MESA LABORATORIES INC /CO
Form 10-Q
February 14, 2011

Form 10-Q

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from to

Commission File Number 0-11740

MESA LABORATORIES, INC.

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

COLORADO (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**

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act, during the past 12 months and (2) has been subject to the filing requirements for the past 90 days. Yes x No o.

Indicate by check mark whether the registrant 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 o NO o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

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

There were **3,247,002** shares of the Issuer s common stock, no par value, outstanding as of January **31, 2011.**

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MESA LABORATORIES, INC.

BALANCE SHEETS

	DEC 31, 2010 (Unaudited)	MARCH 31,2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,129,000	$ 10,471,000
Accounts Receivable, Net	5,434,000	4,426,000
Inventories, Net	6,059,000	4,820,000
Prepaid Expenses and Other	621,000	757,000
TOTAL CURRENT ASSETS	14,243,000	20,474,000
PROPERTY, PLANT & EQUIPMENT, NET	7,409,000	4,239,000
OTHER ASSETS		
Goodwill, Intangibles and Other, Net	25,968,000	8,926,000
TOTAL ASSETS	$ 47,620,000	$ 33,639,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 494,000	$ 480,000
Accrued Salaries & Payroll Taxes	1,535,000	1,190,000
Notes Payable Current Portion	750,000	100,000
Revolving Line of Credit	4,000,000	
Due To Apex Laboratories, Inc.	600,000	
Other Accrued Expenses	171,000	41,000
Taxes Payable	962,000	133,000
TOTAL CURRENT LIABILITIES	8,512,000	1,944,000
LONG TERM LIABILITIES		
Deferred Income Taxes Payable	2,912,000	498,000
Notes Payable Long Term	1,750,000	
STOCKHOLDERS EQUITY		
Preferred Stock, No Par Value		
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,246,252 shares (12/31/10) and 3,203,726 shares (3/31/10)	5,408,000	4,883,000
Employee Loans to Purchase Stock	(394,000)	
Retained Earnings	29,432,000	26,314,000
TOTAL STOCKHOLDERS EQUITY	34,446,000	31,197,000

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	47,620,000	$	33,639,000

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

MESA LABORATORIES, INC.

STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended Dec. 31, 2010	Three Months Ended Dec. 31, 2009
Sales	$ 7,652,000	$ 5,318,000
Cost of Goods Sold	3,212,000	2,020,000
Selling, General & Administrative	2,045,000	1,295,000
Research and Development	393,000	185,000
Other Expenses and (Income)	33,000	(14,000)
	5,683,000	3,486,000
Earnings Before Income Taxes	1,969,000	1,832,000
Income Taxes	711,000	678,000
Net Income	$ 1,258,000	$ 1,154,000
Net Income Per Share (Basic)	$ .39	$ .36
Net Income Per Share (Diluted)	$ .37	$ .35
Average Common Shares Outstanding (Basic)	3,234,000	3,193,000
Average Common Shares Outstanding (Diluted)	3,355,000	3,317,000

MESA LABORATORIES, INC.

STATEMENTS OF INCOME

(UNAUDITED)

	Nine Months Ended Dec. 31, 2010	Nine Months Ended Dec. 31, 2009
Sales	$ 22,861,000	$ 15,702,000
Cost of Goods Sold	9,488,000	6,109,000
Selling, General & Administrative	5,877,000	3,685,000
Research and Development	958,000	508,000
Other Expenses and (Income)	79,000	(26,000)
	16,402,000	10,276,000
Earnings Before Income Taxes	6,459,000	5,426,000
Income Taxes	2,453,000	2,002,000
Net Income	$ 4,006,000	$ 3,424,000
Net Income Per Share (Basic)	$ 1.24	$ 1.07
Net Income Per Share (Diluted)	$ 1.21	$ 1.04
Average Common Shares Outstanding (Basic)	3,226,000	3,191,000
Average Common Shares Outstanding (Diluted)	3,316,000	3,284,000

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

MESA LABORATORIES, INC.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended Dec. 31, 2010	Nine Months Ended Dec. 31, 2009
Cash Flows From Operating Activities:		
Net Income	$ 4,006,000	$ 3,424,000
Depreciation and Amortization	1,299,000	537,000
Stock Based Compensation	287,000	212,000
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable, net	652,000	774,000
(Increase) Decrease in Inventories	(406,000)	(132,000)
(Increase) Decrease in Prepaid Expenses	331,000	160,000
Increase (Decrease) in Accounts Payable	(230,000)	24,000
Increase (Decrease) in Accrued Liabilities	1,092,000	(117,000)
Net Cash Provided by Operating Activities	7,031,000	4,882,000
Cash Flows From Investing Activities:		
Acquisition of Product Lines and Company	(17,973,000)	(2,400,000)
Capital Expenditures, Building	(2,150,000)	
Capital Expenditures, Net of Retirements	(428,000)	(488,000)
Net Cash (Used) in Investing Activities	(20,551,000)	(2,888,000)
Cash Flows From Financing Activities:		
Bank Borrowing, Net of Retirements	6,500,000	
Repayment of SGM Shareholder loans	(278,000)	
Dividends Paid	(1,097,000)	(991,000)
Treasury Stock Purchases	(84,000)	(263,000)
Proceeds From Stock Options Exercised	137,000	89,000
Net Cash (Used) in Provided by Financing Activities	5,178,000	(1,165,000)
Net Increase (Decrease) In Cash and Cash Equivalents	(8,342,000)	829,000
Cash and Cash Equivalents at Beginning of Period	10,471,000	9,111,000
Cash and Cash Equivalents at End of Period	$ 2,129,000	$ 9,940,000
Cash paid for Interest	$ 91,000	$

Supplemental disclosure of non-cash activity:

The Company issued employee loans totaling $394,000 for the purchase of common stock during the nine month period ended December 31, 2010.

The Company completed its purchase of SGM Biotech, Inc. during the nine months ended December 31, 2010. See Note 2.

The Company completed its purchase of certain assets of Apex Laboratories, Inc. during the nine months ended December 31, 2010. See Note 2.

MESA LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. 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 10-K, at March 31, 2010.

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 Adopted Accounting Pronouncements

In September 2009, the FASB ratified its guidance on two revenue recognition standards which were to become effective for us beginning April 1, 2011. Under EITF 08-1, *Multiple-Deliverable Revenue Arrangements*, now codified in ASC Topic 605, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. Under EITF 09-3, *Certain Revenue Arrangements That Include Software Elements*, now codified in ASC Topic 985, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to the new guidance for multiple deliverable arrangements discussed above. The adoption of this guidance did not have a material impact on our financial statements.

In January 2010, the FASB updated the disclosure requirements for fair value measurements, codified in ASC Topic 820, *Fair Value Measurements and Disclosure*. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurement using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. We adopted the updated guidance on April 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for us beginning April 1, 2011. The adoption of the required guidance did not have an impact on our financial statements. We do not expect that the adoption of the remaining guidance will have an impact on our financial statements.

In July 2010, FASB issued a new pronouncement that requires enhanced disclosures regarding the nature of credit risk inherent in an entity s portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for those changes in the allowance for credit losses. The new disclosures will require information for both the financing receivables and the related allowance for credit losses at more disaggregated levels. Disclosures related to information as of the end of a reporting period will become effective for Mesa in the fourth quarter of Fiscal 2011. Specific disclosures regarding activities that occur during a

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reporting period, such as the disaggregated roll forward disclosures, will be required for Mesa beginning in the first quarter of Fiscal 2012. As these changes only relate to disclosures, they will not have an impact on Mesa s consolidated financial results.

NOTE 2. ACQUISITION OF PRODUCT LINES AND COMPANIES

On April, 27, 2010, the Company completed the purchase of SGM Biotech, Inc. located in Bozeman, MT. Under the terms of this acquisition the Company acquired all of the stock of SGM Biotech for $11,722,000. A cash payment of $11,122,000 was made at closing with an additional $600,000 placed into a joint escrow account. The $600,000 placed in escrow is to be paid to the sellers in $200,000 increments at three months, six months and one year following closing. The purchase price was subject to a final working capital adjustment of $361,000 as defined in the Stock Purchase Agreement and was subsequently paid in October, 2010. After the completion of the acquisition, the Company repaid $278,000 of loans owed to the shareholders of SGM Biotech. The Company incurred approximately $168,000 in third party acquisition costs related to this transaction. On April 30, 2010, the Company also completed the acquisition of the facility that houses the SGM Biotech, Inc. operations for $2,150,000.

Due to the increase in intangible assets as a result of this acquisition, amortization expense is expected to rise significantly in fiscal 2011 and subsequent years. The Company will not be able to deduct the step up from cost to fair value for the assets acquired for tax purposes and therefore have recorded a deferred tax liability of $2,239,000 as of the acquisition date.

The purchase price was allocated to the assets acquired based on their estimated fair value at the acquisition date, and was subject to a final working capital adjustment. Intangible assets were valued using the income approach.

Assets and liabilities acquired consisted of:

Accounts Receivable	$	1,116,000
Inventory		758,000
Other Assets		195,000
Property and Equipment		1,035,000
Liabilities		(1,021,000)
Customer Relationships		3,739,000
Non-compete Agreements		104,000
Trademarks		1,195,000
Patents		396,000
Goodwill		4,566,000
	$	12,083,000

Intangible assets acquired are amortized over their estimated useful lives; customer relationships (8.5 years), non-compete agreements (5 years) and patents (14 years). Trademarks were determined to have an indefinite life and therefore are not being amortized.

On December 21, 2010, Mesa announced that it had purchased the assets associated with the biological indicator line of products of Apex Laboratories, Inc. The products acquired by Mesa include their biological indicators for use in vapor hydrogen peroxide disinfection processes.

The purchase price consisted of a

$5,890,000 cash payment at closing and a $600,000 holdback amount to be paid in two equal payments on the six month and one year anniversary of closing. The holdback amount accrues interest at two percent per annum, and the ultimate payment may be reduced as defined in the asset purchase agreement. Assets acquired consisted of:

Inventory	$	75,000
Accounts Receivable		544,000
Property and Equipment		49,000
Intangibles and Goodwill		5,822,000
	$	6,490,000

The Company is in the process of determining fair value estimates of the assets acquired, and will adjust its valuation when it is completed later in the fourth quarter of fiscal 2011.

Due to the timing of the acquisition of the Apex Laboratories products, they only made a minor contribution to sales and gross profits in the fiscal third quarter of $18,000 and $13,000, respectively. During the quarter, legal and accounting expenses for the acquisition of the Apex Laboratories products were approximately $38,000.

To help finance these acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for $3,000,000 and maturing at April 27, 2013, which had a remaining principal balance of $2,500,000 at December 31, 2010. The bank also deferred one payment for $250,000 on the reducing line of credit, which would have been due January 27, 2011 until maturity at April 27, 2013. There is also a revolving line of credit for $4,000,000 of which $4,000,000 was utilized at December 31, 2010. Both of these lines of credit are subject to a variable rate of interest and a rate floor, and at December 31, 2010, the rate of interest on both loans was 3.25%.

The results of SGM Biotech and Apex Laboratories product operations have been included in the financial statements commencing from their acquisition dates of April 27, 2010 and December 21, 2010, respectively. The pro forma effect of the acquisition on the combined results of operations as if the acquisition had been completed on April 1, 2010 and 2009 are as follows:

	Quarter Ended Dec. 31, 2010 (Unaudited)	**Quarter Ended Dec. 31, 2009 (Unaudited)**