MESA LABORATORIES INC /CO
Form 10-Q
February 14, 2011

# Form 10-Q

# U.S. Securities and Exchange Commission

**Washington, D.C. 20549**

# Form 10-Q

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

**For the quarterly period ended December 31, 2010**

**OR**

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

**For the transition period from to**

**Commission File Number 0-11740**

# MESA LABORATORIES, INC.

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

| **COLORADO** | **84-0872291** |
|---|---|
| (State or other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **12100 WEST SIXTH AVENUE, LAKEWOOD, COLORADO** | **80228** |
| (Address of Principal Executive Offices) | (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 o.

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 the chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

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 o | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

There were **3,247,002** shares of the Issuer s common stock, no par value, outstanding as of January **31, 2011.**

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**MESA LABORATORIES, INC.**

**BALANCE SHEETS**

| | DEC 31, 2010 (Unaudited) | MARCH 31,2010 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 2,129,000 | $ 10,471,000 |
| Accounts Receivable, Net | 5,434,000 | 4,426,000 |
| Inventories, Net | 6,059,000 | 4,820,000 |
| Prepaid Expenses and Other | 621,000 | 757,000 |
| **TOTAL CURRENT ASSETS** | 14,243,000 | 20,474,000 |
| **PROPERTY, PLANT & EQUIPMENT, NET** | 7,409,000 | 4,239,000 |
| **OTHER ASSETS** | | |
| Goodwill, Intangibles and Other, Net | 25,968,000 | 8,926,000 |
| **TOTAL ASSETS** | $ 47,620,000 | $ 33,639,000 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts Payable | $ 494,000 | $ 480,000 |
| Accrued Salaries & Payroll Taxes | 1,535,000 | 1,190,000 |
| Notes Payable Current Portion | 750,000 | 100,000 |
| Revolving Line of Credit | 4,000,000 | |
| Due To Apex Laboratories, Inc. | 600,000 | |
| Other Accrued Expenses | 171,000 | 41,000 |
| Taxes Payable | 962,000 | 133,000 |
| **TOTAL CURRENT LIABILITIES** | 8,512,000 | 1,944,000 |
| **LONG TERM LIABILITIES** | | |
| Deferred Income Taxes Payable | 2,912,000 | 498,000 |
| Notes Payable Long Term | 1,750,000 | |
| **STOCKHOLDERS EQUITY** | | |
| Preferred Stock, No Par Value | | |
| Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,246,252 shares (12/31/10) and 3,203,726 shares (3/31/10) | 5,408,000 | 4,883,000 |
| Employee Loans to Purchase Stock | (394,000) | |
| Retained Earnings | 29,432,000 | 26,314,000 |
| **TOTAL STOCKHOLDERS EQUITY** | 34,446,000 | 31,197,000 |

| | | |
|---|---|---|
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 47,620,000 | $ 33,639,000 |

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

**MESA LABORATORIES, INC.**

**STATEMENTS OF INCOME**

(UNAUDITED)

| | Three Months Ended Dec. 31, 2010 | Three Months Ended Dec. 31, 2009 |
|---|---|---|
| Sales | $ 7,652,000 | $ 5,318,000 |
| Cost of Goods Sold | 3,212,000 | 2,020,000 |
| Selling, General & Administrative | 2,045,000 | 1,295,000 |
| Research and Development | 393,000 | 185,000 |
| Other Expenses and (Income) | 33,000 | (14,000) |
| | 5,683,000 | 3,486,000 |
| Earnings Before Income Taxes | 1,969,000 | 1,832,000 |
| Income Taxes | 711,000 | 678,000 |
| Net Income | $ 1,258,000 | $ 1,154,000 |
| Net Income Per Share (Basic) | $ .39 | $ .36 |
| Net Income Per Share (Diluted) | $ .37 | $ .35 |
| Average Common Shares Outstanding (Basic) | 3,234,000 | 3,193,000 |
| Average Common Shares Outstanding (Diluted) | 3,355,000 | 3,317,000 |

**MESA LABORATORIES, INC.**

**STATEMENTS OF INCOME**

(UNAUDITED)

| | Nine Months Ended Dec. 31, 2010 | Nine Months Ended Dec. 31, 2009 |
|---|---|---|
| Sales | $ 22,861,000 | $ 15,702,000 |
| Cost of Goods Sold | 9,488,000 | 6,109,000 |
| Selling, General & Administrative | 5,877,000 | 3,685,000 |
| Research and Development | 958,000 | 508,000 |
| Other Expenses and (Income) | 79,000 | (26,000) |
| | 16,402,000 | 10,276,000 |
| Earnings Before Income Taxes | 6,459,000 | 5,426,000 |
| Income Taxes | 2,453,000 | 2,002,000 |
| Net Income | $ 4,006,000 | $ 3,424,000 |
| Net Income Per Share (Basic) | $ 1.24 | $ 1.07 |
| Net Income Per Share (Diluted) | $ 1.21 | $ 1.04 |
| Average Common Shares Outstanding (Basic) | 3,226,000 | 3,191,000 |
| Average Common Shares Outstanding (Diluted) | 3,316,000 | 3,284,000 |

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

**MESA LABORATORIES, INC.**

**STATEMENTS OF CASH FLOWS**

(UNAUDITED)

| | Nine Months Ended Dec. 31, 2010 | Nine Months Ended Dec. 31, 2009 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net Income | $ 4,006,000 | $ 3,424,000 |
| Depreciation and Amortization | 1,299,000 | 537,000 |
| Stock Based Compensation | 287,000 | 212,000 |
| Change in Assets and Liabilities- | | |
| (Increase) Decrease in Accounts Receivable, net | 652,000 | 774,000 |
| (Increase) Decrease in Inventories | (406,000) | (132,000) |
| (Increase) Decrease in Prepaid Expenses | 331,000 | 160,000 |
| Increase (Decrease) in Accounts Payable | (230,000) | 24,000 |
| Increase (Decrease) in Accrued Liabilities | 1,092,000 | (117,000) |
| Net Cash Provided by Operating Activities | 7,031,000 | 4,882,000 |
| | | |
| Cash Flows From Investing Activities: | | |
| Acquisition of Product Lines and Company | (17,973,000) | (2,400,000) |
| Capital Expenditures, Building | (2,150,000) | |
| Capital Expenditures, Net of Retirements | (428,000) | (488,000) |
| Net Cash (Used) in Investing Activities | (20,551,000) | (2,888,000) |
| | | |
| Cash Flows From Financing Activities: | | |
| Bank Borrowing, Net of Retirements | 6,500,000 | |
| Repayment of SGM Shareholder loans | (278,000) | |
| Dividends Paid | (1,097,000) | (991,000) |
| Treasury Stock Purchases | (84,000) | (263,000) |
| Proceeds From Stock Options Exercised | 137,000 | 89,000 |
| Net Cash (Used) in Provided by Financing Activities | 5,178,000 | (1,165,000) |
| | | |
| Net Increase (Decrease) In Cash and Cash Equivalents | (8,342,000) | 829,000 |
| Cash and Cash Equivalents at Beginning of Period | 10,471,000 | 9,111,000 |
| | | |
| Cash and Cash Equivalents at End of Period | $ 2,129,000 | $ 9,940,000 |
| | | |
| Cash paid for Interest | $ 91,000 | $ |

Supplemental disclosure of non-cash activity:

The Company issued employee loans totaling $394,000 for the purchase of common stock during the nine month period ended December 31, 2010.

The Company completed its purchase of SGM Biotech, Inc. during the nine months ended December 31, 2010. See Note 2.

The Company completed its purchase of certain assets of Apex Laboratories, Inc. during the nine months ended December 31, 2010. See Note 2.

MESA LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

The summary of the Issuer s significant accounting policies are incorporated by reference to the Company s annual report on Form 10-K, at March 31, 2010.

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

Recently Adopted Accounting Pronouncements

In September 2009, the FASB ratified its guidance on two revenue recognition standards which were to become effective for us beginning April 1, 2011. Under EITF 08-1, *Multiple-Deliverable Revenue Arrangements*, now codified in ASC Topic 605, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. Under EITF 09-3, *Certain Revenue Arrangements That Include Software Elements*, now codified in ASC Topic 985, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to the new guidance for multiple deliverable arrangements discussed above. The adoption of this guidance did not have a material impact on our financial statements.

In January 2010, the FASB updated the disclosure requirements for fair value measurements, codified in ASC Topic 820, *Fair Value Measurements and Disclosure*. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurement using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. We adopted the updated guidance on April 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation, which will be effective for us beginning April 1, 2011. The adoption of the required guidance did not have an impact on our financial statements. We do not expect that the adoption of the remaining guidance will have an impact on our financial statements.

In July 2010, FASB issued a new pronouncement that requires enhanced disclosures regarding the nature of credit risk inherent in an entity s portfolio of financing receivables, how that risk is analyzed, and the changes and reasons for those changes in the allowance for credit losses. The new disclosures will require information for both the financing receivables and the related allowance for credit losses at more disaggregated levels. Disclosures related to information as of the end of a reporting period will become effective for Mesa in the fourth quarter of Fiscal 2011. Specific disclosures regarding activities that occur during a

reporting period, such as the disaggregated roll forward disclosures, will be required for Mesa beginning in the first quarter of Fiscal 2012. As these changes only relate to disclosures, they will not have an impact on Mesa s consolidated financial results.

NOTE 2. ACQUISITION OF PRODUCT LINES AND COMPANIES

On April, 27, 2010, the Company completed the purchase of SGM Biotech, Inc. located in Bozeman, MT. Under the terms of this acquisition the Company acquired all of the stock of SGM Biotech for $11,722,000. A cash payment of $11,122,000 was made at closing with an additional $600,000 placed into a joint escrow account. The $600,000 placed in escrow is to be paid to the sellers in $200,000 increments at three months, six months and one year following closing. The purchase price was subject to a final working capital adjustment of $361,000 as defined in the Stock Purchase Agreement and was subsequently paid in October, 2010. After the completion of the acquisition, the Company repaid $278,000 of loans owed to the shareholders of SGM Biotech. The Company incurred approximately $168,000 in third party acquisition costs related to this transaction. On April 30, 2010, the Company also completed the acquisition of the facility that houses the SGM Biotech, Inc. operations for $2,150,000.

Due to the increase in intangible assets as a result of this acquisition, amortization expense is expected to rise significantly in fiscal 2011 and subsequent years. The Company will not be able to deduct the step up from cost to fair value for the assets acquired for tax purposes and therefore have recorded a deferred tax liability of $2,239,000 as of the acquisition date.

The purchase price was allocated to the assets acquired based on their estimated fair value at the acquisition date, and was subject to a final working capital adjustment. Intangible assets were valued using the income approach.

Assets and liabilities acquired consisted of:

| | | |
|---|---|---|
| Accounts Receivable | $ | 1,116,000 |
| Inventory | | 758,000 |
| Other Assets | | 195,000 |
| Property and Equipment | | 1,035,000 |
| Liabilities | | (1,021,000) |
| Customer Relationships | | 3,739,000 |
| Non-compete Agreements | | 104,000 |
| Trademarks | | 1,195,000 |
| Patents | | 396,000 |
| Goodwill | | 4,566,000 |
| | $ | 12,083,000 |

Intangible assets acquired are amortized over their estimated useful lives; customer relationships (8.5 years), non-compete agreements (5 years) and patents (14 years). Trademarks were determined to have an indefinite life and therefore are not being amortized.

On December 21, 2010, Mesa announced that it had purchased the assets associated with the biological indicator line of products of Apex Laboratories, Inc. The products acquired by Mesa include their biological indicators for use in vapor hydrogen peroxide disinfection processes.

The purchase price consisted of a

$5,890,000 cash payment at closing and a $600,000 holdback amount to be paid in two equal payments on the six month and one year anniversary of closing. The holdback amount accrues interest at two percent per annum, and the ultimate payment may be reduced as defined in the asset purchase agreement. Assets acquired consisted of:

| | | |
|---|---|---|
| Inventory | $ | 75,000 |
| Accounts Receivable | | 544,000 |
| Property and Equipment | | 49,000 |
| Intangibles and Goodwill | | 5,822,000 |
| | $ | 6,490,000 |

The Company is in the process of determining fair value estimates of the assets acquired, and will adjust its valuation when it is completed later in the fourth quarter of fiscal 2011.

Due to the timing of the acquisition of the Apex Laboratories products, they only made a minor contribution to sales and gross profits in the fiscal third quarter of $18,000 and $13,000, respectively. During the quarter, legal and accounting expenses for the acquisition of the Apex Laboratories products were approximately $38,000.

To help finance these acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for $3,000,000 and maturing at April 27, 2013, which had a remaining principal balance of $2,500,000 at December 31, 2010. The bank also deferred one payment for $250,000 on the reducing line of credit, which would have been due January 27, 2011 until maturity at April 27, 2013. There is also a revolving line of credit for $4,000,000 of which $4,000,000 was utilized at December 31, 2010. Both of these lines of credit are subject to a variable rate of interest and a rate floor, and at December 31, 2010, the rate of interest on both loans was 3.25%.

The results of SGM Biotech and Apex Laboratories product operations have been included in the financial statements commencing from their acquisition dates of April 27, 2010 and December 21, 2010, respectively. The pro forma effect of the acquisition on the combined results of operations as if the acquisition had been completed on April 1, 2010 and 2009 are as follows:

| | | **Quarter Ended Dec. 31, 2010 (Unaudited)** | | **Quarter Ended Dec. 31, 2009 (Unaudited)** |
|---|---|---|---|---|
| Total net sales | $ | 8,311,000 | $ | 7,667,000 |
| Income from operations | $ | 2,256,000 | $ | 2,142,000 |
| Net income | $ | 1,418,000 | $ | 1,358,000 |
| Net income per common share (Basic) | $ | .44 | $ | .43 |
| Net income per common share (Diluted) | $ | .42 | $ | .41 |

| | Nine Months Ended Dec. 31, 2010 (Unaudited) | Nine Months Ended Dec. 31, 2009 (Unaudited) |
|---|---|---|
| Total net sales | $ 25,563,000 | $ 22,287,000 |
| Income from operations | $ 8,007,000 | $ 6,707,000 |
| Net income | $ 4,930,000 | $ 4,244,000 |
| Net income per common share (Basic) | $ 1.53 | $ 1.33 |
| Net income per common share (Diluted) | $ 1.49 | $ 1.29 |

NOTE 3. STOCK BASED COMPENSATION

We account for share-based compensation awards made to employees and directors using the fair value based methodology prescribed by ASC 718 Share-Based Payments ( ASC 718 ). Compensation costs for award grants are valued at fair value and recognized on a straight line basis over the service periods of each award. We estimated forfeiture rates for the year based on historical experience.

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

| | Three Months Ended Dec. 31, 2010 | Three Months Ended Dec. 31, 2009 | Nine Months Ended Dec. 31, 2010 | Nine Months Ended Dec. 31, 2009 |
|---|---|---|---|---|
| Total cost of stock-based compensation charged against income before taxes | $ 125,000 | $ 78,000 | $ 287,000 | $ 212,000 |
| Amount of income tax benefit recognized in earnings | 46,000 | 29,000 | 109,000 | 78,000 |
| Amount charged against net income | $ 79,000 | $ 49,000 | $ 178,000 | $ 134,000 |
| | | | | |
| Impact on net income per common share: | | | | |
| Basic | $ .02 | $ .02 | $ .06 | $ .04 |
| Diluted | $ .02 | $ .01 | $ .05 | $ .04 |

Stock-based compensation expense was reflected as selling, general and administrative expense and cost of goods sold expense in the statements of income.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model (Black-Scholes). We use historical data to estimate the expected price volatility, the expected option life and expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The dividend yield is calculated based upon the dividend payments made during the prior four quarters as a percent of the average stock price for that period. The following assumptions were used to estimate the fair value of options granted during the first nine months of fiscal 2011 and 2010 using the Black-Scholes model:

| | Nine Months Ended Dec. 31, | |
|---|---|---|
| | 2010 | 2009 |
| Stock options: | | |
| Volatility | 33.8-36.1% | 34.0% |
| Risk-free interest rate | 1.11-3.89% | 1.7-2.7% |
| Expected option life (years) | 5-10 | 5-10 |
| Dividend yield | 1.78-1.81% | 2.00% |

A summary of the option activity for the first nine months of fiscal 2011 is as follows:

| | Number of Shares | Weighted-average Exercise Price per Share | Weighted-average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at March 31, 2010 | 391,765 | $ 17.37 | 4.3 | |
| Options granted | 137,060 | 25.43 | 5.3 | |
| Options forfeited | (6,725) | 21.74 | | |
| Options expired | (150) | 11.65 | | |
| Options exercised | (57,275) | 14.76 | | |
| Outstanding at Dec. 31, 2010 | 464,675 | $ 20.00 | 4.3 | $ 4,646,000 |
| | | | | |
| Exercisable at Dec 31, 2010 | 162,610 | $ 17.31 | 3.4 | $ 2,063,000 |

The weighted average grant date fair value based on the Black-Scholes model for options granted in the first nine months of fiscal 2011 was $7.54, and $4.43 in the first nine months of fiscal 2010. The Company issues new shares of common stock upon exercise of stock options. The total intrinsic value of options exercised was $624,000 and $430,000 during the first nine months of fiscal 2011 and 2010, respectively.

A summary of the status of our unvested option shares as of December 31, 2010 is as follows:

| | Number of Shares | Weighted-average Grant-Date Fair Value |
|---|---|---|
| Unvested at March 31, 2010 | 247,085 | $ 5.51 |
| Options granted | 137,060 | $ 7.54 |
| Options forfeited | (6,725) | $ 5.93 |
| Options vested | (75,355) | $ 5.38 |
| Unvested at Dec. 31, 2010 | 302,065 | $ 6.45 |

As of Dec. 31, 2010, there was $1,230,000 of total unrecognized compensation cost related to unvested share-based compensation granted under our plans. That cost is expected to be recognized over a weighted-average period of 2.6 years.

NOTE 4. NET INCOME PER COMMON SHARE

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

The following table presents a reconciliation of the denominators used in the computation of net income per common share - basic and net income per common share - diluted for the three and nine month periods ended December 31, 2010 and 2009:

| | Three Months Ended Dec.31 | | Nine Months Ended Dec.31 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net income available for shareholders | $ 1,258,000 | $ 1,154,000 | $ 4,006,000 | $ 3,424,000 |
| Weighted avg. outstanding shares of common stock | 3,234,000 | 3,193,000 | 3,226,000 | 3,191,000 |
| Dilutive effect of stock options | 121,000 | 124,000 | 90,000 | 93,000 |
| Common stock and equivalents | 3,355,000 | 3,317,000 | 3,316,000 | 3,284,000 |
| Earning per share: | | | | |
| Basic | $ 0.39 | $ 0.36 | $ 1.24 | $ 1.07 |
| Diluted | $ 0.37 | $ 0.35 | $ 1.21 | $ 1.04 |

For the three and nine months ended December 31, 2010 and 2009, no shares for each period, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

NOTE 5. RELATED PARTY TRANSACTIONS

On April 30, 2010, the Company purchased the building housing the facilities of SGM Biotech, Inc. for $2,150,000 from Surreal, LLC. Surreal, LLC is owned by the former owners of SGM Biotech, Inc., which was acquired by the Company on April 27, 2010.

NOTE 6. DEBT

To help finance the acquisition of Apex Laboratories, Inc. and SGM Biotech, Inc and the related building that houses the SGM Biotech facility, the Company entered into a credit facility consisting of a 36 month reducing line of credit for $3,000,000 and maturing at April 27, 2013, which had a remaining principal balance of $2,500,00 at December 31, 2010, and a revolving line of credit for $4,000,000

maturing on April 27, 2011 and which was fully utilized at December 31, 2010. The 36 month reducing line of credit requires quarterly principal payments of $250,000 beginning July 27, 2010 through maturity. In December 2010, the bank deferred the January 27, 2011 payment of $250,000 until maturity at April 27, 2013, which allowed the Company to complete the acquisition of Apex Laboratories, Inc without further alteration of its existing credit facility. Both of these lines of credit are subject to a variable rate of interest and a rate floor, both of which were 3.25% at December 31, 2010. Both of these lines of credit also require monthly interest payments, are subject to restrictive covenants and are secured by most of the assets of the Company.

Future maturities on debt are as follows:

| | | |
|---|---|---|
| Fiscal Year 2011 | $ | 0 |
| Fiscal Year 2012 | | 5,000,000 |
| Fiscal Year 2013 | | 1,000,000 |
| Fiscal Year 2014 | | 500,000 |
| | $ | 6,500,000 |

NOTE 7. SEGMENT DATA

The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information now codified as ASC 280. ASC 280 designates the internal reporting that is used by management for making operating decisions and assessing performance as the source of the Company s reportable segments. ASC 280 also requires disclosure about products and sources, geographic areas and major customers. The Company aggregates its product lines as two reportable segments based on the similar characteristics and markets of our product lines.

Revenues related to operations in the U.S. and foreign countries for the quarters and nine month periods ended December 31, 2010 and 2009 are presented below. Revenues from external customers are attributed to individual countries based upon locations to which the product is shipped or exported. Net revenues from unaffiliated customers and long-lived assets related to continuing operations in the U.S. and foreign countries as of the nine months ended December 31, 2010 and 2009 are as follows:

| | Quarter Ended Dec 31, | |
|---|---|---|
| | **2010** | **2009** |
| Net revenues from unaffiliated customers: | | |
| United States | $ 4,801,000 | $ 3,747,000 |
| Foreign (no country exceeds 10% of total) | $ 2,851,000 | $ 1,571,000 |

| | **Dec. 31, 2010** | **March. 31, 2010** |
|---|---|---|
| Long-lived assets at end of quarter: | | |
| United States | $ 33,377,000 | $ 13,165,000 |

| | Nine Months Ended Dec. 31, | |
|---|---|---|
| | **2010** | **2009** |
| Net revenues from unaffiliated customers: | | |
| United States | $ 14,410,000 | $ 11,487,000 |
| Foreign (no country exceeds 10% of total) | $ 8,451,000 | $ 4,215,000 |

The following table summarizes total sales by product line for the quarter and nine months ended December 31, 2010 and 2009 respectively:

| | Quarter Ended Dec. 31, | |
|---|---|---|
| | **2010** | **2009** |
| Dialysis Meter and Disposables | $ 1,977,000 | $ 1,945,000 |
| Datatrace Loggers | 1,283,000 | 1,447,000 |
| Biological Indicators | 3,728,000 | 1,718,000 |
| Torqo Bottle Cap Test Systems | 474,000 | 30,000 |
| Nusonics Ultrasonic Meters | 190,000 | 178,000 |
| Total sales | $ 7,652,000 | $ 5,318,000 |

| | Nine Months Ended Dec. 31, | |
|---|---|---|
| | **2010** | **2009** |
| Dialysis Meter and Disposables | $ 5,810,000 | $ 5,937,000 |
| Datatrace Loggers | 4,082,000 | 4,158,000 |
| Biological Indicators | 11,080,000 | 5,197,000 |
| Torqo Bottle Cap Test Systems | 1,360,000 | 30,000 |
| Nusonics Ultrasonic Meters | 529,000 | 380,000 |
| Total sales | $ 22,861,000 | $ 15,702,000 |

The Company categorizes its operations into two business segments: Biological Indicators and Instrumentation Products. Operations in these segments include designing, manufacturing, marketing and selling disposable testing products and analytical instruments. In the Biological Indicator segment, the Company provides products used to prove sterility. Analytical instruments sold in the Instrumentation Products segment are used for measuring a variety of conditions including temperature, pressure, relative humidity, flow rates, pH, conductivity, and bottle cap torque.

Following is the Company s business segment information for December 31, 2010 and 2009 (in thousands):

| | Biological Indicators | Instrumentation Products | Total |
|---|---|---|---|
| FY 2011 | | | |
| 3rd Quarter Revenue | $ 3,728 | $ 3,924 | $ 7,652 |
| Year to Date Revenue | $ 11,080 | $ 11,781 | $ 22,861 |
| 3rd Quarter Operating Income | $ 947 | $ 1,055 | $ 2,002 |
| Year to Date Operating Income | $ 2,777 | $ 3,761 | $ 6,538 |
| 3rd Quarter Interest (Income) and Expense | $ 36 | $ (3) | $ 33 |
| Year to Date Interest (Income) and Expense | $ 91 | $ (12) | $ 79 |
| Total Assets | $ 31,058 | $ 16,562 | $ 47,620 |
| Capital Expenditures | $ 2,387 | $ 191 | $ 2,578 |
| Depreciation and Amortization | $ 1,029 | $ 270 | $ 1,299 |
| | | | |
| FY 2010 | | | |
| 3rd Quarter Revenue | $ 1,718 | $ 3,600 | $ 5,318 |
| Year to Date Revenue | $ 5,197 | $ 10,505 | $ 15,702 |
| 3rd Quarter Operating Income | $ 392 | $ 1,426 | $ 1,818 |
| Year to Date Operating Income | $ 1,127 | $ 4,273 | $ 5,400 |
| 3rd Quarter Interest (Income) and Expense | $ | $ (14) | $ (14) |
| Year to Date Interest (Income) and Expense | $ | $ (26) | $ (26) |
| Total Assets | $ 10,399 | $ 21,851 | $ 32,250 |
| Capital Expenditures | $ 31 | $ 457 | $ 488 |
| Depreciation and Amortization | $ 446 | $ 91 | $ 537 |

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

Overview

Mesa Laboratories, Inc. manufactures and distributes electronic measurement systems and disposables for various niche applications, including renal treatment, food processing, medical sterilization, pharmaceutical processing and other industrial applications. Our Company follows a philosophy of manufacturing a high quality product and providing a high level of on-going service for those products. In order to optimize the performance of our Company and to build the value of the Company for its shareholders, we continually follow the trend of various key financial indicators. A sample of some of the most important of these indicators is presented in the following table.

Key Financial Indicators

For The Nine Months Ended Dec. 31,

| | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| Cash and Investments | $ 2,129,000 | $ 9,940,000 | $ 7,962,000 | $ 5,186,000 |
| Trade Receivables Gross | $ 5,605,000 | $ 3,816,000 | $ 4,525,000 | $ 3,137,000 |
| Days Sales Outstanding | 65 | 66 | 77 | 60 |
| Inventory, Net | $ 6,059,000 | $ 4,789,000 | $ 4,498,000 | $ 4,310,000 |
| Inventory Turns | 2.1 | 1.7 | 1.8 | 1.6 |
| Working Capital | $ 5,731,000 | $ 17,129,000 | $ 15,944,000 | $ 11,750,000 |
| Current Ratio | 2:1 | 11:1 | 13:1 | 12:1 |
| Average Return On: | | | | |
| Stockholder Investments (1) | 16.3% | 15.8% | 19.0% | 20.9% |
| Assets | 13.1% | 14.8% | 17.8% | 19.6% |
| Invested Capital (2) | 18.4% | 23.0% | 25.8% | 25.8% |
| Net Sales | $ 22,861,000 | $ 15,702,000 | $ 16,071,000 | $ 13,768,000 |
| Gross Profit | $ 13,373,000 | $ 9,593,000 | $ 10,285,000 | $ 9,274,000 |
| Gross Margin | 58% | 61% | 64% | 67% |
| Operating Income | $ 6,538,000 | $ 5,400,000 | $ 5,515,000 | $ 5,124,000 |
| Operating Margin | 29% | 34% | 34% | 37% |
| Net Profit | $ 4,006,000 | $ 3,424,000 | $ 3,586,000 | $ 3,415,000 |
| Net Profit Margin | 18% | 22% | 22% | 25% |
| Earnings Per Diluted Share | $ 1.21 | $ 1.04 | $ 1.11 | $ 1.04 |
| Earnings Before Income Tax, Depreciation and Amortization | $ 7,758,000 | $ 5,963,000 | $ 6,175,000 | $ 5,858,000 |
| Capital Expenditures, Net | $ 2,578,000 | $ 488,000 | $ 506,000 | $ 304,000 |
| Head Count | 172.0 | 113.0 | 110.0 | 108.0 |
| Sales Per Employee(Annualized) | $ 177,000 | $ 185,000 | $ 195,000 | $ 170,000 |

(1) Average return on stockholder investment is calculated by dividing total annualized net income by the average of end of period and beginning of year total stockholder s equity.

(2) Average return on invested capital (invested capital = total assets - current liabilities - cash and short-term investments) is calculated by dividing total annualized net income by the average of end of period and beginning of year invested capital.

While we continually try to optimize the overall performance and trends, the table above does highlight various exceptions. These exceptions are usually influenced by a more important use of resources. Most of the indicators above for the period ended December 31, 2010 are showing variation

15

from the trends of the past years. Our balance sheet has increased due to acquisitions in December 2009, April 2010 and December 2010. Factors currently impacting profitability include higher sales of biological indicator products, Torqo bottlecap torque testing products and increased amortization expense due to recent acquisitions. While net income has increase by 17 percent in the most recent fiscal year to date, earnings before income tax, depreciation and amortization has increased 30 percent over the same period.

Results of Operations

Net Sales

Net sales for the third quarter and first nine months of fiscal 2011 increased 43.9 percent and 45.6 percent, respectively from fiscal 2010. In real dollars, net sales of $7,652,000 for the quarter and $22,861,000 for the first nine months in fiscal 2011 increased $2,334,000 and $7,159,000, respectively from $5,318,000 and $15,702,000, respectively in 2010.

Our revenues come from two main sources, which include product revenues and parts and service revenues. Parts and service revenues are derived from on-going repair and recalibration or certification of our products. The certification or recalibration of product is usually a key component of the customer s own quality system and many of our customers operate in regulated industries, such as food processing or medical and pharmaceutical manufacturing. For this reason, these revenues tend to be fairly stable and grow slowly over time. Also, it is important to note that the Raven and SGM products are disposables and thus do not contribute to the Company s parts and service revenues. During the first nine months of fiscal years 2011 and 2010 our Company had parts and service revenue of $2,980,000 and $2,645,000, respectively. As a percentage of total revenue, parts and service revenues were 13% in 2011 and 17% in 2010.

The performance of new product sales is dependent on several factors, including general economic conditions in the United States and abroad, capital spending trends and the introduction of new products. Although overall economic conditions remain soft this year we have seen an increase in our sales performance in total so far. We attribute this to the industries we serve which include various medical related markets, food processing and pharmaceuticals. Sales this year also increased due to the acquisitions of our new Torqo and SGM Biotech product lines. For the fiscal first nine months of 2011 and 2010, product sales for our company were $19,881,000 and $13,057,000, respectively. Sales will be further increased in the fourth fiscal quarter of 2011 due to the acquisition of the Apex Laboratories, Inc. biological indicator line of products in late December 2010.

Due to the addition of SGM Biotech earlier this fiscal year, the company is in the process of changing its reporting to better reflect its two distinct business segments, Biological Indicator Products and Instrumentation Products. The Instrumentation Products are based at the Company s Lakewood, CO facility, while Biological Indicator Products are manufactured at our Bozeman, MT and Omaha, NE facilities. This segmentation provides a clearer picture of how changes in our product mix impact net sales and profitability, especially at the gross profit level.

For the current fiscal quarter, Biological Indicator products have increased to $3,728,000 or 117 percent from $1,718,000 in the prior year period, and Instrumentation products have increased to $3,924,000 or nine percent from $3,600,000 in the prior year period. For the first nine months of fiscal 2011, Biological Indicator Product sales have increased to $11,080,000 or 113 percent from $5,197,000 in the prior year period, and Instrumentation sales have increased to $11,781,000 or 12 percent from $10,505,000 in the prior year period. For the current quarter and nine month period the increase in Biological Indicator products is chiefly due to the addition of the SGM Biotech products in late April of this year, and strong organic growth of 12 and nine percent for the current quarter and nine month period, respectively for our Raven products. During the current quarter and nine month period, the increase in Instrumentation products and services were nine and 12 percent, respectively, and were due in the current quarter to the addition of the Torqo product line in December 2009, while the increase for the nine month period was due to the addition of Torqo products and a four percent increase in sales of existing products.

The total increase in revenues during the first nine months of fiscal 2011 was due chiefly to the additions of Torqo and SGM products which were acquired in December 2009 and April 2010, respectively. During the first nine months Torqo products contributed $1,360,000 and SGM Biotech products contributed $5,403,000 to the $7,159,000 total increase in sales during the nine month period. Our other products contributed an additional $396,000 or a three percent increase to revenues in the first nine months of fiscal 2011.

Over the fiscal third quarter and first nine months, our medical revenues increased two percent for the quarter and decreased two percent for the nine month period when compared to the prior year. The year to date decrease was due primarily to lower sales of dialysis meters.

During the fiscal third quarter and first nine months, sales of the Datatrace brand of products decreased 11 percent and two percent from the prior year periods, respectively. While we saw improved capital spending trends for the Datatrace products in the first fiscal quarter of the current year, this improvement reversed during the second and third fiscal quarter as the market for these products appeared to slow once again.

Biological indicator sales for the third quarter and first nine months of fiscal 2011 increased 117 percent and 113 percent, respectively compared to the prior year. This is chiefly due to the addition of the SGM Biotech products which were acquired on April 27, 2010. When SGM Biotech sales are excluded for the first nine months, biological indicator sales increased nine percent to $5,677,000 in the current fiscal year compared to $5,197,000 in the comparable period last year.

Our new Torqo Bottlecap Torque Testing products produced sales during the fiscal third quarter and nine months of $474,000 and $1,360,000, respectively. This product line was acquired on December 18, 2009

Cost of Sales

Cost of sales as a percent of net sales during the third fiscal quarter increased 4.0 percentage points from fiscal 2010 to 42.0 percent. For the nine month period, cost of sales increased 2.6 percentage points from the prior fiscal year to 41.5 percent. Over the past few years we have made significant

strides in lowering the cost to manufacture our Medical products, and currently both Medical and Datatrace products enjoy margins higher than the Biological Indicator products. Therefore, shifts in product mix toward higher sales of Medical and Datatrace products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of Biological Indicator products will normally produce the opposite effect on cost of goods sold expense and gross margins. In addition, due to the previous outside manufacturing of our Torqo products, we experienced margins for these products that are significantly under 50 percent. All production of Torqo products was moved to our Lakewood facilities in December 2010. Along with savings from materials acquisition costs, the reduced cost to manufacture the Torqo products in house will result in significantly higher margins for the rest of fiscal 2011 and into fiscal 2012.

Gross margins are generally consistent within a business segment. However, Instrumentation tends to have higher gross margins in general than Biological Indicators, so a shift in sales between the two segments will affect the blended gross margin of the company. Within the Biological Indicator segment, we improved gross margins by about four percentage points for the current fiscal year. Within Instrumentation, our gross margins for the quarter were adversely affected by the transfer of Torqo production to our Lakewood facility, as discussed above. Significantly higher Biological Indicator sales are a major contributing factor to this year s decline in gross margins. While we anticipate the shift to a higher proportion of Biological Indicator sales to continue given our focus on this growing segment, we also expect the addition of the Apex line of biological indicators in the fourth fiscal quarter to further improve gross margins for the biological indicator line of products.

The two key product lines in our Instrumentation line are Datatrace Loggers and Dialysis Meters and Disposables, which make up approximately 84 percent of the segment s sales this fiscal year. These two product lines typically have cost of goods sold as a percent of sales of approximately 30 to 35 percent. The remaining two product lines in the Instrumentation products segment, Torqo Bottle Cap Test Systems and Nusonics Ultrasonic Meters, currently have cost of good sold as a percent of sales levels that exceed 50 percent. While we do not expect the costs for the Nusonics products to improve in the future, we do expect to see improvements in our cost of goods sold levels for the Torqo products after the third quarter of this fiscal year. We transferred production of the Torqo products to our facility in Lakewood, CO during December of this year, and this will reduce certain redundant manufacturing overhead costs and lower the labor component of the product which was formerly being produced by an outside manufacturer. With this transfer, we expect the cost of goods sold as a percent of sales to drop under the 50 percent level.

Selling, General and Administrative

General and administrative expenses tend to be fairly fixed and stable from year-to-year. To the greatest extent possible, we work at containing and minimizing these costs. During fiscal 2011 we expect to incur higher general and administrative costs due to the addition of the Torqo, SGM and Apex lines of product. Additional costs expected during the year include the amortization of intangible assets and personnel costs. For the fiscal third quarter and first nine months, amortization was $296,000 and $807,000, respectively,

compared to $94,000 and $292,000 for the same periods last year. For the fiscal third quarter of 2011, total administrative costs were $1,145,000 compared to $658,000 for the same quarter last year. For the nine month period ended December 31, 2010, total administrative costs were $3,245,000 compared to $1,828,000 for the comparable period last year.

Our selling and marketing costs tend to be far more variable in relation to sales, although there are various exceptions. Some of these exceptions include the introduction of new products and the mix of international sales to domestic sales. For a product line experiencing introduction of a new product, selling costs will tend to be higher as a percent of sales due to higher advertising costs and sales training programs. Our Company s international sales are usually discounted and recorded at the net discounted price, so that a change in the mix between international and domestic sales may influence sales and marketing costs. The acquisitions of the Torqo and SGM Biotech product lines will also have a significant impact on sales and marketing costs in fiscal 2011. In dollars, selling costs were $900,000 in the third fiscal quarter of 2011 and $637,000 in the same prior year quarter, and for the first nine months of the fiscal year were $2,632,000 compared to $1,857,000 in the same period last year. As a percent of sales, selling cost was 11.8% in the current quarter and 12.0% in the prior year quarter. Year to date in fiscal 2011, selling expenses as a percent of sales are 11.5% versus 11.8% in the comparable period last year.

Research and Development

Company sponsored research and development cost was $393,000 during the third fiscal quarter of 2011 and $185,000 during the previous year period. For the nine month period in fiscal 2011, these costs are $958,000 compared to $508,000 for the same period last year. We are currently executing a strategy of increasing the flow of internally developed products and we are continuing work that expands our radio frequency technology into new data logging markets. The additions of the Torqo and SGM Biotech product lines are also adding to our current research and development spending.

Net Income

Net income increased nine percent to $1,258,000 or $.37 per share on a diluted basis during the third fiscal quarter of 2011 compared to $1,154,000 or $.35 per share on a diluted basis in the previous year period. For the first nine months of the fiscal year, net income increased 17 percent to $4,006,000 or $1.21 per diluted share compared to $3,424,000 or $1.04 per diluted share in the same period last year. As previously discussed, sales have increased sharply due to both internal growth and acquisitions, although margins decreased during the quarter and for the nine month period. Other factors impacting net income during the quarter and nine months included the increases in general and administrative costs, sales and marketing costs, and research and development costs which are discussed above. We have added debt and interest expense due to our acquisitions of SGM Biotech and Apex Laboratories during the fiscal year. In total we have experienced one time acquisition costs and inventory adjustments of approximately $343,000 during the first nine months of the current fiscal year, which also included costs associated with the move of Torqo product production. Additionally, we have experienced nine month amortization expenses of approximately $807,000. For the first nine

months of fiscal 2011 net income margins have declined by 4.3 percentage points and increases in amortization expense and one-time acquisition costs have accounted for approximately 2.4 percentage points of this change with the remainder of the change being due to the increase in biological indicator sales in the total sales mix.

For the fiscal third quarter ended December 31, 2010, net income was impacted by various one time expenses related to the relocation of the Torqo bottlecap torque testing products to our facilities in Lakewood, Colorado from an independent manufacturer. One time costs for the Torqo relocation included travel costs, shipping costs and adjustments to inventory values, which amounted to approximately $137,000. As stated in our previous press release announcing the acquisition of the biological indicator products of Apex Laboratories, Inc., we expect this acquisition to be accretive to earnings in the first full quarter of operations. Since this acquisition was completed on December 21, 2010 and the North Carolina area where these products are currently manufactured suffered severe weather conditions during the final week of 2010, only limited shipments of this product were made in the fiscal third quarter, which amounted to approximately $18,000. Against these revenues we experienced various one time acquisition costs of approximately $38,000, which included accounting and legal fees. In addition we recorded an initial estimate of intangible asset amortization of approximately $40,000.

Liquidity and Capital Resources

On December 31, 2010, we had cash and short term investments of $2,129,000. In addition, we had other current assets totaling $12,114,000 and total current assets of $14,243,000. Current liabilities of our Company were $8,512,000 which resulted in a current ratio of 1.67:1.

Our Company has made capital acquisitions during the third fiscal quarter of $118,000 and $2,578,000 for the nine month period of the current fiscal year. Of this amount, approximately $2,150,000 was utilized to purchase the SGM Biotech facility.

On April, 27, 2010, the Company completed the purchase of SGM Biotech, Inc. located in Bozeman, MT. Under the terms of this acquisition the Company acquired all of the stock of SGM Biotech for $11,722,000. A cash payment of $11,122,000 was made at closing with an additional $600,000 placed into a joint escrow account. The $600,000 placed in escrow is to be paid to the sellers in $200,000 increments at three months, six months and one year following closing. The purchase price was subject to a final working capital adjustment as defined in the Stock Purchase Agreement, and the Company paid an additional $361,000 in October 2010. After the completion of the acquisition, the Company repaid $278,000 of loans owed to the shareholders of SGM Biotech. The Company incurred approximately $168,000 in third party acquisition costs related to this transaction during the current fiscal year.

On December 21, 2010, the Company completed the purchase of the biological indicator line of products of Apex Laboratories, Inc located in Sanford, NC. Under the terms of this acquisition the Company acquired certain assets of Apex Laboratories, Inc. for $6,490,000. A cash payment of $5,400,000 was made at closing with an additional $600,000 reserved as a holdback and payable in half increments at the six and 12 month anniversary date following the acquisition. The company paid an additional $490,000 at December 30, 2010 for the open accounts receivable balance at closing. The Company incurred approximately $38,000 in third party acquisition costs related to this transaction during the third fiscal quarter.

We have instituted a program to repurchase up to 300,000 shares of our outstanding common stock. Under the plan, the shares may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares purchased will be canceled and repurchases will be made with existing cash reserves. We do not maintain a set policy or schedule for our buyback program, but currently we are minimizing buybacks due to our lower cash and higher debt positions.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On June 15, 2010, a quarterly dividend of $.11 per common share was paid to shareholders of record on May 28, 2010. At September 15, 2010, a quarterly dividend of $.11 per common share was paid to shareholders of record on August 31, 2010 and at December 15, 2010, a quarterly dividend of $.12 per common share was paid to shareholders of record on November 30, 2010. The December dividend represents a nine percent increase in the Company s regular quarterly dividend rate.

Our Company invests its surplus capital in various interest bearing instruments, including money market funds. All investments are fixed dollar investments with variable rates in order to minimize the risk of principal loss.

To finance acquisitions, the Company entered into a credit facility consisting of a 36 month reducing line of credit for $3,000,000 and maturing at April 27, 2013, which has a remaining principal balance of $2,500,000 at December 31, 2010, and a revolving line of credit for $4,000,000 of which $4,000,000 was utilized as of December 31, 2010. Both of these lines are subject to a variable rate of interest and a rate floor, both of which are currently 3.25%. In December 2010 the bank agreed to suspend the regular payment of $250,000 which was due January 27, 2011 until maturity at April 27, 2013. This action allowed the Company to complete the acquisition of Apex Laboratories, Inc. without further alteration of the credit facility. The Company does not guarantee the debt of any other entity. The Company has maintained a long history of surplus cash flow from operations. This surplus cash flow has been used in the past to fund acquisitions and stock buybacks and is currently being partially utilized to fund our on-going dividend and will be used to retire debt. If interesting candidates come to our attention, we may choose to pursue new acquisitions.

Contractual Obligations

At December 31, 2010 we had contractual obligations for open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year. To help finance the acquisition of SGM Biotech, Inc., the Company entered into two separate credit facilities which require remaining principal payments of $5,000,000, $1,000,000 and $500,000 in fiscal years 2012, 2013 and 2014, respectively. As part of the Apex Laboratories product line acquisition executed December 21, 2010, the Company is obligated to make two holdback payments of $300,000 plus 2 percent per annum interest to Apex Laboratories in June and December of 2011.

Forward Looking Statements

All statements other than statements of historical fact included in this quarterly report regarding our Company s financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company, or its

management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated, include but are not limited to general economic, financial and business conditions; competition in the data logging market; competition in the kidney dialysis market; competition in the fluid measurement market; competition in the biological indicator market; competition in the bottlecap torque testing market; the business abilities and judgment of personnel; the impacts of unusual items resulting from ongoing evaluations of business strategies; and changes in business strategy. We do not intend to update these forward looking statements. You are advised to review Item 1A. Risk Factors provided in our Company s most recent Form 10-K filing with the SEC for more information about risks that could affect the financial results of Mesa Laboratories, Inc.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates.

We believe that there are several accounting policies that are critical to understanding the Company s historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management s judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, and valuation of long-lived assets. These policies, and the Company s procedures related to these policies, are described in detail below.

Revenue Recognition

We sell our products directly through our sales force and through distributors. Revenue from direct sales of our product is recognized upon shipment to the customer. Revenue from ongoing product service and repair is fully recognized upon completion and shipment of serviced product.

Accounts Receivable

At the time the accounts are originated, the Company considers a reserve for doubtful accounts based on the creditworthiness of the customer. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management s best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

Research & Development Costs

Research and development activities consist primarily of new product development and continuing engineering on existing products. Costs related to research and development efforts on existing or potential products are expensed as incurred.

Valuation of Inventories

Inventories are stated at the lower of cost or market, using the first-in, first-out method (FIFO) to determine cost. The Company s policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a reserve for any inventory considered slow moving or obsolete.

Valuation of Long-Lived Assets, Goodwill and Intangibles

The Company assesses the realizable value of long-lived assets, goodwill and intangibles for potential impairment at least annually or when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated fair value is less than its carrying value. In assessing the recoverability of our long-lived assets, goodwill and intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. In addition, we must make assumptions regarding the useful lives of these assets.

Stock Based Compensation

The Company uses the Black-Scholes valuation model to value option grants. We use historical data to estimate the expected price volatility, expected option life and expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield in effect at the time of the grant for the estimated life of the option. The dividend yield is estimated using the dividend payments made during the prior four quarters as a percent of average stock price for that period.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles, generally accepted in the United States of America, with no need for management s judgment in their application. There are also areas in which management s judgment in selecting any viable alternative would not produce a materially different result. See our audited financial statements and notes of the Annual Report on Form 10-K which contain accounting policies and other disclosures required by accounting principles, generally accepted in the United States of America.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks, currently all investments are in dollar denominated accounts, such as money market funds, with variable interest rates. In the normal course of business, we employ established policies and procedures to manage our exposure to changes in the market value of our investments.

ITEM 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our chief executive and chief financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this quarterly report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that material information relating to our company is made known to management, including our Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our third quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. Legal proceedings

None.

ITEM 1A. Risk factors

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in our annual report on Form 10-K

for the fiscal year ended March 31, 2010 under the heading Part I Item 1A. Risk Factors. There has been no material change in those risk factors.

ITEM 2. Changes in securities, use of proceeds and issuer purchases of equity Securities

We made the following repurchases of our common stock, by month, within the third quarter of the fiscal year covered by this report:

| | Shares Purchased | Avg. Price Paid | Total Shares Purchased as Part of Publicly Announced Plan | Remaining Shares to Purchase Under Plan |
|---|---|---|---|---|
| October 1-31, 2010 | 0 | $ 00.00 | 130,866 | 169,134 |
| November 1-30, 2010 | 71 | $ 24.58 | 130,937 | 169,063 |
| December 1-31, 2010 | 0 | $ 00.00 | 130,937 | 169,063 |
| Total 3rd Quarter | 71 | $ 24.58 | | |

On November 7, 2005, the Board of Directors of Mesa Laboratories, Inc. adopted a share repurchase plan which allows for the repurchase of up 300,000 of the company s common shares. This plan will continue until the maximum is reached or the plan is terminated by further action of the Board.

ITEM 6. Exhibits and reports on Form 8-K

a) Exhibits:

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 12, 2010, the Registrant filed a report on Form 8-K under Item 5.02 reporting the appointment of Mr. David M. Kelly as an independent Director to its Board of Directors.

On October 21, 2010, the Registrant filed a Report on Form 8-K under Item 8.01, Other Events, reporting that due to the appointment of Mr. David M. Kelly to the Board of Directors on October 11, 2010, the Company had regained compliance with NASDAQ Rule 5605 requiring the Board to be comprised by a majority of outside directors.

On November 5, 2010, the Registrant filed a Report on Form 8-K, under Item 2.02, reporting the issuance of a press release reporting revenues and earnings for the quarter ended September 30, 2010.

MESA LABORATORIES, INC.

DECEMBER 31, 2010

SIGNATURES

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

MESA LABORATORIES, INC.
(Issuer)

| | | | |
|---|---|---|---|
| DATED: | February 14, 2011 | BY: | /s/ John J. Sullivan, Ph.D.<br>John J. Sullivan, Ph.D.<br>Chief Executive Officer,<br>President, Treasurer, and Director |
| DATED: | February 14, 2011 | BY: | /s/ Steven W. Peterson<br>Steven W. Peterson<br>Vice President-Finance, Chief Financial and Accounting Officer and Secretary |