

MESA LABORATORIES INC /CO  
Form 10-Q  
November 16, 2009

## Form 10-Q

### U.S. Securities and Exchange Commission

Washington, D.C. 20549

## Form 10-Q

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

For the quarterly period ended September 30, 2009

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 .

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, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 **3,191,891** shares of the Issuer's common stock, no par value, outstanding as of **October 31, 2009**.

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PART I-FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS

## MESA LABORATORIES, INC.

## BALANCE SHEETS

|  | SEPT. 30, 2009<br>(UNAUDITED) | MARCH 31, 2009       |
|--|-------------------------------|----------------------|
| <b><u>ASSETS</u></b>   |                               |                      |
| <b>CURRENT ASSETS</b>  |                               |                      |
| Cash and Cash Equivalents  | \$ 11,233,000                 | \$ 9,111,000         |
| Accounts Receivable, Net   | 3,665,000                     | 4,323,000            |
| Inventories, Net   | 4,595,000                     | 4,499,000            |
| Prepaid Expenses and Other   | 463,000                       | 660,000              |
| <b>TOTAL CURRENT ASSETS</b>  | <b>19,956,000</b>             | <b>18,593,000</b>    |
| <b>PROPERTY, PLANT &amp; EQUIPMENT, NET</b>  | <b>4,027,000</b>              | <b>3,879,000</b>     |
| <b>OTHER ASSETS</b>  |                               |                      |
| Goodwill, Intangibles and Other, Net   | 6,945,000                     | 7,142,000            |
| <b>TOTAL ASSETS</b>  | <b>\$ 30,928,000</b>          | <b>\$ 29,614,000</b> |
| <b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>  |                               |                      |
| <b>CURRENT LIABILITIES</b>   |                               |                      |
| Accounts Payable   | \$ 111,000                    | \$ 296,000           |
| Accrued Salaries & Payroll Taxes   | 818,000                       | 1,033,000            |
| Other Accrued Expenses   | 41,000                        | 36,000               |
| Taxes Payable  | 95,000                        | 119,000              |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>1,065,000</b>              | <b>1,484,000</b>     |
| <b>LONG TERM LIABILITIES</b>   |                               |                      |
| Deferred Income Taxes Payable  | 528,000                       | 528,000              |
| <b>STOCKHOLDERS EQUITY</b>   |                               |                      |
| Preferred Stock, No Par Value  |                               |                      |
| Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,192,670 shares (9/30/09) and 3,182,228 shares (3/31/09) | 4,890,000                     | 4,817,000            |
| Retained Earnings  | 24,445,000                    | 22,785,000           |
| <b>TOTAL STOCKHOLDERS EQUITY</b>   | <b>29,335,000</b>             | <b>27,602,000</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>   | <b>\$ 30,928,000</b>          | <b>\$ 29,614,000</b> |

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

## MESA LABORATORIES, INC.

## STATEMENTS OF INCOME

(UNAUDITED)

|   | Three Months<br>Ended<br>Sept. 30, 2009 | Three Months<br>Ended<br>Sept. 30, 2008 |
|---|---|---|
| Sales                                       | \$ 5,407,000                            | \$ 5,679,000                            |
| Cost of Goods Sold                          | 2,096,000                               | 2,033,000                               |
| Selling, General & Administrative           | 1,167,000                               | 1,392,000                               |
| Research and Development                    | 172,000                                 | 160,000                                 |
| Other (Income) and Expenses                 | (7,000)                                 | (34,000)                                |
|   | 3,428,000                               | 3,551,000                               |
| Earnings Before Income Taxes                | 1,979,000                               | 2,128,000                               |
| Income Taxes                                | 736,000                                 | 775,000                                 |
| Net Income                                  | \$ 1,243,000                            | \$ 1,353,000                            |
| Net Income Per Share (Basic)                | \$ .39                                  | \$ .43                                  |
| Net Income Per Share (Diluted)              | \$ .38                                  | \$ .42                                  |
| Average Common Shares Outstanding (Basic)   | 3,192,000                               | 3,179,000                               |
| Average Common Shares Outstanding (Diluted) | 3,294,000                               | 3,258,000                               |

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

## MESA LABORATORIES, INC.

## STATEMENTS OF INCOME

(UNAUDITED)

|   | Six Months<br>Ended<br>Sept. 30, 2009 | Six Months<br>Ended<br>Sept. 30, 2008 |
|---|---------------------------------------|---------------------------------------|
| Sales                                       | \$ 10,383,000                         | \$ 10,734,000                         |
| Cost of Goods Sold                          | 4,089,000                             | 3,883,000                             |
| Selling, General & Administrative           | 2,390,000                             | 2,887,000                             |
| Research and Development                    | 323,000                               | 333,000                               |
| Other (Income) and Expenses                 | (12,000)                              | (63,000)                              |
|   | 6,790,000                             | 7,040,000                             |
| Earnings Before Income Taxes                | 3,593,000                             | 3,694,000                             |
| Income Taxes                                | 1,324,000                             | 1,324,000                             |
| Net Income                                  | \$ 2,269,000                          | \$ 2,370,000                          |
| Net Income Per Share (Basic)                | \$ .71                                | \$ .75                                |
| Net Income Per Share (Diluted)              | \$ .69                                | \$ .73                                |
| Average Common Shares Outstanding (Basic)   | 3,189,000                             | 3,175,000                             |
| Average Common Shares Outstanding (Diluted) | 3,272,000                             | 3,259,000                             |

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

(UNAUDITED)

|  | <b>Six Months<br/>Ended<br/>Sept. 30, 2009</b> | <b>Six Months<br/>Ended<br/>Sept. 30, 2008</b> |
|--|--|--|
| <b>Cash Flows From Operating Activities:</b>         |  |  |
| Net Income   | \$ 2,269,000                                   | \$ 2,370,000                                   |
| Depreciation and Amortization                        | 361,000  | 381,000  |
| Stock Based Compensation                             | 134,000  | 142,000  |
| <b>Change in Assets and Liabilities-</b>             |  |  |
| (Increase) Decrease in Accounts Receivable           | 658,000  | (404,000)                                      |
| (Increase) Decrease in Inventories                   | (96,000)                                       | (555,000)                                      |
| (Increase) Decrease in Prepaid Expenses              | 197,000  | 237,000  |
| Increase (Decrease) in Accounts Payable              | (185,000)                                      | 137,000  |
| Increase (Decrease) in Accrued Liabilities           | (234,000)                                      | (423,000)                                      |
| Net Cash (Used) Provided by Operating Activities     | 3,104,000                                      | 1,885,000                                      |
| <b>Cash Flows From Investing Activities:</b>         |  |  |
| Deposits   |  | (194,000)                                      |
| Capital Expenditures, Net of Retirements             | (312,000)                                      | (119,000)                                      |
| Net Cash (Used) Provided by Investing Activities     | (312,000)                                      | (313,000)                                      |
| <b>Cash Flows From Financing Activities:</b>         |  |  |
| Dividends Paid                                       | (638,000)                                      | (635,000)                                      |
| Treasury Stock Purchases                             | (117,000)                                      | (67,000)                                       |
| Proceeds From Stock Options Exercised                | 85,000   | 88,000   |
| Net Cash (Used) Provided by Financing Activities     | (670,000)                                      | (614,000)                                      |
| Net Increase (Decrease) In Cash and Cash Equivalents | 2,122,000                                      | 958,000  |
| Cash and Cash Equivalents at Beginning of Period     | 9,111,000                                      | 5,770,000                                      |
| Cash and Cash Equivalents at End of Period           | \$ 11,233,000                                  | \$ 6,728,000                                   |
| <b>Supplemental disclosure of non-cash activity:</b> |  |  |

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

**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 10K, at March 31, 2009.

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 Issued Accounting Pronouncements

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-01. The ASU eliminates the previous US GAAP hierarchy and designates US GAAP into two levels – authoritative and non-authoritative. It also designates the Codification as the single source of authoritative US GAAP. The ASU is effective for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB updated Topic 855 with respect to subsequent events (issued as SFAS No. 165, Subsequent Events prior to the implementation of ASU 2009-01). The update does not require significant changes regarding recognition or disclosure of subsequent events but does require disclosure of the date through which subsequent events have been evaluated for disclosure and recognition. The standard is effective for financial statements issued after June 15, 2009. The implementation of this standard did not have a significant impact on our financial statements. The Company has performed an evaluation of subsequent events through November 13, 2009, which is the date these financial statements were issued.

In June 2008, the FASB updated Topic 260 with respect to share-based payments (issued as Financial Accounting Standards Board Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities prior to the implementation of ASU 2009-01). The update provides that invested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in accordance with Topic 260's calculation of Earnings per Share. The update is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, the Company is required to retrospectively adjust its earnings per share data to conform to the provisions in update. Early application of Topic 260 is prohibited. This update has not had a material impact on our consolidated financial statements.

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In April 2008, the FASB updated Topic 350 with respect to intangible assets (issued as FASB Staff Position SFAS No. 142-3, Determination of the Useful Life of Intangible Assets prior to the implementation of ASU 2009-01). The update amends



the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this update is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This update is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This update had no material effect on our financial statements.

Effective January 1, 2008, the Company adopted provisions of Topic 820 with respect to recurring fair value measurements (issued as Statement of Financial Accounting Standards No. 157 Fair Value Measurements prior to the implementation of ASU 2009-01) which introduced a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. The Company's adoption of this standard did not have a material impact on our financial statements.

In December 2007, the FASB updated Topic 810 with respect to non-controlling interests in consolidated financial statements (issued as SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 prior to the implementation of ASU 2009-01). The update requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of operations. The Company has adopted the update, but the Company's adoption of this standard did not have a material impact on our financial statements.

In December 2007, the FASB updated Topic 805 with respect to business combinations (issued as SFAS 141R, Business Combinations, prior to the implementation of ASU 2009-01), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. The update also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the update will depend on the future business combinations the Company may pursue after its effective date. Under provisions of the update, all acquisition costs are expensed as incurred.

In August 2009, the FASB issued ASU 2009-05 to amend provisions of Topic 820 by providing more guidance in determining fair value of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using either a quoted price for similar liabilities or valuation techniques consistent with Topic 820 or a combination of methods. The update is effective for the first reporting period after issuance, September 30, 2009, and has not had a material impact on the financial statements.

In September 2009, the FASB issued ASU 2009-08 to amend provisions of Topic 260 to provide technical corrections in the calculation of earnings per share in a reporting period that involves the redemption or induced conversion of preferred stock. The impact of this amendment will be determined when or if the Company issues its authorized preferred stock and subsequently redeems it or induces its conversion. This ASU will not have any impact on our financial statements.

NOTE B. STOCK BASED COMPENSATION

The Company calculates share-based compensation expense in accordance with ASC 718, *Compensation - Stock Compensation* ( ASC 718 ), formerly SFAS No. 123 (revised 2004), *Share-Based Payment*. We adopted the modified prospective transition method 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 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:

|  | <b>Three Months<br/>Ended<br/>Sept. 30, 2009</b> | <b>Three Months<br/>Ended<br/>Sept. 30, 2008</b> | <b>Six Months<br/>Ended<br/>Sept. 30, 2009</b> | <b>Six Months<br/>Ended<br/>Sept. 30, 2008</b> |
|--|--|--|--|--|
| Total cost of stock-based compensation charged against income before taxes | \$ 65,000  | \$ 70,000  | \$ 134,000                                     | \$ 142,000                                     |
| Amount of income tax benefit recognized in earnings                        | 24,000   | 25,000   | 49,000   | 51,000   |
| Amount charged against net income  | \$ 41,000  | \$ 45,000  | \$ 85,000                                      | \$ 91,000                                      |
| <b>Impact on net income per common share:</b>                              |  |  |  |  |
| Basic  | \$ 0.01  | \$ .01   | \$ .03   | \$ .03   |
| Diluted  | \$ 0.01  | \$ .01   | \$ .03   | \$ .03   |

Stock-based compensation expense was reflected as selling, general and administrative expense and cost of goods sold expense in the statements of income for the second quarter and first six months of fiscal 2010.

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 six months of fiscal 2010 and 2009 using the Black-Scholes model:

|                              | Six Months Ended |          |
|------------------------------|------------------|----------|
|                              | 2009             | 2008     |
| Stock options:               |                  |          |
| Volatility                   | 34.3%            | 33.1%    |
| Risk-free interest rate      | 1.65-2.68%       | 2.7-3.6% |
| Expected option life (years) | 5-10             | 5-10     |
| Dividend yield               | 2.0%             | 1.7%     |

A summary of the option activity for the first six months of fiscal 2010 is as follows:

|                               | Number of<br>Shares |    | Weighted-<br>average<br>Exercise<br>Price per<br>Share |  | Weighted-<br>average<br>Remaining<br>Contractual<br>Term |    | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|---------------------|----|--|--|--|----|---------------------------------|
| Outstanding at March 31, 2009 | 358,725             | \$ | 16.68  |  | 4.6  |    |                                 |
| Options granted               | 96,500              |    | 16.60  |  | 5.2  |    |                                 |
| Options forfeited             | (4,275)             |    | 18.28  |  |  |    |                                 |
| Options expired               |                     |    |  |  |  |    |                                 |
| Options exercised             | (26,165)            |    | 11.46  |  |  |    |                                 |
| Outstanding at Sept. 30, 2009 | 424,785             | \$ | 16.97  |  | 4.5  | \$ | 2,516,000                       |
| Exercisable at Sept. 30, 2009 | 166,345             | \$ | 15.07  |  | 3.7  | \$ | 1,301,000                       |

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first six months of fiscal 2010 was \$4.39 and \$6.08 in the first six months of fiscal 2009. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was \$253,000 and \$291,000 during the first six months of fiscal 2010 and 2009, respectively.

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A summary of the status of our unvested option shares as of September 30, 2009 is as follows:

|                            | Number of<br>Shares |    | Weighted-<br>average<br>Grant-Date<br>Fair Value |
|----------------------------|---------------------|----|--|
| Unvested at March 31, 2009 | 225,395             | \$ | 5.92   |
| Options granted            | 96,500              | \$ | 4.39   |
| Options forfeited          | (4,275)             | \$ | 5.00   |
| Options vested             | (59,180)            | \$ | 5.46   |
| Unvested at Sept. 30, 2009 | 258,440             | \$ | 5.48   |

As of September 30, 2009, there was \$909,000 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 3.0 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 month and six month periods ended September 30, 2009 and 2008:

|  | Three Months Ended<br>Sept.30 |              | Six Months Ended<br>Sept.30 |              |
|--|-------------------------------|--------------|-----------------------------|--------------|
|  | 2009                          | 2008         | 2009                        | 2008         |
| Net income available for shareholders            | \$ 1,243,000                  | \$ 1,353,000 | \$ 2,269,000                | \$ 2,370,000 |
| Weighted avg. outstanding shares of common stock | 3,192,000                     | 3,179,000    | 3,189,000                   | 3,175,000    |
| Dilutive effect of stock options                 | 102,000                       | 79,000       | 83,000                      | 84,000       |
| Common stock and equivalents                     | 3,294,000                     | 3,258,000    | 3,272,000                   | 3,259,000    |
| Earning per share:                               |                               |              |                             |              |
| Basic  | \$ 0.39                       | \$ 0.43      | \$ 0.71                     | \$ 0.75      |
| Diluted  | \$ 0.38                       | \$ 0.42      | \$ 0.69                     | \$ 0.73      |

For the three and six months ended September 30, 2009 and 2008, none and 75,920 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.

Note D. SUBSEQUENT EVENTS

The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the Condensed Balance Sheet, including the estimates inherent in the process of preparing financial statements. Subsequent events are subcategorized into two types: recognized and non-recognized. For the period ended September 30, 2009, subsequent events have been evaluated through November 13, 2009, the date the financial statements were issued or were available to be issued.

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.

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Key Financial Indicators

For The Six Months Ended September 30,

|                                 | 2009          | 2008          | 2007          | 2006         |
|---------------------------------|---------------|---------------|---------------|--------------|
| Cash and Investments            | \$ 11,233,000 | \$ 6,728,000  | \$ 4,722,000  | \$ 2,888,000 |
| Trade Receivables               | \$ 3,925,000  | \$ 4,518,000  | \$ 3,319,000  | \$ 2,962,000 |
| Days Sales Outstanding          | 65            | 69            | 59            | 59           |
| Inventory, Net                  | \$ 4,595,000  | \$ 4,575,000  | \$ 3,943,000  | \$ 3,276,000 |
| Inventory Turns                 | 1.8           | 1.8           | 1.6           | 1.7          |
| Working Capital                 | \$ 18,891,000 | \$ 14,790,000 | \$ 11,121,000 | \$ 8,316,000 |
| Current Ratio                   | 19:1          | 12:1          | 13:1          | 10:1         |
| Average Return On:              |               |               |               |              |
| Stockholder Investments (1)     | 15.9%         | 19.2%         | 21.4%         | 19.8%        |
| Assets                          | 15.0%         | 18.0%         | 20.1%         | 18.3%        |
| Invested Capital (2)            | 24.1%         | 25.4%         | 26.1%         | 25.7%        |
| Net Sales                       | \$ 10,383,000 | \$ 10,734,000 | \$ 9,154,000  | \$ 7,860,000 |
| Gross Profit                    | \$ 6,294,000  | \$ 6,851,000  | \$ 6,186,000  | \$ 5,067,000 |
| Gross Margin                    | 61%           | 64%           | 68%           | 64%          |
| Operating Income                | \$ 3,581,000  | \$ 3,631,000  | \$ 3,436,000  | \$ 2,594,000 |
| Operating Margin                | 34%           | 34%           | 38%           | 33%          |
| Net Profit                      | \$ 2,269,000  | \$ 2,370,000  | \$ 2,294,000  | \$ 1,702,000 |
| Net Profit Margin               | 22%           | 22%           | 25%           | 22%          |
| Earnings Per Diluted Share      | \$ .69        | \$ .73        | \$ .70        | \$ .53       |
| Capital Expenditures (Net)      | \$ 312,000    | \$ 119,000    | \$ 98,000     | \$ 1,615,000 |
| Head Count                      | 107.0         | 112.0         | 108.0         | 95.0         |
| Sales Per Employee (Annualized) | \$ 194,000    | \$ 192,000    | \$ 170,000    | \$ 165,000   |

(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. Most of the indicators above for the period ended September 30, 2009 are showing variation from the trends of the past years. Our balance sheet trends are improving due to cost reductions and only a small decline in sales. Our return trends are showing some decline due to the growth of assets. Factors currently impacting profitability include higher sales of Raven products, lower sales of Datatrace products, lower interest income on the Company's invested surplus cash, and a higher anticipated income tax rate for fiscal 2010.

## Results of Operations

### Net Sales

Net sales for the second quarter of fiscal 2010 decreased five percent from fiscal 2009. In real dollars, net sales of \$5,407,000 in fiscal 2010 decreased \$272,000 from \$5,679,000 in 2009.

Net sales for the first six months of fiscal 2010 decreased three percent from fiscal 2009. In real dollars, net sales of \$10,383,000 in fiscal 2010 decreased \$351,000 from \$10,734,000 in 2009.

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 Raven products are disposables and thus do not contribute to the Company's parts and service revenue. During the first six months of fiscal years 2010 and 2009 our Company had parts and service revenue of \$1,799,000 and \$1,857,000. As a percentage of total revenue, parts and service revenues were 17% in 2009 and 17% in 2010. Overall, Service and parts revenues decreased three percent for the first six 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 six months, both general economic conditions and capital spending patterns have been declining compared to prior year. Although overall economic conditions have softened this year we have seen only a small impact in our sales performance so far. We attribute this to the industries we serve which include various medical related markets, food processing and pharmaceuticals. For the first six months of fiscal 2010 and 2009, product sales for our company were \$8,584,000 and \$8,877,000. Overall, new product revenues decreased three percent for the first six months compared to the prior year period.

Over the fiscal second quarter, our medical revenues decreased one percent compared to the prior period, while over the first six month period we experienced an increase of five percent compared to the same period one year ago. This increase was due to higher sales of solutions and service. Sales of our other dialysis products remained consistent with last year's levels, and continue to enjoy wide spread acceptance with the major dialysis providers in the U.S





During the fiscal second quarter, sales of the Datatrace brand of products decreased 11 percent from the prior year, and for the first six months decreased 18 percent compared to prior year. The decrease in DataTrace sales during the quarter and six month period is the result of declining economic and capital spending trends which influenced some industrial customers to delay their capital equipment purchases. The second fiscal quarter was impacted by a decline in service revenue. For the six month period we have experienced declines broadly through out the product line. We are cautiously optimistic and look forward to improving Datatrace sales trends in both new product shipments and service sales in both the domestic and international markets for the second half of fiscal 2010.

Raven sales for the second quarter increased three percent compared to the second quarter of the prior year, and for the first six months increased nine percent compared to the same period last year. The Raven biological indicator products saw sales gains for the quarter in its Prospore Ampoules business. For the first six months we have seen a significant increase in the Company's core biological indicator strip business, Prospore Ampoules, Chemical Indicators, and consulting services.

#### Cost of Sales

Cost of sales as a percent of net sales during the second fiscal quarter of fiscal 2010 increased 3.0 percent from fiscal 2009 to 38.8 percent. For the six month period, cost of sales increased 3.2 percent from the prior fiscal year to 39.4 percent. Over the past two years, we have made significant strides in lowering the cost to manufacture our medical products and currently both Medical and Datatrace products enjoy margins higher than the Raven products. Therefore, shifts in product mix toward higher sales of Medical and Datatrace products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of Raven products will normally produce the opposite effect on cost of goods sold expense and gross margins.

Over the current fiscal quarter, our Company experienced a five percent decrease in sales compared with the prior year, and for the first six months sales decreased three percent compared to prior year. Higher Raven sales for the quarter and six month period are a contributing factor to the lower gross margins. While margins are still over 60 percent, Datatrace margins are being impacted this fiscal year by lower sales, which have dropped more than fixed costs so far this year. The Company continues to monitor and implement cost reduction programs, price increases and improvements in freight cost recovery to improve gross margins.

#### 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. In the second fiscal quarter of 2010, we have incurred some costs to address the regulatory requirements of the Sarbanes-Oxley Act, and we expect additional costs over the remainder of the year. Total administrative costs were \$553,000 in the current quarter compared to \$635,000 for the same quarter last year, and for the first six months period administrative costs were \$1,170,000 compared to \$1,373,000 for the comparable period 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, 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.

In dollars, selling costs were \$614,000 in the second fiscal quarter and \$757,000 in the same prior year quarter, and for the first six months of the fiscal year selling costs were \$1,220,000 compared to \$1,514,000 in the same period last year. As a percent of sales, selling cost was 11.4% in the current quarter compared to 13.3% in the prior year quarter, and 11.8% in the current six month period compared to 14.1% for the same period last year. The decreases in sales and marketing expenses were due chiefly to cost controls in the sales and marketing effort and eliminating advertising projects with marginal returns.

#### Research and Development

Company sponsored research and development cost was \$172,000 during the second fiscal quarter and \$160,000 during the previous year period. For the first six months of fiscal 2010, research and development spending decreased to \$323,000 from \$333,000 in the same period one year ago. We are currently executing a strategy of increasing the flow of internally developed products. Late in the first quarter of the previous fiscal year we introduced our new Datatrace Micropack RF product. Unlike previous versions of the Micropack line, this product allows real time radio transmission of data in addition to logging of data as the instrument moves through a process. Currently, we continue to experience some ongoing development cost for the Micropack RF and are continuing work that expands the radio frequency technology into new markets

#### Net Income

Net income decreased eight percent to \$1,243,000 or \$.38 per share on a diluted basis during the quarter from \$1,353,000 or \$.42 per share on a diluted basis in the previous year period. For the first six months of the fiscal year, net income has decreased four percent to \$2,269,000 or \$.69 per diluted share compared to \$2,370,000 or \$.73 per diluted share in the same period last year. As previously discussed, gross margins decreased during the quarter and six month period. A final factor impacting net income for the quarter and six month period was lower interest income on the Company's surplus cash due to a softening of interest rates over the past year.

## Liquidity and Capital Resources

On September 30, 2009, we had cash and short term investments of \$11,233,000. In addition, we had other current assets totaling \$8,723,000 and total current assets of \$19,956,000. Current liabilities of our Company were \$1,065,000 which resulted in a current ratio of 19:1.

Our Company has made capital acquisitions during the first six months of the fiscal year of \$312,000.

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.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On June 15, 2009, a quarterly dividend of \$.10 per common share was paid to shareholders of record on June 2, 2009, and on September 15, 2009, a quarterly dividend of \$.10 per common share was paid to shareholders of record on August 28, 2009.

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 September 30, 2009 we had contractual obligations for 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; changes in capital spending trends; 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 change 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-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



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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.

#### 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 thereto which begin at Item 8. Financial Statements and Supplementary Data 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 4. 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 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.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our second quarter ended September 30, 2009 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, 2009 under the heading Part I Item 1A. Risk Factors. There has been no material change in those risk factors.

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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 second quarter of the fiscal year covered by this report:

|                   | Shares<br>Purchased | Avg. Price<br>Paid | Total<br>Share Purchased<br>as Part of<br>Publicly<br>Announced Plan | Remaining<br>Shares<br>to Purchase<br>Under Plan |
|-------------------|---------------------|--------------------|--|--|
| July 1-31, 2009   | 2,135               | \$ 21.94           | 119,767  | 180,233  |
| Aug. 1-31, 2009   | 421                 | \$ 22.29           | 120,188  | 179,812  |
| Sept. 1-30, 2009  | 906                 | \$ 22.53           | 121,094  | 178,906  |
| Total 2nd Quarter | 3,462               | \$ 22.14           |  |  |

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 the Board.

ITEM 4. Submission of matters to a vote of securities holders

The Annual Meeting of Shareholders of Mesa Laboratories, Inc. was held on September 24, 2009. Of the 3,192,015 Shares entitled to vote, 2,521,365 were represented either in person or by proxy. Seven Directors were elected to serve until the next Annual Meeting of Shareholders.

The seven directors elected were:

|                         | FOR       | WITHHELD |
|-------------------------|-----------|----------|
| Michael T. Brooks       | 2,506,237 | 15,128   |
| H. Stuart Campbell      | 2,499,033 | 22,332   |
| Paul D. Duke            | 2,497,644 | 23,721   |
| Robert V. Dwyer         | 2,503,296 | 18,069   |
| Evan C. Guillemin       | 2,508,975 | 12,390   |
| Luke R. Schmieder       | 2,504,438 | 16,927   |
| John J. Sullivan, Ph.D. | 2,502,867 | 18,498   |

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

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- 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 August 11, 2009, 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 June 30, 2009.

MESA LABORATORIES, INC.

SEPTEMBER 30, 2009

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: November 16, 2009

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

DATED: November 16, 2009

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