

MESA LABORATORIES INC /CO
Form 10-Q
August 04, 2015

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 June 30, 2015

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

For the transition period from ___ to ___

Commission File No: 0-11740

MESA LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0872291
(I.R.S. Employer
Identification number)

12100 West Sixth Avenue
Lakewood, Colorado
(Address of principal executive offices)

80228
(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 3,593,257 shares of the Issuer's common stock, no par value, outstanding as of July 27, 2015.

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	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)

	June 30, 2015	March 31, 2015
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,968	\$2,034
Accounts receivable, net	11,179	12,145
Inventories, net	12,871	12,420
Prepaid expenses and other	1,718	1,334
Deferred income taxes	1,552	1,689
Total current assets	29,288	29,622
Property, plant and equipment, net	11,040	9,598
Intangibles, net	31,960	33,231
Goodwill	44,901	44,869
Total assets	\$ 117,189	\$117,320
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,325	\$2,503
Accrued salaries and payroll taxes	3,018	4,105
Unearned revenues	1,215	1,314
Current portion of contingent consideration	300	1,220
Other accrued expenses	1,463	1,307
Income taxes payable	1,690	1,208
Current portion of long-term debt	3,000	3,000
Total current liabilities	13,011	14,657
Deferred income taxes	5,176	5,122
Long-term debt	22,000	23,250

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Contingent consideration	612	812
Total liabilities	40,799	43,841
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,591,390 and 3,561,540 shares, respectively	18,897	17,751
Retained earnings	57,699	55,962
Accumulated other comprehensive loss	(206) (234)
Total stockholders' equity	76,390	73,479
Total liabilities and stockholders' equity	\$ 117,189	\$ 117,320

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 June 30,	
	2015	2014
Revenues	\$18,158	\$16,400
Cost of revenues	7,017	6,695
Gross profit	11,141	9,705
Operating expenses		
Selling	1,799	2,063
General and administrative	4,737	3,836
Research and development	963	751
Total operating expenses	7,499	6,650
Operating income	3,642	3,055
Other expense, net	116	162
Earnings before income taxes	3,526	2,893
Income taxes	1,220	1,012
Net income	\$2,306	\$1,881
Net income per share:		
Basic	\$0.65	\$0.54
Diluted	0.63	0.51
Weighted average common shares outstanding:		
Basic	3,575	3,501
Diluted	3,686	3,656

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands except per share data)

	Three Months Ended June 30, 2015 2014	
Net Income	\$2,306	\$1,881
Other comprehensive income, net of tax:		
Foreign currency translation	28	--
Total comprehensive income	\$2,334	\$1,881

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

(In thousands)

	Three Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$2,306	\$1,881
Depreciation and amortization	1,504	1,359
Stock-based compensation	327	279
Loss on disposition of assets	--	16
Deferred income taxes	191	--
Foreign currency adjustments	21	--
Change in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net	966	(906)
Inventories, net	(451)	(831)
Prepaid expenses and other	(384)	(206)
Accounts payable	(178)	(35)
Accrued liabilities and taxes payable	(222)	(659)
Unearned revenues	(99)	(472)
Contingent consideration	(1,120)	--
Net cash provided by operating activities	2,861	426
Cash flows from investing activities:		
Acquisitions	--	(13,817)
Purchases of property, plant and equipment	(1,675)	(393)
Net cash used in investing activities	(1,675)	(14,210)
Cash flows from financing activities:		
Proceeds from the issuance of debt	--	18,000
Payments on debt	(1,250)	(6,500)
Dividends	(569)	(526)
Proceeds from the exercise of stock options	560	435
Net cash (used in) provided by financing activities	(1,259)	11,409
Effect of exchange rate changes on cash and cash equivalents	7	--
Net decrease in cash and cash equivalents	(66)	(2,375)
Cash and cash equivalents at beginning of period	2,034	5,575
Cash and cash equivalents at end of period	\$1,968	\$3,200

Cash paid for:		
Income taxes	\$344	\$274
Interest	129	92
Supplemental non-cash activity:		
Repayment of employee loans for stock options	\$--	\$24

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 and services, 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 four divisions across seven 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, 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. Our Cold Chain Division provides parameter monitoring of products in a cold chain, consulting services such as compliance monitoring, packaging development and validation or mapping of transport and storage containers, and thermal packaging products such as coolers, boxes, insulation materials and phase-change products to control temperature during transport.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2015, 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, 2015.

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, 2015.

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, 2019. We are evaluating the impact of this standard on our condensed consolidated financial statements and disclosures.

Note 2 – Acquisitions

We did not make any acquisitions during the three months ended June 30, 2015.

In July 2015, we completed a business combination (the “Infitrak Acquisition”) whereby we acquired all of the common stock of 2396081 Ontario Inc. and its wholly owned operating subsidiary, Infitrak Inc. (collectively “Infitrak”), a company whose business provides consulting, packaging and measuring solutions for cold chain applications. The purchase price for the common stock of Infitrak was \$12,000,000 CDN (approximately \$9,600,000 USD), consisting of a cash payment of \$11,000,000 CDN at closing with the remaining \$1,000,000 CDN due at the one year anniversary of the closing date, subject to a working capital adjustment. In addition, the Infitrak acquisition agreement provides for contingent consideration of up to \$15,000,000 CDN (approximately \$12,000,000 USD) based upon the growth of the Infitrak cold chain business during the first two years subsequent to the acquisition.

Note 3 - Inventories

Inventories consist of the following (in thousands):

	June 30, 2015	March 31, 2015
Raw materials	\$10,381	\$10,366
Work-in-process	995	530
Finished goods	1,962	1,913
Less: reserve	(467)	(389)
	\$12,871	\$12,420

Note 4 - Long-Term Debt

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

	June 30, 2015	March 31, 2015
Line of credit (1.69% at June 30, 2015)	\$13,000	\$13,500
Term loan (2.19% at June 30, 2015)	12,000	12,750
Less: current portion	(3,000)	(3,000)
Long-term portion	\$22,000	\$23,250

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. Funds from the Credit Facility were used for general working capital and corporate needs, retiring existing debt, or to support acquisitions and capital expenditures.

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

On July 1, 2015, we further amended our Credit Facility to extend the maturity date to June 30, 2020, increase the Line of Credit to \$50,000,000 and establish a new \$20,000,000 term loan (the "Term Loan"). The majority of the proceeds from the Term Loan were used to pay down the remaining \$12,000,000 balance of the Initial Term Loan. The remaining \$8,000,000 was combined with a \$1,000,000 draw under the Line of Credit to fund the Infitrak Acquisition (see Note 2).

Under the Line of Credit, indebtedness bears interest at either: (1) LIBOR, as defined, plus an applicable margin ranging from 1.5% to 2.25%; or (2) the bank's commercial bank floating rate ("CBFR"), which is the bank's prime rate adjusted down by 0.5%. We elect the interest rate with each borrowing under the line of credit. In addition, there is an unused line fee of 0.25%. Letter of credit fees are based on the applicable LIBOR rate.

The Term Loan bears interest at LIBOR, as defined, plus an applicable margin ranging from 1.5% to 2.25% and requires 20 quarterly principal payments (the first due date was July 15, 2015) in the amount of \$750,000 with the remaining balance of principal and accrued interest due on June 30, 2020.

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 3.25 to 1.0 through March 31, 2016 and 3.0 to 1.0 thereafter, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with the required covenants at June 30, 2015.

As of July 1, 2015, future contractual maturities of debt as are as follows (in thousands):

Year ending March 31,	
2016	\$2,250
2017	3,000
2018	3,000
2019	3,000
2020	3,000
Thereafter	19,750
	\$34,000

On July 15, 2015, we made a \$750,000 required principle payment on the Term Loan.

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	
	June 30,	
	2015	2014
Total cost of stock-based compensation charged against income before income taxes	\$327	\$279
Amount of income tax benefit recognized in earnings	113	98
Amount charged against net income	\$214	\$181
Impact on net income per common share:		
Basic	\$0.06	\$0.05
Diluted	0.06	0.05

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 three months ended June 30, 2015:

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at March 31, 2015	437,248	\$ 55.81	4.9	\$ 9,445
Stock options granted	167,270	70.78	7.6	

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Stock options forfeited	(4,691)	71.71	6.8	
Stock options expired	--	--		
Stock options exercised	(35,034)	35.21		
Outstanding at June 30, 2015	564,793	61.39	5.7	15,639
Exercisable at June 30, 2015	204,379	41.32	3.9	9,740

The total intrinsic value of stock options exercised was \$1,815,449 and \$826,000 for the three months ended June 30, 2015 and 2014, respectively.

A summary of the status of our unvested stock option shares as of June 30, 2015 is as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at March 31, 2015	274,038	\$ 18.42
Stock options granted	167,270	18.40
Stock options forfeited	(4,691)	19.15
Stock options vested	(76,203)	14.55
Unvested at June 30, 2015	360,414	19.22

As of June 30, 2015, there was \$5,455,000 of total unrecognized compensation expense related to unvested stock options. As of June 30, 2015, we have 930,410 shares available for future stock option grants.

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 June 30,	
	2015	2014
Net income available for stockholders	\$2,306	\$1,881
Weighted average outstanding shares of common stock	3,575	3,501
Dilutive effect of stock options	111	155
Common stock and equivalents	3,686	3,656
Net income per share:		
Basic	\$0.65	\$0.54
Diluted	0.63	0.51

For the three months ended June 30, 2015 and 2014, 295,000 and 156,000 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 (the “Amega Earn Out”) 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 represented 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.

In November 2014, Amega and its owner Anthony Amato (“Amato”) filed a complaint (*Anthony Amato and Amega Scientific Corporation v. Mesa Laboratories, Inc., Civil Action No. 1:14-cv-03228*) in the United States District Court for the district of Colorado asserting, among other items, that our termination of Amato as an employee impacted his ability to maximize the potential consideration payable under the Amega Earn Out and to exercise stock options that failed to vest. The plaintiffs seek an immediate maximum payout of \$10,000,000 under the Amega Earn Out, the immediate acceleration of the 10,000 stock options granted Amato upon his initial employment along with other consequential damages in excess of \$500,000, lost future earnings and punitive damages. In addition, Amato has alleged that we improperly withheld \$704,065.86 from the holdback consideration under the Amega Agreement. In January 2015 we filed a motion to dismiss the complaint with prejudice. At this time, we are unable to predict the ultimate outcome of this matter, nor can we estimate a range of possible loss, if any. We do believe that we acted in a matter consistent with employment law and the provisions of the Amega Agreement and we intend to defend our position vigorously.

Under the terms of the PCD Agreement, we are required to pay contingent consideration if the cumulative revenues for our process challenge device business for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$1,500,000 and is based upon a sliding scale of three-year cumulative revenues between \$9,900,000 and \$12,600,000. Based upon both historical and projected growth rates, we recorded \$300,000 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 process challenge device business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in three annual installments beginning in the third 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. 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 was subject to change as further analysis is completed and state sales tax returns are filed.

During the year ended March 31, 2015 we successfully completed and filed several state sales tax returns which concluded our obligation for historical sales taxes in those states. In addition we continued to work through the process in the remaining states. As a result of this work, we determined that our exposure had increased above and beyond our original accrual and as a result, we recorded an additional accrual of \$460,000 during the year ended March 31, 2015. We are hopeful that we are far enough in the process that we have accrued for the ultimate amount of liability that will be paid but our work was based upon facts and circumstances known at such time and our ultimate liability is subject to change as further analysis is completed and state sales tax returns are filed.

Note 8 – Comprehensive Income

The following table summarizes the changes in each component of accumulated other comprehensive income (“AOCI”), net of tax (in thousands):

	Foreign Currency Translation	AOCI
Balance at March 31, 2015	\$ (234)	\$ (234)
Unrealized (losses) gains arising during the period	28	28
Balance at June 30, 2015	\$ (206)	\$ (206)

	Foreign Currency Translation	AOCI
Balance at March 31, 2014	\$ --	\$ --
Unrealized (losses) gains arising during the period	--	--
Balance at June 30, 2014	\$ --	\$ --

Note 9 - 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 June 30, 2015			Total
	Biological Indicators	Instruments	Continuous Monitoring	
Revenues	\$7,236	\$ 8,331	\$ 2,591	\$18,158
Gross profit	\$4,749	\$ 5,355	\$ 1,037	\$11,141
Selling expenses	360	981	458	1,799
	\$4,389	\$ 4,374	\$ 579	9,342
Reconciling items ⁽¹⁾				(5,816)
Earnings before income taxes				\$3,526

	Three Months Ended June 30, 2014			Total
	Biological Indicators	Instruments	Continuous Monitoring	
Revenues	\$6,417	\$ 7,685	\$ 2,298	\$16,400
Gross profit	\$3,784	\$ 4,927	\$ 994	\$9,705
Selling expenses	404	992	667	2,063
	\$3,380	\$ 3,935	327	7,642
Reconciling items ⁽¹⁾				(4,749)
Earnings before income taxes				\$2,893

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

	June 30, 2015	March 31, 2015
Total assets		
Biological Indicators	\$37,384	\$36,304
Instruments	43,636	44,401
Continuous Monitoring	30,931	31,558
Corporate and administrative	5,238	5,057
	\$117,189	\$117,320

All long-lived assets are located in the United States except for \$4,512,000 which are associated with our subsidiary 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 June 30, 2015 2014	
Net revenues from unaffiliated customers:		
United States	\$12,194	\$8,491
Foreign	5,964	7,909
	\$18,158	\$16,400

No foreign country exceeds 10 percent of total revenues.

Note 10 – Income Taxes

For interim income tax reporting, we estimate our annual effective tax rate and apply this effective tax rate to our year to date pre-tax income. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to several factors, including changes in the mix of the pre-tax income and the jurisdictions to which it relates, changes in tax laws and foreign tax holidays, settlement with taxing authorities and foreign currency fluctuations.

Our effective income tax rate was 34.6 percent and 35 percent for the three months ended June 30, 2015 and 2014, respectively. The effective tax rate for the three months ended June 30, 2015 differed from the statutory federal rate of 35 percent primarily as a result of the impact of state income taxes and certain discrete period items. We anticipate that our effective tax rate for the year ending March 31, 2016 will approximate 35 to 37 percent.

Note 11 - Subsequent Event

In July 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on September 15, 2015, to shareholders of record at the close of business on August 31, 2015.

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," "project," "anticipate," "estimate," "intend," "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, 2015, 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 and services, 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 four divisions across seven 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, 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. Our Cold Chain Division provides parameter monitoring of products in a cold chain, consulting services such as compliance monitoring, packaging development and validation or mapping of transport and storage containers, and thermal packaging products such as coolers, boxes, insulation materials and phase-change products to control temperature during transport.

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 and cold chain packaging 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, cold chain services 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, some of 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.

Year Ending March 31, 2016 Acquisitions

During the year ending March 31, 2016, we completed the following acquisition:

In July 2015, we completed a business combination (the “Infitrak Acquisition”) whereby we acquired all of the common stock of 2396081 Ontario Inc. and its wholly owned operating subsidiary, Infitrak Inc. (collectively “Infitrak”), a company whose business provides consulting, packaging and measuring solutions for cold chain applications.

Year Ended March 31, 2015 Acquisitions

During the year ended March 31, 2015, we completed the following six acquisitions (the “2015 Acquisitions”):

In March 2015, we completed a business combination (the “Früh Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Dr. Früh Control GmbH’s (“Fruh”) business segment associated with the distribution of our biological indicator products.

In February 2015, we completed a business combination (the “Cherwell Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Cherwell Laboratories Limited’s (“Cherwell”), business segment associated with the distribution of our biological indicator products.

In October 2014, we completed a business combination (the “ATI Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of ATI Atlas Limited (“ATI”), a distributor of our biological indicator products.

In October 2014, we completed a business combination (the “PCD Acquisition”) with PCD-Process Challenge Devices, LLC (“PCD”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of PCD’s business segment associated with 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 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”), businesses focused on the sale of equipment used primarily 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.

General Trends and Outlook

Our strategic objectives include growth both organically and through further acquisitions. During the year ended March 31, 2015, we continued to build our infrastructure to prepare for future growth, including the addition of key personnel to our operations, sales and marketing, 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 and cold chain packaging products 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.

In general, our instruments products, cold chain services and our continuous monitoring systems are impacted more by general economic conditions than our biological indicator and cold chain packaging products. As a result, 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. However demand for our instruments products, cold chain services and continuous monitoring systems remains strong and we strive to continue to 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 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 June 30,			Percent	
	2015	2014	Change	Change	
Revenues	\$18,158	\$16,400	\$1,758	11	%
Cost of revenues	7,017	6,695	322	5	%
Gross profit	\$11,141	\$9,705	\$1,436	15	%
Gross profit margin	61	% 59	% 2	%	
Operating expenses					
Selling	\$1,799	\$2,063	\$(264)	(13)	%
General and administrative	4,737	3,836	901	23	%
Research and development	963	751	212	28	%
	\$7,499	\$6,650	\$849	13	%
Operating income	\$3,642	\$3,055	\$587	19	%
Net income	2,306	1,881	425	23	%
Net profit margin	13	% 11	% 2	%	

Revenues

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

	Three Months Ended June 30,			Percent	
	2015	2014	Change	Change	
Biological Indicators	\$7,236	\$6,417	\$819	13	%
Instruments	8,331	7,685	646	8	%
Continuous Monitoring	2,591	2,298	293	13	%
Total	\$18,158	\$16,400	\$1,758	11	%

Three months ended June 30, 2015 versus June 30, 2014

Biological Indicators revenues increased as a result of the ATI, PCD, Früh and Cherwell Acquisitions while organic growth was flat.

Instruments revenues increased as a result of the timing of the BGI acquisition and organic growth of seven percent in our existing product lines which was achieved through existing and new customers.

Continuous Monitoring revenues increased as a result of organic growth of 13 percent which was achieved through existing and new customers.

Gross Profit

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

	Three Months Ended June 30,			Percent	
	2015	2014	Change	Change	
Biological Indicators	\$4,749	\$3,784	\$ 965	26	%
Gross profit margin	66 %	59 %	7 %		
Instruments	5,355	4,927	428	9	%
Gross profit margin	64 %	64 %	-- %		
Continuous Monitoring	1,037	994	43	4	%
Gross profit margin	40 %	43 %	(3)%		
Total gross profit	\$11,141	\$9,705	\$ 1,436	15	%
Gross profit margin	61 %	59 %	2 %		

Three months ended June 30, 2015 versus June 30, 2014

Biological Indicators gross profit margin percentage increased as a result of the ATI, PCD, Früh and Cherwell Acquisitions, price increases and volume-based efficiencies associated with revenues growth.

Instruments gross margin percentage was flat as a result of the completion of integration activities associated with the BGI acquisition which was offset by a change in our product and service mix.

Continuous Monitoring gross profit margin decreased primarily as a result of a change in our product and service mix. Our integration activities associated with the division are essentially completed and we are now focused on cost reduction initiatives to stream line the operations. We are hopeful that we will be able to improve the gross profit margin percentage in the future but it is unclear as to how much improvement we will be able to obtain.

Operating Expenses

Operating expenses for the three months ended June 30, 2015 increased as compared to the prior year as follows (in thousands):

	Increase (Decrease) Three Months Ended
	June 30, 2014
Selling	\$ (264)
General and administrative	
Amortization	100
Personnel costs	900
ERP system upgrade	170
Other, net	(269)
	901
Research and development	212
Operating expenses	\$ 849

Selling

Three months ended June 30, 2015 versus June 30, 2014

Selling expenses decreased as compared to the prior year primarily due to a reduction in both bad debt expense and personnel costs. As a percentage of revenues, selling expense decreased to 10 percent as compared to 13 percent in the prior period.

General and administrative

Three months ended June 30, 2015 versus June 30, 2014

General and administrative expenses increased as compared to the prior year primarily due to increased amortization and personnel expenses resulting from the Früh, Cherwell, ATI and PCD Acquisitions and increased spending on our ERP system upgrade.

Research and Development

Three months ended June 30, 2015 versus June 30, 2014

Research and development expenses increased as compared to the prior year as a result of the addition of several new product and software engineers to support existing and acquired businesses.

Net Income

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 35 percent to 37 percent. Otherwise, net income varied with the changes in revenues, gross profit and operating expenses (which includes \$1,271,000 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.

Due to continued organic and acquisition related growth, we have outgrown the capacity of our current building in Bozeman, Montana and as a result, we are building a new facility in the same general area. Construction began in July 2015 and we are hopeful that the building will be completed no later than September 30, 2016. During our year ended March 31, 2015 we acquired the related land for \$741,000 and we anticipate that the remaining cost of the new facility will be approximately \$14,000,000. Following the relocation from our current Bozeman building into the new facility, we expect to be able to sell the current facility for \$2,000,000 - \$3,000,000 to partially offset the cost of the new building.

We are currently implementing a new ERP system which has required a significant amount of cash. We incurred \$175,000 and \$993,000, respectively of expense associated with this project for the three months ended June 30, 2015 and the year ended March 31, 2015. Our expectation is that we will go live with our new ERP system during our third quarter ending December 31, 2015. We anticipate that we will incur up to an additional \$500,000 to \$750,000 for activities necessary to go live and for related post go-live support. In addition, we may incur additional costs associated with software system upgrades.

Working capital is the amount by which current assets exceed current liabilities. We had working capital of \$16,277,000 and \$14,965,000, respectively, at June 30, 2015 and March 31, 2015.

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. Funds from the Credit Facility were used for general working capital and corporate needs, retiring existing debt, or to support acquisitions and capital expenditures.

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

On July 1, 2015, we further amended our Credit Facility to extend the maturity date to June 30, 2020, increase the Line of Credit to \$50,000,000 and establish a new \$20,000,000 term loan (the "Term Loan"). The majority of the proceeds from the Term Loan were used to pay down the remaining \$12,000,000 balance of the Initial Term Loan.

Under the Line of Credit, indebtedness bears interest at either: (1) LIBOR, as defined, plus an applicable margin ranging from 1.5% to 2.25%; or (2) the bank's commercial bank floating rate ("CBFR"), which is the bank's prime rate adjusted down by 0.5%.

The Term Loan bears interest at LIBOR, as defined, plus an applicable margin ranging from 1.5% to 2.25% and requires 20 quarterly principal payments (the first due date was July 15, 2015) in the amount of \$750,000 with the remaining balance of principal and accrued interest due on June 30, 2020.

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 3.25 to 1.0 through March 31, 2016 and 3.0 to 1.0 thereafter, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with the required covenants at June 30, 2015.

As of July 31, 2015, we had \$33,250,000 in outstanding indebtedness and unused capacity under our Credit Facility of \$36,000,000.

In April 2015, the SEC declared effective our Universal Shelf Registration Statement which allows us to sell, in one or more public offerings, common stock or warrants, or any combination of such securities for proceeds in an aggregate amount of up to \$130,000,000. The terms of any offering, including the type of securities involved, would be established at the time of sale. We have no immediate plans to issue securities under this registration statement.

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 162,486 shares of common stock under this program from inception through June 30, 2015.

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

	Year Ending	
	March 31,	
	2016	2015
First quarter	\$0.16	\$0.15
Second quarter	-	0.15
Third quarter	-	0.16
Fourth quarter	-	0.16

In July 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on September 15, 2015, to shareholders of record at the close of business on August 31, 2015.

Cash Flows

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

	Three Months Ended June 30,	
	2015	2014
Net cash provided by operating activities	\$2,861	\$426
Net cash used in investing activities	(1,675)	(14,210)
Net cash (used in) provided by financing activities	(1,259)	11,409

Net cash provided by operating activities for the three months ended June 30, 2015 increased primarily due to the efficient management of working capital.

Net cash used in investing activities for the three months ended June 30, 2015 resulted from the purchase of \$1,675,000 of property, plant and equipment. Net cash used in investing activities for the three months ended June 30, 2014 resulted primarily from the \$10,268,000 BGI Acquisition and the purchase of \$393,000 of property, plant and equipment.

Net cash used in financing activities for the three months ended June 30, 2015 resulted from the repayment of debt of \$1,250,000 and the payment of dividends of \$569,000, partially offset by proceeds from the exercise of stock options of \$560,000. Net cash provided by financing activities for the three months ended June 30, 2014 resulted from borrowings under our Credit Facility of \$18,000,000 and proceeds from the exercise of stock options of \$435,000, partially offset by the repayment of debt of \$6,500,000 and the payment of dividends of \$526,000.

At June 30, 2015, we had contractual obligations for open purchase orders of approximately \$10,700,000 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 represented 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 PCD Agreement, we are required to pay contingent consideration if the cumulative revenues for our process challenge device business for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$1,500,000 and is based upon a sliding scale of three-year cumulative revenues between \$9,900,000 and \$12,600,000. Based upon both historical and projected growth rates, we recorded \$300,000 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 process challenge device business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in three annual installments beginning in the third 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, 2015 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, 2015. Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at June 30, 2015.

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 2013.

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 June 30, 2015. Based on that evaluation, our management concluded that our internal control over financial reporting was effective at June 30, 2015. As allowed, this evaluation excludes the operations of acquired entities during the three months ended June 30, 2015 due to the timing of the acquisitions.

Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting that occurred during the three months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

Item 1. *Legal Proceedings*

See Note 7 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements (Part I, Item 1 of this Form 10-Q) for information regarding legal proceedings in which we are involved.

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, 2015, 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
April 2015	--	\$ --	162,486	137,514
May 2015	--	--	162,486	137,514
June 2015	--	--	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

101 The following financial information from the quarterly report on Form 10-Q of Mesa Laboratories, Inc. for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (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: August 4, 2015

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

DATED: August 4, 2015

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