

# 2011

## Annual Report

Measurement systems  
and technology for a  
healthy world

**mocon**<sup>®</sup>

## About MOCON

MOCON (Nasdaq symbol MOCO) is a leading provider of test and measurement instrumentation, sensors and detectors, and consulting and laboratory services to food, beverage, medical, pharmaceutical, packaging, oil and gas and many other industries worldwide.

The Company has installations in 79 countries, representing six continents. In addition to its Minneapolis headquarters, MOCON has two other U.S. facilities (Colorado and Texas), as well as wholly-owned and operated locations in China and Germany to better serve global needs. Its multilingual corporate professionals are able to provide assistance in many native languages. MOCON's international footprint is further supported by an extensive network of over 50 distributors.

## Strength in Numbers

Success lies in the sum of its parts.

For MOCON, its strength is everywhere from sales stability, sales direction, sales by product, sales by region, its product and technology diversity and 46 years of financial performance – all of which contribute to the success and strength in its earnings and financial results.

> **108** consecutive profitable quarters

> **94** consecutive quarterly dividends

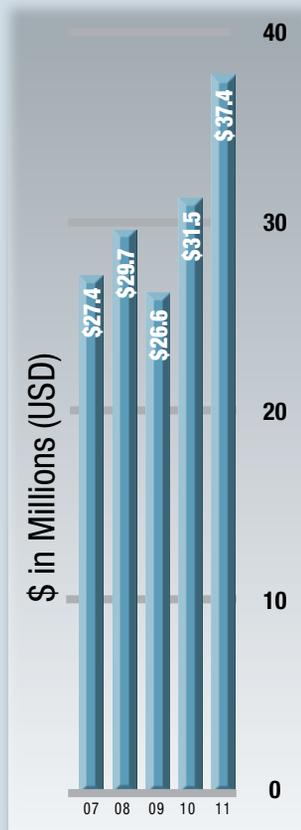
> **\$37.4 million** in record revenue

> **\$5.5 million** in record net income

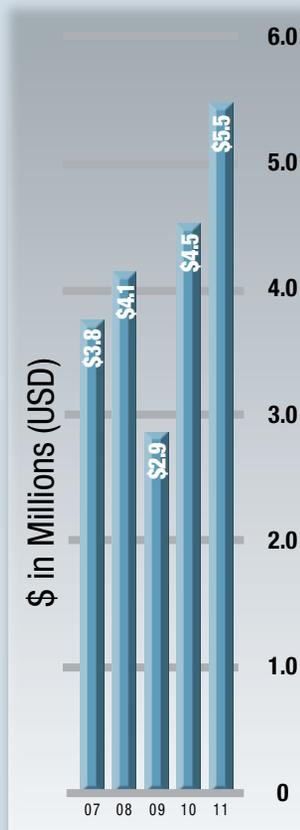
> **14.9%** average annual return on equity over the past decade

> **10%** increase in employees over 2010

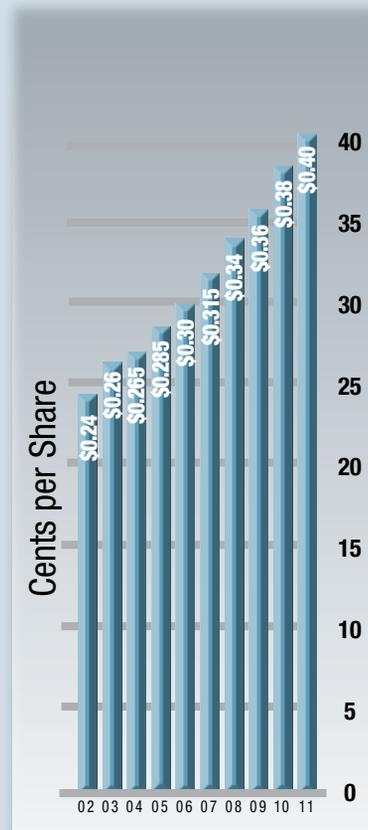
## Sales



## Net Income



## Dividends



## Financial Highlights

(In thousands, except per share data)

Year Ended December 31	2011	2010	2009	2008	2007
<b>Operations Data:</b>					
<b>Sales</b>	\$ 37,361	\$ 31,549	\$ 26,638	\$ 29,696	\$ 27,397
<b>Net income</b>	\$ 5,451	\$ 4,518	\$ 2,910	\$ 4,059	\$ 3,805
<b>Net income per share:</b>					
Basic	\$ 1.02	\$ 0.87	\$ 0.54	\$ 0.73	\$ 0.69
Diluted	\$ 0.98	\$ 0.84	\$ 0.53	\$ 0.72	\$ 0.67
<b>Cash dividends declared per share</b>	\$ 0.40	\$ 0.38	\$ 0.36	\$ 0.34	\$ 0.315
<b>Balance Sheet Data:</b>					
<b>Current assets</b>	\$ 23,357	\$ 19,399	\$ 23,706	\$ 22,357	\$ 21,306
<b>Total assets</b>	\$ 39,705	\$ 34,339	\$ 30,327	\$ 32,953	\$ 29,673
<b>Current liabilities</b>	\$ 6,140	\$ 5,632	\$ 4,088	\$ 4,464	\$ 3,949
<b>Noncurrent liabilities</b>	\$ 325	\$ 298	\$ 257	\$ 271	\$ 339
<b>Stockholders' equity</b>	\$ 33,240	\$ 28,409	\$ 25,982	\$ 28,218	\$ 25,385

# Letter to Shareholders

## Record Financial Performance

Net sales for the year 2011 set a new annual record of \$37,361,000, an increase of 18 percent compared to \$31,549,000 for the year ended December 31, 2010.

Net income for the year 2011 was \$5,451,000, a 21 percent increase compared to \$4,518,000 in the prior year. Diluted earnings per share were \$0.98 and \$0.84, respectively, for the years ended December 31, 2011 and 2010. Dividends have now been paid for 94 consecutive quarters.

## Growth and Strong Financials

The Company has experienced two consecutive years of record sales and earnings along with dividend growth, all accomplished organically.

Our goal remains to grow the top and bottom lines by double digits. In the past we have grown both organically and through acquisition, partnership and investment and plan to continue being opportunistic where appropriate.

We have a strong employee base and our locations around the world continue to attract quality people. Our headcount grew by 10% in 2011 in support of our expanding businesses.

The Company was honored this past year with awards for our business performance during the 2010 fiscal year. MOCON was named to the *Star Tribune 100* publicly-held Minnesota companies list based on five financial metrics. The *Minneapolis/St. Paul Business Journal* named the Company to its Top 100 Public companies by revenue list moving up from #97 the previous year to #86 during the 2010 fiscal year.

During a tough economic climate, MOCON's share price increased by 40% in 2010 and 24% in 2011.

## Macro Trends and Business Drivers

These factors will continue to drive packaging decisions for perishable food and beverage products worldwide:

- Safety
- Improving global preservation and food distribution
- Cost-effective packaging and processing technologies
- Carbon footprint reduction
- Functionality and ergonomics
- Product and package differentiation

*Despite widespread economic challenges, MOCON's financial performance shined in 2011.*

# EXCEPTIONAL PERFORMANCE

Brand owners have come to rely on the consumer package as one of their most important marketing tools. Equally as important is how the package structure protects the contents. A lot goes into determining the right material--thickness, barrier properties, top load, shatter-resistance, squeezability and all of the other structural aspects that determine whether or not the consumer will become a repeat buyer.

Additionally, in order to safely meet shelf-life objectives, the atmosphere inside the package has to have the right balance of gases to deliver required specifications and performance.

MOCON has a long-standing reputation of engineering instrumentation that will help food processors answer many of those critical performance questions so that shelf-life objectives are met.

More recently, MOCON has entered the food safety arena. The GreenLight technology is the first to provide fast results for aerobic bacterial counts. Shorter testing cycles provide packers and processors with the potential of getting safe, perishable food items to the consumer in less time.

The Company is also a well-respected manufacturer of toxic gas monitoring systems, air quality testing equipment, custom gas analyzers and detectors and sensory-directed odor analysis.

## Laboratories Around the World

Our domestic success has encouraged us to equip additional permeation and package testing laboratories in selected locations around the world.

New and established collaborations offering local laboratory services in specific niches has proven to be a solid source of opportunity and revenue. Recent "Partner Laboratories" have begun operating in 2010 in Mumbai, India, and in 2011 in Toronto, Canada, with others in the planning stages. MOCON provides the instrumentation while the partner lab provides facilities and staff. In Minneapolis, MN; Austin, TX; Koblenz, Germany; and Shanghai, China, we maintain our own laboratories. These wholly-owned facilities conduct testing and provide consulting services for a wide spectrum of product and industrial needs.

### Strong Technology Platform

The Company's organic growth has been supported by technologies that have proven to be robust and allowed for line extensions in several areas. MOCON currently holds 74 U.S. and foreign patents and has an additional 55 pending. Advancements in sensors, software and systems that offer several tests in one instrument have been well received by our customers. We continue to be the recognized leader in several of our markets, and offer outstanding technological solutions for customer needs.

MOCON's instrumentation can be found in 79 countries, on six different continents.

### Acquisition of PBI-Dansensor A/S

On March 9, 2012 the Company signed an agreement to acquire PBI-Dansensor A/S (Dansensor) of Ringsted, Denmark, a privately-held leading manufacturer of specialized instrumentation for Modified Atmosphere Packaging (MAP) of foods, beverages,

Back from the left:

*Daniel Mayer, Executive Vice President and C.T.O., MOCON*

*Franz Sturm, Managing Director, Lippke - Europe*

*Robert Demorest, Chairman,*

*President and C.E.O., MOCON*

*Robert Forsberg, President, Baseline-MOCON*

Bottom from left:

*Alan Traylor, Business Manager, Food Safety Products, MOCON*

*Douglas Lindemann, Vice President and General Manager, MOCON*

*Darrell Lee, Vice President and C.F.O., MOCON*

pharmaceuticals, and other perishable items. Dansensor is a company in which we have been interested for a long time. Their MAP product line dovetails nicely with our offerings, and their international distributor channels will enable many of MOCON's new products to flow to major markets around the world without the necessity of setting up these distribution networks ourselves. Our two companies are very synergistic and an excellent fit with one another. The acquisition is expected to close in early April, 2012.

### Outlook for 2012

We look forward to 2012 and feel confident in our potential and the products and services we are putting forth. We thank our shareholders, employees and partners worldwide for their continued support and thank our customers for allowing us to support them in their own business growth.

Sincerely,



Robert L. Demorest

Chairman, President and Chief Executive Officer

April 9, 2012



*Our strong performance, track record and financial results continue to grow the value of our business for our shareholders.*

## UNCOVERING OPPORTUNITIES

*MOCON is well-positioned in a variety of unique markets. With a great product portfolio, innovative technologies, and exceptional employees and customers, we are excited about the Company's future.*

MOCON serves a wide variety of markets with several products lines. We share a few of the markets and uses from this past year.

### AQUATRAN® Extremely Low Level Moisture Testing

MOCON's AQUATRAN is the most sensitive water vapor permeation system available. This break-through technology targets products such as solar and fuel cells, ultra-high barrier films, and OLED displays (mobile phones, flat panel displays etc.) that are extremely vulnerable to even the lowest levels of moisture. Manufacturers now have access to instrumentation that offers up to ten times the measurement sensitivity previously available.

With this new system, it is now possible to measure water vapor transmission rates 1,000 times better and under varying temperature conditions. The AQUATRAN approach offers a method

by which material development progress can be accurately benchmarked.



Its performance capabilities makes the AQUATRAN ideally suited as a measurement instrument for new, commercial or developmental ultra high-barrier structures. These structures are being engineered to

push the barrier envelope. Therefore, accurate and extremely sensitive instrumentation is necessary to build performance statistics.

## MULTI-CHECK® Tests Several Parameters at Once

MOCON's MultiCheck instrument line offers a variety of instruments that test packages for quality and integrity. The MultiCheck 400, for example, targets coffee packaging with built-in degassing valves. Because coffee is packaged at elevated temperatures, the atmosphere within the package must cool down and its contents must out-gas. For the first time, there is an accurate and repeatable way to test performance of these packages.



Because four different tests are combined into one unit, this MultiCheck system significantly reduces time, labor and samples needed to conduct individual testing. Instead of destroying four different packages to conduct the same number of tests, a single package cycles through all of the analysis on one unit. First the oxygen headspace, followed by the pressure decay leak test, then a seal strength burst test, and finally the valve test which tests both the leak and the seal strength of the valve.

This is yet another example of how MOCON can help brand owners provide consumers with the freshest product possible.

## BevAlert® Tests the Purity of CO<sub>2</sub> Used in Beverage Production

The BevAlert Model 8900 is a specialized instrument utilized by specialty gas manufacturers and the food and beverage industry to monitor contaminants in CO<sub>2</sub> used in carbonated beverages (water, carbonated drinks, beer, etc.) as well as quick



frozen foods. Custom options are also available for indoor or outdoor air quality analysis, oil and gas exploration and other trace impurities in specialty gases.

The Series 8900 features a multi-purpose gas chromatograph designed to continuously monitor single or multiple gas components in a wide range of applications. This online instrument is used by companies to assure quality and safety of the beverage products they manufacture. Poor quality gas will affect the taste and safety of the final product. In some cases, poor quality carbonation gas has even led to recalls.

Traditionally, two separate units have been required to test CO<sub>2</sub> for the presence of acetaldehyde and BTEX (benzene, toluene, ethyl benzene and xylene) contaminants. The BevAlert Model 8900 is the leading analyzer used to detect the presence of both acetaldehyde and BTEX VOC's (volatile organic compounds) via one unit. The new unit allows plant operators to significantly reduce capital outlay for this type of instrumentation, while at the same time being able to detect even smaller contaminant levels of a wider range of gases.

## OpTech® O<sub>2</sub> Analyzer for Measuring Headspace, Dissolved Oxygen and Permeation

Oxygen in a package can adversely impact shelf life. The OpTech O<sub>2</sub> Analyzer is the ideal multi-purpose oxygen analyzer for beverage, pharmaceutical and food products where maintaining the integrity of the barrier is important.



OpTech uses a fluorescence-based system for measuring total package integrity. The platinum sensor "fluoresces" or gives off light in an amount

which is directly related to the amount of oxygen present in a package. This fluorescence can then be read optically making it ideal for non-destructive permeation analysis, headspace and dissolved oxygen analysis and leak determination. Coupled with a bar code and scanner, the technology can also be used to measure and report O<sub>2</sub> stability at various points in the distribution channel.

The OpTech's size and ease of operation makes it an effective tool for process validation, offering a fast determination of package headspace. Non-destructive readings, taken through the package wall allow easy tracking and provide precise information for transportation studies and real life conditions affecting shelf life.

The device also measures dissolved oxygen in beverages, liquid foods and liquid pharmaceuticals. The instrument can be used to measure both headspace and dissolved gas contents inside the same package giving a more precise picture of absolute oxygen concentration.

OpTech technology is just one more way MOCON helps leading brand owners protect their product integrity.

### **GreenLight® Series for Food Safety**

Since the recent enactment of the Food Safety Modernization Act, there is an even greater focus on this issue. With new protocols and steep penalties in place, the emphasis has now shifted from federal regulators responding to food contamination issues to preventing them in the first place.

While perishable food recalls are becoming a recurring evening news topic, it is critical that processors employ the latest testing technologies that will help keep the food supply safe.

The breakthrough GreenLight technology is the first to combine aerobic bacterial counts with fast results and high-volume throughput.

The GreenLight series was developed to provide precise, same-day results in a cost-effective manner. Depending on the bacterial load, results

can be obtained in a matter of minutes to 12 hours. This is more than ten times faster than the traditional agar plate or film methods, which typically require 48 to 72 hours to achieve a meaningful microbial count. Shorter testing cycles provide packers and processors with the potential of getting safe, perishable food items to the consumer in less time.



The GreenLight Model 930 is ideal for companies whose daily requirements for screening total plate counts (aerobic plate counts, APC, TPC, TVC) is above 25 assays per day.

### **Global Factors and Growth**

Long-term factors that will affect our markets for years to come point toward sustained growth. Prices for materials, food, chemicals, oil and energy paid by all manufacturers of packaging products and all consumers of non-durable goods will rise in the long-term.

The U.S. is the largest overall market for packaged products. These include food, beverages, healthcare, household chemicals, and medical/pharmaceutical products in terms of total volume, consumption, and the number of launches of new packaging products each year. This favors processors that are innovative, agile, and always trying to solve problems, making MOCON a logical resource.

Consumers around the world are fueling our international growth. Utilizing appropriate packaging structures to support product launches in emerging economies such as China, India, Russia and Brazil is critical. MOCON's products and services can provide valuable information, such as how climate, refrigeration availability and distribution channel variables will impact shelf life.

## Selected Quarterly Financial Data (Unaudited)

(In thousands, except per share data)

	Quarter			
	1st	2nd	3rd	4th
<b>2011</b>				
Sales	\$ 9,075	\$ 9,082	\$ 9,463	\$ 9,741
Gross profit	\$ 5,815	\$ 5,580	\$ 5,977	\$ 6,096
Net income	\$ 1,317	\$ 1,224	\$ 1,517	\$ 1,393
Net income per share:				
Basic	\$ 0.25	\$ 0.23	\$ 0.28	\$ 0.26
Diluted	\$ 0.24	\$ 0.22	\$ 0.27	\$ 0.25
<hr/>				
<b>2010</b>				
Sales	\$ 7,093	\$ 7,351	\$ 7,749	\$ 9,355
Gross profit	\$ 4,326	\$ 4,494	\$ 4,641	\$ 5,703
Net income	\$ 922	\$ 1,092	\$ 1,029	\$ 1,476
Net income per share:				
Basic	\$ 0.18	\$ 0.21	\$ 0.20	\$ 0.28
Diluted	\$ 0.17	\$ 0.20	\$ 0.19	\$ 0.27

Note: The sum of the quarterly amounts above may not agree with annual amounts due to rounding.

## Common Stock Information: Market for the Company's Common Stock and Related Stockholder Matters

As of March 12, 2012, there were approximately 250 record shareholders of the Company's common stock. The Company's common stock is quoted on the Nasdaq Global Market System under the symbol MOCO. The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Company's common stock as reported by the Nasdaq Global Market System and the amount of cash dividends declared on our common stock.

Q	2011			2010		
	High	Low	Dividend	High	Low	Dividend
1st	\$14.77	\$11.97	\$ .10	\$11.10	\$ 9.00	\$.095
2nd	\$15.49	\$13.91	\$ .10	\$12.60	\$10.00	\$.095
3rd	\$17.67	\$12.20	\$ .10	\$12.90	\$10.02	\$.095
4th	\$17.00	\$13.76	\$ .10	\$13.85	\$11.85	\$.095

This report contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding MOCON's expected growth and financial position, and other statements that can otherwise be identified by words such as "will," "may," "expect," "believe," "anticipate," "estimate," "continue," or other similar expressions. All forward-looking statements speak only as of the date of this report. MOCON undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. In addition to the risks and uncertainties of ordinary business operations and conditions in the general economy and the markets in which MOCON competes, there are important factors that could cause actual results to differ materially from those anticipated by the forward-looking statements made in this report. These factors include, but are not limited to, uncertainties relating to competition and technological change, worldwide economic and political stability, setbacks in product development programs, slower-than-anticipated customer acceptance of new products, dependence on certain key industries, risk associated with MOCON's acquisition strategy and international operations, and other factors set forth in MOCON's Annual Report on Form 10-K for the year ended December 31, 2011 and other filings with the Securities and Exchange Commission.

# Shareholder Information

## Company Headquarters

MOCON, Inc.  
7500 Mendelssohn Avenue North  
Minneapolis, Minnesota 55428 USA  
763-493-6370

## Independent Registered Public Accounting Firm

KPMG LLP  
Minneapolis, Minnesota

## Legal Counsel

Oppenheimer Wolff & Donnelly LLP  
Minneapolis, Minnesota

## Market Makers

UBS Securities LLC  
Wedbush Securities Inc.  
M. S. Howells & Co.  
Knight Capital Americas, L.P.  
Instinet, LLC

## Investor Relations Contact

Shareholders and prospective investors are welcome to call or write MOCON with questions or requests for information. Inquiries should be directed to Investor Relations at the Company Headquarters address.

## Common Stock

The common stock of MOCON is quoted on the Nasdaq Global Market System under the symbol MOCO.

## Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, May 24, 2012 at 4:00 P.M. (CDT), at the Company Headquarters:  
7500 Mendelssohn Avenue North  
Minneapolis, Minnesota 55428

## Form 10-K

A copy of the Company's annual report on Form 10-K accompanies this report and together they constitute MOCON's Annual Report to Shareholders.

## Transfer Agent

Inquiries concerning transfer requirements, stock holdings, dividend checks and change of address should be directed to:  
Wells Fargo Shareowner Services  
161 North Concord Exchange  
South St. Paul, MN 55075  
Website: [www.wellsfargo.com/shareownerservices](http://www.wellsfargo.com/shareownerservices)  
Toll-free phone number: 800-468-9716

## Board of Directors

Robert L. Demorest  
Chairman, President  
and Chief Executive Officer  
MOCON, Inc.

Daniel W. Mayer  
Executive Vice President  
and Chief Technology Officer  
MOCON, Inc.

J. Leonard Frame  
Chairman  
Phoenix Solutions Co.

Dean B. Chenoweth  
Retired Executive Vice  
President  
Advantek, Inc.

Richard A. Proulx  
Independent Consultant

Tom C. Thomas  
Partner  
Pillsbury Winthrop Shaw  
Pittman LLP

Donald N. DeMorett  
President and  
Chief Executive Officer  
GearGrid Corporation

Robert F. Gallagher  
Chief Financial Officer  
Stratasys, Inc.

## Executive Officers

Robert L. Demorest  
Chairman, President and  
Chief Executive Officer

Daniel W. Mayer  
Executive Vice President  
and Chief Technology Officer

Darrell B. Lee  
Vice President,  
Chief Financial Officer,  
Treasurer and Secretary

Douglas J. Lindemann  
Vice President and  
General Manager

Robert E. Forsberg  
President,  
Baseline-MOCON, Inc.

## Board of Directors



Board members are:

*From the left, Back Row*

Richard A. Proulx, Independent Consultant

Dean B. Chenoweth, Retired Executive Vice President, Advantek, Inc.

Robert L. Demorest, Chairman, President and Chief Executive Officer, MOCON, Inc.

Robert F. Gallagher, Chief Financial Officer, Stratasys, Inc.

J. Leonard Frame, Chairman, Phoenix Solutions Co.

Donald N. DeMorett, President and Chief Executive Officer, GearGrid Corporation

*Front Row*

Tom C. Thomas, Partner, Pillsbury Winthrop Shaw Pittman LLP

Daniel W. Mayer, Executive Vice President and Chief Technology Officer, MOCON, Inc.

**mocon<sup>®</sup>**

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