

MESA LABORATORIES INC /CO  
Form 10-Q  
August 06, 2014

---

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**FORM 10-Q**

**(Mark one)**

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

**For the quarterly period ended June 30, 2014**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_ to \_\_\_**

**Commission File No: 0-11740**

---

**MESA LABORATORIES, INC.**

(Exact name of registrant as specified in its charter)

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

**84-0872291**  
(I.R.S. Employer  
Identification number)

**12100 West Sixth Avenue**

**Lakewood, Colorado** **80228**  
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes    No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes    No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   Accelerated filer   Non-accelerated filer                      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

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

There were 3,505,432 shares of the Issuer's common stock, no par value, outstanding as of July 31, 2014.



## Table of Contents

### Part I

1. Financial Statements	1
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Income	2
Condensed Consolidated Statements of Cash Flows	3
Notes to Condensed Consolidated Financial Statements	4
2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
3. Quantitative and Qualitative Disclosures About Market Risk	15
4. Controls and Procedures	15

### Part II

1A. Risk Factors	16
2. Unregistered Sales of Equity Securities and Use of Proceeds	16
6. Exhibits	16

#### Signatures

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

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

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

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

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

(In thousands, except share amounts)

	<b>June 30, 2014</b>	<b>March 31, 2014</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,200	\$5,575
Accounts receivable, net	10,761	9,278
Inventories, net	9,950	7,771
Prepaid expenses and other	2,302	2,064
Deferred income taxes	1,878	1,878
Total current assets	28,091	26,566
Property, plant and equipment, net	7,902	7,680
Intangibles, net	31,957	25,417
Goodwill	42,334	37,866
Total assets	\$ 110,284	\$97,529
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,058	\$2,019
Accrued salaries and payroll taxes	2,495	3,567
Unearned revenues	1,414	1,886
Other accrued expenses	2,693	2,743
Current portion of long-term debt	3,000	
Income taxes payable	745	--
Total current liabilities	12,405	10,215
Deferred income taxes	4,861	4,861
Long-term debt	25,000	16,500
Contingent consideration	1,620	1,620

Total liabilities	43,886	33,196
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,504,701 and 3,490,628 shares, respectively	16,482	15,796
Employee loans to purchase stock	--	(24 )
Retained earnings	49,916	48,561
Total stockholders' equity	66,398	64,333
Total liabilities and stockholders' equity	\$ 110,284	\$97,529

See accompanying notes to condensed consolidated financial statements.

**Mesa Laboratories, Inc.****Condensed Consolidated Statements of Income**

(Unaudited)

(In thousands except per share data)

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Revenues	\$16,400	\$11,218
Cost of revenues	6,695	4,421
Gross profit	9,705	6,797
Operating expenses		
Selling	2,063	1,083
General and administrative	3,836	2,086
Research and development	751	585
Total operating expenses	6,650	3,754
Operating income	3,055	3,043
Other expense, net	162	28
Earnings before income taxes	2,893	3,015
Income taxes	1,012	1,155
Net income	\$1,881	\$1,860
Net income per share:		
Basic	\$0.54	\$0.55
Diluted	0.51	0.52
Weighted average common shares outstanding:		
Basic	3,501	3,394
Diluted	3,656	3,553

See accompanying notes to condensed consolidated financial statements.





**Mesa Laboratories, Inc.****Condensed Consolidated Statements of Cash Flows**

(Unaudited)

(In thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net income	\$1,881	\$1,860
Depreciation and amortization	1,359	811
Stock-based compensation	279	149
Loss on disposition of assets	16	--
Change in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net	(906 )	2,099
Inventories, net	(831 )	(514 )
Prepaid expenses and other	(206 )	(321 )
Accounts payable	(35 )	611
Accrued liabilities and taxes payable	(659 )	(1,890)
Unearned revenues	(472 )	--
Net cash provided by operating activities	426	2,805
Cash flows from investing activities:		
Acquisitions	(13,817)	--
Purchases of property, plant and equipment	(393 )	(415 )
Net cash used in investing activities	(14,210)	(415 )
Cash flows from financing activities:		
Proceeds from the issuance of debt	18,000	--
Payments on debt	(6,500 )	(2,500)
Dividends	(526 )	(474 )
Purchase and retirement of common stock	--	(15 )
Proceeds from the exercise of stock options	435	182
Net cash provided by (used in) financing activities	11,409	(2,807)
Net decrease in cash and cash equivalents	(2,375 )	(417 )
Cash and cash equivalents at beginning of period	5,575	4,006
Cash and cash equivalents at end of period	\$3,200	\$3,589
Cash paid for:		
Income taxes	\$274	\$2,435

Interest	92	19
Supplemental non-cash activity:		
Repayment of employee loans for stock options	\$24	\$92

See accompanying notes to condensed consolidated financial statements.

**Mesa Laboratories, Inc.**

**Notes to Condensed Consolidated Financial Statements**

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

*Description of Business*

Mesa Laboratories, Inc. was incorporated under the laws of the State of Colorado on March 26, 1982. The terms “we,” “us,” “our,” the “Company” or “Mesa” are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted. We pursue a strategy of focusing primarily on quality control products, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into three divisions across seven physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene, environmental air sampling and semiconductor industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments

*Basis of Presentation*

The accompanying condensed consolidated balance sheet as of March 31, 2014, has been derived from audited consolidated financial statements. The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual audited consolidated financial statements and in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of this interim information. Operating results and cash flows for interim periods are not necessarily indicative of results that can be expected for the entire year. The information included in this report should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 31, 2014.

The summary of our significant accounting policies is incorporated by reference to our Annual Report on Form 10-K for the year ended March 31, 2014.

### ***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) issued a jointly converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenues, as well as requiring disclosures sufficient to describe the nature, amount, timing and uncertainty of revenues and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The new standard is effective for our fiscal year (and interim periods within that year) ending March 31, 2018. We are evaluating the impact of this standard on our condensed consolidated financial statements and disclosures.

### **Note 2 – Acquisitions**

For the three months ended June 30, 2014, our acquisitions of businesses (net of cash acquired) totaled \$13,817,000, which consisted primarily of the following material acquisition:

#### ***BGI***

On April 15, 2014, we completed a business combination (the “BGI Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI, Incorporated and BGI Instruments, Inc. (collectively “BGI”), a business focused on the sale of equipment primarily used for particulate air sampling. The purchase price for the acquired assets was \$10,268,000, subject to a post-closing adjustment.

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

The BGI Acquisition constituted the acquisition of a business and was recognized at fair value. Due to the recent nature of the transaction, the purchase price allocation was based upon a preliminary estimated fair value of the assets and liabilities acquired as we are in the process of finalizing our valuation of the assets acquired and liabilities assumed. We determined the preliminary estimated fair values using discounted cash flow analyses and estimates made by management. The following reflects our allocation of the consideration, subject to customary purchase price adjustments in accordance with the BGI Agreement (in thousands):

Inventories, net	\$1,268
Property, plant and equipment, net	47
Intangibles, net	5,711
Goodwill	3,295
Accrued expenses	(53 )
Total purchase price allocation	\$10,268

The accompanying condensed consolidated statements of income include the results of the BGI Acquisition from the acquisition date of April 15, 2014. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2014 and 2013, are as follows (in thousands, except per share data):

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Revenues	\$16,718	\$13,134
Net income	1,959	2,395
Net income per common share:		
Basic	\$0.56	\$0.71
Diluted	0.54	0.67

### **Note 3 - Inventories**

Inventories consist of the following (in thousands):

	<b>June 30, 2014</b>	<b>March 31, 2014</b>
Raw materials	\$7,839	\$5,758
Work-in-process	590	272
Finished goods	1,973	2,068

Less: reserve