

MESA LABORATORIES INC /CO

Form 10-Q

August 15, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No: 0-11740

MESA LABORATORIES, INC.

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
Incorporation or organization)

84-0872291
(I.R.S. Employer
Identification number)

12100 West Sixth Avenue
Lakewood, Colorado
(Address of principal executive offices)

80228
(Zip Code)

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act, during the past 12 months and (2) has been subject to the 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date:

There were 3,281,791 shares of the Issuer's common stock, no par value, outstanding as of July 31, 2011.

Table of Contents

TABLE OF CONTENTS

| | |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u> | 1 |
| <u>ITEM 1. FINANCIAL STATEMENTS</u> | 1 |
| <u>BALANCE SHEETS</u> | 1 |
| <u>STATEMENTS OF INCOME</u> | 2 |
| <u>STATEMENTS OF CASH FLOWS</u> | 3 |
| <u>MESA LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS</u> | 4 |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 9 |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 14 |
| <u>ITEM 4T. CONTROLS AND PROCEDURES</u> | 14 |
| <u>PART II. OTHER INFORMATION</u> | 15 |
| <u>ITEM 1. LEGAL PROCEEDINGS</u> | 15 |
| <u>ITEM 1A. RISK FACTORS</u> | 15 |
| <u>ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 15 |
| <u>PART III. EXHIBITS AND SIGNATURES</u> | 16 |
| <u>ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K</u> | 16 |
| <u>SIGNATURES</u> | 17 |
| EXHIBIT 31.1 CERTIFICATIONS PURSUANT TO RULE 13A-14(A) | 18 |
| EXHIBIT 31.2 CERTIFICATIONS PURSUANT TO RULE 13A-14(A) | 19 |
| EXHIBIT 32.1 CERTIFICATIONS PURSUANT TO RULE 13A-14(B) AND 18 U.S.C SECTION 1350 | 20 |
| EXHIBIT 32.2 CERTIFICATIONS PURSUANT TO RULE 13A-14(B) AND 18 U.S.C SECTION 1350 | 21 |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MESA LABORATORIES, INC.****BALANCE SHEETS***(Dollars in Thousands)*

| | (Unaudited) JUNE 30, 2011 | MARCH 31, 2011 |
|---|------------------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 6,054 | \$ 3,546 |
| Accounts Receivable, Net | 6,543 | 7,041 |
| Inventories, Net | 5,377 | 5,714 |
| Prepaid Expenses and Other | 860 | 961 |
| TOTAL CURRENT ASSETS | 18,834 | 17,262 |
| PROPERTY, PLANT & EQUIPMENT, NET | 7,303 | 7,308 |
| OTHER ASSETS | | |
| Goodwill, Intangibles and Other, Net | 26,065 | 26,414 |
| TOTAL ASSETS | \$ 52,202 | \$ 50,984 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 778 | \$ 723 |
| Accrued Salaries & Payroll Taxes | 1,088 | 2,332 |
| Notes Payable - Current Portion | 1,000 | 1,000 |
| Revolving Line of Credit | 4,000 | 4,000 |
| Due To Apex Laboratories, Inc. | 600 | 600 |
| Other Accrued Expenses | 172 | 176 |
| Taxes Payable | 1,942 | 1,100 |
| TOTAL CURRENT LIABILITIES | 9,580 | 9,931 |
| LONG TERM LIABILITIES | | |
| Deferred Income Taxes Payable | 3,136 | 3,136 |
| Notes Payable - Long Term | 1,250 | 1,500 |
| STOCKHOLDERS EQUITY | | |
| Preferred Stock, No Par Value | | |
| Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,280,996 shares (6/30/11) and 3,250,736 shares (3/31/11) | 6,182 | 5,505 |
| Employee Loans to Purchase Stock | (353) | (437) |

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

| | | |
|--|------------------|------------------|
| Retained Earnings | 32,407 | 31,349 |
| TOTAL STOCKHOLDERS EQUITY | 38,236 | 36,417 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 52,202 | \$ 50,984 |

Table of Contents**MESA LABORATORIES, INC.****STATEMENTS OF INCOME***(UNAUDITED)**(Dollars in Thousands Except Earnings Per Share)*

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 |
|---|---|---|
| Sales | \$ 8,888 | \$ 7,455 |
| Cost of Goods Sold | 3,500 | 3,074 |
| Selling, General & Administrative | 2,287 | 1,944 |
| Research and Development | 408 | 223 |
| Other Expenses and (Income) | 50 | 12 |
| | 6,245 | 5,253 |
| Earnings Before Income Taxes | 2,643 | 2,202 |
| Income Taxes | 964 | 882 |
| Net Income | \$ 1,679 | \$ 1,320 |
| Net Income Per Share (Basic) | \$ 0.51 | \$ 0.41 |
| Net Income Per Share (Diluted) | \$ 0.49 | \$ 0.40 |
| Average Common Shares Outstanding (Basic) | 3,274 | 3,212 |
| Average Common Shares Outstanding (Diluted) | 3,414 | 3,308 |

Table of Contents**MESA LABORATORIES, INC.****STATEMENTS OF CASH FLOWS***(Dollars in Thousands)**(UNAUDITED)*

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net Income | \$ 1,679 | \$ 1,320 |
| Depreciation and Amortization | 541 | 417 |
| Stock Based Compensation | 96 | 66 |
| Gain on Loan Settlement | (13) | |
| Change in Assets and Liabilities- | | |
| (Increase) Decrease in Accounts Receivable, net | 498 | 537 |
| (Increase) Decrease in Inventories | 337 | (359) |
| (Increase) Decrease in Prepaid Expenses | 101 | 284 |
| Increase (Decrease) in Accounts Payable | 55 | (45) |
| Increase (Decrease) in Accrued Liabilities | (406) | 366 |
| Net Cash and Cash Equivalents Provided by Operating Activities | 2,888 | 2,586 |
| Cash Flows From Investing Activities: | | |
| Acquisition of Product Lines and Company | | (12,027) |
| Deposits | (26) | (7) |
| Capital Expenditures, Building | | (2,150) |
| Capital Expenditures, Net of Retirements | (161) | (196) |
| Net Cash and Cash Equivalents (Used) in Investing Activities | (187) | (14,380) |
| Cash Flows From Financing Activities: | | |
| Bank Borrowing, Net of Debt Payments | (250) | 4,193 |
| Dividends Paid | (394) | (351) |
| Treasury Stock Purchases | (27) | (7) |
| Proceeds From Stock Options Exercised | 478 | 29 |
| Net Cash and Cash Equivalents (Used) Provided by Financing Activities | (193) | 3,864 |
| Net Increase (Decrease) In Cash and Cash Equivalents | 2,508 | (7,930) |
| Cash and Cash Equivalents at Beginning of Period | 3,546 | 10,471 |
| Cash and Cash Equivalents at End of Period | \$ 6,054 | \$ 2,541 |
| Cash paid for Interest | \$ 54 | \$ 18 |

Supplemental disclosure of non-cash activity:

The Company issued employee loans totaling \$220 and \$307 for the purchase of common stock during the three month period ended June 30, 2011 and 2010, respectively. \$304 of loans previously outstanding were retired in the three month period ended June 30, 2011.

Table of Contents

MESA LABORATORIES, INC. NOTES TO FINANCIAL STATEMENTS

1. Summary of Accounting Policies

The summary of the Issuer's significant accounting policies are incorporated by reference to the Company's annual report on Form 10-K, at March 31, 2011.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations, financial position and cash flows. The results of the interim period are not necessarily indicative of the results for the full year.

Recently Adopted Accounting Pronouncements

In January 2010, the FASB updated the disclosure requirements for fair value measurements, codified in ASC Topic 820, *Fair Value Measurements and Disclosure*. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurement using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. We adopted the updated guidance on April 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which became effective for us beginning April 1, 2011. The adoption of the required guidance did not have an impact on our financial statements.

In July 2010, FASB issued a new pronouncement that requires enhanced disclosures regarding the nature of credit risk inherent in an entity's portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for those changes in the allowance for credit losses. The new disclosures will require information for both the financing receivables and the related allowance for credit losses at more disaggregated levels. Disclosures related to information as of the end of a reporting period became effective for Mesa in the fourth quarter of Fiscal 2011. Specific disclosures regarding activities that occur during a reporting period, such as the disaggregated roll forward disclosures, became required for Mesa beginning in the first quarter of Fiscal 2012. As these changes only relate to disclosures, they did not have an impact on Mesa's consolidated financial results.

2. Stock Based Compensation

We account for share-based compensation awards made to employees and directors using the fair value based methodology prescribed by ASC 718 Share-Based Payments (ASC 718). Compensation costs for award grants are valued at fair value and recognized on a straight line basis over the service periods of each award. We estimated forfeiture rates for the year based on historical experience.

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

Amounts recognized in the financial statements related to stock-based compensation are as follows:

| (Dollars in thousands except earnings per share) | Three Months Ended | | Three Months Ended | |
|---|---------------------------|------|---------------------------|------|
| | June 30, 2011 | | June 30, 2010 | |
| Total cost of stock-based compensation charged against income before income taxes | \$ | 96 | \$ | 66 |
| Amount of income tax benefit recognized in earnings | \$ | 35 | \$ | 25 |
| Amount charged against net income | \$ | 61 | \$ | 41 |
| Impact on net income per common share: | | | | |
| Basic | \$ | 0.02 | \$ | 0.01 |
| Diluted | \$ | 0.02 | \$ | 0.01 |

Table of Contents

Stock-based compensation expense was reflected as selling, general and administrative expense and cost of goods sold expense in the statements of income.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes). We use historical data to estimate the expected price volatility, the expected option life and expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The dividend yield is calculated based upon the dividend payments made during the prior four quarters as a percent of the average stock price for that period. The following assumptions were used to estimate the fair value of options granted during the first three months of fiscal 2012 and 2011 using the Black-Scholes model:

| | Three Months Ended June 30 | |
|------------------------------|----------------------------|------------|
| | 2011 | 2010 |
| Stock options: | | |
| Volatility | 33.4% | 36.2% |
| Risk-free interest rate | 2.24-3.56% | 2.04-3.89% |
| Expected option life (years) | 5-10 | 5-10 |
| Dividend yield | 1.74% | 1.78% |

A summary of the option activity for the first three months of fiscal 2012 is as follows:

| | Number of Shares | Weighted- average Exercise Price per Share | Weighted- average Remaining Contractual Term | Aggregate Intrinsic Value (000) |
|-------------------------------|---------------------|--|--|---------------------------------------|
| Outstanding at March 31, 2011 | 443,642 | \$ 20.10 | 4.0 | |
| Options granted | 97,780 | 29.20 | 6.2 | |
| Options forfeited | (3,200) | 25.33 | | |
| Options expired | (1,020) | 14.91 | | |
| Options exercised | (44,872) | 18.14 | | |
| Outstanding at June 30, 2011 | 492,330 | \$ 22.07 | 4.4 | \$ 4,687 |
| Exercisable at June 30, 2011 | 188,940 | \$ 18.90 | 3.4 | \$ 2,398 |

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first three months of fiscal 2012 was \$8.23, and \$7.66 in the first three months of fiscal 2011. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was \$495,000 and \$344,000 during the first three months of fiscal 2012 and 2011, respectively.

A summary of the status of our unvested option shares as of June 30, 2011 is as follows:

| | Number of Shares | Weighted-average Grant-Date Fair Value |
|----------------------------|---------------------|--|
| Unvested at March 31, 2011 | 291,425 | \$ 6.46 |

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

| | | | |
|---------------------------|----------|----|------|
| Options granted | 97,780 | \$ | 8.23 |
| Options forfeited | (2,805) | \$ | 7.33 |
| Options vested | (83,010) | \$ | 6.04 |
| Unvested at June 30, 2011 | 303,390 | \$ | 7.08 |

Table of Contents

As of June 30, 2011, there was approximately \$1,500,000 of total unrecognized compensation cost related to unvested share-based compensation granted under our plans. That cost is expected to be recognized over a weighted-average period of 2.8 years.

3. Related Party Transactions

On April 30, 2010, the Company purchased the building housing the facilities of SGM Biotech, Inc. for \$2,150,000 from Surreal, LLC. Surreal, LLC is owned by the former owners of SGM Biotech, Inc., which was acquired by the Company on April 27, 2010.

4. Net Income Per Common Share

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

The following table presents a reconciliation of the denominators used in the computation of net income per common share - basic and net income per common share - diluted for the three month periods ended June 30, 2011 and 2010:

| (Dollars in thousands except earnings per share) | Three Months Ended June 30 | | | |
|--|----------------------------|-------|----|-------|
| | | 2011 | | 2010 |
| Net income available for shareholders | \$ | 1,679 | \$ | 1,320 |
| Weighted avg. outstanding shares of common stock | | 3,274 | | 3,212 |
| Dilutive effect of stock options | | 140 | | 96 |
| Common stock and equivalents | | 3,414 | | 3,308 |
| Earnings per share: | | | | |
| Basic | \$ | 0.51 | \$ | 0.41 |
| Diluted | \$ | 0.49 | \$ | 0.40 |

For the three months ended June 30, 2011 and 2010, no shares and 119,000 shares for each period, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

5. Debt

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

To help finance the acquisition of Apex Laboratories, Inc., SGM Biotech, Inc., and the related building that houses the SGM Biotech facility, the Company entered into a credit facility consisting of a 36 month reducing line of credit for \$3,000,000 and maturing at April 27, 2013, which had a remaining principal balance of \$2,250,000 at June 30, 2011, and a revolving line of credit for \$4,000,000 maturing on September 24, 2011 and which was fully utilized at June 30, 2011. The 36 month reducing line of credit requires quarterly principal payments of \$250,000 beginning July 27, 2010 through maturity. In December 2010, the bank deferred the January 27, 2011 payment of \$250,000 until maturity at April 27, 2013, which allowed the Company to complete the acquisition of Apex Laboratories, Inc without further alteration of its existing credit facility. Both of these lines of credit are subject to a variable rate of interest and a rate floor, both of which were 3.25% at June 30, 2011. Both of these lines of credit also require monthly interest payments, are subject to restrictive covenants and are secured by most of the assets of the Company. The Company was in compliance with the restrictive covenants as of June 30, 2011. Currently, the Company has sufficient funds to repay the revolving line of credit of \$4,000,000 and expects to do so during this fiscal year.

Table of Contents**Future maturities on debt are as follows:**

| | |
|------------------|--------------|
| Fiscal Year 2012 | 4,750,000 |
| Fiscal Year 2013 | 1,000,000 |
| Fiscal Year 2014 | 500,000 |
| | \$ 6,250,000 |

6. Segment Data

The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information now codified as ASC 280. ASC 280 designates the internal reporting that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. ASC 280 also requires disclosure about products and sources, geographic areas and major customers. The Company aggregates its product lines as two reportable segments based on the similar characteristics and markets of our product lines.

Revenues related to operations in the U.S. and foreign countries for the three month periods ended June 30, 2011 and 2010 are presented below. Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported. Net revenues from unaffiliated customers and long-lived assets related to continuing operations in the U.S. and foreign countries as of June 30, 2011 and 2010 are as follows:

| (Dollars in thousands) | Quarter Ended June 30 | |
|---|-----------------------|----------------|
| | 2011 | 2010 |
| Net revenues from unaffiliated customers: | | |
| United States | \$ 5,493 | \$ 4,908 |
| Foreign (no country exceeds 10% of total) | 3,395 | 2,547 |
| | \$ 8,888 | \$ 7,455 |
| | | |
| | June 30, 2011 | June. 30, 2010 |
| Long-lived assets at end of quarter: | | |
| United States | \$ 33,368 | \$ 28,572 |

The following table summarizes total sales by product for the three month periods ended June 30:

| (Dollars in thousands) | Three Months Ended June 30 | |
|--------------------------|----------------------------|----------|
| | 2011 | 2010 |
| Instrumentation Products | \$ 4,339 | \$ 4,000 |
| Biological Indicators | 4,549 | 3,455 |
| Total Sales | \$ 8,888 | \$ 7,455 |

Table of Contents

Following is the Company's additional business segment information for June 30, 2011 and 2010:

| (Dollars in thousands) | Biological Indicators | Instrumentation Products | Total |
|------------------------------------|--------------------------|-----------------------------|-----------|
| Quarter Ended June 30, 2011 | | | |
| Revenue | \$ 4,549 | \$ 4,339 | \$ 8,888 |
| Operating Income | \$ 941 | \$ 1,752 | \$ 2,693 |
| Other (Income) and Expense | \$ 53 | \$ (3) | \$ 50 |
| Total Assets | \$ 32,164 | \$ 20,038 | \$ 52,202 |
| Capital Expenditures | \$ 99 | \$ 62 | \$ 161 |
| Depreciation | \$ 113 | \$ 52 | \$ 165 |
| Amortization | \$ 336 | \$ 40 | \$ 376 |
| Quarter Ended June 30, 2010 | | | |
| Revenue | \$ 3,455 | \$ 4,000 | \$ 7,455 |
| Operating Income | \$ 718 | \$ 1,496 | \$ 2,214 |
| Other (Income) and Expense | \$ 15 | \$ (3) | \$ 12 |
| Total Assets | \$ 25,708 | \$ 16,936 | \$ 42,644 |
| Capital Expenditures | \$ 2,266 | \$ 80 | \$ 2,346 |
| Depreciation | \$ 104 | \$ 63 | \$ 167 |
| Amortization | \$ 224 | \$ 26 | \$ 250 |

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

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

| | Key Financial Indicators | | | |
|--|---|-------------|-------------|-------------|
| | For The Three Months Ended June 30 | | | |
| | (Dollars in Thousands Except Earnings Per Share) | | | |
| | 2011 | 2010 | 2009 | 2008 |
| Cash and Investments | \$ 6,054 | \$ 2,541 | \$ 10,759 | \$ 6,390 |
| Trade Receivables Gross | \$ 6,851 | \$ 5,350 | \$ 3,748 | \$ 3,768 |
| Days Sales Outstanding | 67 | 58 | 66 | 63 |
| Inventory, Net | \$ 5,377 | \$ 5,936 | \$ 4,749 | \$ 4,498 |
| Inventory Turns | 2.6 | 2.1 | 1.7 | 1.7 |
| Working Capital | \$ 9,254 | \$ 8,769 | \$ 18,005 | \$ 13,571 |
| Current Ratio | 2:1 | 3:1 | 13:1 | 11:1 |
| Average Return On: | | | | |
| Stockholder Investments (1) | 18.0% | 16.6% | 14.7% | 16.8% |
| Assets | 12.9% | 13.8% | 13.7% | 15.7% |
| Invested Capital (2) | 18.1% | 18.8% | 22.1% | 22.2% |
| Net Sales | \$ 8,888 | \$ 7,455 | \$ 4,977 | \$ 5,054 |
| Gross Profit | \$ 5,388 | \$ 4,381 | \$ 2,983 | \$ 3,204 |
| Gross Margin Percent | 61% | 59% | 60% | 63% |
| Operating Income | \$ 2,693 | \$ 2,214 | \$ 1,608 | \$ 1,536 |
| Operating Margin | 30% | 30% | 32% | 30% |
| Net Profit | \$ 1,679 | \$ 1,320 | \$ 1,026 | \$ 1,016 |
| Net Profit Margin | 19% | 18% | 21% | 20% |
| Earnings Per Diluted Share | \$ 0.49 | \$ 0.40 | \$ 0.31 | \$ 0.31 |
| Earnings Before Income Tax, Depreciation and Amortization | \$ 3,184 | \$ 2,619 | \$ 1,800 | \$ 1,756 |
| Capital Expenditures, Net | \$ 161 | \$ 2,346 | \$ 29 | \$ 63 |
| Employees | 178 | 170 | 114 | 118 |
| Sales Per Employee(Annualized) | \$ 200 | \$ 175 | \$ 175 | \$ 171 |

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

Table of Contents

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

While we continually try to optimize the overall performance and trends, the table above does highlight various fluctuations within a relatively narrow range over the four year comparative periods. These fluctuations are usually influenced by strategic uses of resources. Most of the indicators above for the period ended June 30, 2011 are showing variations from the results of the past years. Our balance sheet levels have increased due to acquisitions in December 2009, April 2010 and December 2010 requiring the use of cash and the addition of debt. These activities have impacted some of the computed ratios including working capital. Factors currently impacting profitability include increased sales of higher margin instrumentation products, increased sales of biological indicator products, and increased amortization expense due to the recent acquisitions. Improvements in manufacturing efficiencies have also contributed to the results of the current fiscal quarter resulting in improved gross margins.

RESULTS OF OPERATIONS

Net Sales

Net sales for the first quarter of fiscal 2012 increased 19 percent from fiscal 2011. In real dollars, net sales of \$8,888,000 for the quarter increased \$1,433,000 from \$7,455,000 in 2011.

Our revenues come from two main sources, which include product revenues and parts and service revenues. Parts and service revenues are derived from on-going repair and recalibration or certification of our products. The certification or recalibration of product is usually a key component of the customer's own quality system and many of our customers operate in regulated industries, such as food processing or medical and pharmaceutical manufacturing. For this reason, these revenues tend to be fairly stable and grow slowly over time. Also, it is important to note that the Biological Indicator products are disposables and thus do not contribute to the Company's parts and service revenues. During the first three months of fiscal years 2012 and 2011 our Company had parts and service revenue of \$1,103,000 and \$1,009,000, respectively. As a percentage of total revenue, parts and service revenues were 12% in 2012 and 14% in 2011.

The performance of new product sales is dependent on several factors, including general economic conditions in the United States and abroad, capital spending trends and the introduction of new products. Although overall economic conditions remain soft this year we have seen an increase in our sales performance in total so far. We attribute this to the industries we serve which include various medical related markets, food processing and pharmaceuticals. Sales this year also increased due to the inclusion of a full quarter of sales from our SGM Biotech products which were acquired as of April 27, 2010. For the fiscal first three months of 2012 and 2011, product sales for our company were \$7,785,000 and \$6,446,000, respectively. Sales also increased in the first quarter of 2012 due to the acquisition of the Apex Laboratories, Inc. biological indicator line of products in late December 2010.

Due to the addition of SGM Biotech, Inc. and Apex Laboratories, Inc. in the last fiscal year, the company has changed its reporting to better reflect its two distinct business segments, Biological Indicator Products and Instrumentation Products. The Instrumentation Products are based at the Company's Lakewood, CO facility, while Biological Indicator Products are manufactured at our Bozeman, MT and Omaha, NE facilities. This segmentation provides a clearer picture of how changes in our product mix impact net sales and profitability, especially at the gross profit

level.

For the current fiscal quarter, Biological Indicator products sales have increased to \$4,549,000 or 32 percent from \$3,455,000 in the prior year period, and Instrumentation products have increased to \$4,339,000 or eight percent from \$4,000,000 in the prior year period. For the current quarter the increase in Biological Indicator products is chiefly due to the addition of the Apex Laboratories products in late December of last year, a full three months of reportable activity for the Bozeman operations, and comparable organic growth of 11 percent for the current quarter for our existing Omaha based products. During the current quarter, the increase in Instrumentation products and services were eight percent, and were due in the current quarter entirely to organic growth of existing products.

Table of Contents

Cost of Sales

Cost of sales as a percent of net sales during the first fiscal quarter decreased 1.8 percentage points from fiscal 2011 to 39.4 percent in the current quarter. Currently, Instrumentation products enjoy margins higher than the Biological Indicator products. Therefore, shifts in product mix toward higher sales of Instrumentation products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of Biological Indicator products will normally produce the opposite effect on cost of goods sold expense and gross margins. All production of Torqo products was moved to our Lakewood facilities in December 2010. Along with savings from materials acquisition costs, the reduced cost to manufacture the Torqo products in house has resulted in higher margins in fiscal 2012. All Lakewood based products as well as the Biological Indicator products have achieved lower cost of sales percents in the current fiscal quarter versus the prior year quarter.

Gross margins are generally consistent within a business segment. Within the Biological Indicator segment, the gross margins remained stable for the current fiscal year versus the prior year despite undergoing some one time costs to bring the Apex product production to Bozeman and on-going organizational changes to efficiently merge the Omaha and Bozeman businesses. While we anticipate a shift to a higher proportion of Biological Indicator sales to continue given our focus on this growing segment, we also expect the addition of the Apex brand of biological indicators, with their higher margins, to eventually result in the further improvement of gross margins for the biological indicator line of products.

Selling, General and Administrative

General and administrative expenses tend to be fairly fixed and stable from year-to-year. To the greatest extent possible, we work at containing and minimizing these costs. During fiscal 2012, we expect our general and administrative costs to stabilize after large increases in fiscal 2011 due to the addition of the SGM and Apex lines of product. Continuing additional costs expected during the current year include a full year of amortization of newly acquired intangible assets and higher personnel costs to support our growing businesses. For the fiscal first quarter, amortization was \$376,000 compared to \$250,000 for the same period last year. For the fiscal first quarter of 2012, total administrative costs were \$1,348,000 compared to \$1,107,000 for the same quarter last year.

Our selling and marketing costs tend to be far more variable in relation to sales, although there are various exceptions. Some of these exceptions include the introduction of new products and the mix of international sales to domestic sales. For a product line experiencing introduction of a new product, selling costs will tend to be higher as a percent of sales due to higher advertising costs and sales training programs. Our Company's international sales are usually discounted and recorded at the net discounted price, so that a change in the mix between international and domestic sales may influence sales and marketing costs. The acquisitions of the Torqo and SGM Biotech product lines had a significant impact on sales and marketing costs in fiscal 2011 which will continue in fiscal 2012. In dollars, selling costs were \$939,000 in the first fiscal quarter of 2012 and \$837,000 in the same prior year quarter. As a percent of sales, selling cost was 10.6% in the current quarter and 11.2% in the prior year quarter.

Research and Development

Company sponsored research and development cost was \$408,000 during the first fiscal quarter of 2012 and \$223,000 during the previous year period. We are currently executing a strategy of increasing the flow of internally developed products and we are continuing work that expands

our radio frequency technology into new data logging markets. The additions of the Torqo and SGM Biotech product lines are also adding to our current research and development spending.

Net Income

Net income increased 27 percent to \$1,679,000 or \$.49 per share on a diluted basis during the first fiscal quarter of 2012 compared to \$1,320,000 or \$.40 per share on a diluted basis in the previous year period. As previously discussed, sales have increased due to both internal growth and acquisitions with overall margins also increasing during the quarter. Other factors impacting net income during the quarter included the increases in general and administrative costs, sales and marketing costs, and research and development costs which are discussed above. As a percent of sales,

Table of Contents

these cost elements increased one percent to 30 percent from the comparable prior year period. We have added debt and interest expense due to our acquisitions of SGM Biotech and Apex Laboratories during the prior fiscal year. Additionally, we have experienced three month amortization expenses of approximately \$376,000 compared to \$250,000 in the prior year. For the first three months of fiscal 2012 net income margins have risen by 1.2 percentage points.

Liquidity and Capital Resources

On June 30, 2011, we had cash and cash equivalents of \$6,054,000. In addition, we had other current assets totaling \$12,780,000 with the total current assets being \$18,834,000. Current liabilities of our Company were \$9,580,000 which resulted in a current ratio of 2:1.

Our Company has made net capital acquisitions during the first fiscal quarter of \$161,000.

We have instituted 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 will be canceled and repurchases will be made with existing cash reserves. We do not maintain a set policy or schedule for our buyback program, but currently we are minimizing buybacks due to our lower cash and higher debt positions.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On June 15, 2011, a quarterly dividend of \$.12 per common share was paid to shareholders of record on May 31, 2011.

Our Company invests its surplus capital in various interest bearing instruments, including money market funds. All investments are fixed dollar investments with variable rates in order to minimize the risk of principal loss.

To finance acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for \$3,000,000 and maturing at April 27, 2013, which has a remaining principal balance of \$2,250,000 at June 30, 2011, and a revolving line of credit for \$4,000,000 of which \$4,000,000 was utilized as of June 30, 2011 and is currently due at September 24, 2011. Both of these lines are subject to a variable rate of interest and a rate floor, both of which are currently 3.25%. In December 2010 the bank agreed to suspend the regular payment of \$250,000 which was due January 27, 2011 until maturity at April 27, 2013. This action allowed the Company to complete the acquisition of Apex Laboratories products without further alteration of the credit facility. The Company does not guarantee the debt of any other entity. The Company has maintained a long history of surplus cash flow from operations. This surplus cash flow has been used in the past to fund acquisitions and stock buybacks and is currently being partially utilized to fund our on-going dividend and will be used to retire debt. We currently have sufficient surplus fund to retire the \$4,000,000 revolving line of credit, which we expect to do during this fiscal year. If interesting candidates come to our attention, we may choose to pursue new acquisitions.

Contractual Obligations

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

At June 30, 2011 we had contractual obligations for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. To help finance the acquisition of SGM Biotech, Inc., the Company entered into two separate credit facilities which require remaining principal payments of \$4,750,000, \$1,000,000 and \$500,000 in fiscal years 2012, 2013 and 2014, respectively. As part of the Apex Laboratories product line acquisition executed December 21, 2010, the Company is obligated to make two holdback payments of \$300,000 plus 2 percent per annum interest to Apex Laboratories in June and December of 2011. The June payment was made in early July for an amount of \$250,000. Currently, the remaining \$50,000 due in June is being withheld pending resolution of outstanding and guaranteed accounts receivable that were purchased in conjunction with the acquisition. It is expected that the remaining holdback amount of \$350,000 will be paid in December.

Table of Contents

Forward Looking Statements

All statements other than statements of historical fact included in this quarterly report regarding our Company's financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated, include but are not limited to general economic, financial and business conditions; competition in the data logging market; competition in the kidney dialysis market; competition in the fluid measurement market; competition in the biological indicator market; competition in the bottlecap torque testing market; the business abilities and judgment of personnel; the impacts of unusual items resulting from ongoing evaluations of business strategies; and changes in business strategy. We do not intend to update these forward looking statements. You are advised to review Item 1A. Risk Factors provided in our Company's most recent Form 10-K filing with the SEC for more information about risks that could affect the financial results of Mesa Laboratories, Inc.

Critical Accounting Policies and Estimates

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

We believe that there are several accounting policies that are critical to understanding the Company's historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, and valuation of long-lived assets. These policies, and the Company's procedures related to these policies, are described in detail below.

Revenue Recognition

We sell our products directly through our sales force and through distributors. Revenue from direct sales of our product is recognized upon shipment to the customer. Revenue from ongoing product service and repair is fully recognized upon completion and shipment of serviced product.

Accounts Receivable

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

in determining the allowance.

Research & Development Costs

Research and development activities consist primarily of new product development and continuing engineering on existing products. Costs related to research and development efforts on existing or potential products are expensed as incurred.

Valuation of Inventories

Inventories are stated at the lower of cost or market, using the first-in, first-out method (FIFO) to determine cost. The Company's policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a reserve for any inventory considered slow moving or obsolete.

Table of Contents

Valuation of Long-Lived Assets, Goodwill and Intangibles

The Company assesses the realizable value of long-lived assets, goodwill and intangibles for potential impairment at least annually or when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated fair value is less than its carrying value. In assessing the recoverability of our long-lived assets, goodwill and intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. In addition, we must make assumptions regarding the useful lives of these assets.

Stock Based Compensation

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

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles, generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any viable alternative would not produce a materially different result. See our audited financial statements and notes of the Annual Report on Form 10-K which contain accounting policies and other disclosures required by accounting principles, generally accepted in the United States of America.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks, currently all investments are in dollar denominated accounts, such as money market funds, with variable interest rates. In the normal course of business, we employ established policies and procedures to manage our exposure to changes in the market value of our investments.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our chief executive and chief financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this quarterly report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that material information relating to our company is made known to management, including our Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

Table of Contents**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during our first quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

None.

ITEM 1A. RISK FACTORS

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in our annual report on Form 10-K for the fiscal year ended March 31, 2011 under the heading Part I Item 1A. Risk Factors. There has been no material change in those risk factors.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

We made the following repurchases of our common stock, by month, within the first quarter of the fiscal year covered by this report: A majority of the payments for the June 2011 purchases were used to settle loans made to employees to exercise stock option purchases during fiscal 2011.

| | Shares Purchased | Avg. Price Paid | Total Shares Purchased as Part of Publicly Announced Plan | Remaining Shares to Purchase Under Plan |
|-------------------|------------------|-----------------|--|--|
| April 1-30, 2011 | 566 | \$ 29.20 | 132,008 | 167,992 |
| May 1-31, 2011 | 59 | \$ 30.75 | 132,067 | 167,933 |
| June 1-30, 2011 | 10,737 | \$ 31.76 | 142,804 | 157,196 |
| Total 1st Quarter | 11,362 | \$ 31.64 | | |

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

Edgar Filing: MESA LABORATORIES INC /CO - Form 10-Q

the Board. During the fiscal quarter ended June 30, 2011 the Company made repurchases of shares to settle loans made to exercise incentive stock options one year ago. Due to the non-cash nature of these transactions the Company acquired 11,362 shares of Mesa Laboratories, Inc. common stock at a net cash value of approximately \$27,000 during the quarter ended June 30, 2011.

Table of Contents

PART III. EXHIBITS AND SIGNATURES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following financial information from the quarterly report on Form 10-Q of Mesa Laboratories, Inc. for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Statements of Operations, (ii) Condensed Balance Sheets, (iii) Condensed Statements of Cash Flows, and (v) Notes to the Condensed Financial Statements.

b) Reports on Form 8-K:

On June 14, 2011, the Registrant filed a Report on Form 8-K, under Item 2.02, reporting the issuance of a press release reporting revenues and earnings for the fiscal year ended March 31, 2011.

Table of Contents

SIGNATURES

MESA LABORATORIES, INC.

JUNE 30, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MESA LABORATORIES, INC.

(Issuer)

DATED: August 15, 2011

BY: /s/ John J. Sullivan, Ph.D.
John J. Sullivan, Ph.D.
Chief Executive Officer,
President, Treasurer, and Director

DATED: August 15, 2011

BY: /s/ Steven W. Peterson
Steven W. Peterson
Vice President-Finance,
Chief Financial and Accounting Officer and Secretary