

MESA LABORATORIES INC /CO  
Form 10QSB  
November 14, 2005

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**U.S. Securities and Exchange Commission**

**Washington, D.C. 20549**

**Form 10-QSB**

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

For the quarterly period ended September 30, 2005

OR

**.. 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**  
(State or other Jurisdiction of  
Incorporation or Organization)

**84-0872291**  
(I.R.S. Employer  
Identification No.)

**12100 WEST SIXTH AVENUE, LAKEWOOD, COLORADO**  
(Address of Principal Executive Offices)

**80228**  
(Zip Code)

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

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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 .

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

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

There were 2,942,279 shares of the Issuer's common stock, no par value, outstanding as of September 30, 2005.

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**ITEM 1. FINANCIAL STATEMENTS****MESA LABORATORIES, INC.****BALANCE SHEETS**

(UNAUDITED)

	<b>SEPT 30,</b>	<b>MARCH 31,</b>
	<b>2005</b>	<b>2005</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,317,000	\$ 4,978,000
Short-term Investments	1,798,000	1,904,000
Accounts Receivable, Net	2,122,000	1,992,000
Inventories	2,262,000	1,941,000
Prepaid Expenses and Other	230,000	308,000
	<u>          </u>	<u>          </u>
<b>TOTAL CURRENT ASSETS</b>	<b>10,729,000</b>	<b>11,123,000</b>
<b>PROPERTY, PLANT &amp; EQUIPMENT, NET</b>	<b>1,280,000</b>	<b>1,265,000</b>
<b>OTHER ASSETS</b>		
Goodwill and Other	4,208,000	4,208,000
	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b>\$ 16,217,000</b>	<b>\$ 16,596,000</b>
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 358,000	\$ 262,000
Accrued Salaries & Payroll Taxes	437,000	558,000
Other Accrued Expenses	77,000	90,000
Taxes Payable	45,000	72,000
	<u>          </u>	<u>          </u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>917,000</b>	<b>982,000</b>
<b>LONG TERM LIABILITIES</b>		
Deferred Income Taxes Payable	235,000	235,000
	<u>          </u>	<u>          </u>
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock, No Par Value		
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 2,942,279 shares (9/30/05) and 3,038,822 shares (3/31/05)	1,230,000	1,335,000
Retained Earnings	13,835,000	14,044,000
	<u>          </u>	<u>          </u>
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>15,065,000</b>	<b>15,379,000</b>
	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 16,217,000</b>	<b>\$ 16,596,000</b>
	<u>          </u>	<u>          </u>

**ITEM 1. FINANCIAL STATEMENTS (CONTINUED)****MESA LABORATORIES, INC.****STATEMENTS OF OPERATIONS**

(UNAUDITED)

	<b>Three Months Ended Sept. 30, 2005</b>	<b>Three Months Ended Sept. 30, 2004</b>
Sales	\$ 2,961,000	\$ 2,337,000
Cost of Goods Sold	999,000	886,000
Selling, General & Administrative	716,000	556,000
Research and Development	75,000	76,000
Other (Income) and Expenses	(48,000)	(22,000)
	<u>1,742,000</u>	<u>1,496,000</u>
Earnings Before Income Taxes	1,219,000	841,000
Income Taxes	418,000	293,000
Net Income	<u>\$ 801,000</u>	<u>\$ 548,000</u>
Net Income Per Share (Basic)	<u>\$ .27</u>	<u>\$ .18</u>
Net Income Per Share (Diluted)	<u>\$ .26</u>	<u>\$ .17</u>
Average Common Shares Outstanding (Basic)	<u>3,015,000</u>	<u>3,072,000</u>
Average Common Shares Outstanding (Diluted)	<u>3,101,000</u>	<u>3,176,000</u>

**ITEM 1. FINANCIAL STATEMENTS (CONTINUED)****MESA LABORATORIES, INC.****STATEMENTS OF OPERATIONS**

(UNAUDITED)

	<b>Six Months Ended Sept. 30, 2005</b>	<b>Six Months Ended Sept. 30, 2004</b>
Sales	\$ 5,401,000	\$ 4,876,000
Cost of Goods Sold	1,901,000	1,822,000
Selling, General & Administrative	1,376,000	1,118,000
Research and Development	164,000	170,000
Other (Income) and Expenses	(87,000)	(37,000)
	<u>3,354,000</u>	<u>3,073,000</u>
Earnings Before Income Taxes	2,047,000	1,803,000
Income Taxes	706,000	629,000
Net Income	<u>\$ 1,341,000</u>	<u>\$ 1,174,000</u>
Net Income Per Share (Basic)	<u>\$ .44</u>	<u>\$ .38</u>
Net Income Per Share (Diluted)	<u>\$ .43</u>	<u>\$ .37</u>
Average Common Shares Outstanding (Basic)	<u>3,026,000</u>	<u>3,072,000</u>
Average Common Shares Outstanding (Diluted)	<u>3,113,000</u>	<u>3,167,000</u>

**ITEM 1. FINANCIAL STATEMENTS (CONTINUED)****MESA LABORATORIES, INC.****STATEMENTS OF CASH FLOWS**

(UNAUDITED)

	<b>Six Months Ended Sept. 30, 2005</b>	<b>Six Months Ended Sept. 30, 2004</b>
<b>Cash Flows From Operating Activities:</b>		
Net Income	\$ 1,341,000	\$ 1,174,000
Depreciation and Amortization	46,000	47,000
<b>Change in Assets and Liabilities-</b>		
(Increase) Decrease in Accounts Receivable	(130,000)	73,000
(Increase) Decrease in Inventories	(321,000)	56,000
(Increase) Decrease in Prepaid Expenses	78,000	(33,000)
Increase (Decrease) in Accounts Payable	96,000	10,000
Increase (Decrease) in Accrued Liabilities	(161,000)	(78,000)
<b>Net Cash Provided by Operating Activities</b>	<b>949,000</b>	<b>1,249,000</b>
<b>Cash Flows From Investing Activities:</b>		
(Increase) Decrease in Short-term Investments	106,000	111,000
Capital Expenditures, Net of Retirements	(62,000)	(5,000)
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>44,000</b>	<b>106,000</b>
<b>Cash Flows From Financing Activities:</b>		
Dividends Paid	(365,000)	(308,000)
Treasury Stock Purchases	(1,317,000)	(252,000)
Proceeds From Stock Options Exercised	28,000	69,000
<b>Net Cash (Used) Provided by Financing Activities</b>	<b>(1,654,000)</b>	<b>(491,000)</b>
<b>Net Increase (Decrease) In Cash and Equivalents</b>	<b>(661,000)</b>	<b>864,000</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>4,978,000</b>	<b>4,670,000</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 4,317,000</b>	<b>\$ 5,534,000</b>

**ITEM 1. FINANCIAL STATEMENTS (CONTINUED)**

MESA LABORATORIES, INC.

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005 AND 2004

**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, 2005.

The accompanying unaudited condensed financial statements 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**

The Company has stock based compensation plans, which are described more fully in Note 7 of the Company's annual report on Form 10KSB, at March 31, 2005. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards in fiscal 2006 and 2005 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share for the fiscal second quarter and year-to-date would have been reduced to the pro forma amounts indicated below:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net income as reported	\$ 801,000	\$ 548,000	\$ 1,341,000	\$ 1,174,000
Add: Stock based employee compensation expense included in net income, net of related tax effects				
Less: Total stock based employee compensation expense determined under fair value based method for all awards, Net of related tax effects	2,000	68,000	109,000	68,000
Net income pro forma	\$ 799,000	\$ 480,000	\$ 1,232,000	\$ 1,106,000
Income per basic share as reported	\$ .27	\$ .18	\$ .44	\$ .38
Income per basic share pro forma	\$ .27	\$ .16	\$ .41	\$ .36
Income per diluted share as reported	\$ .26	\$ .17	\$ .43	\$ .37
Income per diluted share pro forma	\$ .26	\$ .15	\$ .40	\$ .35

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: dividend yield of 3.47% to 3.55%(2006) and 3.59%(2005); expected volatility of approximately 36% (2006) and 19% (2005); discount rate of 3.73% to 4.24% (2006)and 3.74% to 4.62%(2005); and expected lives of 5 to 10 years.



NOTE C. 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 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 six month periods ended September 30, 2005, and 2004:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net income available for shareholders	\$ 801,000	\$ 548,000	\$ 1,341,000	\$ 1,174,000
Weighted avg. outstanding shares of common stock	3,015,000	3,072,000	3,026,000	3,072,000
Dilutive effect of stock options	86,000	104,000	87,000	95,000
Common stock and equivalents	3,101,000	3,176,000	3,113,000	3,167,000
Earnings per share:				
Basic	\$ .27	\$ .18	\$ .44	\$ .38
Diluted	\$ .26	\$ .17	\$ .43	\$ .37

For the three months and six months ended September 30, 2004 and 2005, no shares and 6,000 shares, respectively, 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 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