

MESA LABORATORIES INC /CO
Form 10-Q
November 14, 2008

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, 2008

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)

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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
(Do not check if a
smaller reporting
company)

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 **3,180,072** shares of the Issuer's common stock, no par value, outstanding as of **September 30, 2008**.

PART I-FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS

MESA LABORATORIES, INC.

BALANCE SHEETS

(UNAUDITED)

	SEPT. 30, 2008	MARCH 31, 2008
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,728,000	\$ 5,770,000
Accounts Receivable, Net	4,313,000	3,909,000
Inventories, Net	4,575,000	4,020,000
Prepaid Expenses and Other	475,000	712,000
TOTAL CURRENT ASSETS	16,091,000	14,411,000
PROPERTY, PLANT & EQUIPMENT, NET	3,477,000	3,488,000
OTHER ASSETS		
Goodwill, Intangibles and Other, Net	7,577,000	7,634,000
TOTAL ASSETS	\$ 27,145,000	\$ 25,533,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 311,000	\$ 173,000
Accrued Salaries & Payroll Taxes	819,000	1,189,000
Other Accrued Expenses	76,000	129,000
Taxes Payable	95,000	96,000
TOTAL CURRENT LIABILITIES	1,301,000	1,587,000
LONG TERM LIABILITIES		
Deferred Income Taxes Payable	207,000	207,000
STOCKHOLDERS EQUITY		
Preferred Stock, No Par Value		
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,180,072 shares (9/30/08) and 3,166,492 shares (3/31/08)	4,747,000	4,665,000
Retained Earnings	20,890,000	19,074,000
TOTAL STOCKHOLDERS EQUITY	25,637,000	23,739,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 27,145,000	\$ 25,533,000

MESA LABORATORIES, INC.

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended Sept. 30, 2008	Three Months Ended Sept. 30, 2007
Sales	\$ 5,679,000	\$ 4,868,000
Cost of Goods Sold	2,033,000	1,583,000
Selling, General & Administrative	1,392,000	1,257,000
Research and Development	160,000	106,000
Other (Income) and Expenses	(34,000)	(49,000)
	3,551,000	2,897,000
Earnings Before Income Taxes	2,128,000	1,971,000
Income Taxes	775,000	692,000
Net Income	\$ 1,353,000	\$ 1,279,000
Net Income Per Share (Basic)	\$.43	\$.40
Net Income Per Share (Diluted)	\$.42	\$.39
Average Common Shares Outstanding (Basic)	3,179,000	3,169,000
Average Common Shares Outstanding (Diluted)	3,258,000	3,288,000

MESA LABORATORIES, INC.

STATEMENTS OF OPERATIONS

(UNAUDITED)

	Six Months Ended Sept. 30, 2008	Six Months Ended Sept. 30, 2007
Sales	\$ 10,734,000	\$ 9,154,000
Cost of Goods Sold	3,883,000	2,968,000
Selling, General & Administrative	2,887,000	2,550,000
Research and Development	333,000	200,000
Other (Income) and Expenses	(63,000)	(96,000)
	7,040,000	5,622,000
Earnings Before Income Taxes	3,694,000	3,532,000
Income Taxes	1,324,000	1,238,000
Net Income	\$ 2,370,000	\$ 2,294,000
Net Income Per Share (Basic)	\$.75	\$.72
Net Income Per Share (Diluted)	\$.73	\$.70
Average Common Shares Outstanding (Basic)	3,175,000	3,170,000
Average Common Shares Outstanding (Diluted)	3,259,000	3,289,000

MESA LABORATORIES, INC.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended Sept. 30, 2008	Six Months Ended Sept. 30, 2007
Cash Flows From Operating Activities:		
Net Income	\$ 2,370,000	\$ 2,294,000
Depreciation and Amortization	381,000	386,000
Stock Based Compensation	142,000	120,000
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable	(404,000)	726,000
(Increase) Decrease in Inventories	(555,000)	(646,000)
(Increase) Decrease in Prepaid Expenses	237,000	51,000
Increase (Decrease) in Accounts Payable	137,000	(130,000)
Increase (Decrease) in Accrued Liabilities	(423,000)	(374,000)
Net Cash (Used) Provided by Operating Activities	1,885,000	2,427,000
Cash Flows From Investing Activities:		
Deposits	(194,000)	
Capital Expenditures, Net of Retirements	(119,000)	(98,000)
Net Cash (Used) Provided by Investing Activities	(313,000)	(98,000)
Cash Flows From Financing Activities:		
Dividends Paid	(635,000)	(507,000)
Treasury Stock Purchases	(67,000)	(535,000)
Proceeds From Stock Options Exercised	88,000	89,000
Net Cash (Used) Provided by Financing Activities	(614,000)	(953,000)
Net Increase (Decrease) In Cash and Cash Equivalents	958,000	1,376,000
Cash and Cash Equivalents at Beginning of Period	5,770,000	3,346,000
Cash and Cash Equivalents at End of Period	\$ 6,728,000	\$ 4,722,000
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 10K, at March 31, 2008.

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, 2008	Three Months Ended Sept. 30, 2007	Six Months Ended Sept. 30, 2008	Six Months Ended Sept. 30, 2007
Total cost of stock-based compensation	\$ 70,000	\$ 62,000	\$ 142,000	\$ 120,000
Amount capitalized in inventory and property and equipment				
Amounts charged against income, before income taxes	70,000	62,000	142,000	120,000
Amount of income tax benefit recognized in earnings	25,000	22,000	51,000	42,000
Amount charged against net income	\$ 45,000	\$ 40,000	\$ 91,000	\$ 78,000
Impact on net income per common share:				
Basic	\$ 0.01	\$.01	\$.03	\$.02
Diluted	\$ 0.01	\$.01	\$.03	\$.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 2009 and 2008.

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 of fiscal 2009 and 2008 using the Black-Scholes model:

	Six Months Ended Sept. 30,	
	2008	2007
Stock options:		
Volatility	33.1%	36.1%
Risk-free interest rate	2.7-3.6%	4.6-5.1%
Expected option life (years)	5-10	5-10
Dividend yield	1.7%	2.1%

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A summary of the option activity for the first six months of fiscal 2009 is as follows:

	Number of Shares	Weighted- average Exercise Price per Share	Weighted- average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2008	324,455	\$ 14.92	5.1	
Options granted	77,500	21.95	4.6	
Options forfeited	(15,535)	17.94		
Options expired				
Options exercised	(21,950)	9.38		
Outstanding at Sept. 30, 2008	364,470	\$ 16.62	4.8	\$ 1,688,000
Exercisable at Sept. 30, 2008	126,985	\$ 12.92	3.8	\$ 1,057,000

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first six months of fiscal 2009 was \$21.95 and \$19.04 in the first six months of fiscal 2008. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was \$291,000 and \$287,000 during the first six months of fiscal 2009 and 2008, respectively.

A summary of the status of our unvested option shares as of September 30, 2008 is as follows:

	Number of Shares	Weighted- average Grant-Date Fair Value
Unvested at March 31, 2008	236,725	\$ 16.40
Options granted	77,500	\$ 21.95
Options forfeited	(15,535)	\$ 17.94
Options vested	(61,200)	\$ 14.45
Unvested at Sept. 30, 2008	237,490	\$ 18.59

As of September 30, 2008, there was \$992,000 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 3.3 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, 2008 and 2007:

	Three Months Ended Sept. 30		Six Months Ended Sept. 30	
	2008	2007	2008	2007
Net income available for shareholders	\$ 1,353,000	\$ 1,279,000	\$ 2,370,000	\$ 2,294,000
Weighted avg. outstanding shares of common stock	3,179,000	3,169,000	3,175,000	3,170,000
Dilutive effect of stock options	79,000	119,000	84,000	119,000
Common stock and equivalents	3,258,000	3,288,000	3,259,000	3,289,000
Earning per share:				
Basic	\$ 0.43	\$ 0.40	\$ 0.75	\$ 0.72
Diluted	\$ 0.42	\$ 0.39	\$ 0.73	\$ 0.70

For the three and six months ended September 30, 2008 and 2007, 75,920 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.

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Key Financial Indicators

For The Six Months Ended September 30,

	2008	2007	2006	2005
Cash and Investments	\$ 6,728,000	\$ 4,722,000	\$ 2,888,000	\$ 6,115,000
Trade Receivables	\$ 4,518,000	\$ 3,319,000	\$ 2,962,000	\$ 2,182,000
Days Sales Outstanding	69	59	59	63
Inventory, Net	\$ 4,575,000	\$ 3,943,000	\$ 3,276,000	\$ 2,262,000
Inventory Turns	1.8	1.6	1.7	1.8
Working Capital	\$ 14,790,000	\$ 11,121,000	\$ 8,316,000	\$ 9,812,000
Current Ratio	12:1	13:1	10:1	12:1
Average Return On:				
Stockholder Investments (1)	19.2%	21.4%	19.8%	17.6%
Assets	18.0%	20.1%	18.3%	16.3%
Invested Capital (2)	25.4%	26.1%	25.7%	29.9%
Net Sales	\$ 10,734,000	\$ 9,154,000	\$ 7,860,000	\$ 5,401,000
Gross Profit	\$ 6,851,000	\$ 6,186,000		