

MESA LABORATORIES INC /CO
Form 10-Q
November 06, 2017

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2017

**TRANSITION REPORT PURSUANT TO 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.

(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 **80228**
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such 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 this 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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

There were 3,779,749 shares of the Issuer's common stock, no par value, outstanding as of October 27, 2017.

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Signatures

Certification of Chief
Executive Officer
Pursuant to Rule
13a-14(a)

Certification of Chief
Financial Officer
Pursuant to Rule
13a-14(a)

Certification of Chief
Executive Officer
Pursuant to Rule
13a-14(b) and 18

U.S.C. Section 1350
Certification of Chief
Financial Officer
Pursuant to Rule

13a-14(b) and 18
U.S.C. Section 1350

Part I. Financial Information**Item 1. Financial Statements****Mesa Laboratories, Inc.****Condensed Consolidated Balance Sheets**

(In thousands, except share amounts)

	September 30, 2017	March 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,268	\$5,820
Accounts receivable, less allowances of \$245 and \$252, respectively	12,187	14,319
Inventories, net	12,913	13,873
Prepaid income taxes	2,039	587
Prepaid expenses and other	1,975	1,186
Assets held for sale	1,934	--
Total current assets	41,316	35,785
Property, plant and equipment, net	23,760	26,002
Intangibles, net	35,443	37,790
Goodwill	73,414	72,156
Total assets	\$ 173,933	\$171,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,036	\$2,168
Accrued salaries and payroll taxes	3,420	4,350
Unearned revenues	3,805	4,117
Current portion of contingent consideration	1,165	1,294
Other accrued expenses	2,649	2,999
Income taxes payable	--	514
Current portion of long-term debt	1,375	1,125
Total current liabilities	14,450	16,567

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Deferred income taxes	3,698	3,554
Long-term debt, net of debt issuance costs and current portion	50,455	53,675
Contingent consideration	92	116
Total liabilities	68,695	73,912
Commitments and Contingencies (Note 8)		
Stockholders' equity:		
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,779,717 and 3,727,704 shares, respectively	28,974	25,925
Retained earnings	76,325	73,656
Accumulated other comprehensive loss	(61) (1,760)
Total stockholders' equity	105,238	97,821
Total liabilities and stockholders' equity	\$ 173,933	\$ 171,733

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.**Condensed Consolidated Statements of Income**

(Unaudited)

(In thousands except per share data)

	Three Months Ended September 30, 2017 2016		Six Months Ended September 30, 2017 2016	
Revenues	\$22,954	\$24,409	\$45,627	\$45,523
Cost of revenues	9,721	10,685	19,723	19,785
Gross profit	13,233	13,724	25,904	25,738
Operating expenses				
Selling	2,288	2,694	4,967	5,118
General and administrative	6,412	5,973	13,269	11,953
Research and development	885	1,045	2,038	2,080
Total operating expenses	9,585	9,712	20,274	19,151
Operating income	3,648	4,012	5,630	6,587
Other expense, net	542	800	1,221	1,206
Earnings before income taxes	3,106	3,212	4,409	5,381
Income taxes	753	854	539	1,093
Net income	\$2,353	\$2,358	\$3,870	\$4,288
Net income per share:				
Basic	\$0.63	\$0.64	\$1.03	\$1.17
Diluted	0.60	0.62	0.98	1.12
Weighted average common shares outstanding:				
Basic	3,764	3,669	3,754	3,657
Diluted	3,935	3,831	3,934	3,816

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.**Condensed Consolidated Statements of Comprehensive Income**

(Unaudited)

(In thousands)

	Three Months Ended September 30, 2017 2016		Six Months Ended September 30, 2017 2016	
Net Income	\$2,353	\$2,358	\$3,870	\$4,288
Other comprehensive income (loss), net of tax:				
Foreign currency translation	948	(185)	1,699	(135)
Total comprehensive income	\$3,301	\$2,173	\$5,569	\$4,153

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.**Condensed Consolidated Statements of Cash Flows**

(Unaudited)

(In thousands)

	Six Months Ended	
	September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$3,870	\$4,288
Depreciation and amortization	4,531	4,411
Stock-based compensation	985	841
Amortization of debt issuance costs	55	--
Deferred income taxes	144	138
Foreign currency adjustments	(533)	(28)
Gain on disposition of assets	(116)	--
Adjustment to contingent consideration	300	--
Change in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net	2,132	1,900
Inventories, net	960	(348)
Prepaid expenses and other	(2,241)	(509)
Accounts payable	(132)	661
Accrued liabilities and taxes payable	(1,819)	(5,392)
Unearned revenues	(312)	(39)
Contingent consideration	(456)	(4,594)
Net cash provided by operating activities	7,368	1,329
Cash flows from investing activities:		
Acquisitions	(62)	(3,401)
Proceeds from sale of assets	1,133	--
Purchases of property, plant and equipment	(2,012)	(6,669)
Net cash used in investing activities	(941)	(10,070)
Cash flows from financing activities:		
Proceeds from the issuance of debt	4,000	9,500
Payments on debt	(7,000)	(2,000)
Dividends	(1,201)	(1,169)
Proceeds from the exercise of stock options	2,064	1,767
Net cash (used in) provided by financing activities	(2,137)	8,098
Effect of exchange rate changes on cash and cash equivalents	158	18

Net increase (decrease) in cash and cash equivalents	4,448	(625)
Cash and cash equivalents at beginning of period	5,820	5,695
Cash and cash equivalents at end of period	\$10,268	\$5,070
Cash paid for:		
Income taxes	\$2,446	\$3,140
Interest	1,007	588
Supplemental non-cash activity:		
Contingent consideration as part of an acquisition	--	1,822

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.

Notes to Condensed Consolidated Financial Statements

Note 1 - Description of Business and Summary of Significant Accounting Policies

Description of Business

Mesa Laboratories, Inc. was incorporated under the laws of the State of Colorado on *March 26, 1982*. The terms “we,” “us,” “our,” the “Company” or “Mesa” are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are conducted. We pursue a strategy of focusing primarily on quality control products and services, which are sold into niche markets that are driven by regulatory requirements. We prefer markets where we can establish a strong presence and achieve high gross margins. We are organized into *four* divisions across *ten* physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene, environmental air sampling and semiconductor industries. Our Sterilization and Disinfection Control Division (formerly named the Biological Indicators Division) provides testing services, along with the manufacturing and marketing of both biological and cleaning indicators, and the marketing of chemical indicators used to assess the effectiveness of sterilization and disinfection processes in the hospital, dental, medical device and pharmaceutical industries. Our Cold Chain Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and other laboratory and industrial environments. Our Cold Chain Monitoring Division also provides parameter (primarily temperature) monitoring of products during transport in a cold chain and consulting services such as compliance monitoring and validation or mapping of transport and storage containers. Our Cold Chain Packaging Division provides packaging development consulting services and thermal packaging products such as coolers, boxes, insulation materials and phase-change products to control temperature during transport.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of *March 31, 2017*, has been derived from audited consolidated financial statements. The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual audited consolidated financial statements and in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring accruals)

necessary for a fair presentation of this interim information. Operating results and cash flows for interim periods are *not* necessarily indicative of results that can be expected for the entire year. The information included in this report should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form *10-K* for the year ended *March 31, 2017*.

The summary of our significant accounting policies is incorporated by reference to our Annual Report on Form *10-K* for the year ended *March 31, 2017*.

Recently Issued Accounting Pronouncements

In *May 2014*, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *2014-*