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MESA LABORATORIES INC /CO  
Form 10QSB  
February 14, 2005

Form 10-QSB

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended December 31, 2004

OR

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

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

Commission File Number 0-11740

MESA LABORATORIES, INC.

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

COLORADO

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 \_\_\_\_.

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

There were 3,045,527 shares of the Issuer's common stock, no par value, outstanding as of December 31, 2004.

ITEM 1. FINANCIAL STATEMENTS

FORM 10-QSB

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

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(UNAUDITED)

ASSETS	DEC 31, 2004	MARCH 31, 2004
	-----	-----
CURRENT ASSETS		
Cash and Cash Equivalents .....	\$ 4,675,000	\$ 4,670,000
Short-term Investments .....	1,949,000	2,098,000
Accounts Receivable, Net .....	1,595,000	1,603,000
Inventories, Net .....	2,056,000	2,099,000
Prepaid Expenses and Other .....	300,000	267,000
	-----	-----
TOTAL CURRENT ASSETS .....	10,575,000	10,737,000
PROPERTY, PLANT & EQUIPMENT, NET .....	1,222,000	1,285,000
OTHER ASSETS		
Goodwill and Other .....	4,208,000	4,208,000
	-----	-----
TOTAL ASSETS .....	\$16,005,000	\$16,230,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable .....	\$ 137,000	\$ 110,000
Accrued Salaries & Payroll Taxes .....	375,000	409,000
Other Accrued Expenses .....	92,000	68,000
Taxes Payable .....	59,000	70,000
	-----	-----
TOTAL CURRENT LIABILITIES .....	663,000	657,000
LONG TERM LIABILITIES		
Deferred Income Taxes Payable .....	189,000	189,000
STOCKHOLDERS' EQUITY		
Preferred Stock, No Par Value .....	--	--
Common Stock, No Par Value; authorized 8,000,000 shares; issued and outstanding, 3,045,527 shares (12/31/04) and 3,072,815 shares (3/31/04) .....	1,082,000	1,330,000
Retained Earnings .....	14,071,000	14,054,000
	-----	-----
TOTAL STOCKHOLDERS' EQUITY .....	15,153,000	15,384,000
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	\$16,005,000	\$16,230,000
	=====	=====

See notes to financial statements.

MESA LABORATORIES, INC.  
STATEMENTS OF OPERATIONS

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(UNAUDITED)

	Three Months Ended Dec. 31, 2004 -----	Three Months Ended Dec. 31, 2003 -----
Sales .....	\$ 2,530,000	\$ 2,200,000
Cost of Goods Sold .....	965,000	838,000
Selling, General & Administrative .....	630,000	524,000
Research and Development .....	95,000	86,000
Other (Income) and Expenses .....	(25,000)	(14,000)
	----- 1,665,000	----- 1,434,000
Earnings Before Income Taxes .....	865,000	766,000
Income Taxes .....	302,000	266,000
	-----	-----
Net Income .....	\$ 563,000	\$ 500,000
	=====	=====
Net Income Per Share (Basic) .....	\$ .18	\$ .16
	=====	=====
Net Income Per Share (Diluted) .....	\$ .18	\$ .16
	=====	=====
Average Common Shares Outstanding (Basic) .....	3,052,000	3,049,000
	=====	=====
Average Common Shares Outstanding (Diluted) ....	3,154,000	3,148,000
	=====	=====

See notes to financial statements.

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

	Nine Months Ended Dec. 31, 2004 -----	Nine Months Ended Dec. 31, 2003 -----
Sales .....	\$ 7,406,000	\$ 6,729,000
Cost of Goods Sold .....	2,786,000	2,546,000
Selling, General & Administrative .....	1,748,000	1,588,000
Research and Development .....	266,000	236,000

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Other (Income) and Expenses .....	(61,000)	(37,000)
	-----	-----
	4,739,000	4,333,000
	-----	-----
Earnings Before Income Taxes .....	2,667,000	2,396,000
Income Taxes .....	931,000	844,000
	-----	-----
Net Income .....	\$ 1,736,000	\$ 1,552,000
	=====	=====
Net Income Per Share (Basic) .....	\$ .57	\$ .51
	=====	=====
Net Income Per Share (Diluted) .....	\$ .55	\$ .50
	=====	=====
Average Common Shares Outstanding (Basic) .....	3,065,000	3,046,000
	=====	=====
Average Common Shares Outstanding (Diluted) ....	3,147,000	3,125,000
	=====	=====

See notes to financial statements.

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

	Nine Months Ended Dec. 31, 2004	Nine Months Ended Dec. 31, 2003
	-----	-----
Cash Flows From Operating Activities:		
Net Income .....	\$ 1,736,000	\$ 1,551,000
Depreciation and Amortization .....	71,000	77,000
Change in Assets and Liabilities-		
(Increase) Decrease in Accounts Receivable ...	8,000	780,000
(Increase) Decrease in Inventories .....	43,000	138,000
(Increase) Decrease in Prepaid Expenses .....	(33,000)	(26,000)
Increase (Decrease) in Accounts Payable .....	27,000	(31,000)
Increase (Decrease) in Accrued Liabilities ...	(21,000)	30,000
	-----	-----
Net Cash Provided by Operating Activities .....	1,831,000	2,519,000
	-----	-----
Cash Flows From Investing Activities:		
Short-term Investments Purchased .....	(501,000)	(1,601,000)
Short-term Investments Redeemed .....	650,000	--
Capital Expenditures, Net of Retirements .....	(8,000)	(31,000)

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Net Cash (Used) Provided by Investing Activities .	141,000	(1,632,000)
Cash Flows From Financing Activities:		
Dividends Paid .....	(1,101,000)	(616,000)
Treasury Stock Purchases .....	(976,000)	(667,000)
Proceeds From Stock Options Exercised .....	110,000	323,000
Net Cash (Used) Provided by Financing Activities .	(1,967,000)	(960,000)
Net Increase (Decrease) In Cash and Equivalents ..	5,000	(73,000)
Cash and Cash Equivalents at Beginning of Period .	4,670,000	4,761,000
Cash and Cash Equivalents at End of Period .....	\$ 4,675,000	\$ 4,688,000

See notes to financial statements.

**MESA LABORATORIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**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, 2004.

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, 2004. 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 2005 and 2004 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share for the fiscal third quarter and year-to-date would have been reduced to the pro forma amounts indicated below:

Three Months Ended	Nine Months Ended
----- December 31, -----	----- December 31, -----

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	2004	2003	2004	2003
	-----	-----	-----	-----
Net income - as reported	\$ 563,000	\$ 500,000	\$ 1,736,000	\$ 1,552,000
Less: Total stock based employee compensation expense determined under fair value based method for all awards, Net of related tax effects	\$ 33,000	\$ 8,000	\$ 101,000	\$ 70,000
Net income - pro forma	\$ 530,000	\$ 492,000	\$ 1,635,000	\$ 1,482,000
Income per basic share - as reported	\$ .18	\$ .16	\$ .57	\$ .51
Income per basic share - pro forma	\$ .17	\$ .16	\$ .53	\$ .49
Income per diluted share - as reported	\$ .18	\$ .16	\$ .55	\$ .50
Income per diluted share - pro forma	\$ .17	\$ .16	\$ .52	\$ .47

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 3.6% to 3.9% (2005) and 0% to 2.0% (2004); expected volatility of approximately 19% to 29% (2005) and 14% (2004); discount rate of 3.35% to 4.62% (2005) and 3.0% (2004); and expected lives of 5 to 10 years.

NOTE C. NET INCOME PER COMMON SHARE

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

The following table presents a reconciliation of the denominators used in the computation of net income per common share-- basic and net income per common share-- diluted for the three and nine month periods ended December 31, 2004 and 2003:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net income available for shareholders	\$563,000	\$500,000	\$1,736,000	\$1,552,000
Weighted avg. outstanding shares of common stock	3,052,000	3,049,000	3,065,000	3,046,000
Dilutive effect of stock options	102,000	99,000	82,000	79,000
Common stock and equivalents	3,154,000	3,148,000	3,147,000	3,125,000
Earnings per share:				
Basic	\$ .18	\$ .16	\$ .57	\$ .51
Diluted	\$ .18	\$ .16	\$ .55	\$ .50

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For the three months and nine months ended December 31, 2004 and 2003, no shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

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

#### Overview

Mesa Laboratories, Inc. manufactures and distributes electronic measurement systems for various niche applications, including renal treatment, food processing, medical sterilization, pharmaceutical processing and other industrial applications. Our Company follows a philosophy of manufacturing high quality products 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 December 31,			
	2004	2003	2002	2001
	-----	-----	-----	-----
Cash and Investments	\$6,624,000	\$6,289,000	\$4,226,000	\$3,138,000
Trade Receivables	\$1,622,000	\$1,541,000	\$1,904,000	\$2,115,000
Days Sales Outstanding	57	60	73	88
Inventory	\$2,057,000	\$2,191,000	\$2,496,000	\$2,316,000
Inventory Turns	1.8	1.6	1.3	1.1
Working Capital	\$9,911,000	\$9,655,000	\$8,604,000	\$7,588,000
Current Ratio	16:1	17:1	19:1	16:1
Average Return On:				
Stockholder Investment (1)	15.2%	14.0%	14.8%	16.1%
Assets	14.4%	13.4%	15.3%	15.1%
Invested Capital (2)	26.4%	22.1%	21.1%	20.1%
Net Sales	\$7,406,000	\$6,729,000	\$6,681,000	\$6,951,000
Gross Profit	\$4,620,000	\$4,183,000	\$4,198,000	\$4,193,000
Gross Margin	62%	62%	63%	60%
Operating Income	\$2,606,000	\$2,359,000	\$2,361,000	\$2,291,000
Operating Margin	35%	35%	35%	33%
Net Profit	\$1,736,000	\$1,552,000	\$1,619,000	\$1,587,000
Net Profit Margin	23%	23%	24%	23%
Earnings Per Diluted Share	\$ .55	\$ .50	\$ .49	\$ .44
Capital				

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Expenditures (Net)	\$ 8,000	\$ 31,000	\$ 56,000	\$ 14,000
Head Count	48.5	48.5	46.5	51.0
Sales Per Employee (Annualized)	\$ 204,000	\$ 185,000	\$ 192,000	\$ 182,000

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

### Results of Operations

#### Net Sales

Net sales for the third quarter of fiscal 2005 increased 15 percent from fiscal 2004. In real dollars, net sales of \$2,530,000 in fiscal 2005 increased \$330,000 from \$2,200,000 in 2004.

Net sales for the first nine months of fiscal 2005 increased 10 percent from fiscal 2004. In real dollars, net sales of \$7,406,000 in fiscal 2005 increased \$677,000 from \$6,729,000 in 2004.

Our revenues come from two main sources, which include product revenues and parts and service revenues. Parts and service revenues are derived from on-going repair and recalibration or certification of our products. The certification or recalibration of product is usually a key component of the customer's own quality system and many of our customers operate in regulated industries, such as food processing or medical and pharmaceutical processing. For this reason, these revenues tend to be fairly stable and grow slowly over time. During the nine months of fiscal years 2005 and 2004 our Company had parts and service revenue of \$2,085,000 and \$1,931,000. As a percentage of total revenue, parts and service revenues were 28% in 2005 and 29% in 2004.

The performance of new product sales is dependent on several factors, including general economic conditions in the United States and abroad, capital spending trends and the introduction of new products. Over the past two fiscal years, general economic conditions and capital spending have been improving. New products released to the market over the past two fiscal years include the Datatrace Micropack III temperature loggers during the middle of fiscal 2003 and the Datatrace Micropack III humidity and pressure loggers at the end of fiscal 2004. All three loggers, temperature, humidity and pressure, utilize a common PC Interface system and operating software. For this reason, we believe that some customer purchasing decisions were probably delayed into fiscal 2005, as those customers awaited introduction of the humidity and pressure loggers. For the first nine months of fiscal years 2005 and 2004 product sales for our company were \$5,321,000 and \$4,798,000.

Over the fiscal third quarter and nine month periods, our medical revenues increased eight percent and 12 percent compared to the prior periods. This increase was due to higher sales of meters, solutions and service. Currently, research and development efforts are in process to further enhance this line of products.

During the fiscal third quarter and nine month periods, sales of the



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Datatrace brand of products increased 20 percent for the quarter and increased eight percent over the prior year-to-date period. At the end of fiscal 2004, we released our latest version of user software and shipped initial units of the Micropack III humidity and pressure loggers to customers. These new products will allow customers who measure more than one parameter in their process to program and retrieve data from the same PC Interface device. During April the company began introduction of its new 4-20 milliamp logger. This user scalable logging device is completely new and will allow users to log the 4-20 milliamp output of various fixed monitors within their process and correlate that data to the product data collected by our loggers. In this way, the user may bring additional data parameters into their analysis without compromising data integrity as required by various regulatory bodies.

During the fiscal third quarter and nine month periods, sales of the Nusonics line of ultrasonic fluid measurement systems increased by 28 percent and 15 percent compared to the prior year periods. At this time, Nusonics products still contribute less than 10 percent of our total sales.

### Cost of Sales

Cost of sales as a percent of net sales during the third fiscal quarter was unchanged from fiscal 2004 at 38.1 percent. For the first nine months of the fiscal year, cost of sales as a percent of net sales decreased 0.2 percent to 37.6 percent of sales. Most of our products enjoy gross margins in excess of 55%. Due to the fact that the dialysis products have sales concentrations to several companies that maintain large chains of treatment centers, the products that are sold to the renal market tend to be slightly more price sensitive than the data logging products. Therefore, shifts in product mix toward higher sales of Datatrace logging products will tend to produce lower cost of goods sold expense and higher gross margins while shifts toward higher sales of medical products will normally produce the opposite effect on cost of goods sold expense and gross margins.

Over the current fiscal quarter, our Company experienced a higher growth rate in its Datatrace sales which was off-set by an increase in Nusonics products sales, which led to unchanged cost of goods sold expense as a percent of sales compared to the prior year period.

### Selling, General and Administrative

General and administrative expenses tend to be fairly fixed and stable from year-to-year. To the greatest extent possible, we work at containing and minimizing these costs. In the third quarter, increased recruiting costs for our new Vice President of Sales and Marketing position were partially off-set by lower Director and shareholder relations expenses. Total administrative costs were \$257,000 for the fiscal third quarter and \$236,000 in the prior year quarter, which represents a \$21,000 or nine percent increase from fiscal 2004 to fiscal 2005. For the first nine months of the fiscal year, administrative costs were \$740,000 and \$658,000 in the prior year period, which represents a \$82,000 or 12 percent increase from fiscal 2004 to fiscal 2005. Most of this increase was incurred during the second quarter.

Our selling and marketing costs tend to be far more variable in relation to sales, although there are various exceptions. Some of these exceptions include the introduction of new products and the mix of international sales to domestic sales. For a product line experiencing introduction of a new product, costs will tend to be higher as a percent of sales due to higher advertising costs and sales training programs. Our Company's international sales are usually discounted and recorded at the net discounted price, so that a change in mix between international and domestic sales may influence sales and marketing costs. One other major influence on sales and marketing costs is the mix of domestic medical sales to all other domestic sales. Domestic medical sales are

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made by direct telemarketing representatives, which gives us a lower cost structure, when compared to the independent representative sales channels utilized by our other products.

In dollars, selling costs were \$373,000 in the third fiscal quarter and \$288,000 in the same prior year quarter. As a percent of sales, selling costs were 14.7% in the current quarter and 13.1% in the prior year quarter. In dollars, selling costs were \$1,008,000 in the first nine months of the current fiscal year and \$930,000 in the same prior year period. As a percent of sales, selling costs were 13.6% in the current period and 13.8% in the prior year period. During the current fiscal quarter and year-to-date period, most of the increase in selling expense was due to increased compensation and outside commission costs.

On October 11, 2004 Mr. John Sullivan, Ph.D., took over the newly created position of Vice President of Sales and Marketing. John brings 15 years of experience in various marketing management, business unit management and merger and acquisition leadership positions at Varian, Inc. to our Company. His experience will be very instrumental to our strategy of expanding sales through both product line and sales channel expansion, as well as, through acquisition of complimentary product lines. Due to the hiring of John, recruiting, compensation and other marketing costs are expected to increase during the second half of the current fiscal year, but at this time we cannot project how much of this cost may be off-set by higher revenues.

### Research and Development

Company sponsored research and development cost was \$95,000 during the third fiscal quarter and \$86,000 during the previous year period. For the first nine months of the current fiscal year, costs were \$266,000 during the current period and compared to \$236,000 during the prior year period. Costs for research and development are up for both the quarter and year-to-date, due to an increase in headcount in the current year compared to prior year. We are currently trying to execute a strategy of increasing the flow of internally developed products. This strategy has led to the introduction of two new Datatrace logging products in fiscal 2004 and a third Datatrace logging product early in fiscal 2005. Work has also begun on a new generation of our dialysate meter line of products.

### Net Income

Net income increased 13 percent to \$563,000 or \$.18 per share on a diluted basis during the third quarter from \$500,000 or \$.16 per share on a diluted basis in the previous year period. Net income increased 12 percent to \$1,736,000 or \$.55 per share on a diluted basis for the current nine month period from \$1,552,000 or \$.50 per share on a diluted basis in the previous year period. Net income growth was due primarily to the increase in revenues.

### Liquidity and Capital Resources

On December 31, 2004, we had cash and short term investments of \$6,624,000. In addition, we had other current assets totaling \$3,951,000 and total current assets of \$10,575,000. Current liabilities of our Company were \$663,000 which resulted in a current ratio of 16:1.

Our Company has made capital acquisitions of \$8,000 during the first nine months of the current fiscal year. 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. Most of our stock buybacks have occurred during periods when the price to earnings multiple has been near

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historical low points, or during times when selling activity in the stock is out of balance with buying demand.

On November 12, 2003 our Board of Directors instituted a policy of paying regular quarterly dividends. On June 15, 2004 and September 15, 2004, quarterly dividends of \$.05 per common share were paid to shareholders of record on June 1, 2004 and September 1, 2004. On December 15, 2004, a regular quarterly dividend of \$.06 per common share and a special dividend of \$.20 per common share was paid to shareholders of record on December 1, 2004. For the current year, dividends paid have totaled \$1,101,000, and the rates paid in December for the quarterly and special dividends represent an increase of 20 and 33 percent, respectively, from the former rates.

Our Company invests its surplus capital in various interest bearing instruments, including money market funds, short-term treasuries and municipal bonds. All investments are fixed dollar investments with variable rates in order to minimize the risk of principal loss. In some cases, additional guarantees of the investment principal are provided in the form of bank letters of credit.

The Company does not currently maintain a line of credit or any other form of debt. Nor does the Company guarantee the debt of any other entity. The Company has maintained a long history of surplus cash flow from operations. This surplus cash flow has been used in the past to fund acquisitions and stock buybacks and is currently being partially utilized to fund our on-going dividend. If interesting candidates come to our attention, we may chose to pursue new acquisitions.

### Contractual Obligations

At December 31, 2004 our only contractual obligations were open purchase orders for routine purchases of supplies and inventory, which would be payable in less than one year.

### Forward Looking Statements

All statements other than statements of historical fact included in this annual report regarding our Company's financial position and operating and strategic initiatives and addressing industry developments are forward-looking statements. Where, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Factors which could cause actual results to differ materially from those anticipated, include but are not limited to general economic, financial and business conditions; competition in the data logging market; competition in the kidney dialysis market; competition in the fluid measurement market; the discontinuance of the practice of dialyzer reuse; the business abilities and judgment of personnel; the impacts of unusual items resulting from ongoing evaluations of business strategies; and changes in business strategy. We do not intend to update these forward looking statements. You are advised to review the "Additional Cautionary Statements" provided in our Company's most recent Form 10-KSB 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.

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

### Revenue Recognition

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

### Research & Development Costs

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

### Valuation of Inventories

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

### Valuation of Long-Lived Assets and Goodwill

The Company assesses the realizable value of long-lived assets and goodwill 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 and goodwill, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. In addition, we must make assumptions regarding the useful lives of these assets.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles, generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any viable alternative would not produce a materially different result. See our audited financial statements and notes thereto which begin at "Item 7. Financial Statements" of the last Annual Report on Form 10-KSB which contain accounting policies and other disclosures required by accounting principles, generally accepted in the United States of America.

### 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

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the Evaluation Date, the Company's disclosure controls and procedures are effective.

- b. There was no change in our internal control over financial reporting that occurred during our quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### PART II-OTHER INFORMATION

#### 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
	-----	-----	-----	-----
Oct. 1-31, 2004	29,444	\$ 12.01	108,256	191,744
Nov. 1-30, 2004	25,683	\$ 12.07	133,939	166,061
Dec. 1-31, 2004	5,157	\$ 11.77	139,096	160,904
	-----	-----		
Total Third Qtr	60,284	\$ 12.02		

On June 19, 2003, the Board of Directors of Mesa Laboratories, Inc. adopted a share repurchase plan which allows for the repurchase of up to 300,000 of the company's common shares. This plan will continue until the maximum is reached or the plan is terminated by further action of the Board.

#### ITEM 4. Submission of matters to a vote of securities holders

The Annual Meeting of Shareholders of Mesa Laboratories, Inc. was held on October 18, 2004. Of the 3,072,403 Shares entitled to vote, 2,659,068 were represented either in person or by proxy. Four Directors were elected to serve until the next Annual Meeting of Shareholders.

The four directors elected were:

	FOR	WITHHELD
	-----	-----
Michael T. Brooks	2,651,068	8,000
H. Stuart Campbell	2,649,068	10,000
Paul D. Duke	2,567,232	91,836
Luke R. Schmieder	2,568,159	90,909

An amendment to our 1999 Stock Compensation Plan increasing the authorized number of shares of common stock from 300,000 to 500,000 was approved by the following vote.

FOR	AGAINST	ABSTAIN
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1,963,205	62,259	9,020

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

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32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley A

b) Reports on Form 8-K:

On November 2, 2004, we furnished a report on Form 8-K under Item 9, Regulation FD Disclosure, to announce that we issued a press release on November 2, 2004 announcing preliminary results for the second quarter period ended September 30, 2004, and filed under Item 7, Financial Statements and Exhibits, a copy of the press release dated November 2, 2004.

MESA LABORATORIES, INC.

DECEMBER 31, 2004

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, 2005  
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BY: /s/Luke R. Schmieder  
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Luke R. Schmieder  
President, Chief Executive Officer,  
Treasurer and Director

DATED: February 14, 2005  
-----

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