

MESA LABORATORIES INC /CO
Form 10-Q
August 14, 2007

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 June 30, 2007

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)

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

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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

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 3,164,928 shares of the Issuer's common stock, no par value, outstanding as of June 30, 2007.

PART I-FINANCIAL INFORMATION FORM 10-QITEM 1. FINANCIAL STATEMENTS

MESA LABORATORIES, INC.

BALANCE SHEETS

(UNAUDITED)

	JUNE 30, 2007	MARCH 31, 2007
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,907,000	\$ 3,346,000
Accounts Receivable, Net	3,389,000	3,827,000
Inventories, Net	3,737,000	3,297,000
Prepaid Expenses and Other	331,000	372,000
TOTAL CURRENT ASSETS	11,364,000	10,842,000
PROPERTY, PLANT & EQUIPMENT, NET	3,458,000	3,521,000
OTHER ASSETS		
Goodwill, Intangibles and Other, Net	7,865,000	7,991,000
TOTAL ASSETS	\$ 22,687,000	\$ 22,354,000
 <u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 253,000	\$ 257,000
Accrued Salaries & Payroll Taxes	470,000	998,000
Other Accrued Expenses	79,000	95,000
Taxes Payable	476,000	119,000
TOTAL CURRENT LIABILITIES	1,278,000	1,469,000
LONG TERM LIABILITIES		
Deferred Income Taxes Payable	161,000	162,000
STOCKHOLDERS EQUITY		
Preferred Stock, No Par Value		
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,164,928 shares (6/30/07) and 3,178,401 shares (3/31/07)	4,618,000	4,646,000
Retained Earnings	16,630,000	16,077,000
TOTAL STOCKHOLDERS EQUITY	21,248,000	20,723,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 22,687,000	\$ 22,354,000

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)**MESA LABORATORIES, INC.****STATEMENTS OF OPERATIONS**

(UNAUDITED)

	Three Months	Three Months
	Ended	Ended
	June 30, 2007	June 30, 2006
Sales	\$ 4,286,000	\$ 3,674,000
Cost of Goods Sold	1,385,000	1,287,000
Selling, General & Administrative	1,294,000	1,069,000
Research and Development	94,000	123,000
Other (Income) and Expenses	(48,000)	(39,000)
	2,725,000	2,440,000
Earnings Before Income Taxes	1,561,000	1,234,000
Income Taxes	546,000	444,000
Net Income	\$ 1,015,000	\$ 790,000
Net Income Per Share (Basic)	\$.32	\$.26
Net Income Per Share (Diluted)	\$.31	\$.25
Average Common Shares Outstanding (Basic)	3,170,000	3,095,000
Average Common Shares Outstanding (Diluted)	3,300,000	3,160,000

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

MESA LABORATORIES, INC.

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Cash Flows From Operating Activities:		
Net Income	\$ 1,015,000	\$ 790,000
Depreciation and Amortization	195,000	124,000
Stock Based Compensation	58,000	66,000
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable	438,000	353,000
(Increase) Decrease in Inventories	(440,000)	(111,000)
(Increase) Decrease in Prepaid Expenses	41,000	215,000
Increase (Decrease) in Accounts Payable	(4,000)	(121,000)
Increase (Decrease) in Accrued Liabilities	(188,000)	(156,000)
Net Cash (Used) Provided by Operating Activities	1,115,000	1,160,000
Cash Flows From Investing Activities:		
Short-term Investments Redeemed		1,245,000
Purchase of Business		(2,729,000)
Capital Expenditures, Net of Retirements	(6,000)	(211,000)
Net Cash (Used) Provided by Investing Activities	(6,000)	(1,695,000)
Cash Flows From Financing Activities:		
Dividends Paid	(254,000)	(222,000)
Treasury Stock Purchases	(295,000)	(77,000)
Proceeds From Stock Options Exercised	1,000	63,000
Net Cash (Used) Provided by Financing Activities	(548,000)	(236,000)
Net Increase (Decrease) In Cash and Cash Equivalents	561,000	(771,000)
Cash and Cash Equivalents at Beginning of Period	3,346,000	4,466,000
Cash and Cash Equivalents at End of Period	\$ 3,907,000	\$ 3,695,000

Supplemental disclosure of non-cash activity:

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

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 10KSB, at March 31, 2007.

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 June 30, 2007	Three Months Ended June 30, 2006
Total cost of stock-based compensation	\$ 58,000	\$ 66,000
Amount capitalized in inventory and property and equipment		
Amounts charged against income, before income taxes	58,000	66,000
Amount of income tax benefit recognized in earnings	20,000	23,000
Amount charged against net income	\$ 38,000	\$ 43,000
Impact on net income per common share:		
Basic	\$ 0.01	\$.01
Diluted	\$ 0.01	\$.01

Stock-based compensation expense was reflected as Selling, general and administrative expense in the statement of operations for the first quarter of fiscal 2008 and 2007.

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 quarter of fiscal 2008 and 2007 using the Black-Scholes model:

	Three Months Ended June 30,	
	2007	2006
Stock options:		
Volatility	36.1%	39.2%
Risk-free interest rate	4.58-5.07%	4.95-5.16%
Expected option life (years)	5-10	5-10
Dividend yield	2.1%	3.7%

A summary of the option activity for the first three months of fiscal 2008 is as follows:

	Number of Shares	Weighted- average Exercise Price per Share	Weighted- average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2007	259,390	\$ 12.32	4.9	
Options granted	107,920	19.04	7.2	
Options forfeited	(7,280)	15.36		
Options expired				
Options exercised	(1,030)	8.94		
Outstanding at June 30, 2007	359,000	\$ 14.29	5.6	\$ 3,236,000
Exercisable at June 30, 2007	101,425	\$ 10.42	4.1	\$ 1,057,000

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first quarter of fiscal 2008 was \$19.04 and \$14.54 in the first quarter of fiscal 2007. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was \$16,000 and \$52,000 during the first quarters of fiscal 2008 and 2007, respectively.

A summary of the status of our unvested option shares as of June 30, 2007 is as follows:

	Number of Shares	Weighted- average Grant-Date Fair Value
Unvested at March 31, 2007	196,020	\$ 13.11
Options granted	107,920	\$ 19.04
Options forfeited	(7,280)	\$ 15.36
Options vested	(39,085)	\$ 11.36
Unvested at June 30, 2007	257,575	\$ 15.81

As of June 30, 2007, there was \$1,320,000 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 3.7 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 period ended June 30, 2007 and 2006:

	Three Months Ended	
	2007	2006
Net income available for shareholders	\$ 1,015,000	\$ 790,000
Weighted avg. outstanding shares of common stock	3,170,000	3,095,000
Dilutive effect of stock options	130,000	65,000
Common stock and equivalents	3,300,000	3,160,000
Earnings per share:		
Basic	\$.32	\$.26
Diluted	\$.31	\$.25

For the three months ended June 30, 2007 and 2006, no shares and 1,800 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.

Key Financial Indicators

For The Quarters Ended June 30,

	2007	2006	2005	2004
Cash and Investments	\$ 3,907,000	\$ 3,695,000	\$ 7,573,000	\$ 7,127,000
Trade Receivables	\$ 3,619,000	\$ 2,999,000	\$ 1,594,000	\$ 1,933,000
Days Sales Outstanding	73	60	50	63
Inventory	\$ 3,737,000	\$ 3,061,000	\$ 2,065,000	\$ 2,090,000
Inventory Turns	1.5	1.9	1.8	1.8
Working Capital	\$ 10,086,000	\$ 8,849,000	\$ 10,407,000	\$ 10,492,000
Current Ratio	9:1	10:1	12:1	14:1
Average Return On:				
Stockholder Investment(1)	19.3%	18.7%	13.9%	16.0%
Assets	18.0%	17.3%	12.9%	15.2%
Invested Capital (2)	23.2%	25.3%	25.3%	28.3%
Net Sales	\$ 4,286,000	\$ 3,674,000	\$ 2,440,000	\$ 2,539,000
Gross Profit	\$ 2,901,000	\$ 2,387,000	\$ 1,538,000	\$ 1,603,000
Gross Margin	68%	65%	63%	63%
Operating Income	\$ 1,513,000	\$ 1,195,000	\$ 789,000	\$ 946,000
Operating Margin	35%	33%	32%	37%
Net Profit	\$ 1,015,000	\$ 790,000	\$ 540,000	\$ 625,000
Net Profit Margin	24%	22%	22%	25%
Earnings Per Diluted Share	\$.31	\$.25	\$.17	\$.20
Capital Expenditures(Net)	\$ 6,000	\$ 211,000	\$ 37,000	\$ 37,000
Head Count	100.0	92.0	50.5	48.5
Sales Per Employee (Annualized)	\$ 171,000	\$ 160,000	\$ 193,000	\$ 209,000

- (1) Average return on stockholder investment is calculated by dividing total net income by the average of end of period and beginning of year total stockholder's equity.
- (2) Average return on invested capital (invested capital = total assets - current liabilities - cash and short-term investments) is calculated by dividing total 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 exceptions. These exceptions are usually influenced by a more important need. Most of the indicators above for the period ended June 30, 2007 are showing variation from the trends of the past years. Our sales, profitability and various return trends are improving due to the Raven acquisition a year ago. Our key balances, such as, cash, accounts receivables, inventory and working capital are also growing due to the Raven acquisition, but the related ratios are showing some decline due to the growth, but we would expect these ratios to mostly improve as the fiscal year progresses.

Results of Operations

Net Sales

Net sales for the first quarter of fiscal 2008 increased 17 percent from fiscal 2007. In real dollars, net sales of \$4,286,000 in fiscal 2008 increased \$612,000 from \$3,674,000 in 2007.

One of the main contributing factors to increased net sales this quarter was the addition of Raven Biological Laboratories, Inc., which was acquired May 4, 2006. While Raven's biological indicator products added five incremental weeks of sales during the current quarter, sales of Mesa's existing medical products also contributed to the gain growing nine percent during the quarter when compared to the same period last year.

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 processing. For this reason, these revenues tend to be fairly stable and grow slowly over time. Also, it is important to note that the newer Raven products are disposables and thus do not contribute to the Company's parts and service

revenues. During the first quarter of fiscal years 2008 and 2007 our Company had parts and service revenue of \$847,000 and \$811,000. As a percentage of total revenue, parts and service revenues were 20% in 2008 and 22% in 2007.

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. Over the past several fiscal years, general economic conditions have been improving, and capital spending has also been increasing. In the past two years we have added the new 90XL Dialysate Meter to our medical line of products. In addition, we have added the Raven line of biological indicators as of early May, 2006. For fiscal first quarter 2008 and 2007, product sales for our company were \$3,439,000 and \$2,863,000.

Over the fiscal first quarter, our medical revenues increased nine percent compared to the prior period. This increase was due to higher sales of calibration solutions and parts and service. Sales of our other dialysis products remained consistent with last year's levels, and continue to enjoy wide spread acceptance with the major dialysis providers in the U.S

During the fiscal first quarter, sales of the Datatrace brand of products decreased 10 percent from the prior year. The decrease in DataTrace sales during the quarter reflects a short fall in shipments rather than a weakness in orders as depletion of subassembly components following our strong fourth quarter slowed shipments during the first half of the quarter. As we have previously discussed we have been moving to a direct sales model for our domestic DataTrace sales with five sales territories, which was fully implemented as of the middle of the fiscal first quarter.

The Raven biological indicator products were acquired on May 4, 2006. For this reason, sales of the company's Raven biological indicator products benefited from five extra weeks of sales for the current quarter when compared to the prior year period, and were up 71 Percent.

Cost of Sales

Cost of sales as a percent of net sales during the first fiscal quarter decreased 2.7 percent from fiscal 2007 to 32.3 percent. Due to the fact that the dialysis products have sales concentrations to several companies that maintain large chains of treatment centers, the products that are sold to the renal market tend to be slightly more price sensitive than the data logging products. Therefore, shifts in product mix toward higher sales of Datatrace logging products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of medical products will normally produce the opposite effect on cost of goods sold expense and gross margins.

Over the current fiscal quarter, our Company experienced its second highest quarterly sales performance, which led to a decrease in cost of goods sold expense as a percent of sales compared to the prior year period. In addition we experienced higher gross margins than anticipated for our medical products. This gain in medical product margins was due to higher sales and gains in our shipping cost recovery. In addition, we had some temporary savings due to some employee turnover as a tighter labor market has caused position opening to remain open for a longer period of time.

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. Total administrative costs were \$569,000 in the current quarter compared \$467,000 for the same quarter last year. Most of the additional cost in the first quarter of fiscal 2008 was due the cost of five additional weeks of operation of Raven when compared to 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,

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 mix between international and domestic sales may influence sales and marketing costs. One other major influence on sales and marketing costs is the mix of domestic medical sales to all other domestic sales. Domestic medical sales are made by direct telemarketing representatives, which gives us a lower cost structure, when compared to the direct and distributor sales channels utilized by our other products.

During the first quarter of fiscal 2006 the company began the process of converting the domestic distribution of its Datatrace products from independent manufacturer representatives to our own direct sales force. This change gave us increased sales effort and better control of the selling effort. To execute this strategy, we added two new direct sales representatives to our staff and converted a sales management position to a field sales representative position in fiscal 2006. After experiencing some initial turnover in our staff through fiscal 2007, we have fully staffed all of our domestic sales positions during the first quarter of fiscal 2008. We expect this organization to further increase our sales over the remainder of the fiscal year.

In dollars, selling costs were \$725,000 in the first fiscal quarter and \$602,000 in the same prior year quarter. As a percent of sales, selling cost was 16.9% in the current quarter and 16.4% in the prior year quarter. During the current fiscal quarter, most of the dollar increase in selling expense was due to five additional weeks of Raven selling expenses when compared to the prior year.

Research and Development

Company sponsored research and development cost was \$94,000 during the first fiscal quarter and \$123,000 during the previous year period. We are currently trying to execute a strategy of increasing the flow of internally developed products. Currently, we are working on a project to develop a new line of products within our Datatrace family of products. If successfully developed these products would be expected to complement our existing products. Due to this project some minor reorganization of staffing took place during the first quarter of the prior year, which created a one time increase in expense during that quarter.

Net Income

Net income increased 28 percent to \$1,015,000 or \$.31 per share on a diluted basis during the quarter from \$790,000 or \$.25 per share on a diluted basis in the previous year period. The net income increase was due primarily to the increased gross margins of our medical products, as well as the contribution to sales of the new products acquired from Raven.

Liquidity and Capital Resources

On June 30, 2007, we had cash and short term investments of \$3,907,000. In addition, we had other current assets totaling \$7,457,000 and total current assets of \$11,364,000. Current liabilities of our Company were \$1,278,000 which resulted in a current ratio of 9:1.

Our Company has made capital acquisitions during the first fiscal quarter of \$6,000.

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.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On June 15, 2007, a quarterly dividend of \$.08 per common share was paid to shareholders of record on May 21, 2007.

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.

The Company does not currently maintain a line of credit or any other form of debt. Nor does the Company 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. If interesting candidates come to our attention, we may choose to pursue new acquisitions.

Contractual Obligations

At June 30, 2007 our only contractual obligations were open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. In addition, the company is committed to repurchase 3,000 shares per month of its own common stock from one of its Board of Directors members, Mr. Paul Duke, through November 2007. Shares are purchased each month at the volume weighted average selling price of all shares traded on the market in the previous month.

Forward Looking Statements

All statements other than statements of historical fact included in this annual 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; the discontinuance of the practice of dialyzer reuse; 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 the Additional Cautionary Statements provided in our Company's most recent Form 10-KSB 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.

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.

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 thereto which begin at Item 7. Financial Statements of the Annual Report on Form 10-KSB 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.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to 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 principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer evaluated 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.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2007 identified in connection with the Company's evaluation that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management currently believes that once it has completed its review of internal controls, as mandated by Section 404 of the Sarbanes-Oxley Act of 2002, that certain control weaknesses will be identified, including the inability of management to properly segment accounting duties due to the limited size of its accounting staff. Due to the constraints of the Company's size, management may discover other similar areas of potential control weaknesses as its review and documentation of internal controls proceeds.

PART II-OTHER INFORMATION**ITEM 1. Legal proceedings**

None.

ITEM 1A. Risk factors

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-KSB for the fiscal year ended March 31, 2007 under the heading Part I Item 6. Additional Cautionary Statements. There has been no material change in those risk factors.

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 first quarter of the fiscal year covered by this report:

	Shares	Avg. Price	Total Share Purchased as Part of Publicly Announced Plan	Remaining Shares to Purchase Under Plan
	Purchased	Paid		
April 1-30, 2007	3,336	\$ 19.23	73,203	226,797
May 1-31, 2007	7,798	\$ 20.61	81,001	218,999
June 1-30, 2007	3,000	\$ 23.31	84,001	215,999
Total 1st Quarter	14,134	\$ 20.86		

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.

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 May 24, 2007, 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 quarter and twelve months ended March 31, 2007.

MESA LABORATORIES, INC.

JUNE 30, 2007

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: August 14, 2007

BY: /s/ Luke R. Schmieder
Luke R. Schmieder
Chief Executive Officer,

Treasurer and Chairman of the Board of Directors

DATED: August 14, 2007

BY: /s/ Steven W. Peterson
Steven W. Peterson
Vice President-Finance, Chief

Financial and Accounting Officer and Secretary