

MESA LABORATORIES INC /CO
Form 10-Q
November 14, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

- TRANSITION REPORT UNDER 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.

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(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
(Address of principal executive offices)

80228
(Zip Code)

Registrant'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 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, 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
(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 3,282,941 shares of the Issuer's common stock, no par value, outstanding as of October 31, 2011.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MESA LABORATORIES, INC.****CONDENSED BALANCE SHEETS***(Dollars in Thousands)*

	(Unaudited) SEPT 30, 2011	MARCH 31, 2011
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,952	\$ 3,546
Accounts Receivable, Net	6,680	7,041
Inventories, Net	4,992	5,714
Prepaid Expenses and Other	824	961
TOTAL CURRENT ASSETS	17,448	17,262
PROPERTY, PLANT & EQUIPMENT, NET	7,300	7,308
OTHER ASSETS		
Goodwill, Intangibles and Other, Net	25,783	26,414
TOTAL ASSETS	\$ 50,531	\$ 50,984
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 751	\$ 723
Accrued Salaries & Payroll Taxes	1,199	2,332
Notes Payable - Current Portion	1,000	1,000
Revolving Line of Credit	2,000	4,000
Due To Apex Laboratories, Inc.	350	600
Other Accrued Expenses	180	176
Taxes Payable	929	1,100
TOTAL CURRENT LIABILITIES	6,409	9,931
LONG TERM LIABILITIES		
Deferred Income Taxes Payable	3,136	3,136
Notes Payable - Long Term	1,000	1,500
STOCKHOLDERS' EQUITY		
Preferred Stock, No Par Value		
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,282,470 shares (9/30/11) and 3,250,736 shares (3/31/11)	6,214	5,505
Employee Loans to Purchase Stock	(368)	(437)

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Retained Earnings	34,140	31,349
TOTAL STOCKHOLDERS EQUITY	39,986	36,417
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 50,531	\$ 50,984

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MESA LABORATORIES, INC.
CONDENSED STATEMENTS OF INCOME
(UNAUDITED)
(Dollars in Thousands Except Earnings Per Share)

	Three Months Ended Sept 30, 2011	Three Months Ended Sept 30, 2010
Sales	\$ 9,291	\$ 7,754
Cost of Goods Sold	3,517	3,202
Selling, General & Administrative	2,182	1,887
Research and Development	306	342
Other Expenses and (Income)	50	34
	6,055	5,465
Earnings Before Income Taxes	3,236	2,289
Income Taxes	1,183	860
Net Income	\$ 2,053	\$ 1,429
Net Income Per Share (Basic)	\$ 0.63	\$ 0.44
Net Income Per Share (Diluted)	\$ 0.59	\$ 0.43
Average Common Shares Outstanding (Basic)	3,282	3,231
Average Common Shares Outstanding (Diluted)	3,453	3,315

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MESA LABORATORIES, INC.
CONDENSED STATEMENTS OF INCOME
(UNAUDITED)
(Dollars in Thousands Except Earnings Per Share)

	Six Months Ended Sept 30, 2011	Six Months Ended Sept 30, 2010
Sales	\$ 18,178	\$ 15,209
Cost of Goods Sold	7,016	6,276
Selling, General and Administrative	4,469	3,831
Research and Development	714	565
Other Expenses and (Income)	99	46
	12,298	10,718
Earnings Before Income Taxes	5,880	4,491
Income Taxes	2,147	1,742
Net Income	\$ 3,733	\$ 2,749
Net Income Per Share (Basic)	\$ 1.14	\$ 0.85
Net Income Per Share (Diluted)	\$ 1.09	\$ 0.83
Average Common Shares Outstanding (Basic)	3,278	3,222
Average Common Shares Outstanding (Diluted)	3,433	3,311

Table of Contents**MESA LABORATORIES, INC.****CONDENSED STATEMENTS OF CASH FLOWS***(UNAUDITED)**(Dollars in Thousands)*

	Six Months Ended Sept 30, 2011	Six Months Ended Sept 30, 2010
Cash Flows From Operating Activities:		
Net Income	\$ 3,733	\$ 2,749
Depreciation and Amortization	1,102	834
Stock Based Compensation	192	162
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable, net	361	556
(Increase) Decrease in Inventories	722	(544)
(Increase) Decrease in Prepaid Expenses	137	354
Increase (Decrease) in Accounts Payable	(122)	(137)
Increase (Decrease) in Accrued Liabilities	(1,550)	100
Net Cash and Cash Equivalents Provided by Operating Activities	4,575	4,074
Cash Flows From Investing Activities:		
Acquisition of Product Lines and Company		(11,722)
Deposits	30	(17)
Capital Expenditures, Building		(2,150)
Capital Expenditures, Net of Retirements	(343)	(310)
Net Cash and Cash Equivalents (Used in) Investing Activities	(313)	(14,199)
Cash Flows From Financing Activities:		
Bank Borrowing		4,521
Debt Payments	(2,500)	(578)
Dividends Paid	(788)	(709)
Treasury Stock Purchases	(80)	(81)
Proceeds From Stock Options Exercised	512	76
Net Cash and Cash Equivalents (Used in) Provided by Financing Activities	(2,856)	3,229
Net Increase (Decrease) In Cash and Cash Equivalents	1,406	(6,896)
Cash and Cash Equivalents at Beginning of Period	3,546	10,471
Cash and Cash Equivalents at End of Period	\$ 4,952	\$ 3,575
Cash paid for Interest	\$ 111	\$ 55

Supplemental disclosure of non-cash activity:

The Company issued employee loans totaling \$235 and \$307 for the purchase of common stock during the six month period ended September 30, 2011 and 2010, respectively. \$304 of loans previously outstanding were retired in the six month period ended September 30, 2011.

On September 30, 2011, the Company entered into an agreement to license certain technology from Photonic Biosystems, Inc. This agreement called for an initial payment of \$150 which was accrued at September 30, 2011 and paid in October 2011.

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MESA LABORATORIES, INC. NOTES TO CONDENSED FINANCIAL STATEMENTS

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, 2011.

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 financial position, results of operations 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 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 became effective for us beginning April 1, 2011. The adoption of the required guidance did not 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 became effective for Mesa in the fourth quarter of Fiscal 2011. Specific disclosures regarding activities that occur during a reporting period, such as the disaggregated roll forward disclosures, became required for Mesa beginning in the first quarter of Fiscal 2012. As these changes only relate to disclosures, they did not have an impact on Mesa's consolidated financial results.

In September 2011, the FASB issued ASC 2011-8 *Intangibles - Goodwill and Other*. The amended guidance will allow companies to first assess qualitative factors to determine if it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, the Company would not be required to determine the fair value of the reporting unit, unless it determines, on a qualitative basis, that it is more likely than not that the fair value of the reporting unit is less than the carrying value. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company does not anticipate any material impacts from the adoption of this amended guidance.

2. Acquisition of Technology

On September 30, 2011, the Company entered into a license agreement with Photonic Biosystems, Inc. for certain biological indicator technology. Under the terms of this agreement, the Company has made an initial payment of \$150,000 for rights to the technology during October 2011. An additional payment of \$25,000 is due by the end of January 2012, a payment of \$75,000 is due upon issuance of a 510K clearance by the United States Food and Drug Administration for the anticipated product, and a payment of \$50,000 to \$150,000 will be due upon marketing of the product based on the time of results of the new biological indicator test. In addition, sales of products covered by this license agreement will be subject to royalty payments.

3. Stock Based Compensation

We account for share-based compensation awards made to employees and directors using the fair value based methodology prescribed by ASC 718 Share-Based Payments (ASC 718). Compensation costs for award grants are

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valued at fair value and recognized on a straight line basis over the service periods of each award. We estimated forfeiture rates for the year based on historical experience.

Amounts recognized in the condensed financial statements related to stock-based compensation are as follows:

(Dollars in thousands except earnings per share)	Three Months Ended Sept 30, 2011	Three Months Ended Sept 30, 2010	Six Months Ended Sept 30, 2011	Six Months Ended Sept 30, 2010
Total cost of stock-based compensation charged against income before income taxes	\$ 96	\$ 96	\$ 192	\$ 162
Amount of income tax benefit recognized in earnings	35	36	70	63
Amount charged against net income	\$ 61	\$ 60	\$ 122	\$ 99
Impact on net income per common share:				
Basic	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.03
Diluted	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.03

Stock-based compensation expense was reflected as selling, general and administrative expense and cost of goods sold expense in the condensed statements of income.

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 2012 and 2011 using the Black-Scholes model:

	Six Months Ended September 30 2011	2010
Stock options:		
Volatility	33.4%	36.2%
Risk-free interest rate	2.24-3.56%	2.04-3.89%
Expected option life (years)	5-10	5-10
Dividend yield	1.74%	1.78%

A summary of the option activity for the first six months of fiscal 2012 is as follows:

	Number of Shares	Weighted- average Exercise Price per Share	Weighted- average Remaining Contractual Term	Aggregate Intrinsic Value (000)
Outstanding at March 31, 2011	443,642	\$ 20.10	4.0	
Options granted	97,780	29.20	6.2	

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Options forfeited	(4,700)	25.58			
Options expired	(1,020)	14.91			
Options exercised	(47,822)	18.23			
Outstanding at Sept 30, 2011	487,880	22.07	4.14	\$	6,474
Exercisable at Sept 30, 2011	185,990	18.88	3.17	\$	3,061

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first six months of fiscal 2012 was \$8.24 and \$7.66 in the first six months of fiscal 2011. The Company issues new shares of common

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stock upon exercise of stock options. The total intrinsic value of options exercised was \$588,000 and \$351,000 during the first six months of fiscal 2012 and 2011, respectively.

A summary of the status of our unvested option shares as of September 30, 2011 is as follows:

	Number of Shares	Weighted-average Grant-Date Fair Value
Unvested at March 31, 2011	291,425	\$ 6.46
Options granted	97,780	8.24
Options forfeited	(4,305)	7.21
Options vested	(83,010)	6.04
Unvested at Sept 30, 2011	301,890	\$ 7.08

As of September 30, 2011, there was approximately \$1,364,000 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 2.5 years.

4. Related Party Transactions

On April 30, 2010, the Company purchased the building housing the facilities of SGM Biotech, Inc. for \$2,150,000 from Surreal, LLC. Surreal, LLC is owned by the former owners of SGM Biotech, Inc., which was acquired by the Company on April 27, 2010.

5. 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 potentially 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, 2011 and 2010:

(Dollars in thousands except earnings per share)	Three Months Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010
Net income available for shareholders	\$ 2,053	\$ 1,429	\$ 3,733	\$ 2,749
	3,282	3,231	3,278	3,222

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Weighted avg. outstanding shares of common stock

Dilutive effect of stock options	171	84	155	89
Common stock and equivalents	3,453	3,315	3,433	3,311
Earnings per share:				
Basic	\$ 0.63	\$ 0.44	\$ 1.14	\$ 0.85
Diluted	\$ 0.59	\$ 0.43	\$ 1.09	\$ 0.83

For the three and six months ended September 30, 2011 and 2010, no shares and 121,000 shares for each period, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the

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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.

6. Debt

To help finance the acquisition of Apex Laboratories, Inc., SGM Biotech, Inc., and the related building that houses the SGM Biotech facility, 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 \$2,000,000 at September 30, 2011, and a revolving line of credit for \$4,000,000 maturing on December 23, 2011. \$2,000,000 of the revolving line was paid in the current quarter and \$2,000,000 is still being utilized as of September 30, 2011. The 36 month reducing line of credit requires quarterly principal payments of \$250,000 beginning July 27, 2010 through maturity. In December 2010, the bank deferred the January 27, 2011 payment of \$250,000 until maturity at April 27, 2013, which allowed the Company to complete the acquisition of Apex Laboratories, Inc. without further alteration of its existing credit facility. Both of these lines of credit are subject to a variable rate of interest and a rate floor, both of which were 3.25% at September 30, 2011. Both of these lines of credit also require monthly interest payments, are subject to restrictive covenants and are secured by most of the assets of the Company. The Company was in compliance with the restrictive covenants as of September 30, 2011. Currently, the Company has sufficient funds to repay the remaining revolving line of credit of \$2,000,000 and expects to do so by maturity.

Future maturities on debt are as follows:

Fiscal Year 2012	2,500,000
Fiscal Year 2013	1,000,000
Fiscal Year 2014	500,000
\$	4,000,000

7. Segment Data

The Company adopted ASC 280, Disclosures about Segments of an Enterprise and Related Information. ASC 280 designates the internal reporting that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. ASC 280 also requires disclosure about products and sources, geographic areas and major customers. The Company aggregates its product lines as two reportable segments based on the similar characteristics and markets of our products.

Revenues related to operations in the U.S. and foreign countries for the three and six month periods ended September 30, 2011 and 2010 are presented below. Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported. Net revenues from unaffiliated customers and long-lived assets related to continuing operations in the U.S. and foreign countries as of September 30, 2011 and 2010 are as follows:

(Dollars in thousands)	Quarter Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010

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Net revenues from unaffiliated

customers:

United States	\$	5,811	\$	4,701	\$	11,303	\$	9,609
Foreign (no country exceeds 10% of total)		3,480		3,053		6,875		5,600
	\$	9,291	\$	7,754	\$	18,178	\$	15,209

Sept 30, 2011

Sept 30, 2010

Long-lived assets at end of quarter:

United States	\$	33,083	\$	27,874
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The following table summarizes total sales by product for the three and six month periods ended September 30:

(Dollars in thousands)	Three Months Ended September 30		Six Months Ended September 30	
	2011	2010	2011	2010
Instrumentation Products	\$ 4,215	\$ 3,857	\$ 8,554	\$ 7,857
Biological Indicators	5,076	3,897	9,624	7,352
Total Sales	\$ 9,291	\$ 7,754	\$ 18,178	\$ 15,209

Following is the Company's additional business segment information for September 30, 2011 and 2010:

(Dollars in thousands)	Biological Indicators	Instrumentation Products	Total
Quarter Ended Sept 30, 2011			
Revenue	\$ 5,076	\$ 4,215	\$ 9,291
Operating Income	\$ 1,655	\$ 1,631	\$ 3,286
Other (Income) and Expense	\$ 52	\$ (2)	\$ 50
Total Assets	\$ 32,627	\$ 17,904	\$ 50,531
Capital Expenditures	\$ 119	\$ 63	\$ 182
Depreciation	\$ 120	\$ 65	\$ 185
Amortization	\$ 341	\$ 35	\$ 376
Quarter Ended Sept 30, 2010			
Revenue	\$ 3,897	\$ 3,857	\$ 7,754
Operating Income	\$ 1,113	\$ 1,210	\$ 2,323
Other (Income) and Expense	\$ 37	\$ (3)	\$ 33
Total Assets	\$ 25,921	\$ 17,233	\$ 43,154
Capital Expenditures	\$ 60	\$ 54	\$ 114
Depreciation	\$ 112	\$ 43	\$ 155
Amortization	\$ 227	\$ 35	\$ 262
Six Months Ended Sept 30, 2011			
Revenue	\$ 9,624	\$ 8,554	\$ 18,178
Operating Income	\$ 2,596	\$ 3,383	\$ 5,979
Other (Income) and Expense	\$ 105	\$ (6)	\$ 99
Total Assets	\$ 32,627	\$ 17,904	\$ 50,531
Capital Expenditures	\$ 213	\$ 130	\$ 343
Depreciation	\$ 245	\$ 105	\$ 350
Amortization	\$ 672	\$ 80	\$ 752
Six Months Ended Sept 30, 2010			
Revenue	\$ 7,352	\$ 7,857	\$ 15,209
Operating Income	\$ 1,830	\$ 2,707	\$ 4,537
Other (Income) and Expense	\$ 52	\$ (6)	\$ 46
Total Assets	\$ 25,921	\$ 17,233	\$ 43,154
Capital Expenditures	\$ 2,326	\$ 134	\$ 2,460
Depreciation	\$ 224	\$ 98	\$ 322
Amortization	\$ 432	\$ 80	\$ 512

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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			
	For The Six Months Ended September 30			
	(Dollars in Thousands Except Earnings Per Share)			
	2011	2010	2009	2008
Cash and Investments	\$ 4,952	\$ 3,575	\$ 11,233	\$ 6,728
Trade Receivables Gross	\$ 7,104	\$ 5,368	\$ 3,925	\$ 4,518
Days Sales Outstanding	66	63	65	69
Inventory, Net	\$ 4,992	\$ 6,121	\$ 4,595	\$ 4,575
Inventory Turns	2.8	2.0	1.8	1.8
Working Capital	\$ 11,039	\$ 10,182	\$ 18,891	\$ 14,790
Current Ratio	3:1	3:1	19:1	12:1
Average Return On:				
Stockholder Investments (1)	19.5%	17.0%	15.9%	19.2%
Assets	14.7%	14.3%	15.0%	18.0%
Invested Capital (2)	19.5%	19.7%	24.1%	25.4%
Net Sales	\$ 18,178	\$ 15,209	\$ 10,383	\$ 10,734
Gross Profit	\$ 11,162	\$ 8,933	\$ 6,294	\$ 6,851
Gross Margin	61%	59%	61%	64%
Operating Income	\$ 5,979	\$ 4,537	\$ 3,581	\$ 3,631
Operating Margin	33%	30%	34%	34%
Net Profit	\$ 3,733	\$ 2,749	\$ 2,269	\$ 2,370
Net Profit Margin	21%	18%	22%	22%
Earnings Per Diluted Share	\$ 1.09	\$ 0.83	\$ 0.69	\$ 0.73
Earnings Before Income Tax, Depreciation and Amortization	\$ 6,982	\$ 5,325	\$ 3,954	\$ 4,075
Capital Expenditures, Net	\$ 343	\$ 2,460	\$ 312	\$ 119
Employees	179	170	107	112
Sales Per Employee (Annualized)	\$ 203	\$ 179	\$ 194	\$ 192

(1) Average return on stockholder investment is calculated by dividing total annualized net income by the average of end of period and beginning of year total stockholder's equity.

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(2) Average return on invested capital (invested capital = total assets - current liabilities - cash and cash equivalents) is calculated by dividing total annualized 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 fluctuations within a relatively narrow range over the four year comparative periods. These fluctuations are usually influenced by strategic uses of resources. Most of the indicators above for the period ended September 30, 2011 are showing variations from the results of the past years. Our balance sheet levels have increased due to acquisitions in December 2009, April 2010 and December 2010 requiring the use of cash and the addition of debt. These activities have impacted some of the computed ratios including working capital. Factors currently impacting profitability include increased sales of higher margin instrumentation products, increased sales of biological indicator products, and increased amortization expense due to the recent acquisitions. Improvements in manufacturing efficiencies have also contributed to the results of the current fiscal year resulting in improved gross margins.

RESULTS OF OPERATIONS

Net Sales

Net sales for the second quarter and first six months of fiscal 2012 increased 19.8 percent and 19.5 percent respectively from fiscal 2011. In real dollars, net sales of \$9,291,000 for the quarter and \$18,178,000 for the first six months in fiscal 2012 increased \$1,537,000 and \$2,969,000 respectively from \$7,754,000 and \$15,209,000 respectively in 2011.

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 Biological Indicator products are disposables and thus do not contribute to the Company's parts and service revenues. During the first six months of fiscal years 2012 and 2011 our Company had parts and service revenue of \$2,223,000 and \$2,024,000, respectively. As a percentage of total revenue, parts and service revenues were 12% in 2012 and 13% in 2011.

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. Although overall economic conditions remain soft this year we have seen an increase in our sales performance in total so far. We attribute this to the industries we serve which include various medical related markets, food processing and pharmaceuticals. For the fiscal first six months of fiscal 2012 and 2011, product sales for our company were \$15,955,000 and \$13,185,000, respectively. Sales also increased in the second quarter of fiscal 2012 due to the acquisition of the Apex Laboratories, Inc. biological indicator line of products in late December 2010.

Due to the addition of SGM Biotech, Inc. and Apex Laboratories, Inc. in the last fiscal year, the company has changed its reporting to better reflect its two distinct business segments, Biological Indicator Products and Instrumentation Products. The Instrumentation Products are based at the Company's Lakewood, CO facility, while Biological Indicator Products are manufactured at our Bozeman, MT and Omaha, NE facilities. This segmentation provides a clearer picture of how changes in our product mix impact net sales and profitability, especially at the gross profit

level.

For the current fiscal quarter, Biological Indicator products sales have increased to \$5,076,000 or 30.3 percent from \$3,897,000 in the prior year period, and Instrumentation products have increased to \$4,215,000 or 9.3 percent from \$3,857,000 in the prior year period. For the first six months of fiscal 2012, Biological Indicator Product sales have increased to \$9,624,000 or 30.9 percent from \$7,352,000 in the prior year period, and Instrumentation sales have increased to \$8,554,000 or 8.9 percent from \$7,857,000 in the prior year period. For the current quarter and six month periods the increase in Biological Indicator products is chiefly due to the addition of the Apex Laboratories products in late December of last year, a full six months of reportable activity for the Bozeman operations, and organic growth. Organic growth for the current quarter compared to prior year was 16 percent for the existing Biological Indicator products. During the

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current quarter and six month periods, the increases in Instrumentation products and services were due to organic growth of existing products.

Cost of Sales

Cost of sales as a percent of net sales during the second fiscal quarter decreased 3.4 percentage points from fiscal 2011 to 37.9 percent in the current quarter. Cost of sales as a percent of net sales during the first six months decreased 2.7 percentage points from fiscal 2011 to 38.6 percent in the current period. Currently, Instrumentation products enjoy margins higher than the Biological Indicator products. Therefore, shifts in product mix toward higher sales of Instrumentation products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of Biological Indicator products will normally produce the opposite effect on cost of goods sold expense and gross margins. All production of Torqo products was moved to our Lakewood facilities in December 2010. Along with savings from materials acquisition costs, the reduced cost to manufacture the Torqo products in house has resulted in higher margins in fiscal 2012. The Instrument products, as well as the Biological Indicator products, have achieved lower cost of sales percents in the current fiscal quarter versus the prior year quarter due to production efficiencies.

Gross margins are generally consistent within a business segment. Within the Biological Indicator segment, the gross margins remained stable for the current fiscal year versus the prior year despite undergoing some one time costs to bring the Apex product production to Bozeman and on-going organizational changes to efficiently merge the Omaha and Bozeman businesses. While we anticipate a shift to a higher proportion of Biological Indicator sales to continue given our focus on this growing segment, we also expect the addition of the Apex brand of biological indicators, with their higher margins, to eventually result in the further improvement of gross margins for the biological indicator line of products.

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. During fiscal 2012, we expect our general and administrative costs to stabilize after large increases in fiscal 2011 due to the addition of the SGM and Apex lines of product. Continuing additional costs expected during the current year include a full year of amortization of newly acquired intangible assets and higher personnel costs to support our growing businesses. For the fiscal second quarter of 2012, amortization was \$376,000 compared to \$262,000 for the same period last year. For the first six months of 2012, amortization was \$752,000 compared to \$512,000 for the same period last year. For the fiscal second quarter of 2012, total administrative costs including amortization were \$1,144,000 compared to \$993,000 for the same quarter last year. For the first six month of 2012, total administrative costs including amortization were \$2,492,000 compared to \$2,100,000 for the same 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, selling 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 the mix between international and domestic sales may influence sales and marketing costs. The acquisitions of the Torqo and SGM Biotech product lines had a significant impact on sales and marketing costs in fiscal 2011 which will continue in fiscal 2012. In dollars, selling costs were \$1,038,000 in the second fiscal quarter of 2012 and \$894,000 in the same prior year quarter. In dollars, selling costs were \$1,977,000 in the first six months of 2012 and \$1,731,000 in the same period last year. As a percent of sales, selling cost was 11.1 percent in the current quarter and 11.5 percent in the prior year quarter, and 10.9 percent in the first six months versus 11.4 percent in the same period last year.

Research and Development

Company sponsored research and development cost was \$306,000 during the second fiscal quarter of 2012 and \$342,000 during the previous year period. For the first six months of 2012 company sponsored research and development cost was \$714,000 and \$565,000 during the same period last year. We are currently executing a strategy of increasing the flow of

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internally developed products and we are continuing work that expands our radio frequency technology into new data logging markets. The additions of the Torqo and SGM Biotech product lines are also adding to our current research and development spending.

Net Income

Net income increased 44 percent to \$2,053,000 or \$.59 per share on a diluted basis during the second fiscal quarter of 2012 compared to \$1,429,000 or \$.43 per share on a diluted basis in the previous year period. For the first six months of 2012 net income increased 36 percent to \$3,733,000 or \$1.09 per share on a diluted basis, compared to \$2,749,000 or \$.83 per share on a diluted basis in the same period last year. As previously discussed, sales have increased due to both internal growth and acquisitions with overall margins also increasing during the quarter. Other factors impacting net income during the quarter included the increases in general and administrative costs, sales and marketing costs, and research and development costs which are discussed above. We have added debt and interest expense due to our acquisitions of SGM Biotech and Apex Laboratories during the prior fiscal year. Additionally, we have experienced six month amortization expenses of \$752,000 compared to \$512,000 in the prior year. For the first six months of fiscal 2012, net income margins have risen by 2.4 percentage points from 18.1 percent in the prior year period to 20.5 percent in the current year.

Liquidity and Capital Resources

On September 30, 2011, we had cash and cash equivalents of \$4,952,000. In addition, we had other current assets totaling \$12,496,000 with the total current assets being \$17,448,000. Current liabilities of our Company were \$6,409,000 which resulted in a current ratio of 3:1.

Our Company has made net capital acquisitions during the first six months of the fiscal year of \$343,000.

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, but currently we are minimizing buybacks due to our lower cash and higher debt positions.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On September 15, 2011, a quarterly dividend of \$.12 per common share was paid to shareholders of record on August 31, 2011.

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.

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To finance 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 has a remaining principal balance of \$2,000,000 at September 30, 2011, and a revolving line of credit for \$4,000,000 of which \$2,000,000 was utilized as of September 30, 2011 and is currently due at December 23, 2011. Both of these lines are subject to a variable rate of interest and a rate floor, both of which were 3.25% at September 30, 2011. In December 2010 the bank agreed to suspend the regular payment of \$250,000 which was due January 27, 2011 until maturity at April 27, 2013. This action allowed the Company to complete the acquisition of Apex Laboratories products without further alteration of the credit facility. The Company does not 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 and will be used to retire debt. We currently have sufficient surplus funds to retire the remaining \$2,000,000 balance on the revolving line of credit, which we expect to do during this fiscal year. If interesting candidates come to our attention, we may choose to pursue new acquisitions.

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Contractual Obligations

At September 30, 2011 we had contractual obligations for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. To help finance the acquisition of SGM Biotech, Inc., the Company entered into two separate credit facilities which require remaining principal payments of \$2,500,000, \$1,000,000 and \$500,000 in fiscal years 2012, 2013 and 2014, respectively. As part of the Apex Laboratories product line acquisition executed December 21, 2010, the Company was obligated to make two holdback payments of \$300,000 plus two percent per annum interest to Apex Laboratories in June and December of 2011. The June payment was made in early July for an amount of \$250,000. Currently, the remaining \$50,000 due in June is being withheld pending resolution of outstanding and guaranteed accounts receivable that were purchased in conjunction with the acquisition. It is expected that the remaining holdback amount of \$350,000 will be paid in December.

On September 30, 2011, the Company entered into a license agreement with Photonic Biosystems, Inc. for certain biological indicator technology. Under the terms of this agreement, the Company will make an initial payment of \$150,000 for rights to the technology in October 2011. An additional payment of \$25,000 is due by the end of January 2012, a payment of \$75,000 is due upon issuance of a 510K clearance by the Food and Drug Administration for the anticipated product, and a payment of \$50,000 to \$150,000 will be due upon marketing of the product based on the time of results of the new biological indicator test. In addition, sales of products covered by this license agreement will be subject to royalty payments.

Forward Looking Statements

All statements other than statements of historical fact included in this quarterly 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; competition in the bottlecap torque testing 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 Item 1A. Risk Factors 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.

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Accounts Receivable

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 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.

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ITEM 4T. 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, 2011 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

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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, 2011 under the heading Part I Item 1A. Risk Factors. There has been no material change in those risk factors.

Table of Contents**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 Shares Purchased as Part of Publicly Announced Plan	Remaining Shares to Purchase Under Plan
July 1-31, 2011	50	\$ 34.46	142,854	157,146
August 1-31, 2011	75	\$ 33.96	142,929	157,071
September 1-30, 2011	840	\$ 34.80	143,769	156,231
Total 2nd Quarter	965	\$ 34.71		

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.

PART III. EXHIBITS AND SIGNATURES**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

101 The following financial information from the quarterly report on Form 10-Q of Mesa Laboratories, Inc. for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Statements of Operations, (ii) Condensed Balance Sheets, (iii) Condensed Statements of Cash Flows, and (v) Notes to the Condensed Financial Statements.

b) Reports on Form 8-K:

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On August 10, 2011, 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 first fiscal quarter ended June 30, 2011.

On September 26, 2011, the Registrant filed a Report on Form 8-K, under item 5.07, reporting the results of voting held at its Annual Meeting of Shareholders held on September 22, 2011.

On September 27, 2011, the Registrant filed a Report on Form 8-K, under item 5.02, reporting the appointment of Mr. Michael Tranmer as executive Vice President of Biological Indicator Operations.

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SIGNATURES

MESA LABORATORIES, INC.

SEPTEMBER 30, 2011

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 14, 2011

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

DATED: November 14, 2011

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