

MESA LABORATORIES INC /CO

Form 10-Q

August 14, 2008

## **Form 10-Q**



**U.S. Securities and Exchange Commission**

Washington, D.C. 20549



## Form 10-Q

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

**For the quarterly period ended June 30, 2008**

**OR**

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

**For the transition period from                      to**

**Commission File Number 0-11740**



# MESA LABORATORIES, INC.

(Exact Name of Small Business Issuer as Specified in its Charter)

**COLORADO**  
(State or other Jurisdiction of  
Incorporation or Organization)

**84-0872291**  
(I.R.S. Employer  
Identification No.)

**12100 WEST SIXTH AVENUE, LAKEWOOD, COLORADO**  
(Address of Principal Executive Offices)

**80228**  
(Zip Code)

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act, during the past 12 months and (2) has been subject to the filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 **3,177,202** shares of the Issuer's common stock, no par value, outstanding as of **June 30, 2008**.

PART I-FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS

## MESA LABORATORIES, INC.

**BALANCE SHEETS**

(UNAUDITED)

	JUNE 30, 2008	MARCH 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash equivalents	\$ 6,390,000	\$ 5,770,000
Accounts Receivable, Net	3,602,000	3,909,000
Inventories, Net	4,498,000	4,020,000
Prepaid Expenses and Other	413,000	712,000
<b>TOTAL CURRENT ASSETS</b>	<b>14,903,000</b>	<b>14,411,000</b>
<b>PROPERTY, PLANT &amp; EQUIPMENT, NET</b>	<b>3,487,000</b>	<b>3,488,000</b>
<b>OTHER ASSETS</b>		
Goodwill, Intangibles and Other, Net	7,702,000	7,634,000
<b>TOTAL ASSETS</b>	<b>\$ 26,092,000</b>	<b>\$ 25,533,000</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 277,000	\$ 173,000
Accrued Salaries & Payroll Taxes	564,000	1,189,000
Other Accrued Expenses	80,000	129,000
Taxes Payable	411,000	96,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,332,000</b>	<b>1,587,000</b>
<b>LONG TERM LIABILITIES</b>		
Deferred Income Taxes Payable	207,000	207,000
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock, No Par Value		
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,177,202 shares (6/30/08) and 3,166,492 shares (3/31/08)	4,713,000	4,665,000
Retained Earnings	19,840,000	19,074,000
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>24,553,000</b>	<b>23,739,000</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 26,092,000</b>	<b>\$ 25,533,000</b>



## MESA LABORATORIES, INC.

## STATEMENTS OF OPERATIONS

(UNAUDITED)

	<b>Three Months Ended June 30, 2008</b>	<b>Three Months Ended June 30, 2007</b>
Sales	\$ 5,054,000	\$ 4,286,000
Cost of Goods Sold	1,850,000	1,385,000
Selling, General & Administrative	1,495,000	1,294,000
Research and Development	173,000	94,000
Other (Income) and Expenses	(29,000)	(48,000)
	3,489,000	2,725,000
Earnings Before Income Taxes	1,565,000	1,561,000
Income Taxes	549,000	546,000
Net Income	\$ 1,016,000	\$ 1,015,000
Net Income Per Share (Basic)	\$ .32	\$ .32
Net Income Per Share (Diluted)	\$ .31	\$ .31
Average Common Shares Outstanding (Basic)	3,170,000	3,170,000
Average Common Shares Outstanding (Diluted)	3,264,000	3,300,000

## MESA LABORATORIES, INC.

## STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Cash Flows From Operating Activities:		
Net Income	\$ 1,016,000	\$ 1,015,000
Depreciation and Amortization	191,000	195,000
Stock Based Compensation	73,000	58,000
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable	307,000	438,000
(Increase) Decrease in Inventories	(478,000)	(440,000)
(Increase) Decrease in Prepaid Expenses	299,000	41,000
Increase (Decrease) in Accounts Payable	104,000	(4,000)
Increase (Decrease) in Accrued Liabilities	(359,000)	(188,000)
Net Cash (Used) Provided by Operating Activities	1,153,000	1,115,000
Cash Flows From Investing Activities:		
Deposits	(194,000)	
Capital Expenditures, Net of Retirements	(63,000)	(6,000)
Net Cash (Used) Provided by Investing Activities	(257,000)	(6,000)
Cash Flows From Financing Activities:		
Dividends Paid	(317,000)	(254,000)
Treasury Stock Purchases	(7,000)	(295,000)
Proceeds From Stock Options Exercised	48,000	1,000
Net Cash (Used) Provided by Financing Activities	(276,000)	(548,000)
Net Increase (Decrease) In Cash and Cash Equivalents	620,000	561,000
Cash and Cash Equivalents at Beginning of Period	5,770,000	3,346,000
Cash and Cash Equivalents at End of Period	\$ 6,390,000	\$ 3,907,000
Supplemental disclosure of non-cash activity:		

**MESA LABORATORIES, INC.**

## NOTES TO FINANCIAL STATEMENTS

NOTE A. SUMMARY OF ACCOUNTING POLICIES

The summary of the Issuer's significant accounting policies are incorporated by reference to the Company's annual report on Form 10-K, at March 31, 2008.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations, financial position and cash flows. The results of the interim period are not necessarily indicative of the results for the full year.

NOTE B. STOCK BASED COMPENSATION

Effective April 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25).

We adopted the modified prospective transition method of applying SFAS 123(R) which requires the application of the standard as of April 1, 2006 and requires us to record compensation cost related to unvested stock options as of April 1, 2006, by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after April 1, 2006 are valued at fair value in accordance with the provisions of SFAS 123(R) and recognized on a straight line basis over the service periods of each award. We estimated forfeiture rates for the quarter based on historical experience.

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

	<b>Three Months Ended June 30, 2008</b>		<b>Three Months Ended June 30, 2007</b>	
Total cost of stock-based compensation	\$	73,000	\$	58,000
Amount capitalized in inventory and property and equipment				
Amounts charged against income, before income taxes		73,000		58,000
Amount of income tax benefit recognized in earnings		26,000		20,000
Amount charged against net income	\$	47,000	\$	38,000
Impact on net income per common share:				

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Basic	\$	0.01	\$	0.01
Diluted	\$	0.01	\$	0.01

Stock-based compensation expense was reflected as selling, general and administrative expense in the statement of operations for the first quarter of fiscal 2009 and 2008.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes). We use historical data to estimate the expected price volatility, the expected option life and expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The dividend yield is calculated based upon the dividend payments made during the prior four quarters as a percent of the average stock price for that period. The following assumptions were used to estimate the fair value of options granted during the first quarter of fiscal 2009 and 2008 using the Black-Scholes model:

	Three Months Ended June 30,	
	2008	2007
Stock options:		
Volatility	33.1%	36.1%
Risk-free interest rate	2.65-3.57%	4.58-5.07%
Expected option life (years)	5-10	5-10
Dividend yield	1.7%	2.1%

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

	Number of Shares		Weighted- average Exercise Price per Share	Weighted- average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at March 31, 2008	324,455	\$	14.92	5.1		
Options granted	74,500		21.93	5.3		
Options forfeited	(9,545)		17.74			
Options expired						
Options exercised	(13,995)		7.83			
Outstanding at June 30, 2008	375,415	\$	16.50	5.1	\$	2,815,000
Exercisable at June 30, 2008	121,760	\$	13.20	4.2	\$	1,315,000

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first quarter of fiscal 2009 was \$21.93 and \$19.04 in the first quarter of fiscal 2008. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was \$226,000 and \$16,000 during the first quarters of fiscal 2009 and 2008, respectively.

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

	Number of Shares		Weighted- average Grant-Date Fair Value
Unvested at March 31, 2008	236,725	\$	16.40
Options granted	74,500	\$	21.93
Options forfeited	(9,545)	\$	17.74
Options vested	(48,025)	\$	15.58
Unvested at June 30, 2008	253,655	\$	18.09

As of June 30, 2008, there was \$1,073,000 of total unrecognized compensation cost related to unvested share-based compensation granted under our plans. That cost is expected to be recognized over a weighted-average period of 3.3 years.

NOTE C. NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share is computed using the treasury stock method to compute the weighted average common stock outstanding assuming the conversion of potential dilutive common shares.

The following table presents a reconciliation of the denominators used in the computation of net income per common share - basic and net income per common share - diluted for the three month period ended June 30, 2008 and 2007:

	Three Months Ended June 30,	
	2008	2007
Net income available for shareholders	\$ 1,016,000	\$ 1,015,000
Weighted avg. outstanding shares of common stock	3,170,000	3,170,000
Dilutive effect of stock options	94,000	130,000
Common stock and equivalents	3,264,000	3,300,000
<b>Earnings per share:</b>		
Basic	\$ .32	\$ .32
Diluted	\$ .31	\$ .31

For the three months ended June 30, 2008 and 2007, no shares for either period 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.

	<b>Key Financial Indicators</b>			
	<b>2008</b>	<b>For The Quarters Ended June 30,</b>		<b>2005</b>
		<b>2007</b>	<b>2006</b>	
Cash and Investments	\$ 6,390,000	\$ 3,907,000	\$ 3,695,000	\$ 7,573,000
Trade Receivables	\$ 3,768,000	\$ 3,619,000	\$ 2,999,000	\$ 1,594,000
Days Sales Outstanding	63	73	60	50
Inventory, Net	\$ 4,498,000	\$ 3,737,000	\$ 3,061,000	\$ 2,065,000
Inventory Turns	1.7	1.5	1.9	1.8
Working Capital	\$ 13,571,000	\$ 10,086,000	\$ 8,849,000	\$ 10,407,000
Current Ratio	11:1	9:1	10:1	12:1
Average Return On:				
Stockholder Investments (1)	16.8%	19.3%	18.7%	13.9%
Assets	15.7%	18.0%	17.3%	12.9%
Invested Capital (2)	22.2%	23.2%	25.3%	25.3%
Net Sales	\$ 5,054,000	\$ 4,286,000	\$ 3,674,000	\$ 2,440,000
Gross Profit	\$ 3,204,000	\$ 2,901,000	\$ 2,387,000	\$ 1,538,000
Gross Margin	63%	68%	65%	63%
Operating Income	\$ 1,536,000	\$ 1,513,000	\$ 1,195,000	\$ 789,000
Operating Margin	30%	35%	33%	32%
Net Profit	\$ 1,016,000	\$ 1,015,000	\$ 790,000	\$ 540,000
Net Profit Margin	20%	24%	22%	22%
Earnings Per Diluted Share	\$ .31	\$ .31	\$ .25	\$ .17
Capital Expenditures, Net	\$ 63,000	\$ 6,000	\$ 211,000	\$ 37,000
Head Count	118.0	100.0	92.0	50.5
Sales Per Employee (Annualized)	\$ 171,000	\$ 171,000	\$ 160,000	\$ 193,000

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(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.

(2) Average return on invested capital (invested capital = total assets - current liabilities - cash and short-term investments) 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 exceptions. These exceptions are usually influenced by a more important need. Most of the indicators above for the period ended June 30, 2008 are showing variation from the trends of the past years. Our sales and balance sheet trends are improving due to the Raven acquisition two years ago and improving sales levels. Our return trends are showing some decline due to the growth, and lower profitability as a percent of sales. Factors currently impacting profitability include higher sales of certain lower profit accessory products for our DataTrace product line in new international markets, higher research and development spending and lower interest income on the Company's invested surplus cash.

#### Results of Operations

##### Net Sales

Net sales for the first quarter of fiscal 2009 increased 18 percent from fiscal 2008. In real dollars, net sales of \$5,054,000 in fiscal 2009 increased \$768,000 from \$4,286,000 in 2008.

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 2009 and 2008 our Company had parts and service revenue of \$932,000 and \$847,000. As a percentage of total revenue, parts and service revenues were 18% in 2009 and 20% in 2008.

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, both general economic conditions and capital spending patterns have been healthy. Although overall economic conditions have softened this year we have seen little impact in our sales performance so far. We attribute this to the industries we serve which include various medical related markets, food processing and pharmaceuticals. For fiscal first quarter 2009 and 2008, product sales for our company were \$4,122,000 and \$3,439,000.

Over the fiscal first quarter, our medical revenues increased 14 percent compared to the prior period. This increase was due to higher sales of dialysis meters, calibration solutions and dialysis meter 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 increased 33 percent from the prior year. The increase in DataTrace sales during the quarter is the result of higher shipments of our Micropack III products and accessories. While domestic sales continue to enjoy the benefit from our change to a direct sales model several years ago, we are starting to see an improving trend in our international markets as we continue to exploit Raven distributors for the Datatrace line in territories that were previously under served.

Raven sales for the first quarter increased 11 percent compared to the first quarter of the prior year. The Raven biological indicator products saw sales gains in its core biological indicator strip business, which will continue to be aided by shipments through out the year on a new OEM contract. We also saw a substantial increase in sales of our chemical indicator products during the first quarter.

#### Cost of Sales

Cost of sales as a percent of net sales during the first fiscal quarter increased 4.3 percent from fiscal 2008 to 36.6 percent returning to more historical levels. 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. Over the past year we have made significant strides in lowering the cost to manufacture our medical products and currently both Medical and Datatrace products enjoy margins in the higher 60 percent range. Typically the Raven products will see margins in the mid 50 percent range. Therefore, shifts in product mix toward higher sales of Medical and Datatrace logging products will tend to produce lower cost of good sold expense and higher gross margins while shifts toward higher sales of Raven products will normally produce the opposite effect on cost of goods sold expense and gross margins.

Over the current fiscal quarter, our Company experienced an 18 percent increase in sales with a substantial increase in sales of Datatrace products. This did not produce an increase in margins due to several factors. These included a substantial increase in thermal barrier sales for high temperature Datatrace applications which are passed through to customers with substantially no margin. We are currently addressing this problem, and expect to lower the cost of these products later in the year. Other factors that impacted margins included higher sales of lower margin OEM products and distributed product in comparison to prior year in our Raven line.

#### 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. In the past year, we have been forced to add costs in this area to address the regulatory requirements of the Sarbanes Oxley Act.

Our initial phase of consulting to comply with the Act was completed during the first quarter of this fiscal year. Additionally, we have added a new Controller to our staff to allow us to meet these and other regulatory requirements. Beyond these cost increases for regulatory requirements we have had to shift costs previously allocated to sales and marketing back to administration due to the on-going development of the sales and marketing organization. Thus, total administrative costs were \$738,000 in the current quarter compared \$569,000 for the same quarter 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. In dollars, selling costs were \$757,000 in the first fiscal quarter of 2009 and \$725,000 in the same prior year quarter. As a percent of sales, selling cost was 15.0% in the current quarter and 16.9% in the prior year quarter.

#### Research and Development

Company sponsored research and development cost was \$173,000 during the first fiscal quarter and \$94,000 during the previous year period. We are currently executing a strategy of increasing the flow of internally developed products. Late in the first quarter of the current fiscal year we introduced our new Datatrace Micropack RF product. Unlike previous versions of the Micropack line, this product allows real time radio transmission of data in addition to logging of data as the instrument moves through a process.

#### Net Income

Net income remained stable at \$1,016,000 or \$.31 per share on a diluted basis during the quarter compared to \$1,015,000 or \$.31 per share on a diluted basis in the previous year period. As previously discussed margins decreased during the quarter. Other factors impacting net income during the quarter included the increases in general and administrative costs and research and development costs which we also discussed earlier in this report. A final factor impacting net income this quarter is lower interest income on the Company's surplus cash due to a softening of interest rates over the past three quarters.

#### Liquidity and Capital Resources

On June 30, 2008, we had cash and short term investments of \$6,390,000. In addition, we had other current assets totaling \$8,513,000 and total current assets of \$14,903,000. Current liabilities of our Company were \$1,332,000 which resulted in a current ratio of 11:1.

Our Company has made capital acquisitions during the first fiscal quarter of \$63,000.

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 13, 2008, a quarterly dividend of \$.10 per common share was paid to shareholders of record on May 27, 2008.

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, 2008 we had contractual obligations for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. In addition, our company had committed approximately \$550,000 for the purchase of equipment to automate certain manufacturing processes in its Raven operation of which approximately \$339,000 had been paid at fiscal quarter end.

#### 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 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.

### 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 8. Financial Statements and Supplementary Data 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.

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 principal executive and principal 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 first quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II-OTHER INFORMATIONITEM 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-K for the fiscal year ended March 31, 2008 under the heading Part I Item 1A. Risk Factors. 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 Purchased	Avg. Price Paid	Total Share Purchased as Part of Publicly Announced Plan	Remaining Shares to Purchase Under Plan
April 1-30, 2008		\$	107,900	192,100
May 1-31, 2008	129	\$	23.10	108,029
June 1-30, 2008	175	\$	23.40	108,204
Total 1 <sup>st</sup> Quarter	304	\$	23.27	191,796

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:

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- 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 19, 2008, 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, 2008.

MESA LABORATORIES, INC.

JUNE 30, 2008

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, 2008

BY: /s/ Luke R. Schmieder  
Luke R. Schmieder  
Chief Executive Officer,  
Treasurer and Chairman of the Board  
of Directors

DATED: August 14, 2008

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