

Edgar Filing: MESA LABORATORIES INC /CO - Form 10QSB

MESA LABORATORIES INC /CO  
Form 10QSB  
November 12, 2003

Form 10-QSB

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended September 30, 2003  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-11740  
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**MESA LABORATORIES, INC.**  
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(Exact Name of Small Business Issuer as Specified in its Charter)

**COLORADO**  
-----

(State or other Jurisdiction of  
Incorporation or Organization)

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

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

**80228**  
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(Zip Code)

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act, during the past 12 months and (2) has been subject to the filing requirements for the past 90 days. Yes X No \_\_\_\_  
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State the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date:

There were 3,048,838 shares of the Issuer's common stock, no par value, outstanding as of September 30, 2003.

ITEM 1. FINANCIAL STATEMENTS  
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FORM 10-QSB

**MESA LABORATORIES, INC.**  
**BALANCE SHEETS**

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(UNAUDITED)

ASSETS	SEPTEMBER 30, 2003	MARCH 31, 2003
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CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,019,929	\$ 4,761,102
Accounts Receivable, Net	1,721,168	2,281,791
Inventories	2,208,051	2,328,999
Prepaid Expenses	155,225	231,766
	-----	-----
TOTAL CURRENT ASSETS	10,104,373	9,603,658
PROPERTY, PLANT & EQUIPMENT, NET	1,312,778	1,347,980
OTHER ASSETS		
Goodwill and Other	4,207,942	4,207,942
	-----	-----
TOTAL ASSETS	\$15,625,093	\$15,159,580
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
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CURRENT LIABILITIES		
Accounts Payable	\$ 97,087	\$ 117,979
Accrued Salaries & Payroll Taxes	262,739	332,537
Other Accrued Expenses	101,712	100,698
Taxes Payable	36,335	35,492
	-----	-----
TOTAL CURRENT LIABILITIES	497,873	586,706
LONG TERM LIABILITIES		
Deferred Income Taxes Payable	86,351	86,351
STOCKHOLDERS' EQUITY		
Preferred Stock, No Par Value	-	-
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,048,838 shares (9/30/03) and 3,098,907 shares (3/31/03)	1,115,332	1,284,887
Retained Earnings	13,925,537	13,201,636
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	15,040,869	14,486,523
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$15,625,093	\$15,159,580
	=====	=====

MESA LABORATORIES, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

Three Months Ended Sept. 30, 2003	Three Months Ended Sept. 30, 2002
-----------------------------------------	-----------------------------------------

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Sales	\$2,276,286	\$2,431,869
Cost of Goods Sold	901,836	878,325
Selling, General & Administrative	479,127	493,455
Research and Development	82,878	79,480
Other (Income) and Expenses	(10,604)	(15,979)
	1,453,237	1,435,281
Earnings Before Income Taxes	823,049	996,588
Income Taxes	294,631	335,500
Net Income	\$ 528,418	\$ 661,088
Net Income Per Share (Basic)	\$ .17	\$ .20
Net Income Per Share (Diluted)	\$ .17	\$ .20
Average Common Shares Outstanding (Basic)	3,052,000	3,304,000
Average Common Shares Outstanding (Diluted)	3,180,000	3,366,000

**MESA LABORATORIES, INC.**  
**STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Six Months Ended Sept. 30, 2003	Six Months Ended Sept. 30, 2002
Sales	\$4,529,027	\$4,484,324
Cost of Goods Sold	1,707,916	1,690,108
Selling, General & Administrative	1,063,940	1,075,071
Research and Development	150,464	128,930
Other (Income) and Expenses	(23,343)	(30,592)
	2,898,977	2,863,517
Earnings Before Income Taxes	1,630,050	1,620,807
Income Taxes	578,505	540,000
Net Income	\$1,051,545	\$1,080,807

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Net Income Per Share (Basic)	\$ .34	\$ .33
Net Income Per Share (Diluted)	\$ .33	\$ .32
Average Common Shares Outstanding (Basic)	3,066,000	3,318,000
Average Common Shares Outstanding (Diluted)	3,167,000	3,389,000

**MESA LABORATORIES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended Sept. 30, 2003	Six Months Ended Sept. 30, 2002
Cash Flows From Operating Activities:		
Net Income	\$1,051,545	\$1,080,807
Depreciation and Amortization	51,299	59,194
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable	560,623	138,799
(Increase) Decrease in Inventories	120,948	(43,475)
(Increase) Decrease in Prepaid Expenses	76,541	278,617
Increase (Decrease) in Accounts Payable	(20,892)	(15,045)
Increase (Decrease) in Accrued Liabilities	(67,941)	99,105
Net Cash (Used) Provided by Operating Activities	1,772,123	1,598,002
Cash Flows From Investing Activities:		
Capital Expenditures, Net of Retirements	(16,097)	(55,580)
Net Cash (Used) Provided by Investing Activities	(16,097)	(55,580)
Cash Flows From Financing Activities:		
Treasury Stock Purchases	(516,789)	(350,675)
Proceeds From Stock Options Exercised	19,590	30,188
Net Cash (Used) Provided by Financing Activities	(497,199)	(320,487)
Net Increase (Decrease) In Cash and Equivalents	1,258,827	1,221,935
Cash and Cash Equivalents at Beginning of Period	4,761,102	3,461,978
Cash and Cash Equivalents at End of Period	\$6,019,929	\$4,683,913

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MESA LABORATORIES, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2003 AND 2002

**NOTE A. SUMMARY OF ACCOUNTING POLICIES**

The summary of the Issuer's significant accounting policies are incorporated by reference to the Company's annual report on Form 10KSB, at March 31, 2003.

The accompanying unaudited condensed financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of operations, financial position and cash flows. The results of the interim period are not necessarily indicative of the results for the full year.

**NOTE B. STOCK BASED COMPENSATION**

The Company has stock based compensation plans, which are described more fully in Note 7 of the Company's annual report on Form 10KSB, at March 31, 2003. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards in fiscal 2004 and 2003 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share for the fiscal second quarter and year-to-date would have been reduced to the pro forma amount indicated below:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Net income - as reported	\$ 528,418	\$ 661,088	\$1,051,545	\$1,080,807
Net income - pro forma	\$ 528,418	\$ 661,088	\$ 989,552	\$1,072,214
Income per diluted share - as reported	\$ .17	\$ .20	\$ .33	\$ .32
Income per diluted share - pro forma	\$ .17	\$ .20	\$ .31	\$ .32

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants: dividend yield of 0%; expected volatility of approximately 14% (2004) and 20% (2003); discount rate of 3.0% (2004) and (2003); and expected lives of 5 years.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**LIQUIDITY AND CAPITAL RESOURCES**

On September 30, 2003, the Company had cash and short-term investments of \$6,019,929. In addition, the Company had other current assets totaling \$4,084,444 and total current assets of \$10,104,373. Current liabilities of Mesa Laboratories, Inc. were \$497,873, which resulted in a current ratio of 20.3:1.

The Company has made net capital asset purchases of \$16,097 for the fiscal year-to-date.

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The Company has instituted a program to repurchase up to 300,000 shares of its 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.

### RESULTS OF OPERATIONS

#### REVENUE

Net sales for the six months ended September 30, 2003 increased \$44,703 or 1% to \$4,529,027 from the \$4,484,324 net sales level achieved for the same six-month period last year. Net sales for the quarter decreased \$155,583 or 6% to \$2,276,286 from the \$2,431,869 net sales level achieved in the same quarter last year. Over the first six months of the fiscal year, revenues are up a small amount compared to prior year. Datatrace sales for the six month period produced a five percent gain while medical instruments decreased by approximately seven percent. Nusonics products have increased over thirty percent for the same period, but this gain is on a much smaller base of sales. Net sales for the quarter were down a small amount from the prior year quarter, but was up slightly from last quarter. For the quarter, medical products decreased approximately five percent and Nusonics products almost doubled. Datatrace products decreased 17 percent from the prior year quarter, which was helped by initial shipments of the Micropack III product, which included shipments of backlogged product from the first quarter of that year.

#### COST OF GOODS SOLD

Cost of goods sold for the first six months as a percent of net sales was 38%, which is unchanged from the same six-month period last year. Cost of goods sold for the current quarter as a percent of net sales was 40%, representing a 4% increase compared to the 36% level in the same quarter last year. While the mix of products during the first six months of the fiscal year was fairly stable compared to prior year leading to no change in the cost of goods sold as a percent of sales, the quarter saw an increase in cost of goods sold due to the lower Datatrace product sales described above.

#### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses for the first six months decreased 1% or \$11,131 to \$1,063,940 from \$1,075,071 in the same period last year. For the current quarter, selling, general and administrative expenses totaled \$479,127, which was down 3% or \$14,328 from \$493,455 expended in the same quarter last year. Marketing expenses increased nine percent and five percent for the quarter and six month periods, respectively with Medical marketing expenses declining two percent and five percent from the prior year while Datatrace marketing expenses increased 14 percent for the quarter and 13 percent for the six-month period. The increase in marketing expenses for Datatrace products was due chiefly to higher compensation and commissions to outside sale representatives. Individual marketing costs for medical products trended down for the quarter and six month periods and were relatively unchanged within the major expense categories. Administration costs decreased 17 percent and nine percent for the quarter and six month periods due to the elimination of consulting expenses during the first six months of the current fiscal year.

#### RESEARCH AND DEVELOPMENT

Research and development for the first six months increased to \$150,464 from \$128,930, which represents a 17% increase from the same period last year. Research and development for the quarter was \$82,878, which represents an increase of \$3,398 or 4% from the \$79,480 level expensed in the same quarter

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last year. Research and development costs increased for the quarter and six month periods due to higher compensation and consulting costs. This trend is expected to continue throughout the fiscal year. Development of three new versions of the Micropack III Logger that will measure other parameters besides temperature is proceeding well and is expected to see introduction later in the fiscal year. Development projects for the company's line of Dialysate Meters for kidney dialysis have begun, and we estimate that we will begin to introduce our next generation medical instruments in the next fiscal year.

### NET INCOME

Net income for the six months ended September 30, 2003 decreased 3% to \$1,051,545 or \$.33 per diluted share from \$1,080,807 or \$.32 per diluted share last year. Net income for the quarter was \$528,418 or \$.17 per diluted share compared to net income of \$661,088 or \$.20 per diluted share last year. For the quarter, the decrease in net income compared to last year was due chiefly to a decrease in the sales of logging products, and the resulting change in mix. For the year-to-date, income was down slightly due to higher research and development spending and a small increase in income tax rate compared to prior year.

### PART II-OTHER INFORMATION

#### ITEM 4. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them, on a timely basis, to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

b. Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

#### ITEM 6. Exhibits and reports on Form 8-K

##### a) Exhibits:

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

##### b) Reports on Form 8-K:

On October 31, 2003, we furnished a report on Form 8-K under Item

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9, Regulation FD Disclosure, to announce that we issued a press release on October 30, 2003 announcing preliminary results for the second quarter period ended September 30, 2003, and filed under Item 7, Financial Statements and Exhibits, a copy of the press release dated October 30, 2003.

**SIGNATURES**

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

MESA LABORATORIES, INC.

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(Issuer)

DATED: November 12, 2003  
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BY: /s/Luke R. Schmieder  
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Luke R. Schmieder  
President, Chief Executive Officer,  
Treasurer and Director

DATED: November 12, 2003  
-----

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