MESA LABORATORIES INC /CO
Form 10-Q
February 13, 2008

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended **December 31, 2007**

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT**

For the transition period from to

Commission File Number 0-11740

MESA LABORATORIES, INC.

(Exact Name of Small Business Issuer as Specified in its Charter)

COLORADO	**84-0872291**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
12100 WEST SIXTH AVENUE, LAKEWOOD, COLORADO	**80228**
(Address of Principal Executive Offices)	(Zip Code)

Issuer 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 x No o.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x

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

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

There were **3,165,437** shares of the Issuer s common stock, no par value, outstanding as of **December 31, 2007.**

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MESA LABORATORIES, INC.

BALANCE SHEETS

(UNAUDITED)

		DEC. 31, 2007		MARCH 31, 2007
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$	5,186,000	$	3,346,000
Accounts Receivable, Net		2,935,000		3,827,000
Inventories, Net		4,310,000		3,297,000
Prepaid Expenses and Other		409,000		372,000
TOTAL CURRENT ASSETS		12,840,000		10,842,000
PROPERTY, PLANT & EQUIPMENT, NET		3,621,000		3,521,000
OTHER ASSETS				
Goodwill, Intangibles and Other, Net		7,614,000		7,991,000
TOTAL ASSETS	$	24,075,000	$	22,354,000
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Accounts Payable	$	198,000	$	257,000
Accrued Salaries & Payroll Taxes		741,000		998,000
Other Accrued Expenses		60,000		95,000
Taxes Payable		91,000		119,000
TOTAL CURRENT LIABILITIES		1,090,000		1,469,000
LONG TERM LIABILITIES				
Deferred Income Taxes Payable		162,000		162,000
STOCKHOLDERS EQUITY				
Preferred Stock, No Par Value				
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,165,437 shares (12/31/07) and 3,178,401 shares (3/31/07)		4,670,000		4,646,000
Retained Earnings		18,153,000		16,077,000
TOTAL STOCKHOLDERS EQUITY		22,823,000		20,723,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	24,075,000	$	22,354,000

MESA LABORATORIES, INC.

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended Dec. 31, 2007	Three Months Ended Dec. 31, 2006
Sales	$ 4,614,000	$ 4,095,000
Cost of Goods Sold	1,527,000	1,633,000
Selling, General & Administrative	1,263,000	1,108,000
Research and Development	136,000	94,000
Other (Income) and Expenses	(54,000)	(36,000)
	2,872,000	2,799,000
Earnings Before Income Taxes	1,742,000	1,296,000
Income Taxes	621,000	478,000
Net Income	$ 1,121,000	$ 818,000
Net Income Per Share (Basic)	$ .35	$ .26
Net Income Per Share (Diluted)	$ .34	$ .25
Average Common Shares Outstanding (Basic)	3,165,000	3,177,000
Average Common Shares Outstanding (Diluted)	3,292,000	3,273,000

MESA LABORATORIES, INC.

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Nine Months Ended Dec. 31, 2007	Nine Months Ended Dec. 31, 2006
Sales	$ 13,768,000	$ 11,956,000
Cost of Goods Sold	4,494,000	4,427,000
Selling, General & Administrative	3,813,000	3,379,000
Research and Development	337,000	296,000
Other (Income) and Expenses	(150,000)	(104,000)
	8,494,000	7,998,000
Earnings Before Income Taxes	5,274,000	3,958,000
Income Taxes	1,859,000	1,438,000
Net Income	$ 3,415,000	$ 2,520,000
Net Income Per Share (Basic)	$ 1.08	$ .80
Net Income Per Share (Diluted)	$ 1.04	$ .78
Average Common Shares Outstanding (Basic)	3,168,000	3,156,000
Average Common Shares Outstanding (Diluted)	3,285,000	3,232,000

MESA LABORATORIES, INC.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended Dec. 31, 2007	Nine Months Ended Dec. 31, 2006
Cash Flows From Operating Activities:		
Net Income	$ 3,415,000	$ 2,520,000
Depreciation and Amortization	581,000	495,000
Stock Based Compensation	186,000	168,000
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable	892,000	291,000
(Increase) Decrease in Inventories	(1,013,000)	(484,000)
(Increase) Decrease in Prepaid Expenses	(37,000)	168,000
Increase (Decrease) in Accounts Payable	(59,000)	(85,000)
Increase (Decrease) in Accrued Liabilities	(320,000)	(221,000)
Net Cash (Used) Provided by Operating Activities	3,645,000	2,852,000
Cash Flows From Investing Activities:		
Short-term Investments Redeemed		1,245,000
Purchase of Business		(2,972,000)
Capital Expenditures, Net of Retirements	(304,000)	(1,720,000)
Net Cash (Used) Provided by Investing Activities	(304,000)	(3,447,000)
Cash Flows From Financing Activities:		
Dividends Paid	(824,000)	(1,017,000)
Treasury Stock Purchases	(779,000)	(259,000)
Proceeds From Stock Options Exercised	102,000	82,000
Net Cash (Used) Provided by Financing Activities	(1,501,000)	(1,194,000)
Net Increase (Decrease) In Cash and Cash Equivalents	1,840,000	(1,789,000)
Cash and Cash Equivalents at Beginning of Period	3,346,000	4,466,000
Cash and Cash Equivalents at End of Period	$ 5,186,000	$ 2,677,000

Supplemental disclosure of non-cash activity:

MESA LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A. 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 10KSB, at March 31, 2007.

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.

NOTE B. STOCK BASED COMPENSATION

Effective April 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25).

We adopted the modified prospective transition method of applying SFAS 123(R) which requires the application of the standard as of April 1, 2006 and requires us to record compensation cost related to unvested stock options as of April 1, 2006, by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after April 1, 2006 are valued at fair value in accordance with the provisions of SFAS 123(R) and recognized on a straight line basis over the service periods of each award. We estimated forfeiture rates for the quarter based on historical experience.

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

	Three Months Ended Dec. 31, 2007	Three Months Ended Dec. 31, 2006	Nine Months Ended Dec. 31, 2007	Nine Months Ended Dec. 31, 2006
Total cost of stock-based compensation	$ 66,000	$ 47,000	$ 186,000	$ 168,000
Amount capitalized in inventory and property and equipment				
Amounts charged against income, before income taxes	66,000	47,000	186,000	168,000
Amount of income tax benefit recognized in earnings	23,000	17,000	65,000	61,000
Amount charged against net income	$ 43,000	$ 30,000	$ 121,000	$ 107,000
Impact on net income per common share:				
Basic	$ 0.01	$ 0.01	$ 0.04	$ 0.03
Diluted	$ 0.01	$ 0.01	$ 0.04	$ 0.03

Stock-based compensation expense was reflected as Selling, general and administrative expense in the statement of operations for the third quarter and first nine months of fiscal 2008 and 2007.

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 third quarter and first nine months of fiscal 2008 and 2007 using the Black-Scholes model:

	Three Months Ended Dec. 31,		Nine Months Ended Dec. 31,	
	2007	2006	2007	2006
Stock options:				
Volatility	33%	34%	33-36%	34-39%
Risk-free interest rate	4.0-4.6%	4.70%	4.0-5.1%	4.7-5.1%
Expected option life (years)	5-10	5	5-10	5-10
Dividend yield	2.9%	3.4%	2.1-2.9%	3.4-3.7%

A summary of the option activity for the first nine months of fiscal 2008 is as follows:

	Number of Shares		Weighted-average Exercise Price per Share	Weighted-average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at March 31, 2007	259,390	$	12.32	4.9		
Options granted	118,920		19.23	6.4		
Options forfeited	(16,955)		16.21			
Options expired						
Options exercised	(31,555)		9.94			
Outstanding at Dec. 31, 2007	329,800	$	14.84	5.3	$	3,352,000
Exercisable at Dec. 31, 2007	90,550	$	10.71	3.9	$	1,294,000

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first nine months of fiscal 2008 was $19.23 and $14.69 in the first nine months of fiscal 2007. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was $475,000 and $367,000 during the first nine months of fiscal 2008 and 2007, respectively.

A summary of the status of our unvested options as of December 31, 2007 is as follows:

	Number of Shares		Weighted-average Grant-Date Fair Value
Unvested at March 31, 2007	196,020	$	13.11
Options granted	118,920	$	19.23
Options forfeited	(16,955)	$	16.21
Options vested	(58,735)	$	11.23
Unvested at Dec. 31, 2007	239,250	$	16.40

As of December 31, 2007, there was $977,000 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 3.5 years.

NOTE C. <u>NET INCOME PER COMMON SHARE</u>

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 potential 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 and nine month periods ended December 31, 2007 and 2006:

	Three Months Ended Dec. 31, 2007	Three Months Ended Dec. 31, 2006	Nine Months Ended Dec. 31, 2007	Nine Months Ended Dec. 31, 2006
Net income available for shareholders	$ 1,121,000	$ 818,000	$ 3,415,000	$ 2,520,000
Weighted avg. outstanding shares of common stock	3,165,000	3,177,000	3,168,000	3,156,000
Dilutive effect of stock options	127,000	96,000	117,000	76,000
Common stock and equivalents	3,292,000	3,273,000	3,285,000	3,232,000
Earnings per share:				
Basic	$ .35	$ .26	$ 1.08	$ .80
Diluted	$ .34	$ .25	$ 1.04	$ .78

At December 31, 2007 and 2006, no shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

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 Nine Months Ended Dec. 31,

	2007	**2006**	**2005**	**2004**
Cash and Investments	$ 5,186,000	$ 2,677,000	$ 5,526,000	$ 6,624,000
Trade Receivables	$ 3,137,000	$ 3,143,000	$ 1,958,000	$ 1,622,000
Days Sales Outstanding	60	70	60	57
Inventory	$ 4,310,000	$ 3,434,000	$ 2,355,000	$ 2,057,000
Inventory Turns	1.6	1.7	1.8	1.8
Working Capital	$ 11,750,000	$ 8,380,000	$ 9,376,000	$ 9,911,000
Current Ratio	12:1	9:1	14:1	16:1
Average Return On:				
Stockholder Investment (1)	20.9%	19.4%	17.6%	15.2%
Assets	19.6%	17.9%	16.4%	14.4%
Invested Capital (2)	25.8%	25.0%	29.2%	26.4%
Net Sales	$ 13,768,000	$ 11,956,000	$ 8,143,000	$ 7,406,000
Gross Profit	$ 9,274,000	$ 7,529,000	$ 5,195,000	$ 4,620,000
Gross Margin	67%	63%	64%	62%
Operating Income	$ 5,124,000	$ 3,854,000	$ 2,882,000	$ 2,606,000
Operating Margin	37%	32%	35%	35%
Net Profit	$ 3,415,000	$ 2,520,000	$ 1,978,000	$ 1,736,000
Net Profit Margin	25%	21%	24%	23%
Earnings Per Diluted Share	$ 1.04	$ .78	$ .64	$ .55
Capital Expenditures (Net)	$ 304,000	$ 1,720,000	$ 86,000	$ 8,000
Head Count	108.0	95.0	50.5	48.5
Sales Per Employee (Annualized)	$ 170,000	$ 168,000	$ 215,000	$ 204,000

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

(2) Average return on invested capital (invested capital = total assets - current liabilities - cash and short-term investments) is calculated by dividing total 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 exceptions. These exceptions are usually influenced by a more important need and the trade-off of resources. Most of the indicators above for the period ended December 31, 2007 are showing variation from the trends of the past years. Our sales, profitability and various return trends are improving due to the Raven acquisition a year ago. Our key balances, such as, cash, accounts receivables, inventory and working capital are also growing due to the Raven acquisition, but the related ratios are showing some decline due to the growth, but these ratios are improving as the fiscal year progresses.

Results of Operations

Net Sales

Net sales for the third quarter of fiscal 2008 increased 13 percent from fiscal 2007. In real dollars, net sales of $4,614,000 in fiscal 2008 increased $519,000 from $4,095,000 in 2007.

Net sales for the first nine months of fiscal 2008 increased 15 percent from fiscal 2007. In real dollars, net sales of $13,768,000 in fiscal 2008 increased $1,812,000 from $11,956,000 in 2007.

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 processing. For this reason, these revenues tend to be fairly stable and grow slowly over time. Also, it is important to note that the Raven products are disposables and thus do not contribute to the Company s parts and service revenues. During the first nine months of fiscal years 2008 and 2007 our Company had parts and service revenue of $2,534,000 and $2,399,000. As a percentage of total revenue, parts and service revenues were 18% in 2008 and 20% in 2007. Overall, Service and parts revenues grew six percent for the first nine months compared to the prior year period.

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. Over the past several fiscal years, general economic conditions have been improving, and capital spending has also been increasing, but the economy is currently showing some weakness. In the past two years we have added the new 90XL Dialysate Meter to our medical line of products. In addition, we have added the Raven line of biological indicators as of early May, 2006. For the first nine months of fiscal 2008 and 2007, product sales for our company were $11,234,000 and $9,557,000. Overall, new product revenues grew 18 percent for the first nine months compared to the prior year period.

Over the fiscal third quarter, our medical revenues were unchanged compared to the prior period, while over the first nine month period we experienced an increase of nine percent compared to the same period one year ago. For the quarter, small increases of shipments in the meter product line and parts and service were off-set by a decrease in Echo Reprocessors which were discontinued earlier in the fiscal year. The increase for the nine month period was due chiefly to higher sales of the Company s dialysate meters and standard solution products. Overall, our dialysis products continue to enjoy wide spread acceptance with the major dialysis providers in the U.S.

During the fiscal third quarter, sales of the Datatrace brand of products increased 46 percent from the prior year, and for the first nine months sales increased 17 percent compared to prior year. The increase in DataTrace sales during the quarter reflects higher shipments of Micropack III temperature and humidity units and an increase in rental revenues. The increase for the nine month period is attributable chiefly to higher Micropack III temperature units and higher service revenues.

The Raven biological indicator products were acquired on May 4, 2006. For this reason, sales of the company s Raven biological indicator products for the first nine months of the fiscal year benefited from five extra weeks of sales when compared to the prior year period, and were up 27 Percent. Sales of Raven products for the third fiscal quarter, which were fully comparable to last year results, increased two percent compared to last year. While order volumes remained strong during the recent quarter, shipments did not keep up with orders due to heavier order volumes late in the quarter and some disruption to manufacturing and shipments due to facility upgrades that were performed the last week of the quarter.

Cost of Sales

Cost of sales as a percent of net sales during the third fiscal quarter decreased 6.8 percent from fiscal 2007 to 33.1 percent. For the first nine month period, cost of sales decreased 4.4 percent from the prior fiscal year to 32.6 percent.

Due to the fact that the dialysis products have sales concentrations to several companies that maintain large chains of treatment centers, the products that are sold to the renal market tend to be slightly more price sensitive than the data logging products. Therefore, shifts in product mix toward higher sales of Datatrace logging products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of medical products will normally produce the opposite effect on cost of goods sold expense and gross margins.

Over the current fiscal quarter, our Company experienced higher quarterly sales performance compared to prior year. In addition, we experienced higher gross margins due to the significant increase in DataTrace sales during the most recent quarter.

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. Total administrative costs were $575,000 in the current quarter compared $474,000 for the same quarter last year, and for the first nine month period administrative costs were $1,652,000 compared to $1,478,000 for the comparable period last year. Most of the additional cost in the first nine months of fiscal 2008 was due to the cost of five additional weeks of operation of Raven when compared to the same period last year. For the current quarter, costs increased due to an increase in compensation costs. In addition, we incurred approximately $44,000 of consulting costs associated to our ongoing Sarbanes-Oxley Section 404 compliance project. For the remainder of the current fiscal year, we expect administration costs to be increased. Over the remainder of the fiscal year, we expect to incur approximately $50,000 of additional consulting costs for Sarbanes-Oxley Act compliance work, and we expect to add to our accounting staff by one additional person.

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, 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 mix between international and domestic sales may influence sales and marketing costs. One other major influence on sales and marketing costs is the mix of domestic medical sales to all other domestic sales. Domestic medical sales are made by direct telemarketing representatives, which gives us a lower cost structure, when compared to the direct and distributor sales channels utilized by our other products.

During the first quarter of fiscal 2006 the company began the process of converting the domestic distribution of its DataTrace products from independent manufacturer representatives to our own direct sales force. This change gave us increased sales effort and better control of the selling effort. To execute this strategy, we added two new direct sales representatives to our staff and converted a sales management position to a field sales representative position in fiscal 2006. After experiencing some initial turnover in our staff through fiscal 2007, we have fully staffed all of our domestic sales positions during the first quarter of fiscal 2008. We expect this increase in staff to further increase our sales over the remainder of the fiscal year.

In dollars, selling costs were $688,000 in the third fiscal quarter and $634,000 in the same prior year quarter, and for the first nine months of the fiscal year selling costs were $2,161,000 compared to $1,901,000 in the same period last year. As a percent of sales, selling cost was 14.9% in the current quarter compared to 15.5% in the prior year quarter, and 15.7% in the current nine month period compared to 15.9% for the same period last year. During the current fiscal quarter, most of the dollar increase in selling expense was due to increased sales force staffing levels. In addition, the nine month period was affected by five additional weeks of Raven selling expenses when compared to the prior year.

On October 1, 2007, the Company announced that Mr. Glenn Adriance had accepted the position of Vice President of Sales and Marketing. The addition of Mr. Adriance allows Mr. Sullivan, President and COO, to concentrate his efforts on the broader management, strategy and development of the Company, including its product development and acquisition efforts. The addition of Mr. Adriance is also expected to strengthen the Company s abilities in sales and sales management as it continues to shift to a direct sales model in the domestic market and expands its international distribution network. To help compensate for the cost of this position the company has decided to eliminate a marketing management position that was recently vacated through attrition.

Research and Development

Company sponsored research and development cost was $136,000 during the third fiscal quarter and $94,000 during the previous year period. For the first nine months of the current fiscal year, research and development costs were $337,000 compared to $296,000 for the same period last year. We are currently trying to execute a strategy of increasing the flow of internally developed products. To accommodate this strategy, we expect to evaluate our staffing levels in this area over the remainder of the fiscal year for the possible addition of resources.

Currently, we are working on a project to develop a new line of products within our Datatrace family of products, which is nearing completion. If successfully developed, these products would be expected to complement our existing products. We are in the early stages of a second project that will upgrade an older portion of our line of dialysis meters.

Net Income

Net income increased 37 percent to $1,121,000 or $.34 per share on a diluted basis during the quarter from $818,000 or $.25 per share on a diluted basis in the previous year period. For the first nine months of the fiscal year, net income has increased 36 percent to $3,415,000 or $1.04 per diluted share compared to $2,520,000 or $.78 per diluted share in the same period last year. The net income increase for both the three and nine month periods was due primarily to the increase in total revenues, increased gross margins for our medical and DataTrace products, as well as the contribution to sales of the new products acquired from Raven.

Liquidity and Capital Resources

On December 31, 2007, we had cash and short term investments of $5,186,000. In addition, we had other current assets totaling $7,654,000 and total current assets of $12,840,000. Current liabilities of our Company were $1,090,000 which resulted in a current ratio of 12:1.

Our Company has made capital acquisitions during the first nine months of the fiscal year of $304,000. In addition, the Company has commitments for the remainder of the fiscal year of approximately $340,000 of additional capital spending for automation of certain manufacturing processes for its Raven line of biological indicators.

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.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On June 15, 2007, a quarterly dividend of $.08 per common share was paid to shareholders of record on May 21, 2007, and on September 14, 2007, a quarterly dividend of $.08 per common share was paid to shareholders of record on August 23, 2007. On November 11, 2007 the Board increased the quarterly dividend by 25 percent to $.10 per common share, which was paid on December 14, 2007 to shareholders of record on November 26, 2007.

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.

The Company does not currently maintain a line of credit or any other form of debt. Nor does the Company 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. If interesting candidates come to our attention, we may choose to pursue new acquisitions.

Contractual Obligations

At December 31, 2007 the Company had a commitment for approximately $340,000 of additional capital spending for automation of certain manufacturing processes for its Raven line of biological indicators. Our only other contractual obligations were open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year.

Forward Looking Statements

All statements other than statements of historical fact included in this annual 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; 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 the Additional Cautionary Statements provided in our Company s most recent Form 10-KSB 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.

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.

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.

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 thereto which begin at Item 7. Financial Statements of the Annual Report on Form 10-KSB 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 4. Controls and Procedures

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

There have been no changes in the Company s internal controls over financial reporting during the quarter ended December 31, 2007 identified in connection with the Company s evaluation that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

Management currently believes that once it has completed its review of internal controls, as mandated by Section 404 of the Sarbanes-Oxley Act of 2002, that certain control weaknesses will be identified, including the inability of management to properly segment accounting duties due to the limited size of its accounting staff. Due to the constraints of the Company s size, management may discover other similar areas of potential control weaknesses as its review and documentation of internal controls proceeds.

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-KSB for the fiscal year ended March 31, 2007 under the heading Part I Item 6. Additional Cautionary Statements. 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 third quarter of the fiscal year covered by this report:

	Shares Purchased	Avg. Price Paid	Total Share Purchased as Part of Publicly Announced Plan	Remaining Shares to Purchase Under Plan
Oct. 1-31, 2007	5,097	$ 20.03	99,264	200,736
Nov. 1-30, 2007	3,149	$ 20.00	102,413	197,587
Dec. 1-31, 2007	3,302	$ 23.79	105,715	194,285
Total 2nd Quarter	11,548	$ 21.16		

On November 7, 2005, the Board of Directors of Mesa Laboratories, Inc. adopted a share repurchase plan which allows for the repurchase of up 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 the Board.

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

b) Reports on Form 8-K:

On November 7, 2007, 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 quarter ended September 30, 2007.

MESA LABORATORIES, INC.

DECEMBER 31, 2007

SIGNATURES

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: February 14, 2008	BY: /s/ Luke R. Schmieder Luke R. Schmieder Chief Executive Officer, Treasurer and Chairman of the Board of Directors
DATED: February 14, 2008	BY: /s/ Steven W. Peterson Steven W. Peterson Vice President-Finance, Chief Financial and Accounting Officer and Secretary