

MESA LABORATORIES INC /CO
Form 10-Q
November 06, 2014

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, 2014

**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)

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Colorado **84-0872291**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 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 Smaller reporting company
(Do not check if a 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

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

There were 3,530,938 shares of the Issuer's common stock, no par value, outstanding as of October 28, 2014.

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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)

| ASSETS | September 30, 2014 | March 31, 2014 |
|---|-------------------------------|-------------------------------|
| | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,657 | \$5,575 |
| Accounts receivable, net | 11,807 | 9,278 |
| Inventories, net | 10,634 | 7,771 |
| Prepaid expenses and other | 2,778 | 2,064 |
| Deferred income taxes | 1,878 | 1,878 |
| Total current assets | 30,754 | 26,566 |
| Property, plant and equipment, net | 8,178 | 7,680 |
| Intangibles, net | 30,834 | 25,417 |
| Goodwill | 42,334 | 37,866 |
| Total assets | \$ 112,100 | \$97,529 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,725 | \$2,019 |
| Accrued salaries and payroll taxes | 2,890 | 3,567 |
| Unearned revenues | 1,260 | 1,886 |
| Other accrued expenses | 2,347 | 2,743 |
| Current portion of long-term debt | 3,000 | -- |
| Income taxes payable | 1,048 | -- |
| Total current liabilities | 13,270 | 10,215 |
| Deferred income taxes | 4,861 | 4,861 |
| Long-term debt | 22,750 | 16,500 |
| Contingent consideration | 1,620 | 1,620 |
| Total liabilities | 42,501 | 33,196 |

Commitments and Contingencies (Note 7)

Stockholders' equity

| | | |
|--|------------|----------|
| Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,524,290 and 3,490,628 shares, respectively | 17,149 | 15,796 |
| Employee loans to purchase stock | -- | (24) |
| Retained earnings | 52,450 | 48,561 |
| Total stockholders' equity | 69,599 | 64,333 |
| | | |
| Total liabilities and stockholders' equity | \$ 112,100 | \$97,529 |

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, | | Six Months Ended September 30, | |
|---|---|-------------|---------------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | \$ 18,540 | \$ 12,676 | \$ 34,940 | \$ 23,894 |
| Cost of revenues | 7,417 | 5,076 | 14,112 | 9,497 |
| Gross profit | 11,123 | 7,600 | 20,828 | 14,397 |
| Operating expenses | | | | |
| Selling | 1,342 | 1,419 | 3,405 | 2,502 |
| General and administrative | 4,005 | 3,136 | 7,841 | 5,222 |
| Research and development | 876 | 530 | 1,627 | 1,115 |
| Total operating expenses | 6,223 | 5,085 | 12,873 | 8,839 |
| Operating income | 4,900 | 2,515 | 7,955 | 5,558 |
| Other (expense) income, net | (157) | 423 | (319) | 395 |
| Earnings before income taxes | 4,743 | 2,938 | 7,636 | 5,953 |
| Income taxes | 1,683 | 1,006 | 2,695 | 2,161 |
| Net income | \$ 3,060 | \$ 1,932 | \$ 4,941 | \$ 3,792 |
| Net income per share: | | | | |
| Basic | \$ 0.87 | \$ 0.57 | \$ 1.41 | \$ 1.11 |
| Diluted | 0.84 | 0.54 | 1.35 | 1.06 |
| Weighted average common shares outstanding: | | | | |
| Basic | 3,508 | 3,412 | 3,504 | 3,403 |
| Diluted | 3,640 | 3,592 | 3,648 | 3,568 |

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, | |
|--|---|-------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$4,941 | \$3,792 |
| Depreciation and amortization | 2,721 | 1,639 |
| Stock-based compensation | 516 | 357 |
| Loss (gain) on disposition of assets | 16 | (468) |
| Change in assets and liabilities, net of effects of acquisitions | | |
| Accounts receivable, net | (1,952) | 1,383 |
| Inventories, net | (1,515) | (475) |
| Prepaid expenses and other | (682) | (598) |
| Accounts payable | 632 | 334 |
| Accrued liabilities and taxes payable | (307) | (385) |
| Unearned revenues | (626) | -- |
| Net cash provided by operating activities | 3,744 | 5,579 |
| Cash flows from investing activities: | | |
| Acquisitions | (13,817) | (1,721) |
| Proceeds from dispositions | -- | 661 |
| Purchases of property, plant and equipment | (908) | (771) |
| Net cash used in investing activities | (14,725) | (1,831) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of debt | 18,000 | -- |
| Payments on debt | (8,750) | (4,000) |
| Dividends | (1,052) | (952) |
| Purchase and retirement of common stock | -- | (15) |
| Proceeds from the exercise of stock options | 865 | 637 |
| Net cash provided by (used in) financing activities | 9,063 | (4,330) |
| Net decrease in cash and cash equivalents | (1,918) | (582) |
| Cash and cash equivalents at beginning of period | 5,575 | 4,006 |
| Cash and cash equivalents at end of period | \$3,657 | \$3,424 |

Cash paid for:

| | | |
|--------------|---------|---------|
| Income taxes | \$1,492 | \$3,190 |
| Interest | 210 | -- |

Supplemental non-cash activity:

| | | |
|---|------|------|
| Repayment of employee loans for stock options | \$24 | \$92 |
|---|------|------|

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 actually conducted. We pursue a strategy of focusing primarily on quality control products, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into three divisions across six physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene, environmental air sampling and semiconductor industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide, ethylene oxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous 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 a number of other laboratory and industrial environments

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2014, 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, 2014.

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, 2014.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) issued a jointly converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenues, as well as requiring disclosures sufficient to describe the nature, amount, timing and uncertainty of revenues and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The new standard is effective for our fiscal year (and interim periods within that year) ending March 31, 2018. We are evaluating the impact of this standard on our condensed consolidated financial statements and disclosures.

Note 2 – Acquisitions and Dispositions

Acquisitions

For the six months ended September 30, 2014, our acquisitions of businesses (net of cash acquired) totaled \$13,817,000, which consisted primarily of the following material acquisition:

BGI

On April 15, 2014, we completed a business combination (the “BGI Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI, Incorporated and BGI Instruments, Inc. (collectively “BGI”), a business focused on the sale of equipment primarily used for particulate air sampling. The purchase price for the acquired assets was \$10,268,000.

We expect to achieve savings and generate growth as we integrate the BGI operations and sales and marketing functions. These factors, among others, contributed to a purchase price in excess of the estimated fair value of the net identifiable assets acquired and, as a result, we recorded goodwill in connection with this transaction. The goodwill is expected to be deductible for tax purposes and it was assigned to our Instruments segment.

The BGI Acquisition constituted the acquisition of a business and was recognized at fair value. We determined the estimated fair values using discounted cash flow analyses and estimates made by management. The following reflects our allocation of the consideration, subject to customary purchase price adjustments in accordance with the BGI Agreement (in thousands):

| | |
|------------------------------------|----------|
| Inventories, net | \$1,268 |
| Property, plant and equipment, net | 47 |
| Intangibles, net | 5,711 |
| Goodwill | 3,295 |
| Accrued expenses | (53) |
| Total purchase price allocation | \$10,268 |

The accompanying condensed consolidated statements of income include the results of the BGI Acquisition from the acquisition date of April 15, 2014. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2014 and 2013, are as follows (in thousands, except per share data):

| | Three Months Ended | | Six Months Ended | |
|------------------------------|---------------------------|-------------|---------------------------|-------------|
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 |
| Revenues | \$18,540 | \$14,592 | \$35,258 | \$27,726 |
| Net income | 3,060 | 2,467 | 5,019 | 4,863 |
| Net Income per common share: | | | | |
| Basic | \$0.87 | \$0.72 | \$1.43 | \$1.43 |
| Diluted | 0.84 | 0.69 | 1.38 | 1.36 |

Dispositions

On August 12, 2013, we entered into an agreement whereby we sold our NuSonics product line for \$661,000. The carrying value of this product line was \$193,000 which resulted in a pre-tax gain of \$468,000.

Note 3 - Inventories

Inventories consist of the following (in thousands):

| | September 30, 2014 | March 31, 2014 |
|-----------------|-------------------------------|-------------------------------|
| Raw materials | \$ 8,463 | \$5,758 |
| Work-in-process | 843 | 272 |
| Finished goods | 1,828 | 2,068 |
| Less: reserve | (500) | (327) |
| | \$ 10,634 | \$7,771 |

Note 4 - Long-Term Debt

Long-term debt consists of the following (in thousands):

| | September 30, 2014 | March 31, 2014 |
|--|-------------------------------|-------------------------------|
| Line of credit (1.65% at September 30, 2014) | \$ 11,500 | \$ 16,500 |
| Term loan (2.15% at September 30, 2014) | 14,250 | -- |
| Less: current portion | (3,000) | -- |
| Long-term portion | \$ 22,750 | \$ 16,500 |

In February 2012, we entered into a three year agreement (the "Credit Facility") for a \$20,000,000 revolving line of credit ("Line of Credit") and up to \$1,000,000 of letters of credit, maturing in February 2015. Funds from the Credit Facility were used for general working capital and corporate needs, retiring existing debt, and supporting acquisitions.

In April 2014, the Credit Facility was amended to include a \$15,000,000 term loan (the “Term Loan”) and to extend the maturity date of the Credit Facility to June 30, 2017.

Under the Line of Credit, indebtedness bears interest at either: (1) LIBOR, as defined, plus an applicable margin ranging from 1.25% to 2%; or (2) the bank’s commercial bank floating rate (“CBFR”), which is the greater of the bank’s prime rate or one month LIBOR + 2.50%, adjusted down, from 1.25% to 0.50%. We elect the interest rate with each borrowing under the line of credit. In addition, there is an unused capacity fee of 0.15% to 0.30%. The adjustments and unused capacity fee depend on the ratio of funded debt (including amounts outstanding under the Term Loan) to our trailing four quarters of EBITDA, as defined, with four tiers ranging from a ratio of less than one to greater than two. Letter of credit fees are based on the applicable LIBOR rate.

The Term Loan bears interest at LIBOR, as defined, plus 2% and requires 11 quarterly principal payments (the first due date was July 15, 2014) in the amount of \$750,000 with the remaining balance of principal and accrued interest due on April 15, 2017. The proceeds from the Term Loan were used to support acquisition financing and to repay amounts outstanding under the Line of Credit.

The Credit Facility is secured by all of our assets and requires us to maintain a ratio of funded debt to our trailing four quarters of EBIDTA, as defined, of 2.5 to 1.0, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with these covenants at September 30, 2014.

Future contractual maturities of debt are as follows (in thousands):

| Year ending March 31, | |
|------------------------------|----------|
| 2015 | \$ 1,500 |
| 2016 | 3,000 |
| 2017 | 3,000 |
| 2018 | 18,250 |
| | \$25,750 |

In October 2014, we took a \$5,000,000 draw on the Line of Credit to fund a business acquisition (see Note 9) and made a \$750,000 required principal payment on the Term Loan and \$1,500,000 of principal payments on the Line of Credit.

Note 5 - Stock-Based Compensation

Amounts recognized in the condensed consolidated financial statements related to stock-based compensation are as follows (in thousands, except per share data):

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------------------|-------------|-----------------------------|-------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Total cost of stock-based compensation charged against income before income taxes | \$237 | \$208 | \$516 | \$357 |
| Amount of income tax benefit recognized in earnings | 84 | 71 | 182 | 130 |
| Amount charged against net income | \$153 | \$137 | 334 | 227 |
| Impact on net income per common share: | | | | |
| Basic | \$0.04 | \$0.04 | \$0.10 | \$0.07 |
| Diluted | 0.04 | 0.04 | \$0.09 | 0.06 |

Stock-based compensation expense is included in cost of revenues, selling, and general and administrative expense in the accompanying condensed consolidated statements of income.

The fair value of each stock 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 stock option life and expected forfeiture rate. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of grant for the estimated life of the stock 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 is a summary of stock option activity for the six months ended September 30, 2014:

| | Number of Shares | Weighted- Average Exercise Price per Share | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value (000s) |
|-----------------------------------|---------------------------------|---|---|---|
| Outstanding at March 31, 2014 | 398,172 | \$ 38.75 | 4.4 | \$ 20,505 |
| Stock options granted | 145,400 | 89.11 | 7.5 | |
| Stock options forfeited | (25,916) | 64.09 | | |
| Stock options expired | -- | -- | | |
| Stock options exercised | (36,198) | 29.25 | | |
| Outstanding at September 30, 2014 | 481,458 | 53.23 | 5.0 | 6,595 |
| Exercisable at September 30, 2014 | 200,640 | 31.41 | 3.3 | 5,291 |

The total intrinsic value of stock options exercised was \$1,516,000 and \$1,710,000 for the six months ended September 30, 2014 and 2013, respectively.

A summary of the status of our unvested stock option shares as of September 30, 2014 is as follows:

| | Number of Shares | Weighted-Average Grant-Date Fair Value |
|--------------------------------|---------------------------------|---|
| Unvested at March 31, 2014 | 257,347 | \$ 11.86 |
| Stock options granted | 145,400 | 24.23 |
| Stock options forfeited | (25,916) | 17.15 |
| Stock options vested | (96,013) | 10.04 |
| Unvested at September 30, 2014 | 280,818 | 18.32 |

As of September 30, 2014, there was \$3,772,000 of total unrecognized compensation expense related to unvested stock options.

On August 8, 2014 we adopted The Mesa Laboratories, Inc. 2014 Equity Plan (the "2014 Plan"), which was subsequently approved by our shareholders on October 2, 2014 at our 2014 Annual Meeting of Shareholders. The

purpose of the 2014 Plan is to promote the success and enhance the value of the Company by linking the personal interests of our employees, officers and directors to those of our shareholders by providing such persons with an incentive for outstanding performance. A total of 1,100,000 shares of common stock were reserved for issuance under the 2014 Plan and are subject to terms as set by the Compensation Committee of the Board of Directors at the time of grant. As a result of the approval of the 2014 Plan by our shareholders, no further awards will be made under the 2006 Plan and it will remain in effect only as long as awards previously made thereunder remain outstanding.

Note 6 - Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed similarly to basic net income per share, except that it includes the potential dilution that could occur if dilutive securities were exercised.

The following table presents a reconciliation of the denominators used in the computation of net income per share - basic and diluted (in thousands, except per share data):

| | Three Months Ended | | Six Months Ended | |
|---|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 |
| Net income available for stockholders | \$3,060 | \$1,932 | \$4,941 | \$3,792 |
| Weighted average outstanding shares of common stock | 3,508 | 3,412 | 3,504 | 3,403 |
| Dilutive effect of stock options | 132 | 180 | 144 | 165 |
| Common stock and equivalents | 3,640 | 3,592 | 3,648 | 3,568 |
| Net income per share: | | | | |
| Basic | \$0.87 | \$0.57 | \$1.41 | \$1.11 |
| Diluted | 0.84 | 0.54 | 1.35 | 1.06 |

For both the three and six months ended September 30, 2014 and 2013, 156,000 and zero outstanding stock options, respectively, were excluded from the calculation of diluted net income 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.

Note 7- Commitments and Contingencies

Under the terms of the Amega Agreement, we are required to pay contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$10,000,000 and is based upon a sliding scale of three-year cumulative revenues between \$31,625,000 and \$43,500,000. Based upon both historical and projected growth rates, we recorded \$500,000 of contingent consideration payable which represents our best estimate of the amount that will ultimately be paid. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of our Continuous Monitoring Division and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the third quarter of our year ending March 31, 2017.

Under the terms of the Bios Agreement, we are required to pay contingent consideration if the cumulative revenues related to the acquisition for the three years subsequent to the acquisition exceed \$22,127,000. The potential future payment that we could be required to make ranges from \$0 to \$6,710,000. Based upon historical growth rates, we initially recorded \$2,140,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. Based upon actual results and current run rates, during the year ended March 31, 2014,

we revised our estimate of the ultimate contingent liability that would be paid, which resulted in reducing the contingent consideration payable to \$1,120,000. Any further changes to the contingent consideration ultimately paid would result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results associated with the Bios Acquisition and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the first quarter of our year ending March 31, 2016.

A company is required to collect and remit state sales tax from certain of its customers if that company is determined to have “nexus” in a particular state. The determination of nexus varies state by state and often requires knowledge of each jurisdiction’s tax case law. During the year ended March 31, 2013, we determined that there are states in which we most likely had established nexus during prior periods without properly collecting and remitting sales tax. We recorded an estimate of \$100,000 associated with one specific state but we were unable to estimate our remaining exposure at that time. The ultimate amount due in remaining states will depend upon a number of factors, including the amount of sales that were made to customers who are either exempt or have already paid the tax, the number of years of exposure, and any penalties or interest that might be due. During the year ended March 31, 2014, we completed our analysis associated with the remaining states and we recorded an estimate of \$1,408,000, which was included in other accrued expenses on the consolidated balance sheets and in general and administrative expense on the consolidated statements of income for the year ended March 31, 2014. That estimate was based upon facts and circumstances known at such time and our ultimate liability may change as further analysis is completed and state sales tax returns are filed.

During the six months ended September 30, 2014 we successfully completed and filed several state sales tax returns which concluded our obligation for historical sales taxes in those states. We continue to work through the process with the remaining states and we will adjust our liability on a go forward basis (if necessary) based on then current information.

Note 8 - Segment Information

We have three reporting segments: Biological Indicators, Instruments and Continuous Monitoring. The following tables set forth our segment information (in thousands):

| | Three Months Ended September 30, 2014 | | | |
|----------------------------------|--|--------------------|-------------------|-------------------|
| | Biological | Instruments | | Continuous |
| | Indicators | Monitoring | Monitoring | Total |
| Revenues | \$6,441 | \$ 9,065 | \$ 3,034 | \$ 18,540 |
| Gross profit | \$4,051 | \$ 5,455 | \$ 1,617 | \$ 11,123 |
| Selling expenses | 368 | 829 | 145 | 1,342 |
| | \$3,683 | \$ 4,626 | \$ 1,472 | 9,781 |
| Reconciling items ⁽¹⁾ | | | | (5,038) |
| Earnings before income taxes | | | | \$4,743 |

| | Three Months Ended September 30, 2013 | | | |
|----------------------------------|--|--------------------|-------------------|-------------------|
| | Biological | Instruments | | Continuous |
| | Indicators | Monitoring | Monitoring | Total |
| Revenues | \$6,010 | \$ 6,666 | \$ -- | \$ 12,676 |
| Gross profit | \$3,482 | \$ 4,118 | \$ -- | \$ 7,600 |
| Selling expenses | 556 | 863 | -- | 1,419 |
| | \$2,926 | \$ 3,255 | \$ -- | 6,181 |
| Reconciling items ⁽¹⁾ | | | | (3,243) |
| Earnings before income taxes | | | | \$2,938 |

| | Six Months Ended September 30, 2014 | | | |
|----------------------------------|--|--------------------|-------------------|-------------------|
| | Biological | Instruments | | Continuous |
| | Indicators | Monitoring | Monitoring | Total |
| Revenues | \$12,858 | \$ 16,750 | \$ 5,332 | \$ 34,940 |
| Gross profit | \$7,835 | \$ 10,382 | \$ 2,611 | \$ 20,828 |
| Selling expenses | 772 | 1,821 | 812 | 3,405 |
| | \$7,063 | \$ 8,561 | \$ 1,799 | 17,423 |
| Reconciling items ⁽¹⁾ | | | | (9,787) |
| Earnings before income taxes | | | | \$7,636 |

Six Months Ended September 30, 2013

| | Biological | Instruments | Continuous | Total |
|----------------------------------|-------------------|--------------------|-------------------|--------------|
| | Indicators | | Monitoring | |
| Revenues | \$10,864 | \$ 13,030 | \$ -- | \$23,894 |
| Gross profit | \$6,043 | \$ 8,354 | \$ -- | \$14,397 |
| Selling expenses | 946 | 1,556 | -- | 2,502 |
| | \$5,097 | \$ 6,798 | \$ -- | 11,895 |
| Reconciling items ⁽¹⁾ | | | | (5,942) |
| Earnings before income taxes | | | | \$5,953 |

⁽¹⁾ Reconciling items include general and administrative, research and development, and other expenses.

| | September 30, 2014 | March 31, 2014 |
|------------------------------|-------------------------------|-------------------------------|
| Total assets | | |
| Biological Indicators | \$ 26,582 | \$22,771 |
| Instruments | 46,023 | 36,797 |
| Continuous Monitoring | 31,182 | 28,578 |
| Corporate and administrative | 8,313 | 9,383 |
| | \$ 112,100 | \$97,529 |

All long-lived assets are located in the United States except for \$3,161,000 which are associated with our subsidiary which is located in Chassieu, France.

Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported, as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|-------------------------------|-----------------|-------------------------------|-----------------|
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 |
| Net revenues from unaffiliated customers: | | | | |
| United States | \$9,698 | \$7,794 | \$18,189 | \$13,824 |
| Foreign | 8,842 | 4,882 | 16,751 | 10,070 |
| | \$18,540 | \$12,676 | \$34,940 | \$23,894 |

No foreign country exceeds 10% of total revenues.

Note 9 - Subsequent Event

In October 2014, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on December 15, 2014, to shareholders of record at the close of business on November 28, 2014.

In October 2014, we completed a business combination (the "PCD Acquisition") with PCD-Process Challenge Devices, LLC ("PCD-LLC") whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of PCD-LLC's process challenge device business. The purchase price for the acquired assets was

\$5,250,000, consisting of a cash payment of \$5,000,000 at closing with the remaining \$250,000 due at the one year anniversary of the closing date, subject to a possible post-closing adjustment based on potential indemnification losses of the Company. In addition, the acquisition agreement provides for contingent consideration of up to \$1,500,000 based upon the cumulative three year revenues of our process challenge device business subsequent to the acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "anticipate," "estimate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to revenue growth and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended March 31, 2014, and those described from time to time in our subsequent reports filed with the Securities and Exchange Commission.

General Discussion

We pursue a strategy of focusing primarily on quality control products, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into three divisions across six physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene, environmental air sampling and semiconductor industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide, ethylene oxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous 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 a number of other laboratory and industrial environments. We follow a philosophy of manufacturing a high quality product and providing a high level of on-going service for those products.

Our revenues come from two main sources – products sales and services. Product sales are dependent on several factors, including general economic conditions, both domestic and international, customer capital spending trends, competition, introduction of new products and acquisitions. Biological indicator products are disposable and are used on a routine basis for quality control, thus product sales are less sensitive to general economic conditions. Instrument products and continuous monitoring systems have a longer life, and their purchase by our customers is somewhat discretionary, so sales are more sensitive to general economic conditions. Service demand is driven by our customers' quality control and regulatory environments, which require periodic repair and recalibration or certification of our instrument products and continuous monitoring systems. We typically evaluate costs and pricing annually. Our policy is to price our products and systems competitively and, where possible, we try to pass along cost increases in order to maintain our margins.

Gross profit is affected by our product mix, manufacturing efficiencies and price competition. Historically, as we have integrated our acquisitions and taken advantage of manufacturing efficiencies, our gross margins for some of the products have improved. There are, however, differences in gross margins between different product lines, and ultimately the mix of sales will continue to impact our overall gross margin.

Selling expense is driven primarily by labor costs, including salaries and commissions. Accordingly, it may vary with sales levels. Labor costs and amortization of intangible assets drive the substantial majority of general and administrative expense. Research and development expense is predominantly comprised of labor costs and third party consultants.

In October 2014, we completed the PCD Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of PCD-LLC's business which is focused on the sale of process challenge devices ("PCD's) which are used for quality control purposes in the field of ethylene oxide sterilization of medical devices.

In April 2014, we completed the BGI Acquisition whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI's business which is focused on the sale of equipment primarily used for particulate air sampling.

In April 2014, we completed a business combination (the “Amilabo Acquisition”) whereby we acquired all of the common stock of Amilabo SAS (“Amilabo”), a distributor of our biological indicator products.

In November 2013, we completed a business combination (the “TempSys Acquisition”) whereby we acquired all of the common stock of TempSys, Inc. (“TempSys”), a company in the business of providing continuous monitoring systems to regulated industries.

In November 2013, we completed a business combination (the “Amega Acquisition”) whereby we acquired substantially all the assets and certain liabilities of Amega Scientific Corporation’s (“Amega”) business which provides continuous monitoring systems to regulated industries.

In August 2013, we entered into an agreement whereby we sold our NuSonics product line.

In July 2013, we completed a business combination (the “Suretorque Acquisition”) whereby we acquired substantially all of the assets of ST Acquisitions, LLC’s (“ST Acquisitions”) business involving the design, manufacturing, sale and service of its SureTorque line of bottle cap torque testing instrumentation.

General Trends and Outlook

Our strategic objectives include growth both organically and through further acquisitions. During the year ended March 31, 2014, we continued to build our infrastructure to prepare for future growth, including the addition of key personnel to our operations, research and development, and finance teams. We also invested in upgrading our information systems and intend to continue doing so.

The markets for our biological indicators remain strong, as the disposable nature of these products makes them less sensitive to general economic conditions. The worldwide market for biological indicators is growing as more countries focus on verifying the effectiveness of sterilization processes. General economic conditions over the past few years have, at times, hampered the organic growth of our instruments business, due to the discretionary nature of these products. Additionally, uncertainty about global economic conditions may cause businesses to postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values. Worldwide and regional economic conditions could also reduce the demand for our products and services, as our customers reduce or delay capital equipment and other types of purchases. Demand for our instruments products and our newly acquired continuous monitoring systems, however, is still strong and we strive to maintain or grow revenues going forward.

We are working on several research and development projects that, if completed, may result in new products for both existing customers and in new markets. We are hopeful that all of our divisions will have new products available for sale in the coming year.

Results of Operations

The following table sets forth, for the periods indicated, condensed consolidated statements of income data. The table and the discussion below should be read in conjunction with the accompanying condensed consolidated financial statements and the notes thereto appearing elsewhere in this report (in thousands, except percent data):

| | Three Months Ended September 30, | | | Percent | |
|----------------------------|--|----------|---------|---------|---|
| | 2014 | 2013 | Change | Change | |
| Revenues | \$18,540 | \$12,676 | \$5,864 | 46 | % |
| Cost of revenues | 7,417 | 5,076 | 2,341 | 46 | % |
| Gross profit | \$11,123 | \$7,600 | \$3,523 | 46 | % |
| Gross profit margin | 60 % | 60 % | -- | | % |
| Operating expenses | | | | | |
| Selling | \$1,342 | \$1,419 | \$(77) | (5) | % |
| General and administrative | 4,005 | 3,136 | 869 | 28 | % |
| Research and development | 876 | 530 | 346 | 65 | % |
| | \$6,223 | \$5,085 | \$1,138 | 22 | % |
| Operating income | \$4,900 | \$2,515 | \$2,385 | 95 | % |
| Net income | 3,060 | 1,932 | 1,128 | 58 | % |
| Net profit margin | 17 % | 15 % | 2 % | | % |

| | Six Months Ended September 30, | | | Percent | | |
|----------------------------|-----------------------------------|----------|----------|---------|-----|---|
| | 2014 | 2013 | Change | Change | | |
| Revenues | \$34,940 | \$23,894 | \$11,046 | 46 | % | |
| Cost of revenues | 14,112 | 9,497 | 4,615 | 49 | % | |
| Gross profit | \$20,828 | \$14,397 | \$6,431 | 45 | % | |
| Gross profit margin | 60 | % | 60 | % | -- | % |
| Operating expenses | | | | | | |
| Selling | \$3,405 | \$2,502 | \$903 | 36 | % | |
| General and administrative | 7,841 | 5,222 | 2,619 | 50 | % | |
| Research and development | 1,627 | 1,115 | 512 | 46 | % | |
| | 12,873 | \$8,839 | \$4,034 | 46 | % | |
| Operating income | \$7,955 | \$5,558 | \$2,397 | 43 | % | |
| Net income | 4,941 | 3,792 | 1,119 | 30 | % | |
| Net profit margin | 14 | % | 16 | % | (2) | % |

Revenues

The following table summarizes our revenues by source (in thousands, except percent data):

| | Three Months Ended September 30, | | | Percent | |
|-----------------------|----------------------------------|-----------|----------|---------|---|
| | 2014 | 2013 | Change | Change | |
| Biological Indicators | \$ 6,441 | \$ 6,010 | \$ 431 | 7 | % |
| Instruments | 9,065 | 6,666 | 2,399 | 36 | % |
| Continuous Monitoring | 3,034 | -- | 3,034 | 100 | % |
| Total | \$ 18,540 | \$ 12,676 | \$ 5,864 | 46 | % |

| | Six Months Ended September 30, | | | Percent | |
|-----------------------|--------------------------------------|----------|----------|---------|---|
| | 2014 | 2013 | Change | Change | |
| Biological Indicators | \$12,858 | \$10,864 | \$1,994 | 18 | % |
| Instruments | 16,750 | 13,030 | 3,720 | 29 | % |
| Continuous Monitoring | 5,332 | -- | 5,332 | 100 | % |
| Total | \$34,940 | \$23,894 | \$11,046 | 46 | % |

Three and six months ended September 30, 2014 versus September 30, 2013

Biological Indicators revenues for the three and six months ended September 30, 2014 increased as a result of the Amilabo Acquisition and organic growth of 7% and 10%, respectively which was achieved through existing customers, expansion into new markets and price increases. The three month period ended September 30, 2013 was positively impacted due to the fulfillment of backlog from the previous quarter end which resulted from the requirement to replace three product batches that had longer than expected incubation times.

Instruments revenues for the three months ended September 30, 2014 increased as a result of the BGI Acquisition and organic growth of 10% in our existing product lines, partially offset by the disposal of the Nusonics product line. Instruments revenues for the six months ended September 30, 2014 increased as a result of the BGI Acquisition, organic growth of 8% in our existing product lines and the timing of the prior year acquisition of the Sure Torque product line, partially offset by the disposal of the Nusonics product.

Gross Profit

The following summarizes our gross profit by segment (in thousands, except percent data):

| | Three Months Ended September 30, | | | Percent | |
|-----------------------|---|-------------|---------------|----------------|---|
| | 2014 | 2013 | Change | Change | |
| Biological Indicators | \$4,051 | \$3,482 | \$ 569 | 16 | % |
| Gross profit margin | 63 % | 58 % | 5 % | | |
| Instruments | 5,455 | 4,118 | 1,337 | 32 | % |
| Gross profit margin | 60 % | 62 % | (2) % | | |
| Continuous Monitoring | 1,617 | -- | 1,617 | 100 | % |
| Gross profit margin | 53 % | -- % | 53 % | | |
| Total gross profit | \$11,123 | \$7,600 | \$ 3,523 | 46 | % |
| Gross profit margin | 60 % | 60 % | -- % | | |

| | Six Months Ended September 30, | | | Percent | |
|-----------------------|---------------------------------------|-------------|---------------|----------------|---|
| | 2014 | 2013 | Change | Change | |
| Biological Indicators | \$ 7,835 | \$ 6,043 | \$ 1,792 | 30 | % |
| Gross profit margin | 61 % | 56 % | 5 % | | |
| Instruments | 10,382 | 8,354 | 2,028 | 24 | % |
| Gross profit margin | 62 % | 64 % | (2) % | | |
| Continuous Monitoring | 2,611 | -- | 2,611 | 100 | % |
| Gross profit margin | 49 % | -- % | 49 % | | |
| Total gross profit | \$ 20,828 | \$ 14,397 | \$ 6,431 | 45 | % |
| Gross profit margin | 60 % | 60 % | -- % | | |

Three and six months ended September 30, 2014 versus September 30, 2013

Biological Indicators gross profit margin percentage for the three and six months ended September 30, 2014 increased as a result of the Amilabo Acquisition, price increases and volume-based efficiencies associated with revenues

growth. The six months ended September 30, 2013 was negatively impacted by the cost of replacement product (as discussed above in *Revenues*).

Instruments gross profit margin percentage for the three and six months ended September 30, 2014 decreased as a result of integration activities associated with the BGI Acquisition and a change in our product/service mix, partially offset by the application of purchase accounting associated with the Suretorque Acquisition in the prior year. In addition, the majority of our product-related growth during both periods was in product lines which historically have been on the lower end of our gross margin percentage spectrum.

Continuous Monitoring gross profit margin percentage for the three and six months ended September 30, 2014 was negatively impacted by integration activities that commenced soon after the acquisitions were completed. These integration activities were decreased during the three months ended September 30, 2014 and are now substantially complete. As a result, we believe that the Continuous Monitoring gross profit margin percentages on a go forward basis will be impacted more by total revenues available to cover fixed costs and product mix as opposed to ongoing integration activities.

Operating Expenses

Operating expenses for the three and six months ended September 30, 2014 increased as compared to the prior year as follows (in thousands):

| | Increase (Decrease) | |
|---------------------------------------|-----------------------------------|---------------------------------|
| | Three Months Ended | Six Months Ended |
| | September 30, 2014 | September 30, 2014 |
| Selling | \$(77) | \$ 903 |
| General and administrative | | |
| ERP system upgrade and SOX compliance | 55 | 100 |
| Acquisition costs | 160 | 389 |
| Amortization | 508 | 1,019 |
| Personnel costs | 1,188 | 1,983 |
| Sales tax accrual | (1,106) | (1,106) |
| Other, net | 64 | 234 |
| | 869 | 2,619 |
| Research and development | 346 | 512 |
| Operating expenses | \$ 1,138 | \$ 4,034 |

Selling*Three and six months ended September 30, 2014 versus September 30, 2013*

Selling expenses for the three months ended September 30, 2014 was relatively flat with minor fluctuations due to timing of certain expenses.

Selling expenses for the six months ended September 30, 2014 increased primarily due to the BGI, Amilabo, Amega and TempSys Acquisitions, along with negligible increases from other product lines. As a percentage of revenues,

selling expense decreased to 9.7% as compared to 10.5% in the prior period. The decrease was due primarily to streamlining sales processes associated with acquisitions along with increased revenues associated with Continuous Monitoring resulting from our integration activities.

General and administrative

Three and six months ended September 30, 2014 versus September 30, 2013

General and administrative expenses for the three and six months ended September 30, 2014 increased primarily due to increased amortization, personnel and acquisition costs resulting from the BGI, Amilabo, Amega, and TempSys acquisitions, partially offset by the recording of a \$1,106,000 accrual in the prior year associated with not properly collecting and remitting sales tax in states in which we most likely had established nexus during prior periods.

Research and Development

Three and six months ended September 30, 2014 versus September 30, 2013

Research and development expenses for the three and six months ended September 30, 2014 increased as a result of the Amega, TempSys and BGI Acquisitions and standard increases in personnel costs, partially offset by timing of external research and development consulting projects.

Net Income

Other (expense) income, net increased primarily as a result of additional interest expense associated with our Credit Facility as well as the gain on disposal of our Nusonics line of business in the prior period. Our income tax rate varies based upon many factors but in general, we anticipate that on a go forward basis, our effective tax rate will approximate our current rate of 35.3%. Otherwise, net income varied with the changes in revenue, gross profit and operating expenses (which includes \$2,247,000 of non-cash amortization of intangible assets).

Liquidity and Capital Resources

Our sources of liquidity may include cash generated from operations, working capital, capacity under our Credit Facility and potential equity and debt offerings. We believe that cash generated from these sources will be sufficient to meet our short-term and long-term needs. Our more significant uses of resources include quarterly dividends to shareholders, payment of debt obligations, long-term capital equipment expenditures and potential acquisitions. In addition, over the next 6-9 months, we are implementing a new ERP system which may require a significant use of cash.

Working capital is the amount by which current assets exceed current liabilities. We had working capital of \$17,484,000 and \$16,351,000, respectively, at September 30, 2014 and March 31, 2014. The increase in working capital is primarily due to increases in both accounts receivable and inventories related to organic growth and the acquisitions of BGI and Amilabo, partially offset by \$3,000,000 of required principal payments under the Term Loan being classified as current liabilities.

In February 2012, we entered into the Credit Facility for a \$20,000,000 revolving line of credit and up to \$1,000,000 of letters of credit. Funds from the Credit Facility may be used for general working capital and corporate needs, retiring existing debt, or to support acquisitions and capital expenditures. Under the Credit Facility, indebtedness bears interest at either: (1) LIBOR, as defined plus an applicable margin, ranging from 1.25% to 2.00%, or (2) the bank's commercial bank floating rate ("CBFR"), which is the greater of the bank's prime rate or one month LIBOR + 2.50%, adjusted down, from 1.25% to 0.50%.

In April 2014, the Credit Facility was amended to include a \$15,000,000 term loan and to extend the maturity date of the Credit Facility to June 30, 2017. The Term Loan bears interest at LIBOR, as defined, plus 2% and requires 11 quarterly principal payments (the first due date was July 15, 2014) in the amount of \$750,000 with the remaining balance of principal and accrued interest due on April 15, 2017. The proceeds from the Term Loan were used to support acquisition financing and to repay amounts outstanding under the Line of Credit.

The Credit Facility is secured by all of our assets and requires us to maintain a ratio of funded debt to our trailing four quarters of EBIDTA, as defined, of 2.5 to 1.0, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with these covenants as of September 30, 2014.

As of October 31, 2014, we had \$28,500,000 in outstanding indebtedness and unused capacity under our Credit Facility of \$5,000,000.

We routinely evaluate opportunities for strategic acquisitions. Future material acquisitions may require that we obtain additional capital, assume third party debt or incur other long-term obligations. We believe that we have the option to utilize both equity and debt instruments as vehicles for the long-term financing of our investment activities and acquisitions.

On November 7, 2005, our Board of Directors authorized 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. We have purchased 162,306 shares of common stock under this program from inception through September 30, 2014.

We have been paying regular quarterly dividends since 2003. Dividends per share paid by quarter were as follows:

| | Year Ending | |
|----------------|--------------------|-------------|
| | March 31, | |
| | 2015 | 2014 |
| First quarter | \$0.15 | \$0.14 |
| Second quarter | 0.15 | 0.14 |
| Third quarter | - | 0.15 |
| Fourth quarter | - | 0.15 |

In October 2014, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on December 15, 2014, to shareholders of record at the close of business on November 28, 2014.

Cash Flows

Our cash flows from operating, investing and financing activities were as follows (in thousands):

| | Six Months Ended September 30, | |
|---|---|-------------|
| | 2014 | 2013 |
| Net cash provided by operating activities | \$3,744 | \$5,579 |
| Net cash used in investing activities | (14,725) | (1,831) |
| Net cash provided by (used in) financing activities | 9,063 | (4,330) |

Net cash provided by operating activities for the six months ended September 30, 2014 decreased primarily due to increases in accounts receivable and inventories resulting from the BGI, Amilabo, Amega and TempSys acquisitions, partially offset by decreases in payments of accounts payable and increases in net income.

Net cash used in investing activities for the six months ended September 30, 2014 resulted primarily from the \$10,268,000 BGI Acquisition and the purchase of \$908,000 of property, plant and equipment. Net cash used in investing activities for the six months ended September 30, 2013 resulted from the \$1,721,000 Suretorque Acquisition and the purchase of \$771,000 of property, plant and equipment, partially offset by the proceeds from the disposal of the NuSonics product line of \$661,000.

Net cash provided by financing activities for the six months ended September 30, 2014 resulted from borrowings under our Credit Facility of \$18,000,000 and proceeds from the exercise of stock options of \$865,000, partially offset by the repayment of debt of \$8,750,000 and the payment of dividends of \$1,052,000. Net cash used in financing activities for the six months ended September 30, 2013 resulted from the repayment of debt of \$4,000,000 and the payment of dividends of \$952,000, partially offset by the proceeds from the exercise of stock options of \$637,000.

At September 30, 2014, we had contractual obligations for open purchase orders of approximately \$7,700,000 for routine purchases of supplies and inventory, which are payable in less than one year.

Under the terms of the Amega Agreement, we are required to pay contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$10,000,000 and is based upon a sliding scale of three-year cumulative revenues between \$31,625,000 and \$43,500,000. Based upon both historical and projected growth rates,

we recorded \$500,000 of contingent consideration payable which represents our best estimate of the amount that will ultimately be paid. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of our Continuous Monitoring Division and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the third quarter of our year ending March 31, 2017.

Under the terms of the Bios Agreement, we are required to pay contingent consideration if the cumulative revenues related to the acquisition for the three years subsequent to the acquisition exceed \$22,127,000. The potential future payment that we could be required to make ranges from \$0 to \$6,710,000. Based upon historical growth rates, we initially recorded \$2,140,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. Based upon actual results and current run rates, during the year ended March 31, 2014, we revised our estimate of the ultimate contingent liability that would be paid, which resulted in reducing the contingent consideration payable to \$1,120,000. Any further changes to the contingent consideration ultimately paid would result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results associated with the Bios Acquisition and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in the first quarter of our year ending March 31, 2016.

Critical Accounting Estimates

Our condensed consolidated financial statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the condensed consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed in our Annual Report on Form 10-K for the year ended March 31, 2014 in the Critical Accounting Policies and Estimates section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

We have no derivative instruments and minimal exposure to foreign currency and commodity market risks.

Item 4. *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 our disclosure controls and procedures as of June 30, 2014. Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at June 30, 2014.

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Management evaluated the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as of September 30, 2014. Based on that evaluation, our management concluded that our internal control over financial reporting was effective at September 30, 2014. As allowed, this evaluation excludes the operations of acquired entities during the six months ended September 30, 2014 due to the timing of the acquisitions. Revenues related to these acquisitions were 10% of total revenues for the six months ended September 30, 2014.

Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting that occurred during the six months ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

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 year ended March 31, 2014, under the heading “Part I – Item 1A. Risk Factors.” There have been no material changes to those risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 7, 2005, our Board of Directors adopted a share repurchase plan which allows for the repurchase of up to 300,000 of our common shares. This plan will continue until the maximum is reached or the plan is terminated by further action of the Board of Directors. We made the following repurchases of our common stock, including settlement of loans to employees for the exercise of stock options:

| | Shares Purchased | Average Price Paid | Total Shares Purchased as Part of Publicly Announced Plan | Remaining Shares to Purchase Under Plan |
|----------------|-----------------------------|-----------------------------------|--|--|
| July 2014 | -- | \$ -- | 162,486 | 137,514 |
| August 2014 | -- | -- | 162,486 | 137,514 |
| September 2014 | -- | -- | 162,486 | 137,514 |
| Total | -- | -- | | |

Item 6. 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

The following financial information from the quarterly report on Form 10-Q of Mesa Laboratories, Inc. for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language):

101 (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Condensed Consolidated Financial Statements.

SIGNATURES

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

MESA LABORATORIES, INC.

(Registrant)

DATED: November 6, 2014

By: /s/ John J. Sullivan, Ph.D.
John J. Sullivan, Ph.D.
Chief Executive Officer

DATED: November 6, 2014

By: /s/ John V. Sakys
John V. Sakys
Chief Financial Officer