

MESA LABORATORIES INC /CO
Form 10-Q
November 14, 2007

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, 2007

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

84-0872291
(I.R.S. Employer

Incorporation or Organization)

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

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 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

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 3,169,340 shares of the Issuer's common stock, no par value, outstanding as of September 30, 2007.

PART I-FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MESA LABORATORIES, INC.****BALANCE SHEETS**

(UNAUDITED)

| | SEPT. 30, 2007 | MARCH 31, 2007 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 4,722,000 | \$ 3,346,000 |
| Accounts Receivable, Net | 3,101,000 | 3,827,000 |
| Inventories, Net | 3,943,000 | 3,297,000 |
| Prepaid Expenses and Other | 320,000 | 372,000 |
| TOTAL CURRENT ASSETS | 12,086,000 | 10,842,000 |
| PROPERTY, PLANT & EQUIPMENT, NET | 3,484,000 | 3,521,000 |
| OTHER ASSETS | | |
| Goodwill, Intangibles and Other, Net | 7,740,000 | 7,991,000 |
| TOTAL ASSETS | \$ 23,310,000 | \$ 22,354,000 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 127,000 | \$ 257,000 |
| Accrued Salaries & Payroll Taxes | 709,000 | 998,000 |
| Other Accrued Expenses | 67,000 | 95,000 |
| Taxes Payable | 62,000 | 119,000 |
| TOTAL CURRENT LIABILITIES | 965,000 | 1,469,000 |
| LONG TERM LIABILITIES | | |
| Deferred Income Taxes Payable | 161,000 | 162,000 |
| STOCKHOLDERS EQUITY | | |
| Preferred Stock, No Par Value | | |
| Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,169,340 shares (9/30/07) and 3,178,401 shares (3/31/07) | 4,682,000 | 4,646,000 |
| Retained Earnings | 17,502,000 | 16,077,000 |
| TOTAL STOCKHOLDERS EQUITY | 22,184,000 | 20,723,000 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 23,310,000 | \$ 22,354,000 |

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

(UNAUDITED)

| | Three Months Ended Sept. 30, 2007 | Three Months Ended Sept. 30, 2006 |
|---|--|--|
| Sales | \$ 4,868,000 | \$ 4,186,000 |
| Cost of Goods Sold | 1,583,000 | 1,506,000 |
| Selling, General & Administrative | 1,257,000 | 1,202,000 |
| Research and Development | 106,000 | 79,000 |
| Other (Income) and Expenses | (49,000) | (29,000) |
| | 2,897,000 | 2,758,000 |
| Earnings Before Income Taxes | 1,971,000 | 1,428,000 |
| Income Taxes | 692,000 | 516,000 |
| Net Income | \$ 1,279,000 | \$ 912,000 |
| Net Income Per Share (Basic) | \$.40 | \$.29 |
| Net Income Per Share (Diluted) | \$.39 | \$.28 |
| Average Common Shares Outstanding (Basic) | 3,169,000 | 3,174,000 |
| Average Common Shares Outstanding (Diluted) | 3,288,000 | 3,260,000 |

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

(UNAUDITED)

| | Six Months Ended Sept. 30, 2007 | Six Months Ended Sept. 30, 2006 |
|---|--|--|
| Sales | \$ 9,154,000 | \$ 7,860,000 |
| Cost of Goods Sold | 2,968,000 | 2,793,000 |
| Selling, General & Administrative | 2,550,000 | 2,271,000 |
| Research and Development | 200,000 | 202,000 |
| Other (Income) and Expenses | (96,000) | (69,000) |
| | 5,622,000 | 5,197,000 |
| Earnings Before Income Taxes | 3,532,000 | 2,663,000 |
| Income Taxes | 1,238,000 | 961,000 |
| Net Income | \$ 2,294,000 | \$ 1,702,000 |
| Net Income Per Share (Basic) | \$.72 | \$.54 |
| Net Income Per Share (Diluted) | \$.70 | \$.53 |
| Average Common Shares Outstanding (Basic) | 3,170,000 | 3,154,000 |
| Average Common Shares Outstanding (Diluted) | 3,289,000 | 3,229,000 |

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

(UNAUDITED)

| | Six Months Ended Sept. 30, 2007 | Six Months Ended Sept. 30, 2006 |
|---|---------------------------------------|--|
| Cash Flows From Operating Activities: | | |
| Net Income | \$ 2,294,000 | \$ 1,702,000 |
| Depreciation and Amortization | 386,000 | 304,000 |
| Stock Based Compensation | 120,000 | 121,000 |
| Change in Assets and Liabilities- | | |
| (Increase) Decrease in Accounts Receivable | 726,000 | 454,000 |
| (Increase) Decrease in Inventories | (646,000) | (326,000) |
| (Increase) Decrease in Prepaid Expenses | 51,000 | 182,000 |
| Increase (Decrease) in Accounts Payable | (130,000) | (161,000) |
| Increase (Decrease) in Accrued Liabilities | (374,000) | (205,000) |
| Net Cash (Used) Provided by Operating Activities | 2,427,000 | 2,071,000 |
| Cash Flows From Investing Activities: | | |
| Short-term Investments Redeemed | | 1,245,000 |
| Purchase of Business | | (2,763,000) |
| Capital Expenditures, Net of Retirements | (98,000) | (1,615,000) |
| Net Cash (Used) Provided by Investing Activities | (98,000) | (3,133,000) |
| Cash Flows From Financing Activities: | | |
| Dividends Paid | (507,000) | (444,000) |
| Treasury Stock Purchases | (535,000) | (138,000) |
| Proceeds From Stock Options Exercised | 89,000 | 66,000 |
| Net Cash (Used) Provided by Financing Activities | (953,000) | (516,000) |
| Net Increase (Decrease) In Cash and Cash Equivalents | 1,376,000 | (1,578,000) |
| Cash and Cash Equivalents at Beginning of Period | 3,346,000 | 4,466,000 |
| Cash and Cash Equivalents at End of Period | \$ 4,722,000 | \$ 2,888,000 |

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

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 Sept 30, 2007 | Three Months Ended Sept 30, 2006 | Six Months Ended Sept 30, 2007 | Six Months Ended Sept 30, 2006 |
|--|--|--|--------------------------------------|--------------------------------------|
| Total cost of stock-based compensation | \$ 62,000 | \$ 55,000 | \$ 120,000 | \$ 121,000 |
| Amount capitalized in inventory and property and equipment | | | | |
| Amounts charged against income, before income taxes | 62,000 | 55,000 | 120,000 | 121,000 |
| Amount of income tax benefit recognized in earnings | 22,000 | 19,000 | 42,000 | 42,000 |
| Amount charged against net income | \$ 40,000 | \$ 36,000 | \$ 78,000 | \$ 79,000 |
| Impact on net income per common share: | | | | |
| Basic | \$ 0.01 | \$ 0.01 | \$ 0.02 | \$ 0.03 |
| Diluted | \$ 0.01 | \$ 0.01 | \$ 0.02 | \$ 0.02 |

Stock-based compensation expense was reflected as Selling, general and administrative expense in the statement of operations for the second quarter and first six 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 second quarter and first six months of fiscal 2008 and 2007 using the Black-Scholes model:

| | Three Months Ended Sept. 30, | | Six Months Ended Sept. 30, | |
|------------------------------|---------------------------------|-------|-------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Stock options: | | | | |
| Volatility | 36.1% | 34.0% | 36.1% | 34-39 % |
| Risk-free interest rate | 4.6-5.1% | 4.70% | 4.6-5.1% | 4.7-5.1% |
| Expected option life (years) | 5-10 | 5 | 5-10 | 5-10 |
| Dividend yield | 2.1% | 3.4% | 2.1% | 3.4-3.7% |

A summary of the option activity for the first six 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 | 107,920 | 19.04 | 6.9 | |
| Options forfeited | (7,280) | 15.36 | | |
| Options expired | | | | |
| Options exercised | (20,565) | 10.33 | | |
| Outstanding at Sept. 30, 2007 | 339,465 | \$ 14.51 | 5.3 | \$ 2,118,000 |
| Exercisable at Sept 30, 2007 | 95,090 | \$ 10.35 | 3.8 | \$ 989,000 |

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first six months of fiscal 2008 was \$19.04 and \$14.69 in the first six 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 \$287,000 and \$134,000 during the first six months of fiscal 2008 and 2007, respectively.

A summary of the status of our unvested options as of September 30, 2007 is as follows:

| | Number of Shares | Weighted- average Grant-Date Fair Value |
|----------------------------|---------------------|--|
| Unvested at March 31, 2007 | 196,020 | \$ 13.11 |
| Options granted | 107,920 | \$ 19.04 |
| Options forfeited | (7,280) | \$ 15.36 |
| Options vested | (52,285) | \$ 11.23 |
| Unvested at Sept. 30, 2007 | 244,375 | \$ 16.13 |

As of September 30, 2007, there was \$1,217,000 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 3.6 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, 2007 and 2006:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|--------------|
| | Sept. 30, | | Sept. 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net income available for shareholders | \$ 1,279,000 | \$ 912,000 | \$ 2,294,000 | \$ 1,702,000 |
| Weighted avg. outstanding shares of common stock | 3,169,000 | 3,174,000 | 3,170,000 | 3,154,000 |
| Dilutive effect of stock options | 119,000 | 86,000 | 119,000 | 75,000 |
| Common stock and equivalents | 3,288,000 | 3,260,000 | 3,289,000 | 3,229,000 |
| Earnings per share: | | | | |
| Basic | \$.40 | \$.29 | \$.72 | \$.54 |
| Diluted | \$.39 | \$.28 | \$.70 | \$.53 |

At September 30, 2007 and 2006, 1,800 and no 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 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 | | | |
|---------------------------------|---------------------------------|---|--------------|---------------|
| | 2007 | For The Six Months Ended Sept. 30, | | |
| | 2006 | 2005 | 2004 | |
| Cash and Investments | \$ 4,722,000 | \$ 2,888,000 | \$ 6,115,000 | \$ 7,521,000 |
| Trade Receivables | \$ 3,319,000 | \$ 2,962,000 | \$ 2,182,000 | \$ 1,553,000 |
| Days Sales Outstanding | 59 | 59 | 63 | 58 |
| Inventory | \$ 3,943,000 | \$ 3,276,000 | \$ 2,262,000 | \$ 2,043,000 |
| Inventory Turns | 1.6 | 1.7 | 1.8 | 1.8 |
| Working Capital | \$ 11,121,000 | \$ 8,316,000 | \$ 9,812,000 | \$ 10,804,000 |
| Current Ratio | 13:1 | 10:1 | 12:1 | 19:1 |
| Average Return On: | | | | |
| Stockholder Investment(1) | 21.4% | 19.8% | 17.6% | 14.9% |
| Assets | 20.1% | 18.3% | 16.3% | 14.2% |
| Invested Capital(2) | 26.1% | 25.7% | 29.9% | 26.8% |
| Net Sales | \$ 9,154,000 | \$ 7,860,000 | \$ 5,401,000 | \$ 4,876,000 |
| Gross Profit | \$ 6,186,000 | \$ 5,067,000 | \$ 3,500,000 | \$ 3,055,000 |
| Gross Margin | 68% | 64% | 65% | 63% |
| Operating Income | \$ 3,436,000 | \$ 2,594,000 | \$ 1,960,000 | \$ 1,766,000 |
| Operating Margin | 38% | 33% | 36% | 36% |
| Net Profit | \$ 2,294,000 | \$ 1,702,000 | \$ 1,341,000 | \$ 1,174,000 |
| Net Profit Margin | 25% | 22% | 25% | 24% |
| Earnings Per Diluted Share | \$.70 | \$.53 | \$.43 | \$.37 |
| Capital Expenditures (Net) | \$ 98,000 | \$ 1,615,000 | \$ 62,000 | \$ 5,000 |
| Head Count | 108.0 | 95.0 | 51.5 | 47.5 |
| Sales Per Employee (Annualized) | \$ 170,000 | \$ 165,000 | \$ 210,000 | \$ 205,000 |

- (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, 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 second quarter of fiscal 2008 increased 16 percent from fiscal 2007. In real dollars, net sales of \$4,868,000 in fiscal 2008 increased \$682,000 from \$4,186,000 in 2007.

Net sales for the first six months of fiscal 2008 increased 16 percent from fiscal 2007. In real dollars, net sales of \$9,154,000 in fiscal 2008 increased \$1,294,000 from \$7,860,000 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 six months of fiscal years 2008 and 2007 our Company had parts and service revenue of \$1,702,000 and \$1,614,000. As a percentage of total revenue, parts and service revenues were 19% in 2008 and 21% in 2007. Overall, Service and parts revenues grew five 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 several fiscal years, general economic conditions have been improving, and capital spending has also been increasing. 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 first six months of fiscal 2008 and 2007, product sales for our company were \$7,452,000 and \$6,246,000. Overall, new product revenues grew 19 percent for the first six months compared to the prior year period.

Over the fiscal second quarter, our medical revenues increased 18 percent compared to the prior period, while over the first six month period we experienced an increase of 14 percent compared to the same period one year ago. These increases were due to higher sales of our meter products and calibration solutions and were partially offset by lower parts sales. Service sales for our dialysis products were up slightly compared with last year's levels, and overall, our dialysis products 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 increased 19 percent from the prior year, and for the first six months sales increased four percent compared to prior year. The increase in DataTrace sales during the quarter was due to higher shipments of current orders as well as shipment of backlog accumulated during the first quarter of the fiscal year. For the first six months of the fiscal year, product shipments are in line with prior year levels while service revenue continue to increase.

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 six months of the fiscal year benefited from five extra weeks of sales when compared to the prior year period, and were up 44 Percent. Sales of Raven products for the second fiscal quarter which were fully comparable to last year results increased 26 percent compared to last year.

Cost of Sales

Cost of sales as a percent of net sales during the second fiscal quarter decreased 3.5 percent from fiscal 2007 to 32.5 percent. For the first six month period, cost of sales decreased 3.1 percent from the prior fiscal year to 32.4 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 good 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 its second highest quarterly sales performance. In addition we experienced higher gross margins than anticipated for our medical products for both the quarter and six month period. This gain in medical product margins was due to higher sales and gains in our shipping cost recovery.

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 \$507,000 in the current quarter compared \$537,000 for the same quarter last year, and for the first six month period administrative costs were \$1,077,000 compared to \$1,004,000 for the comparable period last year. Most of the additional cost in the first six 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 actually decreased due a temporary decrease in compensation costs. For the remainder of the current fiscal year, we expect administration costs to increase. Over the remainder of the fiscal year, we expect to incur approximately \$100,000 of 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 \$750,000 in the second fiscal quarter and \$665,000 in the same prior year quarter, and for the first six months of the fiscal year selling costs were \$1,473,000 compared to \$1,267,000 in the same period last year. As a percent of sales, selling cost was 15.4% in the current quarter compared to 15.9% in the prior year quarter, and 16.1% in the current six month period compared to 16.1% for the same period last year. During the current fiscal quarter, most of the dollar increase in selling expense was due to an increased sales force staffing levels. In addition, the six 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 \$106,000 during the second fiscal quarter and \$79,000 during the previous year period. For the first six months of the current fiscal year, research and development costs were \$200,000 compared to \$202,000 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 40 percent to \$1,279,000 or \$.39 per share on a diluted basis during the quarter from \$912,000 or \$.28 per share on a diluted basis in the previous year period. For the first six months of the fiscal year, net income has increased 35 percent to \$2,294,000 or \$.70 per diluted share compared to \$1,702,000 or \$.53 per diluted share in the same period last year. The net income increase for both the three and six month periods was due primarily to the increase in total revenues, increased gross margins of our medical products, as well as the contribution to sales of the new products acquired from Raven.

Liquidity and Capital Resources

On September 30, 2007, we had cash and short term investments of \$4,722,000. In addition, we had other current assets totaling \$7,364,000 and total current assets of \$12,086,000. Current liabilities of our Company were \$965,000 which resulted in a current ratio of 13:1.

Our Company has made capital acquisitions during the first six months of the fiscal year of \$98,000. In addition, the Company has recently committed approximately \$500,000 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.

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, 2007 the Company had a commitment for approximately \$500,000 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. In addition, the company is committed to repurchase 3,000 shares per month of its own common stock from one of its Board of Directors members, Mr. Paul Duke, through November 2007. Shares are purchased each month at the volume weighted average selling price of all shares traded on the market in the previous month.

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 September 30, 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 second 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 |
|-------------------|---------------------|--------------------|--|---|
| July 1-31, 2007 | 3,725 | \$ 23.84 | 87,726 | 212,274 |
| Aug. 1-31, 2007 | 3,050 | \$ 24.87 | 90,776 | 209,224 |
| Sept. 1-30, 2007 | 3,391 | \$ 22.20 | 94,167 | 205,833 |
| Total 2nd Quarter | 10,166 | \$ 23.60 | | |

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 11, 2007. Of the 3,169,944 Shares entitled to vote, 2,893,788 were represented either in person or by proxy. Five Directors were elected to serve until the next Annual Meeting of Shareholders.

The five directors elected were:

| | FOR | WITHHELD |
|--------------------|-----------|----------|
| Michael T. Brooks | 2,889,889 | 3,899 |
| H. Stuart Campbell | 2,768,523 | 125,265 |
| Paul D. Duke | 2,768,523 | 125,265 |
| Robert V. Dwyer | 2,728,003 | 165,785 |
| Luke R. Schmieder | 2,848,468 | 45,320 |

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 August 13, 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 June 30, 2007.

MESA LABORATORIES, INC.

SEPTEMBER 30, 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: September 14, 2007

BY: /s/ Luke R. Schmieder
Luke R. Schmieder
Chief Executive Officer,
Treasurer and Chairman of the Board of Directors

DATED: September 14, 2007

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