

MESA LABORATORIES INC /CO

Form 10-Q

November 05, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2013

TRANSITION REPORT PURSUANT TOSECTION 13 OR 15 (d) OF THE SECURITES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No: 0-11740

MESA LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

(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**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 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 this 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

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

There were 3,426,203 shares of the Issuer's common stock, no par value, outstanding as of October 29, 2013.

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Signatures

Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)

Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)

Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350

Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****Mesa Laboratories, Inc.****Condensed Balance Sheets**

(In thousands, except share amounts)

ASSETS			
Cash and cash equivalents	\$	3,424	\$ 4,006
Inventories, net		6,089	5,576
Total current assets		18,601	19,455
Property, plant and equipment, net		7,772	7,406
Goodwill		24,219	23,640
Total assets	\$	65,787	\$ 65,919
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	\$	1,344	\$ 1,010
Other accrued expenses		1,604	422
Total current liabilities		4,687	4,662
Deferred income taxes		2,364	2,364
Contingent consideration		2,164	2,140
Preferred stock, no par value			
Employee loans to purchase stock		(57)	(149)
Total stockholders' equity		56,572	52,753

Total liabilities and stockholders equity	\$	65,787	\$	65,919
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See accompanying notes to condensed financial statements.

Table of Contents**Mesa Laboratories, Inc.****Condensed Statements of Income**

(Unaudited)

(In thousands except per share data)

	Three months ended September 30,		Six months ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 12,676	\$ 11,706	\$ 23,894	\$ 22,266
Cost of revenues	5,076	4,458	9,497	8,562
Gross profit	7,600	7,248	14,397	13,704
Operating expenses				
Selling	1,419	1,072	2,502	2,074
General and administrative	3,136	2,169	5,222	4,023
Research and development	530	519	1,115	899
Total operating expenses	5,085	3,760	8,839	6,996
Operating income	2,515	3,488	5,558	6,708
Other Income (expense), net	423	(36)	395	(70)
Earnings before income taxes	2,938	3,452	5,953	6,638
Income taxes	1,006	1,204	2,161	2,290
Net income	\$ 1,932	\$ 2,248	\$ 3,792	\$ 4,348
Net income per share:				
Basic	\$ 0.57	\$ 0.67	\$ 1.11	\$ 1.30
Diluted	0.54	0.64	1.06	1.23
Weighted average common shares outstanding:				
Basic	3,412	3,349	3,403	3,343
Diluted	3,592	3,538	3,568	3,531

See accompanying notes to condensed financial statements.

Table of Contents**Mesa Laboratories, Inc.****Condensed Statements of Cash Flows**

(Unaudited)

(In thousands)

	Six months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 3,792	\$ 4,348
Depreciation and amortization	1,639	1,675
Gain on dispositions	(468)	
Deferred income taxes		
Stock-based compensation	357	438
Change in assets and liabilities, net of effects of acquisitions and dispositions		
Accounts receivable, net	1,383	(452)
Inventories, net	(475)	(282)
Prepaid expenses and other	(598)	134
Accounts payable	334	103
Accrued liabilities and taxes payable	(385)	(1,038)
Net cash flows provided by operating activities	5,579	4,926
Cash flows from investing activities:		
Acquisitions	(1,721)	(16,660)
Proceeds from dispositions	661	
Purchases of property, plant and equipment	(771)	(370)
Net cash used in investing activities	(1,831)	(17,030)
Cash flows from financing activities:		
Proceeds from the issuance of debt		11,000
Payments on debt	(4,000)	(3,000)
Dividends	(952)	(871)
Purchase and retirement of common stock	(15)	(57)
Proceeds from the exercise of stock options	637	613
Net cash (used in) provided by financing activities	(4,330)	7,685
Net decrease in cash and cash equivalents	(582)	(4,419)
Cash and cash equivalents at beginning of period	4,006	7,191
Cash and cash equivalents at end of period	\$ 3,424	\$ 2,772
Cash paid for:		
Income taxes	\$ 3,190	\$ 2,814
Interest		75
Supplemental non-cash activity:		
Employee loans issued for the exercise of stock options	\$	\$ 166
Repayment of employee loans for stock options	92	347
Contingent consideration as part of an acquisition		2,140

See accompanying notes to condensed financial statements.

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Mesa Laboratories, Inc.

Notes to Condensed Financial Statements

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

Description of Business

Mesa Laboratories, Inc. (we, us, our, the Company or Mesa) was incorporated under the laws of the State of Colorado on March 26, 1982. 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 two divisions across four 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, semiconductor and petrochemical industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide and radiation, in the hospital, dental, medical device and pharmaceutical industries.

Basis of Presentation

The accompanying condensed balance sheet as of March 31, 2013, has been derived from audited financial statements. The accompanying unaudited interim condensed financial statements have been prepared on the same basis as our annual audited financial statements and in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of this interim information. Operating results and cash flows for interim periods are not necessarily indicative of results that can be expected for the entire year. The information included in this report should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 31, 2013.

The summary of our significant accounting policies is incorporated by reference to our Annual Report on Form 10-K for the year ended March 31, 2013.

Recently Issued Accounting Pronouncements

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. This standard includes: 1) source literature amendments to conform the language between current accounting literature and legacy source literature; 2) clarification of guidance and reference corrections; and 3) relocation of guidance to a more appropriate location. The adoption of this standard did not have an impact on our financial statements or disclosures.

Note 2 Acquisitions and Dispositions

Acquisitions

On July 1, 2013, we completed a business combination (the Suretorque Acquisition) whereby we acquired essentially all of the assets of ST Acquisitions, LLC s (ST Acquisitions) business involving the design, manufacturing, sale and service of its SureTorque line of bottle cap torque testing instrumentation. The asset acquisition agreement (the Suretorque Agreement) includes a provision for a holdback payment, payable to the seller one year from the effective date less any losses incurred by the buyer, as defined.

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

The Suretorque 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 in accordance with the Suretorque Agreement (in thousands):

Cash consideration	\$	1,721
Aggregate consideration	\$	1,821

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The purchase price was allocated as follows:	
Property, plant and equipment	7