

Edgar Filing: MESA LABORATORIES INC /CO - Form 10QSB

MESA LABORATORIES INC /CO  
Form 10QSB  
February 13, 2004

Form 10-QSB

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended December 31, 2003  
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OR

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

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

Commission File Number 0-11740  
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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  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 3,080,127 shares of the Issuer's common stock, no par value,  
outstanding as of December 31, 2003.

**ITEM 1. FINANCIAL STATEMENTS**  
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**FORM 10-QSB**

**MESA LABORATORIES, INC.**  
**BALANCE SHEETS**

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(UNAUDITED)

| ASSETS                               | DECEMBER 31, 2003 | MARCH 31, 2003 |
|--------------------------------------|-------------------|----------------|
| -----                                | -----             | -----          |
| CURRENT ASSETS                       |                   |                |
| Cash and Cash Equivalents            | \$ 4,687,678      | \$ 4,761,102   |
| Short-term Investments               | 1,601,433         | -              |
| Accounts Receivable, Net             | 1,502,006         | 2,281,791      |
| Inventories                          | 2,190,961         | 2,328,999      |
| Prepaid Expenses and Other           | 258,144           | 231,766        |
|                                      | -----             | -----          |
| TOTAL CURRENT ASSETS                 | 10,240,222        | 9,603,658      |
| PROPERTY, PLANT & EQUIPMENT, NET     | 1,302,008         | 1,347,980      |
| OTHER ASSETS                         |                   |                |
| Goodwill and Other                   | 4,207,942         | 4,207,942      |
|                                      | -----             | -----          |
| TOTAL ASSETS                         | \$15,750,172      | \$15,159,580   |
|                                      | =====             | =====          |
| LIABILITIES AND STOCKHOLDERS' EQUITY |                   |                |
| -----                                |                   |                |
| CURRENT LIABILITIES                  |                   |                |
| Accounts Payable                     | \$ 86,950         | \$ 117,979     |
| Accrued Salaries & Payroll Taxes     | 360,782           | 332,537        |
| Other Accrued Expenses               | 87,668            | 100,698        |
| Taxes Payable                        | 50,213            | 35,492         |
|                                      | -----             | -----          |
| TOTAL CURRENT LIABILITIES            | 585,613           | 586,706        |
| LONG TERM LIABILITIES                |                   |                |
| Deferred Income Taxes Payable        | 86,351            | 86,351         |
| STOCKHOLDERS' EQUITY                 |                   |                |
| Preferred Stock, No Par Value        | -                 | -              |
| Common Stock, No Par Value;          |                   |                |
| authorized 8,000,000 shares;         |                   |                |
| issued and outstanding,              |                   |                |
| 3,080,127 shares (12/31/03)          |                   |                |
| and 3,098,907 shares (3/31/03)       | 1,364,304         | 1,284,887      |
| Retained Earnings                    | 13,713,904        | 13,201,636     |
|                                      | -----             | -----          |
| TOTAL STOCKHOLDERS' EQUITY           | 15,078,208        | 14,486,523     |
|                                      | -----             | -----          |
| TOTAL LIABILITIES AND                |                   |                |
| STOCKHOLDERS' EQUITY                 | \$15,750,172      | \$15,159,580   |
|                                      | =====             | =====          |

MESA LABORATORIES, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

Three Months

Three Months

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|   | Ended<br>Dec. 31, 2003<br>----- | Ended<br>Dec. 31, 2002<br>----- |
|---|---------------------------------|---------------------------------|
| Sales                                       | \$2,199,740<br>-----            | \$2,196,865<br>-----            |
| Cost of Goods Sold                          | 837,555                         | 793,324                         |
| Selling, General & Administrative           | 523,762                         | 561,943                         |
| Research and Development                    | 85,927                          | 70,707                          |
| Other (Income) and Expenses                 | (13,766)<br>-----               | (13,204)<br>-----               |
|   | 1,433,478<br>-----              | 1,412,770<br>-----              |
| Earnings Before Income Taxes                | 766,262                         | 784,095                         |
| Income Taxes                                | 266,100<br>-----                | 245,500<br>-----                |
| Net Income                                  | \$ 500,162<br>=====             | \$ 538,595<br>=====             |
| Net Income Per Share (Basic)                | \$ .16<br>=====                 | \$ .17<br>=====                 |
| Net Income Per Share (Diluted)              | \$ .16<br>=====                 | \$ .17<br>=====                 |
| Average Common Shares Outstanding (Basic)   | 3,049,000<br>=====              | 3,157,000<br>=====              |
| Average Common Shares Outstanding (Diluted) | 3,148,000<br>=====              | 3,238,000<br>=====              |

**MESA LABORATORIES, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)**

|                                   | Nine Months<br>Ended<br>Dec. 31, 2003<br>----- | Nine Months<br>Ended<br>Dec. 31, 2002<br>----- |
|-----------------------------------|--|--|
| Sales                             | \$6,728,767<br>-----                           | \$6,681,189<br>-----                           |
| Cost of Goods Sold                | 2,545,471                                      | 2,483,432                                      |
| Selling, General & Administrative | 1,587,766                                      | 1,637,015                                      |
| Research and Development          | 236,391  | 199,636  |
| Other (Income) and Expenses       | (37,109)<br>-----                              | (43,796)<br>-----                              |
|                                   | 4,332,519<br>-----                             | 4,276,287<br>-----                             |
| Earnings Before Income Taxes      | 2,396,248                                      | 2,404,902                                      |
| Income Taxes                      | 844,605<br>-----                               | 785,500<br>-----                               |

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|   |                      |                      |
|---|----------------------|----------------------|
| Net Income                                  | \$1,551,643<br>===== | \$1,619,402<br>===== |
| Net Income Per Share (Basic)                | \$ .51<br>=====      | \$ .50<br>=====      |
| Net Income Per Share (Diluted)              | \$ .50<br>=====      | \$ .49<br>=====      |
| Average Common Shares Outstanding (Basic)   | 3,046,000<br>=====   | 3,264,000<br>=====   |
| Average Common Shares Outstanding (Diluted) | 3,125,000<br>=====   | 3,338,000<br>=====   |

**MESA LABORATORIES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

|   | Nine Months<br>Ended<br>Dec. 31, 2003<br>----- | Nine Months<br>Ended<br>Dec. 31, 2002<br>----- |
|---|--|--|
| Cash Flows From Operating Activities:             |  |  |
| Net Income  | \$1,551,643                                    | \$1,619,402                                    |
| Depreciation and Amortization                     | 76,947   | 88,791   |
| Change in Assets and Liabilities-                 |  |  |
| (Increase) Decrease in Accounts Receivable        | 779,785  | 331,235  |
| (Increase) Decrease in Inventories                | 138,038  | (52,652)                                       |
| (Increase) Decrease in Prepaid Expenses and Other | (26,378)                                       | 241,451  |
| Increase (Decrease) in Accounts Payable           | (31,029)                                       | (57,002)                                       |
| Increase (Decrease) in Accrued Liabilities        | 29,936   | 27,393   |
|   | -----  | -----  |
| Net Cash (Used) Provided by Operating Activities  | 2,518,942                                      | 2,198,618                                      |
|   | -----  | -----  |
| Cash Flows From Investing Activities:             |  |  |
| Purchase of Short-term Investments                | (1,601,433)                                    | -  |
| Capital Expenditures, Net of Retirements          | (30,975)                                       | (55,906)                                       |
|   | -----  | -----  |
| Net Cash (Used) Provided by Investing Activities  | (1,632,408)                                    | (55,906)                                       |
|   | -----  | -----  |
| Cash Flows From Financing Activities:             |  |  |
| Dividends Paid                                    | (616,271)                                      | -  |
| Treasury Stock Purchases                          | (667,356)                                      | (1,438,849)                                    |
| Proceeds From Stock Options Exercised             | 323,669  | 60,649   |
|   | -----  | -----  |
| Net Cash (Used) Provided by Financing Activities  | (959,958)                                      | (1,378,200)                                    |
|   | -----  | -----  |
| Net Increase (Decrease) In Cash and Equivalents   | (73,424)                                       | 764,512  |
|   | -----  | -----  |
| Cash and Cash Equivalents at Beginning of Period  | 4,761,102                                      | 3,461,978                                      |
|   | -----  | -----  |

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|  |                      |                       |
|--|----------------------|-----------------------|
| Cash and Cash Equivalents at End of Period | \$4,687,678<br>===== | \$ 4,226,490<br>===== |
|--|----------------------|-----------------------|

**MESA LABORATORIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003 AND 2002**

NOTE A. SUMMARY OF ACCOUNTING POLICIES

The summary of the Issuer's significant accounting policies are incorporated by reference to the Company's annual report on Form 10KSB, at March 31, 2003.

The accompanying unaudited condensed financial statements 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

The Company has stock based compensation plans, which are described more fully in Note 7 of the Company's annual report on Form 10KSB, at March 31, 2003. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards in fiscal 2004 and 2003 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share for the fiscal third quarter and year-to-date would have been reduced to the pro forma amount indicated below:

|  | Three Months Ended<br>December 31, |            | Nine Months Ended<br>December 31, |             |
|--|------------------------------------|------------|-----------------------------------|-------------|
|  | 2003                               | 2002       | 2003                              | 2002        |
| Net income - as reported               | \$ 500,162                         | \$ 538,595 | \$1,551,643                       | \$1,619,402 |
| Net income - pro forma                 | \$ 492,051                         | \$ 538,204 | \$1,481,940                       | \$1,550,213 |
| Income per diluted share - as reported | \$ .16                             | \$ .17     | \$ .50                            | \$ .49      |
| Income per diluted share - pro forma   | \$ .16                             | \$ .17     | \$ .47                            | \$ .46      |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: dividend yield of 2.0% (2004) and 0% (2003); expected volatility of approximately 14% (2004) and 20% (2003); discount rate of 3.0% (2004) and (2003); and expected lives of 5 years.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2003, the Company had cash and short-term investments of \$6,289,111. In addition, the Company had other current assets totaling \$3,951,111 and total current assets of \$10,240,222. Current liabilities of Mesa Laboratories, Inc. were \$585,613, which resulted in a current ratio of 17.5:1.

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The Company has made net capital asset purchases of \$30,975 for the fiscal year-to-date.

The Company has instituted a program to repurchase up to 300,000 shares of its 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. During the first nine months of the fiscal year, the Company repurchased 87,000 shares of our common stock.

On November 12, 2003 the company's Board of Directors declared for the first time a regular quarterly dividend of \$.05 per share of common stock. In addition the Board of Directors declared a special one-time dividend of \$.15 per share of common stock. Both dividends were paid on December 15, 2003, to shareholders of record on December 1, 2003.

### RESULTS OF OPERATIONS

#### REVENUE

Net sales for the nine months ended December 31, 2003 increased \$47,578 or 1% to \$6,728,767 from the \$6,681,189 net sales level achieved for the same nine-month period last year. Net sales for the quarter increased \$2,875 or less than 1% to \$2,199,740 from the \$2,196,865 net sales level achieved in the same quarter last year. Over the first nine months of the fiscal year, revenues are up a small amount compared to prior year. Datatrace sales for the nine-month period produced a seven percent decline while medical instruments increased by approximately eight percent. Nusonics products have increased over twenty percent for the same period, but this gain is on a much smaller base of sales. Net sales for the quarter were up a small amount from the prior year quarter. For the quarter, medical products decreased approximately two percent and Nusonics products were almost unchanged. Datatrace products decreased seven percent from the prior year quarter, which was helped by initial shipments of the Micropack III product.

#### COST OF GOODS SOLD

Cost of goods sold for the first nine months as a percent of net sales was 38%, which is an increase of 1% from the 37% level for the same nine-month period last year. Cost of goods sold for the current quarter as a percent of net sales was 38%, representing a 2% increase compared to the 36% level in the same quarter last year. While the mix of products during the first nine months of the fiscal year made a shift to Medical products compared to prior year leading to a one percent change in the cost of goods sold as a percent of sales, the quarter saw an increase of two percent in cost of goods sold due to the lower Datatrace product sales described above.

#### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses for the first nine months decreased 3% or \$49,249 to \$1,587,766 from \$1,637,015 in the same period last year. For the current quarter, selling, general and administrative expenses totaled \$523,762, which was down 7% or \$38,181 from \$561,943 expended in the same quarter last year. Marketing expenses decreased 14 percent and two percent for the quarter and nine month periods, respectively with Medical marketing expenses declining six percent for the quarter and nine month periods compared to the prior year. Datatrace marketing expenses decreased 16 percent for the quarter and increased two percent for the nine-month period. The decrease in marketing expenses for Datatrace products for the quarter was due chiefly to lower bad debt expense. Individual marketing costs for medical products trended down for the quarter and nine month periods and were relatively unchanged within

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the major expense categories. Administration costs remained at consistent levels increasing four percent in the current quarter and declining five percent over the first nine months of the fiscal year compared to the previous year.

### RESEARCH AND DEVELOPMENT

Research and development for the first nine months increased to \$236,391 from \$199,636, which represents an 18% increase from the same period last year. Research and development for the quarter was \$85,927, which represents an increase of \$15,220 or 22% from the \$70,707 level expensed in the same quarter last year. Research and development costs increased for the quarter and nine month periods due to higher compensation and consulting costs. This trend is expected to continue throughout the fiscal year. Development of three new versions of the Micropack III Logger that will measure other parameters besides temperature is proceeding well. Development projects for the company's line of Dialysate Meters for kidney dialysis have begun, and we estimate that we will begin to introduce our next generation medical instruments in the next fiscal year.

### NET INCOME

Net income for the nine months ended December 31, 2003 decreased 4% to \$1,551,643 from \$1,619,402, but earnings per share increased 2% to \$.50 per diluted share compared to \$.49 per diluted share one year ago. Net income for the quarter was \$500,162 or \$.16 per diluted share compared to net income of \$538,595 or \$.17 per diluted share last year. For the quarter and year-to-date, net income compared to last year declined slightly due to unchanged sales performance, a shift in sales mix from Datatrace to Medical products and an increase in the income tax rate compared to the prior year. On an earnings per share basis, year-to-date net income increased by \$.01 per diluted share due to the lower outstanding shares generated by the company's share buyback program.

### ITEM 3. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them, on a timely basis, to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

b. Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

### PART II-OTHER INFORMATION

#### ITEM 4. Submission of matters to a vote of securities holders

The Annual Meeting of Shareholders of Mesa Laboratories, Inc. was held on December 12, 2003. Of the 3,046,638 Shares entitled to vote, 2,564,657 were represented either in person or by proxy. Four Directors were elected to serve until the next Annual Meeting of Shareholders.

The four directors elected were:

FOR

WITHHELD

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|                    | ---       | -----  |
|--------------------|-----------|--------|
| Michael T. Brooks  | 2,550,157 | 14,500 |
| H. Stuart Campbell | 2,549,457 | 15,200 |
| Paul D. Duke       | 2,541,134 | 23,523 |
| Luke R. Schmieder  | 2,541,234 | 23,423 |

### ITEM 6. Exhibits and reports on Form 8-K

#### a) Exhibits:

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### b) Reports on Form 8-K:

On February 5, 2004, we furnished a report on Form 8-K under Item 9, Regulation FD Disclosure, to announce that we issued a press release on February 4, 2004 announcing preliminary results for the third quarter period ended December 31, 2003, and filed under Item 7, Financial Statements and Exhibits, a copy of the press release dated February 4, 2004.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MESA LABORATORIES, INC.

(Issuer)

DATED: February 13, 2004

BY: /s/Luke R. Schmieder  
Luke R. Schmieder  
President, Chief Executive Officer,  
Treasurer and Director

DATED: February 13, 2004

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