on exercise of stock options of $295,000 and $62,000, respectively, were presented as changes in common stock on the statements of stockholders' equity. The cumulative reclassification between retained earnings and common stock in the March 31, 2013 consolidated balance sheet was $629,000. These reclassifications had no impact on other figures in the accompanying balance sheets or statements of income and stockholders' equity.

Summary of Significant Accounting Policies

Revenue Recognition

We recognize revenue when the four revenue recognition criteria are met, as follows:

Product sales: Revenue is recognized upon shipment of the product. Evidence of an arrangement is typically in the form of a customer purchase order. Custody is transferred upon shipment (FOB Shipping Point). Prices are fixed at the time of order and no price protections or variables are offered. Collectability is reasonably assured via our customer credit and review processes.

Services: Revenue is recognized upon completion of the work/services to be performed. Evidence of an arrangement is typically in the form of a contract and/or a customer purchase order. Custody is transferred upon completion and acceptance of the service or installation process. Prices are fixed at the time of order and no price protections or variables are offered. Collectability is reasonably assured via our customer credit and review processes.

Shipping and handling

Payments by customers to us for shipping and handling costs are included in revenues on the consolidated statements of income, while our expense is included in cost of revenues. Shipping and handling for inventory and materials purchased by us is included as a component of inventory on the consolidated balance sheets, and in cost of revenues when the product is sold.

Unearned Revenues

Certain of our products have associated annual service contracts whereby we provide repair, technical support and various other maintenance services. In the event that these contracts are paid up front by the customer, the associated amounts are deferred and recognized ratably over the term of the service period.

Accrued Warranty Expense

We provide limited product warranty on our products and, accordingly, accrue an estimate of the related warranty expense at the time of sale.

Cash Equivalents

We classify time deposits and other investments that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents.

Accounts Receivable

We record trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and is charged to the provision for doubtful accounts. We calculate this allowance based on our history of write-offs, the level of past-due accounts based on the contractual terms of the receivables, and our relationships with, and the economic status of, our customers.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of accounts receivable. For the years ended March 31, 2014, 2013 and 2012, no individual customer represented more than 10% of our revenues and as of March 31, 2014, no individual customer represented more than 10% of our accounts receivable balance. Approximately 56% and 44% of our sales are to customers located in the United States and foreign countries, respectively.

Inventories

Inventories are stated at the lower of cost or market, based on standards using the first-in, first-out method ("FIFO") to determine cost. We evaluate standard costs annually, unless circumstances necessitate a mid-year evaluation for specific items. Our work in process and finished goods inventory includes raw materials, labor and overhead, which are estimated based on

trailing twelve months of expense and standard labor hours for each product. Our biological indicator inventory is tracked by lot number, thus it is generally based on actual hours.

We monitor inventory cost compared to selling price in order to determine if a lower of cost or market reserve is necessary. At year end we perform a complete physical inventory observation. Throughout the year, we estimate and maintain an inventory reserve, as needed, for such matters as obsolete inventory, shrink and scrap.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Repair and maintenance costs that do not improve service potential or extend the economic life are expensed as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of our assets, which are reviewed periodically and generally have the following ranges: buildings: 40 years or less; manufacturing equipment: seven years or less; and computer equipment: three years or less. Land is not depreciated and construction in progress is not depreciated until placed in service.

Goodwill and Intangible Assets

We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill. We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, our long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their useful lives, generally ranging from three to sixteen years (See Note 5).

When facts and circumstances indicate that the carrying value of definite-lived intangible assets may not be recoverable, management assesses the recoverability of the carrying value by preparing estimates of revenues and the resulting gross profit and cash flows. These estimated future cash flows are consistent with those we use in our internal planning. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount of the asset (or asset group) exceeds the fair value. We use a variety of methodologies to determine the fair value of these assets, including discounted cash flow models, which are consistent with the assumptions we believe hypothetical marketplace participants would use.

We test intangible assets determined to have indefinite useful lives, including trademarks, franchise rights and goodwill, for impairment annually, or more frequently if events or circumstances indicate that assets might be impaired. We perform these annual impairment reviews as of the first day of our fourth fiscal quarter. We use a variety of methodologies in conducting impairment assessments of indefinite-lived intangible assets, including, but not limited to, discounted cash flow models, which are based on the assumptions we believe hypothetical marketplace participants would use. For indefinite-lived intangible assets, other than goodwill, if the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess. Prior to February 2012, certain marketing intangible assets, such as trade names, were determined to have an indefinite life and were not being amortized. In February 2012, management determined that in the future we may phase out the use of these marketing intangible assets. Accordingly, we began amortizing them on a straight-line basis over an estimated useful life of 10 years.

We have the option to perform a qualitative assessment of indefinite-lived intangible assets, other than goodwill, prior to completing the impairment test described above. We must assess whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount. If we conclude that this is the case, we must perform the testing described above. Otherwise, we do not need to perform any further assessment.

We perform impairment tests of goodwill at our reporting unit level, which is one level below our operating segments. Our operating segments consist of our Instruments, Continuous Monitoring and Biological Indicators Divisions. These operating segments are consistent with the way management runs our business. Our Instruments operating segment is subdivided into smaller business units. These business units are also our reporting units. Goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination.

The goodwill impairment test consists of a two-step process, if necessary. The first step is to compare the fair value of a reporting unit to its carrying value, including goodwill. We typically use discounted cash flow models to determine the fair value of a reporting unit. The assumptions used in these models are consistent with those we believe hypothetical marketplace participants would use. If the fair value of the reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

We have the option to perform a qualitative assessment of goodwill prior to completing the two-step process described above to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill and other intangible assets. If we conclude that this is the case, we must perform the two-step process. Otherwise, we will forego the two-step process and do not need to perform any further testing.

Research & Development Costs

Internal costs related to research and development efforts on existing or potential products are expensed as incurred. The costs of intangible assets that are purchased from others for use in research and development activities, and also have alternative future benefit, are capitalized and amortized over their expected useful life.

Under certain agreements, we may receive advance payments from customers to perform research and development on their behalf. These payments are recovered by the customer through lower product prices and as such, are initially recorded as unearned revenues in the accompanying consolidate balance sheets. As product is sold, this liability is reduced through revenues on the consolidated statements of income.

Stock-based Compensation

Equity classified stock-based compensation is measured at fair value, based on the closing stock price at grant date, using the Black-Scholes option-pricing model. We recognize expense on a straight-line basis over the service period, net of an estimated forfeiture rate, resulting in a compensation cost for only those shares expected to vest. We do not have any liability classified stock-based compensation. We allocate stock-based compensation expense to cost of revenues and general and administrative expense in the accompanying consolidated statements of income.

Income Taxes

We recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amount of our assets and liabilities. We monitor our deferred tax assets and evaluate the need for a valuation allowance based on the estimate of the amount of such deferred tax assets that we believe do not meet the more-likely-than-not recognition criteria. We also evaluate whether we have any uncertain tax positions and would record a reserve if we believe it is more-likely-than-not our position would not prevail with the applicable tax authorities. We have not recorded a valuation allowance or a reserve for uncertain tax positions. Any penalties and interest are included in other expense, net on the consolidated statements of income.

Fair Value of Measurements

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt. The carrying value of these financial instruments is considered to be representative of their fair value due to the short maturity of these instruments. Our debt has a variable interest rate, so the carrying amount approximates fair value because interest rates on these instruments approximate the interest rate on debt with similar terms available to us.

Note 2. Acquisitions and Dispositions

Acquisitions

For the year ended March 31, 2014, our acquisitions of businesses (net of cash acquired) totaled $22,758,000, which consisted primarily of the following material acquisitions:

Amega Scientific

On November 6, 2013, we completed a business combination (the "Amega Acquisition") whereby we acquired substantially all of the assets and certain liabilities of Amega Scientific Corporation's ("Amega") business which provides continuous monitoring systems to regulated industries. The asset acquisition agreement (the "Amega Agreement") includes provisions for both contingent consideration based on the cumulative three year revenues of our Continuous Monitoring Division and for a holdback payment (subject to a post-closing adjustment), payable to the seller no later than November 6, 2014 less any losses incurred by the buyer, as defined.

Under the terms of the Amega Agreement, we are required to pay contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from $0 to $10,000,000 and is based upon a sliding scale of three-year cumulative revenues between $31,625,000 and $43,500,000. Based upon both historical and projected growth rates, we recorded $500,000 of contingent consideration payable which represents our best estimate of the amount that will ultimately be paid. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our consolidated statements of income. We will continue to monitor the results of our Continuous Monitoring Division and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the third quarter of our year ending March 31, 2017.

We expect to achieve savings and generate growth as we integrate the Amega operations and sales and marketing functions. These factors, among others, contributed to a purchase price in excess of the estimated fair value of the net identifiable assets acquired and, as a result, we recorded goodwill in connection with this transaction. The goodwill is expected to be deductible for tax purposes and it was assigned to our Continuous Monitoring segment.

The Amega Acquisition constituted the acquisition of a business and was recognized at fair value. We determined the estimated fair values using discounted cash flow analyses and estimates made by management. The following reflects our allocation of the consideration, subject to customary purchase price adjustments in accordance with the Amega Agreement (in thousands):

Cash consideration	$ 11,268
Holdback payment liability	1,000
Contingent consideration liability	500
Aggregate consideration	$ 12,768
The purchase price was allocated as follows:	
Accounts receivable, net	$ 663
Inventories, net	410
Prepaid expenses and other	11
Property, plant and equipment, net	115
Intangibles, net	5,838
Goodwill	6,827
Accrued salaries and payroll taxes	(53)
Unearned revenues	(1,043)
Total purchase price allocation	$ 12,768

The accompanying consolidated statements of income include the results of the Amega Acquisition from the acquisition date of Nov 6, 2013. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2013 and 2012, are as follows (in thousands, except per share data):

	Year Ended March 31,	
	2014	**2013**
Revenues	$ 56,451	$ 50,372
Net income	10,002	9,508
Net income per common share:		
Basic	$ 2.90	$ 2.83
Diluted	2.77	2.65

Tempsys

On November 6, 2013, we completed a business combination (the "TempSys Acquisition") whereby we acquired all of the common stock of TempSys, Inc. ("TempSys"), a company in the business of providing continuous monitoring systems to regulated industries, for $9,826,000 (subject to a post-closing adjustment).

We expect to achieve savings and generate growth as we integrate the TempSys operations and sales and marketing functions. These factors, among others, contributed to a purchase price in excess of the estimated fair value of the net identifiable assets acquired and, as a result, we recorded goodwill in connection with this transaction. The goodwill is not expected to be deductible for tax purposes and it was assigned to our Continuous Monitoring segment.

The TempSys Acquisition constituted the acquisition of a business and was recognized at fair value. We determined the estimated fair values using discounted cash flow analyses and estimates made by management. The following reflects our allocation of the consideration, subject to customary purchase price adjustments in accordance with the TempSys Agreement (in thousands):

The purchase price was allocated as follows:	
Cash	$ 57
Accounts receivable, net	838
Inventories, net	447
Prepaid expenses and other	21
Property, plant and equipment, net	25
Deferred income taxes	585
Intangibles, net	6,135
Goodwill	6,820
Accounts payable	(255)
Accrued salaries and payroll taxes	(2,134)
Unearned revenues	(485)
Other accrued expenses	(135)
Deferred income taxes	(2,093)
Total purchase price allocation	$ 9,826

The accompanying consolidated statements of income include the results of the Tempsys Acquisition from the acquisition date of Nov 6, 2013. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2013 and 2012, are as follows (in thousands, except per share data):

	Year Ended March 31,	
	2014	**2013**
Revenues	$ 55,129	$ 49,705
Net income	9,132	8,100
Net income per common share:		
Basic	$ 2.65	$ 2.41
Diluted	2.53	2.25

For the year ended March 31, 2013, our acquisitions of businesses totaled $16,660,000, which consisted primarily of the following acquisition:

Bios

On May 15, 2012, we completed a business combination (the "Bios Acquisition") whereby we acquired substantially all of the assets and certain liabilities of Bios International Corporation ("Bios"), a New Jersey corporation. The asset acquisition agreement (the "Bios Agreement") included a provision for contingent consideration based on revenues growth over a three year earn-out period.

Under the terms of the Bios Agreement, we are required to pay contingent consideration if the cumulative revenues related to the acquisition for the three years subsequent to the acquisition exceed $22,127,000. The potential future payment that we could be required to make ranges from $0 to $6,710,000. Based upon historical growth rates, we initially recorded

$2,140,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. Based upon actual results and current run rates, during the year ended March 31, 2014, we revised our estimate of the ultimate contingent liability that would be paid, which resulted in reducing the contingent consideration payable to $1,120,000. This gain of $1,020,000 associated with the decrease in the contingent consideration payable is included in other income (expense), net on the accompanying consolidated statements of income. Any further changes to the contingent consideration ultimately paid will result in additional income or expense in our consolidated statements of income. We will continue to monitor the results associated with the Bios Acquisition and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the first quarter of our year ending March 31, 2016.

We expected to achieve significant savings and income growth as we integrated the Bios operations and sales and marketing functions. These factors, among others, contributed to a purchase price in excess of the estimated fair value of net identifiable assets acquired and, as a result, we recorded goodwill in connection with this transaction. The goodwill is deductible for tax purposes and it was assigned to our Instruments segment.

The Bios Acquisition constituted the acquisition of a business and was recognized at fair value. We determined the estimated fair values using discounted cash flow analyses and estimates made by management. The following reflects our allocation of the consideration, subject to customary purchase price adjustments in accordance with the Bios Agreement (in thousands):

Cash consideration	$ 16,660
Contingent purchase price liability	2,140
Aggregate consideration	$ 18,800
The purchase price was allocated as follows:	
Accounts receivable, net	$ 478
Inventories, net	910
Other current assets	28
Property, plant and equipment	63
Intangible assets	8,200
Goodwill	9,190
Current liabilities	(69)
Total purchase price allocation	$ 18,800

The accompanying consolidated statements of income include the results of the Bios Acquisition from the acquisition date of May 15, 2012. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2012 and 2011, are as follows (in thousands, except per share data):

	Year Ended March 31,	
	2013	**2012**
Revenues	$ 47,216	$ 46,498
Net income	8,471	8,102
Net income per common share:		
Basic	$ 2.52	$ 2.47
Diluted	2.36	2.34

Dispositions

On August 12, 2013, we entered into an agreement whereby we sold our NuSonics product line for $661,000. The carrying value of this product line was $193,000 which resulted in a pre-tax gain of $468,000.

Note 3. Inventories

Inventories consist of the following (in thousands):

	March 31,	
	2014	**2013**
Raw materials	$ 5,758	$ 4,052
Work-in-process	272	271
Finished goods	2,068	1,514
Less reserve	(327)	(261)
	$ 7,771	$ 5,576

Note 4. Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	March 31,	
	2014	**2013**
Land	$ 873	$ 873
Buildings	4,685	4,553
Manufacturing equipment	6,054	5,665
Computer equipment	1,487	1,129
Other	393	384
	13,492	12,604
Less accumulated depreciation	(5,812)	(5,198)
	$ 7,680	$ 7,406

Depreciation expense for the years ended March 31, 2014, 2013 and 2012 was $865,000, $831,000 and $725,000, respectively.

Note 5. Goodwill and Intangible Assets

The change in the carrying amount of goodwill was as follows (in thousands):

	Biological Indicators	**Instruments**	**Continuous Monitoring**	**Total**
April 1, 2012	$ 9,279	$ 5,171	$ --	$ 14,450
Acquisitions	--	9,190	--	9,190
March 31, 2013	9,279	14,361	--	23,640
Acquisitions	--	579	13,647	14,226
March 31, 2014	$ 9,279	$ 14,940	$ 13,647	$ 37,866

Other intangible assets are as follows:

(In thousands)	March 31, 2014			
	Carrying Amount	**Accumulated Amortization**	**Net**	**Useful Life (Years)**
Intellectual property	$ 7,027	$ 1,641	$ 5,386	10-16
Trade names	2,648	519	2,129	3-10
Customer relationships	24,612	7,326	17,286	7-10
Non-compete agreements	1,286	670	616	3-10
	$ 35,573	$ 10,156	$ 25,417	

	March 31, 2013			
	Carrying Amount	Accumulated Amortization	Net	Useful Life (Years)
Intellectual property	$ 4,991	$ 1,037	$ 3,954	10-16
Trade names	2,296	248	2,048	10
Customer relationships	14,485	5,345	9,140	7-8.5
Non-compete agreements	823	547	276	3-5
	$ 22,595	$ 7,177	$ 15,418	

The following is estimated amortization expense for the years ending March 31:

(In thousands)	
2015	$ 3,711
2016	3,690
2017	3,550
2018	3,376
2019	3,048

Amortization expense for the years ended March 31, 2014, 2013 and 2012 was $2,979,000, $2,601,000 and $1,490,000, respectively.

For the year ended March 31, 2012, we determined that the carrying value of an indefinite-lived trade name intangible asset was greater than its estimated fair value and recorded an impairment loss of $350,000, which is disclosed separately on the accompanying statements of income. Fair value was estimated using the royalty replacement approach, whereby a royalty percentage is applied to forecasted revenues and discounted to determine the present value. While gross profit and cash flows showed improvement since the intangible asset was acquired, revenues did not grow at the level originally used to value the intangible asset. This impairment impacted the Instruments segment.

Note 6. Long-term Debt

Long-term debt consists of the following (in thousands):

	March 31, 2014	March 31, 2013
Line of credit (1.4% at March 31, 2014)	$ 16,500	$ 4,000
Less: current portion	--	--
Long-term portion	$ 16,500	$ 4,000

In February 2012, we entered into a three year agreement (the "Credit Facility") for a $20,000,000 revolving line of credit ("Line of Credit") and up to $1,000,000 of letters of credit, maturing in February 2015. Funds from the Credit Facility may be used for general working capital and corporate needs, retiring existing debt, or to support acquisitions and capital expenditures.

In April 2014, the Credit Facility was amended to include a $15,000,000 term loan (the "Term Loan") and to extend the maturity date of the Credit Facility to June 30, 2017. As a result of the extended maturity date, the $16,500,000 outstanding as of March 31, 2014 has been classified as long term on the accompanying consolidated balance sheets.

Under the Line of Credit, indebtedness bears interest at either: (1) LIBOR, as defined, plus an applicable margin ranging from 1.25% to 2%; or (2) the bank's commercial bank floating rate ("CBFR"), which is the greater of the bank's prime rate or one month LIBOR + 2.50%, adjusted down, from 1.25% to 0.50%. We elect the interest rate with each borrowing under the line of credit. In addition, there is an unused capacity fee of 0.15% to 0.30%. The adjustments and unused capacity fee depend on the ratio of funded debt (including amounts outstanding under the Term Loan) to our trailing four quarters of EBITDA, as defined, with four tiers ranging from a ratio of less than one to greater than two. Letter of credit fees are based on the applicable LIBOR rate.

The Term Loan bears interest at LIBOR, as defined plus 2% and requires 11 quarterly principal payments (the first due date being July 15, 2014) in the amount of $750,000 with the remaining balance of principal and accrued interest due on April 15, 2017. The proceeds from the Term Loan may be used to support acquisition financing and to repay amounts outstanding under the Line of Credit.

The Credit Facility is secured by all of our assets and requires us to maintain a ratio of funded debt to our trailing four quarters of EBIDTA, as defined, of 2.5 to 1.0, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with these covenants at March 31, 2014.

Subsequent to year end, we made additional principal payments which reduced the amount outstanding on the Line of Credit by $4,500,000.

Future contractual maturities of debt as of March 31, 2014 are as follows (in thousands):

Year ending March 31,	
2015	$ --
2016	--
2017	--
2018	16,500
	$ 16,500

Note 7. Stockholders' Equity

Under applicable law, Colorado corporations are not permitted to retain treasury stock. The price paid for repurchased shares is allocated between common stock and retained earnings, based on management's estimate of the original sales price of the underlying shares.

In November, 2005, our Board of Directors approved a program to repurchase up to 300,000 shares of our outstanding common stock. Under the program, shares of common stock may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares of common stock purchased will be cancelled and repurchases of shares of common stock will be funded through existing cash reserves. As of March 31, 2014, we have purchased 162,306 shares under this plan.

Dividends per share paid by quarter were as follows:

	Year Ended March 31,		
	2014	**2013**	**2012**
First quarter	$ 0.14	$ 0.13	$ 0.12
Second quarter	0.14	0.13	0.12
Third quarter	0.15	0.14	0.13
Fourth quarter	0.15	0.14	0.13

Note 8. Employee Benefit Plans

We adopted our 401(k) plan effective January 1, 2000. Participation is voluntary and employees are eligible the first day of the following month that an employee attains an age of 21 and one hour of service time. We match 50% of the employee's contribution up to 6% of the employee's salary and those contributions are vested immediately. Prior to the year ended March 31, 2014, our Bozeman, Montana facility ("Bozeman') operated on a separate 401(k) plan. That plan was adopted effective August 15, 1996. Participation was voluntary and employees were eligible to participate at age 21 and after one year of employment. Bozeman matched 100% of the employee's contribution up to 4% of the employee's salary and those contributions vested immediately. Bozeman also offered a Roth Savings Plan which was incorporated into their 401(k) Plan with identical requirements and contributions. The Bozeman 401(k) plan was merged into our plan during the year ended March 31, 2014. We contributed $214,000, $214,000 and $193,000, respectively, to all plans for the years ended March 31, 2014, 2013 and 2012.

Note 9. Stock-Based Compensation

We adopted stock option plans for the benefit of our employees and outside directors. Under terms of the plans, stock options are granted at an amount not less than 100% of the quoted market price of the underlying shares at the date of grant. Stock options are exercisable for terms of five to ten years and vest ratably over terms of four to seven years. All of our stock option plans have been approved by our stockholders.

On December 8, 2006, we adopted our current stock compensation plan (the "2006 Plan"). The purpose of the 2006 Plan is to encourage ownership of our common stock by certain officers, directors, employees and advisors in order to provide incentive to promote the success and business of the Company. A total of 400,000 shares of common stock were reserved for issuance under the 2006 Plan and are subject to terms as set by the Compensation Committee of the Board of Directors at the time of grant. On September 23, 2010, our shareholders approved an amendment to the 2006 Plan whereby the number of shares authorized for issuance was increased to 800,000. As of March 31, 2014, we have 385,897 stock options outstanding under the 2006 Plan. On February 27, 2013, we filed a Registration Statement on Form S-8 whereby we registered the additional 400,000 shares of common stock underlying stock options issuable under the 2006 Plan.

Under the October 21, 1999 plan (the "1999 Plan"), a total of 300,000 shares of common stock were reserved for issuance and were subject to terms as set by the Compensation Committee of the Board of Directors at the time of grant. On October 18, 2004, our shareholders approved an amendment to the 1999 Plan to reserve an additional 200,000 shares of common stock for issuance under the plan. The 1999 Plan has expired and no new grants can be made under this plan. As of March 31, 2014, we have 12,275 stock options outstanding under the 1999 Plan.

Amounts recognized in the consolidated financial statements related to stock-based compensation are as follows (in thousands, except per share data):

	Year Ended March 31,		
	2014	**2013**	**2012**
Total cost of stock based compensation charged against income before income tax	$ 840	$ 1,112	$ 464
Amount of income tax benefit recognized in earnings	263	388	166
Amount charged against net income	$ 577	$ 724	$ 298
Impact on net income per common share:			
Basic	$ 0.17	$ 0.22	$ 0.09
Diluted	0.16	0.20	0.09

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses assumptions noted in the following table. We use historical data to estimate volatility, expected option life and forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is calculated based upon the dividend payments made during the prior four quarters as a percent of the average stock price for that period.

	Year Ended March 31,		
	2014	**2013**	**2012**
Volatility	26%-28.7%	27.5-31.1%	33.4-33.7%
Risk-free interest rate	.8%-2.1%	0.6-1.0%	0.9-2.2%
Expected option life (years)	5-10	5-10	5-10
Dividend yield	1.1%	1.4%	1.8%

A summary of the option activity as of and for the years ended March 31, 2014, 2013 and 2012 is as follows:

	Number of Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at March 31, 2011	443,642	$ 20.10	4.0	$ 3,861
Granted	103,780	29.87	5.4	--
Forfeited	(11,940)	26.06	--	--
Expired	(1,020)	14.50	--	--
Exercised	(100,677)	18.00	--	--
Outstanding at March 31, 2012	433,785	22.77	3.9	11,516
Granted	116,080	49.97	5.9	--
Forfeited	(40,375)	32.87	--	--
Expired	(40)	18.98	--	--
Exercised	(93,325)	20.56	--	--
Outstanding at March 31, 2013	416,125	29.87	3.7	9,529
Granted	128,124	55.33	6.4	--
Forfeited	(27,782)	52.50	--	--
Expired	(410)	52.50	--	--
Exercised	(117,885)	22.17	--	--
Outstanding at March 31, 2014	398,172	38.75	4.4	20,505
Exercisable at March 31,				
2014	140,825	26.70	3.5	8,949
2013	158,320	21.00	3.0	5,031
2012	148,910	19.28	3.2	4,473

A summary of the status of our unvested option shares as of and for the years ended March 31, 2014, 2013 and 2012 is as follows:

	Unvested Shares	Weighted-average Grant-date Fair Value
Unvested at March 31, 2011	291,425	$ 6.46
Options granted	103,780	8.33
Options forfeited	(11,395)	7.31
Options vested	(98,935)	5.97
Unvested at March 31, 2012	284,875	7.28
Options granted	116,065	12.43
Options forfeited	(38,720)	8.86
Options vested	(104,415)	6.69
Unvested at March 31, 2013	257,805	9.55
Options granted	128,124	15.90
Options forfeited	(27,782)	14.75
Options vested	(100,800)	8.53
Unvested at March 31, 2014	257,347	11.86

The total intrinsic value of options exercised was $6,287,000, $2,742,000 and $2,228,000 during the years ended March 31, 2014, 2013 and 2012, respectively. As of March 31, 2014, there was $4,401,000 of total unrecognized compensation expense related to unvested options. As of March 31, 2014, we have 210,888 shares available for future option grants.

Effective November 30, 2012, as part of our Chief Financial Officer transition, 14,400 unvested options were modified to a) extend the expiration date to 10 years following the original grant date, b) allow them to be exercised through their expiration date, and c) accelerate the vesting such that all options will vest by November 30, 2014. This was a modification of the terms of an equity award and, accordingly, we treated this as an exchange of the original award for a new award. We recorded

incremental compensation expense of approximately $240,000 for the year ended March 31, 2013, which is included in general and administrative expense on the accompanying consolidated statements of income.

Note 10. Income Taxes

Under current accounting standards, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We measure the tax benefits recognized in our consolidated financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to our subjective assumptions and judgments which can materially affect amounts recognized in our consolidated balance sheets and statements of income. Our assessment of tax positions as of March 31, 2014 and 2013, determined that there were no material uncertain tax positions. Our federal tax returns for all years after 2010 and our state tax returns after 2009 are subject to future examination by tax authorities for all our tax jurisdictions. We recognize interest and penalties related to income tax matters in other expense and general and administration expense, respectively. During the year ended March 31, 2013, we amended several state income tax returns, resulting in tax refunds of $258,000. These tax refunds are included as an offset to income tax expense in the accompanying consolidated statement of income for the year ended March 31, 2013.

The components of our provision for income taxes are as follows (in thousands):

	Year Ended March 31,		
	2014	**2013**	**2012**
Current tax provision			
Federal	$ 4,031	$ 4,440	$ 4,233
State	106	280	437
	4,137	4,720	4,670
Deferred tax provision:			
Federal	(19)	(180)	(237)
State	(15)	(12)	(21)
	(34)	(192)	(258)
	$ 4,103	$ 4,528	$ 4,412

The components of net deferred tax assets and liabilities are as follows (in thousands):

	March 31,	
	2014	**2013**
Current deferred tax assets:		
Accrued employee-related expenses	$ 298	$ 125
Allowances and reserves	701	226
Stock option deductible differences	301	243
Inventory	281	252
Net operating loss	297	--
	1,878	846
Long-term deferred tax liability:		
Property, plant and equipment	(1,434)	(1,320)
Goodwill and intangible assets	(3,453)	(1,044)
Net operating loss	26	--
	(4,861)	(2,364)
Net deferred tax liability	$ (2,983)	$ (1,518)

A reconciliation of our income tax provision and the amounts computed by applying statutory rates to income before income taxes is as follows:

	Year Ended March 31,		
	2014	2013	2012
Federal income taxes at statutory rates	$ 4,586	$ 4,543	$ 4,193
State income taxes, net of federal benefit	78	158	285
Tax benefit of stock option exercises	5	197	61
Section 199 manufacturing deduction	(250)	(357)	(347)
Research and development credit	(159)	(41)	--
Other	(157)	28	220
	$ 4,103	$ 4,528	$ 4,412

Note 11. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed similarly to basic net income per share, except that it includes the potential dilution that could occur if dilutive securities were exercised.

The following table presents a reconciliation of the denominators used in the computation of net income per share - basic and diluted (in thousands, except share data):

	Year Ended March 31,		
	2014	2013	2012
Net income available for stockholders	$ 9,000	$ 8,450	$ 7,919
Weighted average outstanding shares of common stock	3,445	3,357	3,285
Dilutive effect of stock options	166	236	177
Common stock and equivalents	3,611	3,593	3,462
Net Income per share:			
Basic	$ 2.61	$ 2.52	$ 2.41
Diluted	2.49	2.35	2.29

For the years ended March 31, 2014, 2013 and 2012, 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.

Note 12. Commitments and Contingencies

Under the terms of the Amega Agreement, we are required to pay contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from $0 to $10,000,000 and is based upon a sliding scale of three-year cumulative revenues between $31,625,000 and $43,500,000. Based upon both historical and projected growth rates, we recorded $500,000 of contingent consideration payable which represents our best estimate of the amount that will ultimately be paid. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our consolidated statements of income. We will continue to monitor the results of our Continuous Monitoring Division and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the third quarter of our year ending March 31, 2017.

Under the terms of the Bios Agreement, we are required to pay contingent consideration if the cumulative revenues related to the acquisition for the three years subsequent to the acquisition exceed $22,127,000. The potential future payment that we could be required to make ranges from $0 to $6,710,000. Based upon historical growth rates, we initially recorded $2,140,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. Based upon actual results and current run rates, during the year ended March 31, 2014, we revised our estimate of the ultimate contingent liability that would be paid, which resulted in reducing the contingent consideration payable to $1,120,000. Any further changes to the contingent consideration ultimately paid would result in additional income or expense in our consolidated statements of income. We will continue to monitor the results associated with the Bios Acquisition and we will

adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the first quarter of our year ending March 31, 2016.

A company is required to collect and remit state sales tax from certain of its customers if that company is determined to have "nexus" in a particular state. The determination of nexus varies state by state and often requires knowledge of each jurisdiction's tax case law. During the year ended March 31, 2013, we determined that there are states in which we most likely had established nexus during prior periods without properly collecting and remitting sales tax. We recorded an estimate of $100,000 associated with one specific state but we were unable to estimate our remaining exposure at that time. The ultimate amount due in remaining states will depend upon a number of factors, including the amount of sales that were made to customers who are either exempt or have already paid the tax, the number of years of exposure, and any penalties or interest that might be due. During the year ended March 31, 2014, we completed our analysis associated with the remaining states and we recorded an estimate of $1,408,000, which is included in other accrued expenses on the accompanying consolidated balance sheets and in general and administrative expense on the accompanying consolidated statements of income for the year ended March 31, 2014. This estimate was based upon facts and circumstances known at such time and our ultimate liability may change as further analysis is completed and state sales tax returns are filed.

Note 13. Segment Data

Prior to the November 2013 acquisitions of TempSys and Amega, we had two reporting segments: Biological Indicators and Instruments. As a result of these acquisitions, we now have a third reporting segment, Continuous Monitoring. The following tables set forth our segment information (in thousands):

	Year Ended March 31, 2014			
	Biological Indicators	**Instruments**	**Continuous Monitoring**	**Total**
Revenues	$ 22,992	$ 26,389	$ 3,343	$ 52,724
Gross profit	$ 13,187	$ 16,904	$ 1,597	$ 31,688
Selling expenses	1,350	3,954	815	6,119
	$ 11,837	$ 12,950	$ 782	25,569
Reconciling items [(1)]				(12,466)
Earnings before income taxes				$ 13,103

	Year Ended March 31, 2013			
	Biological Indicators	**Instruments**	**Continuous Monitoring**	**Total**
Revenues	$ 21,464	$ 24,971	$ --	$ 46,435
Gross profit	$ 12,365	$ 16,497	$ --	$ 28,862
Selling expenses	1,552	3,078	--	4,630
	$ 10,813	$ 13,419	$ --	24,232
Reconciling items [(1)]				(11,254)
Earnings before income taxes				$ 12,978

	Year Ended March 31, 2012			
	Biological Indicators	Instruments	Continuous Monitoring	Total
Revenues	$ 20,422	$ 19,194	$ --	$ 39,616
Gross profit	$ 11,236	$ 12,275	$ --	$ 23,511
Selling expenses	1,607	2,302	--	3,909
Impairment of intangible asset	--	350		350
	$ 9,629	$ 9,623	$ --	19,252
Reconciling items [1]				(6,921)
Earnings before income taxes				$ 12,331

[1] Reconciling items include general and administrative, research and development, and other expenses.

Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported, as follows (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Revenues from unaffiliated customers			
United States	$ 29,551	$ 28,590	$ 23,770
Foreign	23,173	17,845	15,846
	$ 52,724	$ 46,435	$ 39,616

	March 31,	
	2014	2013
Total assets		
Biological Indicators	$ 22,771	$ 27,558
Instruments	36,797	31,782
Continuous Monitoring	28,578	--
Corporate and administrative	9,383	6,579
	$ 97,529	$ 65,919

All long-lived assets are located in the United States.

Note 14. Quarterly Results (unaudited)

Quarterly financial information for the years ended March 31, 2014, 2013 and 2012 is summarized as follows (net income per share per quarter will not add up to reported annual earnings per share due to differences in average outstanding shares as reported on a quarterly basis) (in thousands, except per share data):

2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 11,218	$ 12,676	$ 13,116	$ 15,714
Gross profit	6,797	7,600	7,706	9,585
Net income	1,860	1,932	1,746	3,462
Net Income per share – basic	$ 0.55	$ 0.57	$ 0.51	$ 1.00
Net Income per share – diluted	0.52	0.54	0.48	0.95

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 10,560	$ 11,706	$ 11,361	$ 12,808
Gross profit	6,456	7,248	6,947	8,211
Net income	2,100	2,248	1,543	2,559
Net Income per share – basic	$ 0.63	$ 0.67	$ 0.46	$ 0.76
Net Income per share – diluted	0.59	0.64	0.44	0.71

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 9,297	$ 9,702	$ 9,649	$ 10,968
Gross profit	5,388	5,774	5,885	6,464
Net income	1,679	2,054	1,987	2,199
Net Income per share – basic	$ 0.51	$ 0.63	$ 0.60	$ 0.67
Net Income per share – diluted	0.49	0.59	0.57	0.64

Note 15. Subsequent Events

In April 2014, we completed a business combination (the "BGI Acquisition") whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI, Incorporated and BGI Instruments, Inc, (collectively "BGI"), for $9,900,000, subject to a post-closing adjustment. The operations of the acquired business will be included in our Instruments segment for reporting purposes.

On April 23, 2014, our Board of Directors declared a quarterly cash dividend of $0.15 per share of common stock, payable on June 16, 2014, to stockholders of record at the close of business on May 30, 2014.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of March 31, 2014. Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at March 31, 2014.

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Management evaluated the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as of March 31, 2014. Based on that evaluation, our management concluded that our internal control over financial reporting was effective at March 31, 2014. As allowed, this evaluation excludes the operations of the TempSys Acquisition due to the timing of the acquisition. Revenues related to the TempSys Acquisition were 3% of total revenues for the year ended March 31, 2014.

Our independent auditors, EKS&H LLLP, a registered public accounting firm, are appointed by the Audit Committee of our Board of Directors, subject to ratification by our shareholders. EKS&H LLLP has audited and reported on the financial statements of Mesa Laboratories, Inc. and our internal control over financial reporting as of March 31, 2014. The attestation reports of our registered public accounting firm are contained in this annual report.

Changes in internal control over financial reporting

There were no significant changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Operational Data

Year Ended March 31,	2014	2013	2012	2011	2010	2009
Revenues	$ 52,724	$ 46,435	$ 39,616	$ 34,227	$ 23,087	$ 22,649
Gross profit	$ 31,688	$ 28,862	$ 23,511	$ 19,568	$ 13,194	$ 13,817
Gross margin	60%	62%	59%	57%	57%	61%
Net income	$ 9,000	$ 8,450	$ 7,919	$ 6,183	$ 4,769	$ 4,790
Net income per diluted share	$ 2.49	$ 2.35	$ 2.29	$ 1.86	$ 1.45	$ 1.48
Average shares outstanding	3,611	3,593	3,462	3,330	3,293	3,238

Financial Position

As of March 31,	2014	2013	2012	2011	2010	2009
Working capital	$ 16,351	$ 14,793	$ 14,899	$ 7,387	$ 18,530	$ 17,109
Total assets	$ 97,529	$ 65,919	$ 50,696	$ 50,560	$ 33,639	$ 29,614
Long-term debt	$ 16,500	$ 4,000	$ -	$ 1,500	$ -	$ -
Stockholders' equity	$ 64,333	$ 52,753	$ 43,915	$ 36,417	$ 31,197	$ 27,602
Stockholders' equity per share	$ 17.82	$ 14.68	$ 12.68	$ 10.94	$ 9.47	$ 8.52

Average Return

Year Ended March 31,	2014	2013	2012	2011	2010	2009
Average return on:						
Stockholders' investment	15%	17%	20%	18%	16%	19%
Assets	11%	14%	16%	15%	15%	17%
Invested capital	13%	18%	21%	21%	24%	26%
Dividends paid	$ 0.58	$ 0.54	$ 0.50	$ 0.46	$ 0.42	$ 0.40

In thousands, except per share data

Mesa Laboratories, Inc.

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Vice President,
Chief Sales and Marketing Officer

John J. Sullivan, Ph.D.
Chief Executive Officer,
President and Director

John V. Sakys
Chief Financial Officer

Directors
Luke R. Schmieder
Chairman, Board of Directors

John J. Sullivan, Ph.D.
Director

H. Stuart Campbell
Chairman, Nominating and Governance Committee

Michael T. Brooks
Director

Robert V. Dwyer
Director

Evan C. Guillemin
Chairman, Audit Committee

David M. Kelly
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