MESA LABORATORIES INC /CO
Form 10-K
June 03, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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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, 2015

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

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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 Smaller reporting company
(Do not check if a 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, 2014 (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 ($57.53 per share) was $149,275,000.

The number of outstanding shares of the common stock as of May 31, 2015 was 3,576,678.

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Forward-Looking Statements

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "project," "intend," "anticipate," "estimate," "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 six 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, environmental air sampling 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, hydrogen peroxide, ethylene oxide 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, and Butler, New Jersey, facilities manufacture our Instruments Division products which include the DataTrace®, DialyGuard®, DryCal®, Torqo®, SureTorque® and BGI brands. Our Omaha, Nebraska, and Bozeman, Montana locations manufacture our Biological Indicators Division products which include the Mesa, PCD® and Apex® brands, while our Lakewood, Colorado, facility also manufactures our Continuous Monitoring Division products which include CheckPoint® and AmegaView brands.

Our philosophy is to manufacture exceptional quality products 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 March 2015, we completed a business combination (the “Früh Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Dr. Früh Control GmbH’s (“Fruh”) business segment associated with the distribution of our biological indicator products.

In February 2015, we completed a business combination (the “Cherwell Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Cherwell Laboratories Limited’s (“Cherwell”), business segment associated with the distribution of our biological indicator products.

In October 2014, we completed a business combination (the "ATI Acquisition") whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of ATI Atlas Limited ("ATI"), a distributor of our biological indicator products.

In October 2014, we completed a business combination (the "PCD Acquisition") with PCD-Process Challenge Devices, LLC ("PCD") whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of PCD's business segment associated with the sale of process challenge devices ("PCD's"), which are used for quality control purposes in the field of ethylene oxide sterilization of medical devices.

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 used primarily 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 (other than cash) 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 (other than cash) of ST Acquisitions, LLC's ("ST Acquisitions") business segment involving the design, manufacture, 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 (other than cash) and certain liabilities of Bios International Corporation's ("Bios") business involving the

design, manufacture, 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, environmental air sampling 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 processors, pharmaceutical and medical device manufacturers, and contract sterilization.

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 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 calibrators are used in many industries where professionals require the superior accuracy, reliability and ease of operation that they 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, hydrogen peroxide, ethylene oxide 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 often 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, c) culture media, and d) PCD's which increase the resistance of biological indicators, mimicking the packaging or other unique characteristics of a product being sterilized. 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, either with or without a PCD, 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 and Butler, New Jersey. 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 sensors, either at the factory or 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 285 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, governmental agencies, environmental testing labs 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, 2015, 2014 and 2013, 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, Amphenol Corporation, Ellab, TMI Orion, Danaher, Inc., Thermo Fisher Scientific, Inc., Mecmesin, Steinfurth, Met One Instruments, Inc. and Tisch Environmental. Our Biological Indicators Division products compete with 3M, Terragene, NAMSA and Steris, among others. Our Continuous Monitoring Division systems compete with Rees Scientific Corporation, Amphenol Corporation 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 $3,800,000, $2,320,000 and $2,011,000 for the years ended March 31, 2015, 2014 and 2013, respectively, on research and development activities, including amounts capitalized as intangible assets and construction-in-progress.

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, 2015, we had 276 employees, of which 158 are employed for manufacturing and quality assurance, 28 for research and development and engineering, 46 for sales and marketing, and 44 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. Slower global economic growth, actual or anticipated default on sovereign debt, volatility in the currency and credit markets, 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 that affect the global economy adversely could affect us and our distributors, customers and suppliers, including having the effect of:

- reducing demand for our products and services, limiting the financing available to our customers and suppliers, increasing order cancellations and resulting in longer sales cycles;
- increasing the difficulty in collecting accounts receivable and the risk of excess and obsolete inventories;
- supply interruptions, which could disrupt our ability to produce our products; 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.

If growth in the global economy or in any of the markets we serve slows for a significant period, if there is 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.

Our growth could suffer if the markets into which we sell our products and services decline, do not grow as anticipated or experience cyclicality.

Our growth depends in part on the growth of the markets which we serve, and visibility into our markets is limited (particularly for markets into which we sell through distributors). Our quarterly results of operations depend substantially on the volume and timing of orders received during the quarter, which are difficult to forecast. Any decline or lower than expected growth in our served markets could diminish demand for our products and services, which could adversely affect our consolidated financial statements. Certain of our businesses operate in industries that may experience periodic, cyclical downturns. In addition, in certain of our businesses, demand depends on customers' capital spending budgets as well as government funding policies, and matters of public policy and government budget dynamics, as well as product and economic cycles can affect the spending decisions of these entities. Demand for our products and services is also sensitive to changes in customer order patterns, which may be affected by announced price changes, new product introductions, competition and customer inventory. Any of these factors could adversely

affect our growth and results of operations in any given period.

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 maintain 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 customers' 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.

Our reputation, ability to do business and consolidated financial statements may be impaired by improper conduct by any of our employees, agents or business partners.

We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by employees, agents or business partners of ours (or of businesses we acquire or partner with) that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud, kickbacks and false claims, pricing, sales and marketing practices, conflicts of interest, competition, export and import compliance, money laundering and data privacy. In particular, the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Any such improper actions or allegations of such acts could damage our reputation and subject us to civil or criminal investigations in the U.S. and in other jurisdictions and related shareholder lawsuits, could lead to substantial civil and criminal, monetary and non-monetary penalties and could cause us to incur significant legal and investigatory fees.

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 businesses 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. These acquisitions involve a number of financial, accounting, managerial, operational, legal, compliance 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 associated with certain of our acquisitions may negatively impact our available cash and results from operations.

As part of certain of our acquisitions, we are required to make contingent consideration payments based on defined growth metrics over a specified 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 is 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 the 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 revenues. 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.

Foreign currency exchange rates may adversely affect our consolidated financial statements

Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar and may adversely affect our consolidated financial statements. Increased strength of the U.S. dollar (such as the strengthening that has taken place in recent periods) increases the effective price of our products sold in U.S. dollars into other countries, which may require us to lower our prices or adversely affect sales to the extent we do not increase local currency prices. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products and services we purchase overseas. Revenues and expenses of our non-U.S. businesses are also translated into U.S. dollars for reporting purposes and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects. In addition, we face exchange rate risk from our investment in subsidiaries owned and operated in foreign countries.

Changes in our tax rates or exposure to additional income tax liabilities or assessments could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.

We are subject to income taxes in the U.S. and in various non-U.S. jurisdictions. The impact of these factors may be substantially different from period to period. In addition, the amount of income taxes we pay is subject to ongoing audits by the U.S. federal, state and local tax authorities and by non-U.S. tax authorities. Due to the potential for changes to tax laws (or changes to the interpretation thereof) and the ambiguity of tax laws, the subjectivity of factual interpretations, the complexity of our intercompany arrangements and other factors, our estimates of income tax liabilities may differ from actual payments or assessments. If these audits result in payments or assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities and our consolidated financial statements could be adversely affected. In addition, any significant change to the tax system in the U.S. or in other jurisdictions, including changes in the taxation of international income, could adversely affect our consolidated financial statements.

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. If any jurisdiction determines that we have "nexus" in additional locations that we have not contemplated, it could have an adverse effect on our results of operations and financial condition.

We are subject to a variety of litigation and other legal and regulatory proceedings in the course of our business that could adversely affect our consolidated financial statements.

We are subject to a variety of litigation and other legal and regulatory proceedings incidental to our business, including claims for damages arising out of the use of products or services and claims relating to intellectual property matters, employment matters, tax matters, commercial disputes, competition and sales and trading practices, environmental matters, personal injury, insurance coverage and acquisition or divestiture-related matters, as well as regulatory investigations or enforcement. We may also become subject to lawsuits as a result of past or future acquisitions or as a result of liabilities retained from, or representations, warranties or indemnities provided in connection with, divested businesses. Any of these lawsuits may include claims for compensatory damages, punitive and consequential damages and/or injunctive relief. The defense of these lawsuits may divert our management's attention, we may incur significant expenses in defending these lawsuits, and we may be required to pay damage awards or settlements or become subject to equitable remedies that could adversely affect our operations and consolidated financial statements. Moreover, any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against such losses. In addition, developments in proceedings in any given period may require us to adjust the loss contingency estimates that we have recorded in our consolidated financial statements, record estimates for liabilities or assets previously not susceptible of reasonable estimates or pay cash settlements or judgments. Any of these developments could adversely affect our consolidated financial statements in any given period. We cannot make assurances that our liabilities in connection with litigation and other legal regulatory proceedings will not exceed our estimates or adversely affect our consolidated financial statements and/or reputation.

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 was 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 consolidated financial statements.

As of May 31, 2015, we had $25,000,000 in outstanding indebtedness. In addition, based on the availability under our Credit Facility, we have the ability to incur an additional $7,000,000 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.

A significant disruption in, or breach in security of, our information technology systems could adversely affect our business.

We rely on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information (including sensitive data such as confidential business information and personally identifiable data relating to employees, customers and other business partners), and to manage or support a variety of critical business processes and activities. These systems may be damaged, disrupted or shut down due to attacks by

computer hackers, computer viruses, employee error or malfeasance, power outages, hardware failures, telecommunication or utility failures, catastrophes or other unforeseen events, and in any such circumstances our system redundancy and other disaster recovery planning may be ineffective or inadequate. In addition, security breaches of our systems (or the systems of our customers, suppliers or other business partners) could result in the misappropriation, destruction or unauthorized disclosure of confidential information or personal data belonging to us or to our employees, partners, customers or suppliers. Like many multinational corporations, our information technology systems have been subject to computer viruses, malicious codes, unauthorized access and other cyber-attacks and we expect to be subject to similar attacks in the future as such attacks become more sophisticated and frequent. Any of the attacks, breaches or other disruptions or damage described above could interrupt our operations, delay production and shipments, result in theft of our and our customers' intellectual property and trade secrets, damage customer and business partner relationships and our reputation or result in defective products or services, legal claims and proceedings, liability and penalties under privacy laws and increased costs for security and remediation, each of which could adversely affect our business and consolidated financial statements.

We may experience difficulties implementing our enterprise resource planning system.

We are engaged in a project to upgrade our enterprise resource planning ("ERP") system. Our ERP system is critical to our ability to accurately maintain books and records, record transactions, provide important information to our management and prepare or consolidated financial statements. The implementation of the new ERP system has required, and will continue to require, the investment of significant financial and human resources. In addition, we may not be able to successfully complete the implementation of the new ERP system without experiencing difficulties. Any disruptions, delays or deficiencies in the design and implementation of the new ERP system could adversely affect our ability to process orders, ship products, provide services and customer support, send invoices and track payments, fulfill contractual obligations or otherwise operate our business.

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, and Omaha 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
Lakewood, Colorado	Corporate administration	4,684	Leased
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

Item 3. Legal Proceedings

In November 2014, Amega and its owner Anthony Amato (“Amato”) filed a complaint (*Anthony Amato and Amega Scientific Corporation v. Mesa Laboratories, Inc., Civil Action No. 1:14-cv-03228*) in the United States District Court for the district of Colorado asserting, among other items, that our termination of Amato as an employee impacted his ability to maximize the potential consideration payable under the Amega Earn Out and to exercise stock options that

failed to vest. The plaintiffs seek an immediate maximum payout of $10,000,000 under the Amega Earn Out, the immediate acceleration of the 10,000 stock options granted Amato upon his initial employment along with other consequential damages in excess of $500,000, lost future earnings and punitive damages. In addition, Amato has alleged that we improperly withheld $704,065.86 from the holdback consideration under the Amega Agreement. In January 2015 we filed a motion to dismiss the complaint with prejudice. At this time, we are unable to predict the ultimate outcome of this matter, nor can we estimate a range of possible loss, if any. We do believe that we acted in a matter consistent with employment law and the provisions of the Amega Agreement and we intend to defend our position vigorously.

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, 2014	$89.59	$74.38	$ 0.15
September 30, 2014	84.66	54.89	0.15
December 31, 2014	83.92	57.38	0.16
March 31, 2015	79.88	69.72	0.16

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

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, 2015, there were approximately 150 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, 2015, 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	**Average Price Paid**	**Total Shares Purchased as Part of Publicly Announced Plan**	**Remaining Shares to Purchase Under Plan**
January 1 – 31, 2015	--	--	162,486	137,514
February 1 – 29, 2015	--	--	162,486	137,514
March 1 – 31, 2015	--	--	162,486	137,514
Total	--	--		

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, 2015, 437,248 shares of common stock may be issued upon exercise of outstanding options, with a weighted-average exercise price of $55.81 and 1,097,680 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, 2010 through March 31, 2015, 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,				
	2015	**2014**	**2013**	**2012**	**2011**
Cash and cash equivalents	$2,034	$5,575	$4,006	$7,191	$3,546
Working capital	$14,965	$16,351	$14,793	$14,899	$7,387
Average return on:					
Stockholder investment (1)	14 %	15 %	17 %	20 %	18 %
Assets	9 %	11 %	14 %	16 %	15 %
Invested capital (2)	11 %	13 %	18 %	21 %	21 %
Revenues	$71,330	$52,724	$46,435	$39,616	$34,227
Gross profit	$43,392	$31,688	$28,862	$23,511	$19,568
Gross profit margin	61 %	60 %	62 %	59 %	57 %
Operating income	$15,864	$11,785	$13,104	$12,477	$9,864
Operating income margin	22 %	22 %	28 %	31 %	29 %
Net income	$9,583	$9,000	$8,450	$7,919	$6,183
Net income margin	13 %	17 %	18 %	20 %	18 %
Net income per diluted share	$2.63	$2.49	$2.35	$2.29	$1.86
Adjusted net income (3)	$12,502	$11,046	$10,144	$8,876	$6,933
Adjusted net income per diluted share	$3.43	$3.06	$2.82	$2.56	$2.08
Average return on:					
Adjusted invested capital (4)	14 %	16 %	21 %	23 %	24 %

(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.

(4)

Adjusted invested capital is a non-GAAP measure which substitutes adjusted net income for net income in the average return on invested capital calculation (2).

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,				
	2015	**2014**	**2013**	**2012**	**2011**
Net income	$9,583	$9,000	$8,450	$7,919	$6,183
Amortization of intangible assets, net of tax	2,919	2,046	1,694	957	750
Adjusted net income	$12,502	$11,046	$10,144	$8,876	$6,933

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 six 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, environmental air sampling 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, hydrogen peroxide, ethylene oxide 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 will 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.

Year Ended March 31, 2015 Acquisitions

During the year ended March 31, 2015, we completed the following six acquisitions (the "2015 Acquisitions"):

In March 2015, we completed the Früh Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Früh's business segment associated with the distribution of our biological indicator products;

In February 2015, we completed the Cherwell Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Cherwell's business segment associated with the distribution of our biological indicator products;

In October 2014, we completed the ATI Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of ATI, a distributor of our biological indicator products;

In October 2014, we completed the PCD Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of PCD's business segment associated with the sale of PCD's which are used for quality control purposes in the field of ethylene oxide sterilization of medical devices;

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's business which is focused on the sale of equipment used primarily for particulate air sampling; and

In April 2014, we completed the Amilabo Acquisition whereby we acquired all of the common stock of Amilabo, a distributor of our biological indicator products.

Year Ended March 31, 2014 Acquisitions

During the year ended March 31, 2014, we completed the following three acquisitions (the "2014 Acquisitions"):

In November 2013, we completed the TempSys Acquisition whereby we acquired all of the common stock of TempSys, a company in the business of providing continuous monitoring systems to regulated industries;

In November 2013, we completed the Amega Acquisition whereby we acquired substantially all of the assets (other than cash) and certain liabilities of Amega, a company in the business of providing continuous monitoring services to regulated industries; and

In July 2013, we completed the Suretorque Acquisition whereby we acquired substantially all the assets (other than cash) of ST Acquisition's business segment involving the design, manufacture, sale and service of its SureTorque line of bottle cap torque testing instrumentation.

Year Ended March 31, 2013 Acquisitions

In May 2012, we completed the Bios Acquisition whereby we acquired substantially all of the assets (other than cash) and certain liabilities of Bios' business involving the design, manufacture, sale and service of flow calibration equipment.

General Trends and Outlook

Our strategic objectives include growth both organically and through further acquisitions. During the year ended March 31, 2015, we continued to build our infrastructure to prepare for future growth, including the addition of key personnel to our operations, sales and marketing, 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.

In general, our instruments and continuous monitoring systems are impacted more by general economic conditions than our biological indicator products. As a result, 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. However demand for our instruments products and continuous monitoring systems was strong during our year ended March 31, 2015 and we strive to continue to 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 all of our 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,			2015 vs 2014		2014 vs 2013	
	2015	2014	2013	Change	Percent Change	Change	Percent Change
Revenues	$71,330	$52,724	$46,435	$18,606	35 %	$6,289	14 %
Cost of revenues	27,938	21,036	17,573	6,902	33 %	3,463	20 %
Gross profit	$43,392	$31,688	$28,862	$11,704	37 %	$2,826	10 %
Gross profit margin	61 %	60 %	62 %	1 %		(2%)	
Operating Expenses:							
Selling	$7,176	$6,119	$4,630	$1,057	17 %	$1,489	32 %
General and administrative	17,058	11,464	9,117	5,594	49 %	2,347	26 %
Research and development	3,294	2,320	2,011	974	42 %	309	15 %
	$27,528	$19,903	$15,758	$7,625	38 %	$4,145	26 %
Operating income	$15,864	$11,785	$13,104	$4,079	35 %	$(1,319)	(10)%
Net income	$9,583	$9,000	$8,450	$583	6 %	$550	7 %
Net income margin	13 %	17 %	18 %	(4%)		(1%)	

Revenues

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

	Year Ended March 31,			2015 vs 2014		2014 vs 2013	
	2015	2014	2013	Change	Percent Change	Change	Percent Change
Biological Indicators							
Product	$26,330	$22,111	$20,641	$4,219	19 %	$1,470	7 %
Service	1,060	881	823	179	20 %	58	7 %
	27,390	22,992	21,464	4,398	19 %	1,528	7 %
Instruments							

Product	26,789	20,858	19,949	5,931	28	%	909	5	%
Service	6,265	5,531	5,022	734	13	%	509	10	%
	33,054	26,389	24,971	6,665	25	%	1,418	6	%
Continuous Monitoring									
Product	5,791	1,570	--	4,221	269	%	1,570	100	%
Service	5,095	1,773	--	3,322	187	%	1,773	100	%
	10,886	3,343	--	7,543	226	%	3,343	100	%
Total	$71,330	$52,724	$46,435	$18,606	35	%	$6,289	14	%

Year ended March 31, 2015 versus March 31, 2014

Biological Indicators revenues increased as a result of the Amilabo, ATI, PCD, Früh and Cherwell Acquisitions and organic growth of four percent which was achieved through existing customers, expansion into new markets and price increases.

Instruments revenues increased as a result of the BGI Acquisition and organic growth of six percent in our existing product lines and the timing of the prior year acquisition of the SureTorque product line, partially offset by the disposal of the Nusonics product.

Continuous Monitoring revenues increased as a result of organic growth of 52 percent and the timing of the prior year acquisition of TempSys and Amega.

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.

Gross Profit

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

	Year Ended March 31,			2015 vs 2014		2014 vs 2013	
	2015	2014	2013	Change	Percent Change	Change	Percent Change
Biological Indicators	$17,142	$13,187	$12,365	$3,955	30 %	$822	7 %
Gross profit margin	63 %	57 %	58 %	6 %		(1)%	
Instruments	$20,763	$16,904	$16,497	$3,859	23 %	$407	2 %
Gross profit margin	63 %	64 %	66 %	(1)%		(2)%	
Continuous Monitoring	$5,487	$1,597	$--	$3,890	244 %	$1,597	100 %
Gross profit margin	50 %	48 %	-- %	2 %		--	
Total gross profit	$43,392	$31,688	$28,862	$11,704	37 %	$2,826	10 %
Gross profit margin	61 %	60 %	62 %	1 %		(2)%	

Year ended March 31, 2015 versus March 31, 2014

Biological Indicators gross profit margin percentage increased as a result of the Amilabo, ATI, PCD, Früh and Cherwell Acquisitions, price increases and volume-based efficiencies associated with revenues growth. In addition, the year ended March 31, 2014 was negatively impacted by the requirement to replace three product batches that had longer than expected incubation times.

Instruments gross profit margin percentage decreased as a result of integration activities associated with the BGI Acquisition and a change in our product/service mix, partially offset by the impact of six percent organic revenues growth and the application of purchase accounting associated with the Suretorque Acquisition in the prior year.

Continuous Monitoring gross profit margin percentage was negatively impacted by integration activities that commenced soon after the acquisitions were completed. These integration activities have been decreasing over the year and are now substantially complete. As a result, we believe that the Continuous Monitoring gross profit margin percentages on a go forward basis will be impacted more by total revenues available to cover fixed costs and product mix as opposed to ongoing integration activities. We are hopeful that we will continue to improve these gross profit margin percentages in the future but it is unclear as to how much improvement we will be able to obtain.

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 year ended March 31, 2014 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.

Operating Expenses

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

	Increase (Decrease) Year Ended March 31,	
	2015 vs 2014	**2014 vs 2013**
Selling	$1,057	$1,489
General and administrative		

Chief Financial Officer transition	--	(526)
ERP system upgrade and SOX compliance	993	(86)
Acquisition costs	404	252
Amortization	1,696	462
Personnel costs	3,244	470
Sales tax accrual	(948)	1,308
Other, net	205	467
	5,594	2,347
Research and development	974	309
Operating expenses	$7,625	$4,145

Selling

Year ended March 31, 2015 versus March 31, 2014

Selling expense increased primarily due to the 2015 and 2014 Acquisitions, along with negligible increases from other product lines. As a percentage of revenues, selling expense decreased to 10 percent as compared to 12 percent in the prior period. The decrease was due primarily to streamlining sales processes associated with acquisitions along with corresponding increases in revenues.

Year ended March 31, 2014 versus March 31, 2013

Selling expense increased primarily as a result of the Bios and the 2014 Acquisitions. As a percentage of revenues, selling expense increased to 12 percent as compared to 10 percent 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.

General and Administrative

Year ended March 31, 2015 versus March 31, 2014

General and administrative expenses increased primarily due to increased amortization, personnel and ERP system upgrade costs and acquisition costs resulting from the 2015 and 2014 Acquisitions, partially offset by a decrease in accruals for sales tax liabilities associated with not properly collecting and remitting sales tax in states in which we most likely had established nexus during prior periods.

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.

Research and Development

Year ended March 31, 2015 versus March 31, 2014

Research and development expenses increased as a result of the Amega, TempSys and BGI Acquisitions and standard increases in personnel costs, partially offset by timing of external research and development consulting projects.

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.

Net Income

Other expense (income), net for the year ended March 31, 2015 is comprised primarily of interest expense associated with our Credit Facility, partially offset by a $125,000 gain associated with the termination of a joint development project. Other expense (income), net for the year ended March 31, 2014 is comprised 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 disposal of our Nusonics product line. Please see “Item 8. Financial Statements and Supplementary Data” for additional discussion.

Our income tax rate varies based upon many factors but in general, we anticipate that on a go forward basis, our effective tax rate will approximate 36% to 37%. Otherwise, net income varied with the changes in revenue, gross profit and operating expenses (which includes $4,675,000 of non-cash amortization of intangible assets for the year ended March 31, 2015).

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.

Due to continued organic and acquisition related growth, we have outgrown the capacity of our current building in Bozeman, Montana and as a result, we will build a new facility in the same general area. We expect that construction will begin in July 2015 and we are hopeful that the building will be completed no later than September 30, 2016. During our year ended March 31, 2015 we acquired the related land for $741,000 and we anticipate that the remaining cost of the new facility will be approximately $14,000,000. Following the relocation from our current Bozeman building into the new facility, we expect to be able to sell the current facility for $2,000,000 - $3,000,000 to partially offset the cost of the new building.

We are currently implementing a new ERP system which has required a significant amount of cash. We incurred $993,000 of expense associated with this project for the year ended March 31, 2015. Our expectation is that we will go live with our new ERP system during our second quarter ending September 30, 2015. We anticipate that we will incur up to $500,000 for activities necessary to go live and for related post go-live support. In addition, we may incur additional costs associated with software system upgrades.

Working capital is the amount by which current assets exceed current liabilities. We had working capital of $14,965,000 and $16,351,000, respectively, at March 31, 2015 and 2014. The decrease in working capital is due primarily to $3,000,000 of required principal payments under the Term Loan being classified as current liabilities as of March 31, 2015, partially offset by increases in both accounts receivable and inventories related to organic growth and the acquisitions of BGI, Amilabo and PCD.

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 was 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 were 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, 2015.

As of May 31, 2015, we had $25,000,000 in outstanding indebtedness and unused capacity under our Credit Facility of $7,000,000.

In April 2015, the SEC declared effective our Universal Shelf Registration Statement which allows us to sell, in one or more public offerings, common stock or warrants, or any combination of such securities for proceeds in an aggregate amount of up to $130,000,000. The terms of any offering, including the type of securities involved, would be established at the time of sale. We have no immediate plans to issue securities under this registration statement.

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 162,486 shares of common stock under this program from inception through March 31, 2015.

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

	Year Ended March 31,		
	2015	2014	2013
First quarter	$0.15	$0.14	$0.13
Second quarter	0.15	0.14	0.13
Third quarter	0.16	0.15	0.14
Fourth quarter	0.16	0.15	0.14

In April 2015, our Board of Directors declared a quarterly cash dividend of $0.16 per share of common stock, payable on June 15, 2015, to shareholders of record at the close of business on May 29, 2015.

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

	Year Ended March 31,		
	2015	2014	2013
Net cash provided by operating activities	$10,816	$12,373	$11,402
Net cash used in investing activities	(23,371)	(23,138)	(17,568)
Net cash provided by financing activities	9,072	12,334	2,981

Net cash provided by operating activities for the year ended March 31, 2015 decreased primarily due to increases in accounts receivable and inventories resulting from the 2014 and 2015 Acquisitions, decreases in unearned revenues and the payment of accrued liabilities and taxes payable, partially offset by decreases in payments of accounts payable and increases in net income and depreciation and amortization. Net cash provided by operating activities for the year ended March 31, 2014 increased primarily due to positive results from our efforts to collect long-outstanding receivables, partially offset by significant increases in inventory purchases associated with the Amega and TempSys Acquisitions. Net cash provided by operating activities for the year ended March 31, 2013 decreased primarily due to increases in accounts receivable due to our expanding international customer base (which has extended payment terms) and an increase in inventory, as we took advantage of volume discounts for raw materials.

Net cash used in investing activities for the year ended March 31, 2015 resulted from $20,543,000 associated with the 2015 Acquisitions and the purchase of $2,828,000 of property, plant and equipment. Net cash used in investing activities for the year ended March 31, 2014 resulted from $22,758,000 associated with the 2014 Acquisitions and the purchase of $1,041,000 of property, plant and equipment, partially offset by the proceeds from the disposal of the NuSonics product line of $661,000. Net cash used in investing activities for the year ended March 31, 2013 resulted from $16,660,000 for the Bios Acquisition and the purchase of $908,000 of property, plant and equipment.

Net cash provided by financing activities for the year ended March 31, 2015 resulted from borrowings under our Credit Facility of $23,000,000 and proceeds from the exercise of stock options of $1,504,000, partially offset by the repayment of debt of $13,250,000 and the payment of dividends of $2,182,000. Net cash provided by 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 the repayment of debt of $8,500,000 and the payment of dividends of $1,989,000. Net cash provided by 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 $898,000, partially offset by the repayment of debt of $7,000,000 and the payment of dividends of $1,815,000.

At March 31, 2015, we had contractual obligations for open purchase orders of approximately $9,850,000 for routine purchases of supplies and inventory, which are payable in less than one year.

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 represented 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 were 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 have been required to make ranged 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. We finalized the contingent consideration payable and paid $1,120,000 in May 2015.

Under the terms of the PCD Agreement, we are required to pay contingent consideration if the cumulative revenues for our process challenge device business for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from $0 to $1,500,000 and is based upon a sliding scale of three-year cumulative revenues between $9,900,000 and $12,600,000. Based upon both historical and projected growth rates, we recorded $300,000 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 process challenge device business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in three annual installments beginning in the third 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 Consolidated 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 intangible assets subject to amortization, 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.

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 years ended March 31, 2015, 2014 or 2013. 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 PCD, 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, discount rates 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 any of our acquisitions 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

In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) issued a jointly converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenues, as well as requiring disclosures sufficient to describe the nature, amount, timing and uncertainty of revenues and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The new standard is effective for our fiscal year (and interim periods within that year) ending March 31, 2018. We are evaluating the impact of this standard on our consolidated financial statements and disclosures.

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, 2015, we have no obligations or interests which qualify as off-balance sheet arrangements.

Contractual Obligations

As of March 31, 2015, our contractual obligations, including payments due by period, are as follows (in thousands):

		Payments Due For Years Ending March 31,			
	Total	**2016**	**2017-2018**	**2019-2020**	**Thereafter**
Purchase Commitments	$10,947	$9,852	$ 1,095	$ --	$ --
Line of Credit	13,500	--	13,500	--	--
Term loan	12,750	3,000	9,750	--	--
Other	817	294	523	--	--
Total	$38,014	$13,146	$ 24,868	**$ --**	**$ --**

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, 2015, a one percentage point increase in interest rates would have increased interest expense by $260,000.

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, 2015 and 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2015. We have also audited the Company's internal control over financial reporting as of March 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) 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 Amilabo, ("Amilabo Acquisition"), which was acquired on April 4, 2014, and whose financial statements constitute approximately 5% of total assets and 4% of net revenues of the financial amounts of the Company as of and for the year ended March 31, 2015. 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 Amilabo Acquisition. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of 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 the effectiveness of 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 Mesa Laboratories, Inc. and Subsidiaries as of March 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Mesa Laboratories, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ EKS&H LLLP

EKS&H LLLP

June 3, 2015

Denver, Colorado

Mesa Laboratories, Inc.

Consolidated Balance Sheets

(In thousands, except share amounts)

	March 31, 2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$2,034	$5,575
Accounts receivable, net	12,145	9,278
Inventories, net	12,420	7,771
Prepaid expenses and other	1,334	2,064
Deferred income taxes	1,689	1,878
Total current assets	29,622	26,566
Property, plant and equipment, net	9,598	7,680
Intangibles, net	33,231	25,417
Goodwill	44,869	37,866
Total assets	$117,320	$97,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,503	$2,019
Accrued salaries and payroll taxes	4,105	3,567
Unearned revenues	1,314	1,886
Current portion of contingent consideration	1,220	--
Other accrued expenses	1,307	2,743
Income taxes payable	1,208	--
Current portion of long-term debt	3,000	--
Total current liabilities	14,657	10,215
Deferred income taxes	5,122	4,861
Long-term debt	23,250	16,500
Contingent consideration	812	1,620
Total liabilities	43,841	33,196
Commitments and Contingencies (Note 12)	--	--
Stockholders' equity:		
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,561,540 shares (March 31, 2015) and 3,490,628 shares (March 31, 2014)	17,751	15,796
Employee loans to purchase stock	--	(24)
Retained earnings	55,962	48,561
Accumulated other comprehensive loss	(234)	--

Total stockholders' equity	73,479	64,333
Total liabilities and stockholders' equity	$117,320	$97,529

See accompanying notes to consolidated financial statements.

Mesa Laboratories, Inc.

Consolidated Statements of Income

(In thousands, except per share data)

	Year Ended March 31,		
	2015	**2014**	**2013**
Revenues			
Product	$58,910	$44,539	$40,590
Service	12,420	8,185	5,845
Total revenues	71,330	52,724	46,435
Cost of revenues			
Cost of products	23,128	16,062	15,489
Cost of services	4,810	4,974	2,084
Total cost of revenues	27,938	21,036	17,573
Gross profit	43,392	31,688	28,862
Operating expenses			
Selling	7,176	6,119	4,630
General and administrative	17,058	11,464	9,117
Research and development	3,294	2,320	2,011
Total operating expenses	27,528	19,903	15,758
Operating income	15,864	11,785	13,104
Other (expense) income, net	(517)	1,318	(126)
Earnings before income taxes	15,347	13,103	12,978
Income taxes	5,764	4,103	4,528
Net income	$9,583	$9,000	$8,450
Net income per share:			
Basic	$2.72	$2.61	$2.52
Diluted	2.63	2.49	2.35
Weighted average common shares outstanding:			
Basic	3,521	3,445	3,357
Diluted	3,650	3,611	3,593

See accompanying notes to consolidated financial statements.

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Mesa Laboratories, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands except per share data)

	Year Ended March 31,		
	2015	**2014**	**2013**
Net Income	$9,583	$9,000	$8,450
Other comprehensive loss, net of tax:			
Foreign currency translation	(234)	--	--
Total comprehensive income	$9,349	$9,000	$8,450

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**	**Accumulated Other Comprehensive Loss**	**Total**
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 impact 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 impact 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
Common stock issued for conversion of stock options net of 11,266 shares returned as payment	70,912	1,504	--	--	--	1,504
Purchase and retirement of common stock	--	(28)	24	--	--	(4)
Dividends paid	--	--	--	(2,182)	--	(2,182)
Stock-based compensation	--	993	--	--	--	993
Tax impact on exercise of stock options	--	(514)	--	--	--	(514)
Foreign currency translation	--	--	--	--	(234)	(234)
Net income	--	--	--	9,583	--	9,583
March 31, 2015	3,561,540	$17,751	$ --	$55,962	$ (234)	$73,479

See accompanying notes to consolidated financial statements.

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Mesa Laboratories, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended March 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net income	$9,583	$9,000	$8,450
Depreciation and amortization	5,656	3,844	3,432
Loss (gain) on dispositions, net	16	(420)	--
Deferred income taxes	450	(43)	(291)
Stock-based compensation	993	840	1,112
Foreign currency adjustments	(176)	--	--
Contingent consideration	--	(1,020)	--
Change in assets and liabilities, net of effects of acquisitions and dispositions			
Accounts receivable, net	(2,291)	697	(1,510)
Inventories, net	(3,164)	(1,300)	(228)
Prepaid expenses and other	772	(1,479)	(189)
Accounts payable	410	754	437
Accrued liabilities and taxes payable	(861)	1,192	189
Unearned revenues	(572)	308	--
Net cash provided by operating activities	10,816	12,373	11,402
Cash flows from investing activities:			
Acquisitions	(20,543)	(22,758)	(16,660)
Proceeds from disposition	--	661	--
Purchases of property, plant and equipment	(2,828)	(1,041)	(908)
Net cash used in investing activities	(23,371)	(23,138)	(17,568)
Cash flow from financing activities:			
Proceeds from the issuance of debt	23,000	21,000	11,000
Payments on debt	(13,250)	(8,500)	(7,000)
Dividends	(2,182)	(1,989)	(1,815)
Proceeds from the exercise of stock options	1,504	1,845	898
Purchase and retirement of common stock	--	(22)	(102)
Net cash provided by financing activities	9,072	12,334	2,981
Effect of exchange rate changes on cash and cash equivalents	(58)	--	--
Net (decrease) increase in cash and cash equivalents	(3,541)	1,569	(3,185)
Cash and cash equivalents at beginning of year	5,575	4,006	7,191
Cash and cash equivalents at end of year	$2,034	$5,575	$4,006
Cash paid during the year for:			

Income taxes	$3,345	$4,714	$4,778
Interest	499	133	116
Supplemental non-cash activity:			
Employee loans issued for exercise of stock options	$--	$--	$203
Repayment of employee loans for stock options	24	92	450
Contingent consideration as part of an acquisition	412	500	2,140

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 six 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, environmental air sampling 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, hydrogen peroxide, ethylene oxide 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.

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, 2015, 2014 and 2013, no individual customer represented more than 10% of our revenues and as of March 31, 2015, no individual customer represented more than 10% of our accounts receivable balance. Approximately 64% and 36% 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.

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, there is no requirement 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. 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, there is no requirement to perform any further assessment.

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 consolidated 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.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) issued a jointly converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenues, as well as requiring disclosures sufficient to describe the nature, amount, timing and uncertainty of revenues and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The

new standard is effective for our fiscal year (and interim periods within that year) ending March 31, 2018. We are evaluating the impact of this standard on our consolidated financial statements and disclosures.

Note 2. Acquisitions and Dispositions

Acquisitions

For the year ended March 31, 2015, our acquisitions of businesses (net of cash acquired) totaled $20,543,000, which consisted primarily of the following material acquisitions:

PCD

On October 15, 2014, we completed a business combination (the "PCD Acquisition") with PCD-Process Challenge Devices, LLC ("PCD") whereby we acquired substantially all the assets (other than cash and accounts receivable) and certain liabilities of PCD's process challenge device business segment. The asset acquisition agreement (the "PCD Agreement") includes provisions for both contingent consideration based upon the cumulative three year revenues of our process challenge device business subsequent to the acquisition and for a holdback payment (subject to a post-closing adjustment), payable at the one year anniversary of the closing date.

Under the terms of the PCD Agreement, we are required to pay contingent consideration if the cumulative revenues for our process challenge device business for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from $0 to $1,500,000 and is based upon a sliding scale of three-year cumulative revenues between $9,900,000 and $12,600,000. Based upon both historical and projected growth rates, we recorded $300,000 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 process challenge device business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in three annual installments beginning in the third quarter of our year ending March 31, 2016.

We expect to achieve savings and generate growth as we integrate the PCD 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 Biological Indicators segment.

The PCD 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 PCD Agreement (in thousands):

Cash consideration	$5,000
Holdback payment liability	250
Contingent consideration liability	300
Aggregate consideration	$5,550
Inventories, net	$137
Property, plant and equipment, net	7
Intangibles, net	3,678
Goodwill	1,743
Accrued expenses	(15)
Total purchase price allocation	$5,550

The accompanying consolidated statements of income include the results of the PCD Acquisition from the acquisition date of October 15, 2014. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2014 and 2013, are as follows (in thousands, except per share data):

	Year Ended March 31,	
	2015	**2014**
Revenues	$73,068	$56,541
Net income	9,673	9,512
Net income per common share:		
Basic	$2.75	$2.76
Diluted	2.65	2.63

BGI

On April 15, 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”), a business focused on the sale of equipment primarily used for particulate air sampling. The purchase price for the acquired assets was $10,268,000.

We expect to achieve savings and generate growth as we integrate the BGI 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 Instruments segment.

The BGI 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 BGI Agreement (in thousands):

Inventories, net	$1,268
Property, plant and equipment, net	47
Intangibles, net	5,711
Goodwill	3,295
Accrued expenses	(53)
Total purchase price allocation	$10,268

The accompanying consolidated statements of income include the results of the BGI Acquisition from the acquisition date of April 15, 2014. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2014 and 2013, are as follows (in thousands, except per share data):

	Year Ended March 31,	
	2015	**2014**
Revenues	$71,648	$60,388
Net income	9,661	11,141
Net income per common share:		
Basic	$2.74	$3.23
Diluted	2.65	3.09

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), which was 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 expected 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 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 expected 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 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 were 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 have been required to make ranged 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 for the year ended March 31, 2014. We finalized the contingent consideration and paid $1,120,000 in May 2015.

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,	
	2015	**2014**
Raw materials	$10,366	$5,758
Work-in-process	530	272
Finished goods	1,913	2,068
Less reserve	(389)	(327)
	$12,420	$7,771

Note 4. Property, Plant and Equipment

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

	March 31,	
	2015	**2014**
Land	$1,614	$873
Buildings	4,721	4,685
Manufacturing equipment	6,797	6,054
Computer equipment	1,845	1,487
Other	1,343	393
	16,320	13,492
Less accumulated depreciation	(6,722)	(5,812)
	$9,598	$7,680

Depreciation expense for the years ended March 31, 2015, 2014 and 2013 was $981,000, $865,000 and $831,000, 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, 2013	$ 9,279	$ 14,361	$ --	$23,640
Acquisitions	--	579	13,647	14,226
March 31, 2014	9,279	14,940	13,647	37,866
Acquisitions	3,708	3,295	--	7,003
March 31, 2015	$ 12,987	$ 18,235	$ 13,647	$