

MESA LABORATORIES INC /CO
Form 10-Q
February 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 31, 2015

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

For the transition period from ___ to ___

Commission File No: 0-11740

MESA LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

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

12100 West Sixth Avenue
Lakewood, Colorado **80228**
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

There were 3,626,528 shares of the Issuer's common stock, no par value, outstanding as of January 27, 2016.



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Part I. Financial Information**Item 1. Financial Statements****Mesa Laboratories, Inc.****Condensed Consolidated Balance Sheets**

(In thousands, except share amounts)

| | December 31, 2015 | March 31, 2015 |
|---|------------------------------|---------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,272 | \$2,034 |
| Accounts receivable, net | 13,283 | 12,145 |
| Inventories, net | 14,716 | 12,420 |
| Prepaid expenses and other | 1,294 | 1,334 |
| Deferred income taxes | 1,682 | 1,689 |
| Total current assets | 34,247 | 29,622 |
| Property, plant and equipment, net | 15,685 | 9,598 |
| Intangibles, net | 41,231 | 33,231 |
| Goodwill | 63,953 | 44,869 |
| Total assets | \$ 155,116 | \$117,320 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,053 | \$2,503 |
| Accrued salaries and payroll taxes | 4,340 | 4,105 |
| Unearned revenues | 2,809 | 1,314 |
| Current portion of contingent consideration | 4,696 | 1,220 |
| Other accrued expenses | 2,803 | 1,307 |
| Income taxes payable | 201 | 1,208 |
| Current portion of long-term debt | 3,000 | 3,000 |
| Total current liabilities | 20,902 | 14,657 |
| Deferred income taxes | 5,243 | 5,122 |
| Long-term debt | 44,000 | 23,250 |

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| | | |
|--|------------|------------|
| Contingent consideration | 4,327 | 812 |
| Total liabilities | 74,472 | 43,841 |
| Commitments and Contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,625,003 and 3,561,540 shares, respectively | 21,437 | 17,751 |
| Retained earnings | 60,657 | 55,962 |
| Accumulated other comprehensive loss | (1,450) | (234) |
| Total stockholders' equity | 80,644 | 73,479 |
| Total liabilities and stockholders' equity | \$ 155,116 | \$ 117,320 |

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.**Condensed Consolidated Statements of Income**

(Unaudited)

(In thousands except per share data)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|--|--|-------------|---|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$19,913 | \$17,830 | \$59,847 | \$52,770 |
| Cost of revenues | 7,704 | 6,778 | 23,430 | 20,890 |
| Gross profit | 12,209 | 11,052 | 36,417 | 31,880 |
| Operating expenses | | | | |
| Selling | 1,517 | 1,772 | 5,604 | 5,177 |
| General and administrative | 5,885 | 4,740 | 17,404 | 12,581 |
| Research and development | 975 | 832 | 2,929 | 2,459 |
| Total operating expenses | 8,377 | 7,344 | 25,937 | 20,217 |
| Operating income | 3,832 | 3,708 | 10,480 | 11,663 |
| Other (expense) income, net | (381) | 5 | (710) | (314) |
| Earnings before income taxes | 3,451 | 3,713 | 9,770 | 11,349 |
| Income taxes | 1,090 | 1,310 | 3,351 | 4,005 |
| Net income | \$2,361 | \$2,403 | \$6,419 | \$7,344 |
| Net income per share: | | | | |
| Basic | \$0.65 | \$0.68 | \$1.79 | \$2.09 |
| Diluted | 0.63 | 0.66 | 1.72 | 2.01 |
| Weighted average common shares outstanding: | | | | |
| Basic | 3,614 | 3,532 | 3,596 | 3,513 |
| Diluted | 3,755 | 3,654 | 3,729 | 3,649 |

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

| | Three Months Ended December 31, 2015 | | Nine Months Ended December 31, 2014 | |
|---------------------------------------|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Income | \$2,361 | \$2,403 | \$6,419 | \$7,344 |
| Other comprehensive loss, net of tax: | | | | |
| Foreign currency translation | (1,847) | (250) | (1,216) | (250) |
| Total comprehensive income | \$514 | \$2,153 | \$5,203 | \$7,094 |

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

(In thousands)

| | Nine Months Ended December 31, | |
|--|---|-------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | \$6,419 | \$7,344 |
| Depreciation and amortization | 5,207 | 4,162 |
| Stock-based compensation | 1,001 | 776 |
| Loss on disposition of assets | -- | 16 |
| Deferred income taxes | 128 | -- |
| Foreign currency adjustments | 85 | (169) |
| Change in assets and liabilities, net of effects of acquisitions | | |
| Accounts receivable, net | 72 | (1,994) |
| Inventories, net | (1,901) | (3,340) |
| Prepaid expenses and other | 40 | 538 |
| Accounts payable | 80 | 747 |
| Accrued liabilities and taxes payable | 710 | (1,439) |
| Unearned revenues | (118) | (465) |
| Contingent consideration | (1,770) | -- |
| Net cash provided by operating activities | 9,953 | 6,176 |
| Cash flows from investing activities: | | |
| Acquisitions | (23,199) | (19,050) |
| Purchases of property, plant and equipment | (6,291) | (2,212) |
| Net cash used in investing activities | (29,490) | (21,262) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of debt | 25,000 | 23,000 |
| Payments on debt | (4,250) | (11,500) |
| Dividends | (1,724) | (1,618) |
| Proceeds from the exercise of stock options | 1,800 | 1,137 |
| Net cash provided by financing activities | 20,826 | 11,019 |
| Effect of exchange rate changes on cash and cash equivalents | (51) | (81) |
| Net increase (decrease) in cash and cash equivalents | 1,238 | (4,148) |
| Cash and cash equivalents at beginning of period | 2,034 | 5,575 |

| | | |
|--|---------|---------|
| Cash and cash equivalents at end of period | \$3,272 | \$1,427 |
| Cash paid for: | | |
| Income taxes | \$3,375 | \$2,789 |
| Interest | 563 | 354 |
| Supplemental non-cash activity: | | |
| Repayment of employee loans for stock options | \$-- | \$24 |
| Contingent consideration as part of an acquisition | 9,541 | 300 |

See accompanying notes to condensed consolidated financial statements.

Mesa Laboratories, Inc.

Notes to Condensed Consolidated Financial Statements

Note 1 -Description of Business and Summary of Significant Accounting Policies

Description of Business

Mesa Laboratories, Inc. was incorporated under the laws of the State of Colorado on March 26, 1982. The terms “we,” “us,” “our,” the “Company” or “Mesa” are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted. We pursue a strategy of focusing primarily on quality control products and services, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into four divisions across eight physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene, environmental air sampling and semiconductor industries. Our Biological Indicators Division provides testing services, along with the manufacturing and marketing of biological indicators and distribution of chemical indicators used to assess the effectiveness of sterilization processes, including steam, hydrogen peroxide, ethylene oxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments. Our Cold Chain Division provides parameter monitoring of products in a cold chain, consulting services such as compliance monitoring, packaging development and validation or mapping of transport and storage containers, and thermal packaging products such as coolers, boxes, insulation materials and phase-change products to control temperature during transport.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2015, has been derived from audited consolidated financial statements. The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual audited consolidated financial statements and in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of this interim information. Operating results and cash flows for interim periods are not necessarily indicative of results that can be expected for the entire year. The information included in this report

should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 31, 2015.

The summary of our significant accounting policies is incorporated by reference to our Annual Report on Form 10-K for the year ended March 31, 2015.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) issued a jointly converged standard on the recognition of revenue from contracts with customers. The issued guidance converges the criteria for reporting revenues, as well as requiring disclosures sufficient to describe the nature, amount, timing and uncertainty of revenues and cash flows arising from these contracts. Companies can transition to the standard either retrospectively or as a cumulative effective adjustment as of the date of adoption. The new standard is effective for our fiscal year (and interim periods within that year) ending March 31, 2019. We are evaluating the impact of this standard on our condensed consolidated financial statements and disclosures.

In November 2015, the FASB issued new requirements for the presentation of deferred tax assets and liabilities, requiring noncurrent classification for all deferred tax assets and liabilities on the condensed consolidated balance sheets. The requirements of the new standard are effective for our fiscal year (and interim periods within that year) ending March 31, 2018. We do not expect this guidance to have a material impact on our results of operations or financial position.

Note 2 – Acquisitions and Dispositions

Acquisitions

For the nine months ended December 31, 2015, our acquisitions of businesses (net of cash acquired) totaled \$32,740,000, which consisted of the following material acquisitions:

Infitrak

On July 6, 2015, we completed a business combination (the “Infitrak Acquisition”) whereby we acquired all of the common stock of 2396081 Ontario Inc. and its wholly owned operating subsidiary, Infitrak Inc. (collectively “Infitrak”), a company whose business provides consulting, packaging and measuring solutions for cold chain applications. The stock purchase agreement (the “Infitrak Agreement”) includes provisions for both contingent consideration based upon the two year growth in gross profit (as defined in the Earn-Out Agreement) of the packaging component of our cold chain business subsequent to the acquisition and for a holdback payment (subject to a post-closing adjustment), payable at the one year anniversary of the closing date.

Under the terms of the Infitrak Agreement, we are required to pay contingent consideration if the gross profit (as defined in the Earn-Out Agreement) for the packaging component of our cold chain business for the two years subsequent to the acquisition meets certain levels. The potential consideration payable ranges from \$0 to \$15,000,000 CDN (approximately \$0 to \$10,800,000 as of December 31, 2015) and is based upon a sliding scale of growth in gross profit (as defined in the Earn-Out Agreement) for year one and year two of 30 to 70 percent and 15 to 75 percent, respectively. Based upon both historical and projected growth rates, we recorded \$9,541,000 of contingent consideration payable which represented our best estimate of the amount that will ultimately be paid. After the finalization of our purchase accounting, any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of the packaging component of our cold chain business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in two annual installments beginning in the second quarter of our year ending March 31, 2017.

We expect to achieve savings and generate growth as we integrate the Infitrak operations and sales and marketing functions. These factors, among others, contributed to a purchase price in excess of the estimated fair value of the net identifiable assets acquired and, as a result, we recorded goodwill in connection with this transaction. The goodwill is not expected to be deductible for tax purposes and it was assigned to our Cold Chain segment.

The Infitrak Acquisition constituted the acquisition of a business and was recognized at fair value. Due to the recent nature of the transaction, the purchase price allocation was based upon a preliminary estimated fair value of the assets and liabilities acquired as we are in the process of finalizing our valuation of the assets acquired and liabilities assumed. We determined the preliminary estimated fair values using discounted cash flow analyses and estimates made by management. The following reflects our preliminary allocation of the consideration, subject to customary purchase price adjustments in accordance with the Infitrak Agreement (in thousands):

| | |
|------------------------------------|---------|
| Cash consideration | \$8,748 |
| Holdback payment liability | 637 |
| Contingent consideration liability | 9,541 |

| | |
|------------------------------------|-----------|
| Aggregate consideration | \$ 18,926 |
| Accounts receivable, net | \$925 |
| Inventories, net | 310 |
| Property, plant and equipment, net | 530 |
| Intangibles, net | 5,869 |
| Goodwill | 12,529 |
| Accounts payable | (470) |
| Accrued liabilities | (767) |
| Total purchase price allocation | \$ 18,926 |

The accompanying condensed consolidated statements of income include the results of the Infitrak Acquisition from the acquisition date of July 6, 2015. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2015 and 2014, are as follows (in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|-------------------------------|-------------|------------------------------|-------------|
| | December 31, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$19,913 | \$18,592 | \$61,687 | \$55,057 |
| Net income | 2,361 | 2,493 | 6,721 | 7,615 |
| Net Income per common share: | | | | |
| Basic | \$0.65 | \$0.71 | \$1.87 | \$2.17 |
| Diluted | 0.63 | 0.68 | 1.80 | 2.09 |

North Bay

On August 6, 2015, we completed a business combination (the “North Bay Acquisition”) whereby we acquired substantially all of the assets (other than certain fixed assets) and certain liabilities of the dental sterilizer testing business of North Bay Bioscience, LLC (“North Bay”). The asset purchase agreement (the “North Bay Agreement”) includes a provision for a holdback payment (subject to a post-closing adjustment), payable at the one year anniversary of the closing date.

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

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

| | |
|----------------------------|----------|
| Cash consideration | \$10,322 |
| Holdback payment liability | 1,000 |
| Aggregate consideration | \$11,322 |

| | |
|------------------------------------|----------|
| Cash | \$20 |
| Accounts receivable, net | 285 |
| Inventories, net | 85 |
| Property, plant and equipment, net | 229 |
| Intangibles, net | 4,454 |
| Goodwill | 7,962 |
| Accrued liabilities | (100) |
| Unearned revenues | (1,613) |
| Total purchase price allocation | \$11,322 |

The accompanying condensed consolidated statements of income include the results of the North Bay Acquisition from the acquisition date of August 6, 2015. The pro forma effects of the acquisition on the results of operations as if the acquisition had been completed on April 1, 2015 and 2014, are as follows (in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|-------------------------------|-------------|------------------------------|-------------|
| | December 31, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$19,913 | \$18,910 | \$61,241 | \$56,009 |
| Net income | 2,361 | 2,553 | 6,713 | 7,793 |
| Net Income per common share: | | | | |
| Basic | \$0.65 | \$0.72 | \$1.87 | \$2.22 |
| Diluted | 0.63 | 0.70 | 1.80 | 2.14 |

Note 3 - Inventories

Inventories consist of the following (in thousands):

| | December 31, 2015 | March 31, 2015 |
|-----------------|------------------------------|-------------------------------|
| Raw materials | \$ 9,282 | \$ 10,366 |
| Work-in-process | 549 | 530 |
| Finished goods | 5,383 | 1,913 |
| Less: reserve | (498) | (389) |
| | \$ 14,716 | \$ 12,420 |

Note 4 - Long-Term Debt

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

| | December 31, 2015 | March 31, 2015 |
|---|------------------------------|-------------------------------|
| Line of credit (2.42% at December 31, 2015) | \$ 28,500 | \$ 13,500 |
| Term loan (2.42% at December 31, 2015) | 18,500 | 12,750 |
| Less: current portion | (3,000) | (3,000) |
| Long-term portion | \$ 44,000 | \$ 23,250 |

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

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

On July 1, 2015, we further amended our Credit Facility to extend the maturity date to June 30, 2020, increase the Line of Credit to \$50,000,000 and establish a new \$20,000,000 term loan (the “Term Loan”). The majority of the

proceeds from the Term Loan were used to pay down the remaining \$12,000,000 balance of the Initial Term Loan. The remaining \$8,000,000 was combined with a \$1,000,000 draw under the Line of Credit to fund the Infitrak Acquisition (see Note 2).

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

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

The Credit Facility is secured by all of our assets and requires us to maintain a ratio of funded debt to our trailing four quarters of EBIDTA, as defined, of 3.25 to 1.0 through March 31, 2016 and 3.0 to 1.0 thereafter, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with the required covenants at December 31, 2015.

As of December 31, 2015, future contractual maturities of debt as are as follows (in thousands):

| Year Ending March 31, | |
|------------------------------|----------|
| 2016 | \$750 |
| 2017 | 3,000 |
| 2018 | 3,000 |
| 2019 | 3,000 |
| 2020 | 3,000 |
| Thereafter | 34,250 |
| | \$47,000 |

In January 2016, we made a \$750,000 required principle payment on the Term Loan.

Note 5 - Stock-Based Compensation

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | December 31, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Total cost of stock-based compensation charged against income before income taxes | \$344 | \$260 | \$1,001 | \$776 |
| Amount of income tax benefit recognized in earnings | 109 | 92 | 343 | 274 |
| Amount charged against net income | \$235 | \$168 | \$658 | \$502 |
| Impact on net income per common share: | | | | |
| Basic | \$0.07 | \$0.05 | \$0.18 | \$0.14 |
| Diluted | 0.06 | 0.05 | \$0.18 | 0.14 |

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

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model (“Black-Scholes”). We use historical data to estimate the expected price volatility, the expected stock option life and expected forfeiture rate. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of grant for the estimated life of the stock option. The dividend yield is calculated based upon the dividend payments made during the prior four quarters as a percent of the average stock price for that period.

The following is a summary of stock option activity for the nine months ended December 31, 2015:

| | Number of Shares | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (000s) |
|-------------------------------|-------------------------|--|--|---|
| Outstanding at March 31, 2015 | 437,248 | \$ 55.81 | 4.9 | \$ 9,445 |
| Stock options granted | 183,550 | 72.87 | 6.9 | |

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| | | | | |
|----------------------------------|-----------|-------|-----|--------|
| Stock options forfeited | (12,384) | 76.89 | 7.2 | |
| Stock options expired | -- | -- | | |
| Stock options exercised | (72,803) | 39.98 | | |
| Outstanding at December 31, 2015 | 535,611 | 63.32 | 5.3 | 19,412 |
| Exercisable at December 31, 2015 | 173,949 | 41.4 | 3.6 | 10,107 |

The total intrinsic value of stock options exercised was \$4,263,767 and \$2,003,000 for the nine months ended December 31, 2015 and 2014, respectively.

A summary of the status of our unvested stock option shares as of December 31, 2015 is as follows:

| | Number of Shares | Weighted- Average Grant-Date Fair Value |
|-------------------------------|---------------------------------|--|
| Unvested at March 31, 2015 | 274,038 | \$ 18.42 |
| Stock options granted | 183,550 | 18.77 |
| Stock options forfeited | (12,384) | 19.53 |
| Stock options vested | (83,542) | 14.56 |
| Unvested at December 31, 2015 | 361,662 | 19.43 |

As of December 31, 2015, there was \$4,966,245 of total unrecognized compensation expense related to unvested stock options. As of December 31, 2015, we have 914,110 shares available for future stock option grants.

Note 6 - Net Income Per Share

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

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|--|-------------|---|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income available for shareholders | \$2,361 | \$2,403 | \$6,419 | \$7,344 |
| Weighted average outstanding shares of common stock | 3,614 | 3,532 | 3,596 | 3,513 |
| Dilutive effect of stock options | 141 | 122 | 133 | 136 |
| Common stock and equivalents | 3,755 | 3,654 | 3,729 | 3,649 |
| Net income per share: | | | | |
| Basic | \$0.65 | \$0.68 | \$1.79 | \$2.09 |
| Diluted | 0.63 | 0.66 | 1.72 | 2.01 |

For the three and nine months ended December 31, 2015, 91,000 and 136,000 outstanding stock options, respectively, were excluded from the calculation of diluted net income per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares and, therefore, their inclusion would have been anti-dilutive.

For the three and nine months ended December 31, 2014, 155,000 and 173,000 outstanding stock options, respectively, were excluded from the calculation of diluted net income per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares and, therefore, their inclusion would have been anti-dilutive.

Note 7- Commitments and Contingencies

Under the terms of the Amega Agreement, we were required to pay contingent consideration (the “Amega Earn-Out”) if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition met certain levels. The potential consideration payable ranged from \$0 to \$10,000,000 and was based upon a sliding scale of three-year cumulative revenues between \$31,625,000 and \$43,500,000. Based upon both historical and projected growth rates, we recorded \$500,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. Any changes to the contingent consideration ultimately paid would have resulted in additional income or expense in our condensed consolidated statements of income. The contingent consideration was payable in the third quarter of our year ending March 31, 2017.

In November 2014, Amega and its owner Anthony Amato (“Amato”) filed a complaint (*Anthony Amato and Amega Scientific Corporation v. Mesa Laboratories, Inc., Civil Action No. 1:14-cv-03228*) in the United States District Court for the district of Colorado asserting, among other items, that our termination of Amato as an employee impacted his ability to maximize the potential consideration payable under the Amega Earn-Out and to exercise stock options that failed to vest. The plaintiff was seeking an immediate maximum payout of \$10,000,000 under the Amega Earn-Out, the immediate acceleration of the 10,000 stock options granted Amato upon his initial employment along with other consequential damages in excess of \$500,000, lost future earnings and punitive damages. In addition, Amato alleged that we improperly withheld \$704,065.86 from the holdback consideration under the Amega Agreement. In January 2015 we filed a motion to dismiss the complaint with prejudice.

In October 2015, we entered into a settlement agreement (the “Amato Settlement”) whereby we paid Amato \$3,165,000. In exchange, Amato agreed to dismiss the complaint, release Mesa of any and all claims by Amega and Amato, and relieve us of any future payment obligation under the Amega Earn-Out. Insurance covered \$415,000 of the settlement payment and we had \$1,041,000 accrued on our condensed consolidated balance sheet remaining from the original hold back and contingent consideration payable. The remaining \$1,709,000 was recorded as general and administrative expense in the accompanying condensed consolidated statements of income for the nine months ended December 31, 2015.

Under the terms of the PCD Agreement, we are required to pay contingent consideration if the cumulative revenues for our process challenge device business for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$1,500,000 and is based upon a sliding scale of three-year cumulative revenues between \$9,900,000 and \$12,600,000. Based upon both historical and projected growth rates, we recorded \$300,000 of contingent consideration payable which represented our best estimate of the amount that will ultimately be paid. We paid \$150,000 of the contingent consideration during the three months ended December 31, 2015 (based upon the current run rate projected over the entire three-year contingent consideration period). This amount is subject to modification at the end of the second and third years of the earn-out period based upon the actual revenues earned over the contingent consideration period. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of our process challenge device business and we will adjust the contingent liability on a go forward basis, based on then current information.

Under the terms of the Infitrak Agreement, we are required to pay contingent consideration if the gross profit (as defined in the Earn-Out Agreement) for the packaging component of our cold chain business for the two years subsequent to the acquisition meets certain levels. The potential consideration payable ranges from \$0 to \$15,000,000 CDN (approximately \$0 to \$10,800,000 as of December 31, 2015) and is based upon a sliding scale of growth in gross profit (as defined in the Earn-Out Agreement) for year one and year two of 30 to 70 percent and 15 to 75 percent, respectively. Based upon both historical and projected growth rates, we recorded \$9,541,000 (valued at approximately \$8,700,000 as of December 31, 2015 based on the then current exchange rate) of contingent consideration payable which represented our best estimate of the amount that will ultimately be paid. After the finalization of our purchase accounting, any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of our cold chain business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in two annual installments beginning in the second quarter of our year ending March 31, 2017.

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

During the year ended March 31, 2015 we successfully completed and filed several state sales tax returns which concluded our obligation for historical sales taxes in those states. In addition we continued to work through the process in the remaining states. As a result of this work, we determined that our exposure had increased above and beyond our original accrual and as a result, we recorded an additional accrual of \$460,000 during the year ended

March 31, 2015. During the nine months ended December 31, 2015 we successfully completed and filed additional state sales tax returns which concluded our obligation for historical sales taxes in those remaining states.

Note 8 – Comprehensive Income

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

| | Foreign Currency Translation | AOCI |
|---|---|-------------|
| Balance at September 30, 2015 | \$ 397 | \$397 |
| Quarter ended September 30, 2015: | | |
| Unrealized loss arising during the period | (1,847) | (1,847) |
| Balance at December 31, 2015 | \$ (1,450) | \$(1,450) |

| | Foreign Currency Translation | AOCI |
|---|---|-------------|
| Balance at September 30, 2014 | \$ -- | \$-- |
| Quarter ended September 30, 2014: | | |
| Unrealized loss arising during the period | (250) | (250) |
| Balance at December 31, 2014 | \$ (250) | \$(250) |

| | Foreign Currency Translation | AOCI |
|---|---|-------------|
| Balance at March 31, 2015 | \$ (234) | \$ (234) |
| Nine months ended December 31, 2015: | | |
| Unrealized loss arising during the period | (1,216) | (1,216) |
| Balance at December 31, 2015 | \$ (1,450) | \$ (1,450) |

| | Foreign Currency Translation | AOCI |
|---|---|-------------|
| Balance at March 31, 2014 | \$ -- | \$-- |
| Nine months ended December 31, 2014: | | |
| Unrealized gain arising during the period | (250) | (250) |
| Balance at December 31, 2014 | \$ (250) | \$ (250) |

Note 9 - Segment Information

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

| | Three Months Ended December 31, 2015 | | | | |
|----------------------------------|---|--------------------|----------------------------------|-----------------------|--------------|
| | Biological Indicators | Instruments | Continuous Monitoring | Cold Chain | Total |
| Revenues | \$7,819 | \$ 8,260 | \$ 2,595 | \$1,239 | \$19,913 |
| Gross profit | \$4,869 | \$ 5,511 | \$ 1,254 | \$575 | \$12,209 |
| Selling expenses | 505 | 784 | 132 | 96 | 1,517 |
| | \$4,364 | \$ 4,727 | \$ 1,122 | \$479 | 10,692 |
| Reconciling items ⁽¹⁾ | | | | | (7,241) |
| Earnings before income taxes | | | | | \$3,451 |

| | Three Months Ended December 31, 2014 | | | | |
|------------------|---|--------------------|----------------------------------|-----------------------|--------------|
| | Biological Indicators | Instruments | Continuous Monitoring | Cold Chain | Total |
| Revenues | \$6,964 | \$ 8,216 | \$ 2,650 | \$ -- | \$17,830 |
| Gross profit | \$4,194 | \$ 5,412 | \$ 1,446 | \$ -- | \$11,052 |
| Selling expenses | 365 | 919 | 488 | -- | 1,772 |

| | | | | | |
|----------------------------------|---------|----------|--------|-------|---------|
| | \$3,829 | \$ 4,493 | \$ 958 | \$ -- | 9,280 |
| Reconciling items ⁽¹⁾ | | | | | (5,567) |
| Earnings before income taxes | | | | | \$3,713 |

Nine Months Ended December 31, 2015

| | Biological Indicator | Instruments | Continuous Monitoring | Cold Chain | Total |
|----------------------------------|---------------------------------|--------------------|----------------------------------|-----------------------|--------------|
| Revenues | \$23,537 | \$ 25,819 | \$ 7,412 | \$3,079 | \$59,847 |
| Gross profit | \$15,157 | \$ 16,571 | \$ 3,246 | \$1,443 | \$36,417 |
| Selling expenses | 1,372 | 2,975 | 1,098 | 159 | 5,604 |
| | \$13,785 | \$ 13,596 | \$ 2,148 | \$1,284 | 30,813 |
| Reconciling items ⁽¹⁾ | | | | | (21,043) |
| Earnings before income taxes | | | | | \$9,770 |

Nine Months Ended December 31, 2014

| | Biological Indicators | Instruments | Continuous Monitoring | Cold Chain | Total |
|----------------------------------|----------------------------------|--------------------|----------------------------------|-----------------------|--------------|
| Revenues | \$19,822 | \$ 24,966 | \$ 7,982 | \$ -- | \$52,770 |
| Gross profit | \$12,029 | \$ 15,794 | \$ 4,057 | \$ -- | \$31,880 |
| Selling expenses | 766 | 3,093 | 1,318 | -- | 5,177 |
| | \$11,263 | \$ 12,701 | \$ 2,739 | \$ -- | 26,703 |
| Reconciling items ⁽¹⁾ | | | | | (15,354) |
| Earnings before income taxes | | | | | \$11,349 |

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

| | December 31, 2015 | March 31, 2015 |
|------------------------------|------------------------------|---------------------------|
| Total assets | | |
| Biological Indicators | \$ 54,285 | \$36,304 |
| Instruments | 50,436 | 44,401 |
| Continuous Monitoring | 25,965 | 31,558 |
| Cold Chain | 18,182 | -- |
| Corporate and administrative | 6,813 | 5,057 |
| | \$ 155,681 | \$ 117,320 |

All long-lived assets are located in the United States except for \$6,470,000 and \$16,839,000 which are associated with our French and Canadian subsidiaries, respectively.

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

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|------------------------------|------------------------------|------------------------------|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
| Net revenues from unaffiliated customers: | | | | |
| United States | \$12,787 | \$11,423 | \$37,510 | \$29,612 |
| Foreign | 7,126 | 6,407 | 22,337 | 23,158 |

\$19,913 \$17,830 \$59,847 \$52,770

No foreign country exceeds 10 percent of total revenues.

Note 10 – Income Taxes

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

Our effective income tax rate was 31.6 and 35.3 percent for the three months ended December 31, 2015 and 2014, respectively and 34.3 and 35.3 percent for the nine months ended December 31, 2015 and 2014, respectively. The effective tax rate for the three and nine months ended December 31, 2015 differed from the statutory federal rate of 35 percent primarily as a result of the impact of state income taxes, domestic manufacturing deductions, research and development tax credits and certain discrete period items. We anticipate that our effective tax rate for the year ending March 31, 2016 will approximate 34 to 37 percent.

Note 11 - Subsequent Event

In January 2016, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on March 15, 2016, to shareholders of record at the close of business on February 29, 2016.

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

Forward Looking Statements

This report contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "project," "anticipate," "estimate," "intend," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to revenue growth and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to those described in Part II, "Item 1A. Risk Factors" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended March 31, 2015, and those described from time to time in our subsequent reports filed with the Securities and Exchange Commission.

General Discussion

We pursue a strategy of focusing primarily on quality control products and services, which are sold into niche markets that are driven by regulatory requirements. We prefer markets that have limited competition where we can establish a commanding presence and achieve high gross margins. We are organized into four divisions across eight physical locations. Our Instruments Division designs, manufactures and markets quality control instruments and disposable products utilized in connection with the healthcare, pharmaceutical, food and beverage, medical device, industrial hygiene, environmental air sampling and semiconductor industries. Our Biological Indicators Division provides testing services, along with the manufacturing and marketing of biological indicators and distribution of chemical indicators used to assess the effectiveness of sterilization processes, including steam, hydrogen peroxide, ethylene oxide and radiation, in the hospital, dental, medical device and pharmaceutical industries. Our Continuous Monitoring Division designs, develops and markets systems which are used to monitor various environmental parameters such as temperature, humidity and differential pressure to ensure that critical storage and processing conditions are maintained in hospitals, pharmaceutical and medical device manufacturers, blood banks, pharmacies and a number of other laboratory and industrial environments. Our Cold Chain Division provides parameter monitoring of products in a cold chain, consulting services such as compliance monitoring, packaging development and validation or mapping of transport and storage containers, and thermal packaging products such as coolers, boxes, insulation materials and phase-change products to control temperature during transport.

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

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

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

Year Ending March 31, 2016 Acquisitions

During the year ending March 31, 2016, we completed the following ten acquisitions (the “2016 Acquisitions”):

In January 2016, we completed two business combinations (the “January 2016 European BI Distributor Acquisitions”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of CoaChrom Diagnostica GmbH of Austria and bioTRADING Benelux B.V of the Netherlands business segment associated with the distribution of our biological indicator products.

In October 2015, we completed six business combinations (the “October 2015 European BI Distributor Acquisitions”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BIOLOGIK S.R.L., VWR International PBI S.R.L., Cruinn Diagnostics Ltd., Micolab AG, Miclev Medical Products AB and Tiselab S.L.’s business segment associated with the distribution of our biological indicator products.

In August 2015, we completed a business combination (the “North Bay Acquisition”) whereby we acquired substantially all of the assets (other than certain fixed assets) and certain liabilities of the dental sterilizer testing business of North Bay Bioscience, LLC (“North Bay”).

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

Year Ended March 31, 2015 Acquisitions

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

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

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

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

In October 2014, we completed a business combination (the “PCD Acquisition”) with PCD-Process Challenge Devices, LLC (“PCD”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of PCD’s business segment associated with the sale of process challenge devices (“PCD’s”), which are used for quality control purposes in the field of ethylene oxide sterilization of medical devices.

In April 2014, we completed a business combination (the “BGI Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of BGI, Incorporated and BGI Instruments, Inc., (collectively “BGI”), businesses focused on the sale of equipment used primarily for particulate air sampling.

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

General Trends and Outlook

Our strategic objectives include growth both organically and through further acquisitions. During the year ended March 31, 2015, we continued to build our infrastructure to prepare for future growth, including the addition of key personnel to our operations, sales and marketing, research and development, and finance teams. We also invested in upgrading our information systems and intend to continue doing so.

The markets for our biological indicators and cold chain packaging products remain strong, as the disposable nature of these products makes them less sensitive to general economic conditions. The worldwide market for biological indicators is growing as more countries focus on verifying the effectiveness of sterilization processes.

In general, our instruments products, cold chain services and our continuous monitoring systems are impacted more by general economic conditions than our biological indicator and cold chain packaging products. As a result, uncertainty about global economic conditions may cause businesses to postpone spending in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values. Worldwide and regional economic conditions could also reduce the demand for our products and services, as our customers reduce or delay capital equipment and other types of purchases. However demand for our instruments products, cold chain services and continuous monitoring systems remains strong and we strive to continue to grow revenues going forward.

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

On October 1, 2015 we converted from our legacy enterprise resource planning (“ERP”) system to our new cloud based system. Due to significant employee time allocation associated with going live and operating on the new system, we were delayed in the fulfillment of several orders which resulted in an approximate \$500,000 increase in our open-order backlog at quarter end. The increase in backlog was primarily associated with our Instruments and Biological Indicators Divisions and it resulted in lower than expected revenues for these Divisions during the three months ended December 31, 2015. We believe this issue is timing-related in nature and that we will fulfill orders and decrease our backlog to its normal level over the next one to two quarters.

Results of Operations

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

| | Three Months Ended December 31, | | | Percent | |
|----------------------------|---------------------------------------|----------|-----------|---------|----|
| | 2015 | 2014 | Change | Change | |
| Revenues | \$19,913 | \$17,830 | \$ 2,083 | 12 | % |
| Cost of revenues | 7,704 | 6,778 | 926 | 14 | % |
| Gross profit | \$12,209 | \$11,052 | \$ 1,157 | 10 | % |
| Gross profit margin | 61 | % 62 | % (1 |)% | |
| Operating expenses | | | | | |
| Selling | \$1,517 | \$1,772 | \$ (255) | (14 |)% |
| General and administrative | 5,885 | 4,740 | 1,145 | 24 | % |

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| | | | | | |
|--------------------------|---------|---------|----------|----|-------|
| Research and development | 975 | 832 | 143 | 17 | % |
| | \$8,377 | \$7,344 | \$ 1,033 | 14 | % |
| Operating income | \$3,832 | \$3,708 | \$ 124 | 3 | % |
| Net income | 2,361 | 2,403 | (42) | (2 |)% |
| Net profit margin | 12 | % | 13 | % | (1)% |

| | Nine Months Ended December 31, | | | Percent | | |
|----------------------------|---|-------------|---------------|----------------|-------|---|
| | 2015 | 2014 | Change | Change | | |
| Revenues | \$59,847 | \$52,770 | \$7,077 | 13 | % | |
| Cost of revenues | 23,430 | 20,890 | 2,540 | 12 | % | |
| Gross profit | \$36,417 | \$31,880 | \$4,537 | 14 | % | |
| Gross profit margin | 61 | % | 60 | % | 1 | % |
| Operating expenses | | | | | | |
| Selling | \$5,604 | \$5,177 | \$427 | 8 | % | |
| General and administrative | 17,404 | 12,581 | 4,823 | 38 | % | |
| Research and development | 2,929 | 2,459 | 470 | 19 | % | |
| | \$25,937 | \$20,217 | \$5,720 | 28 | % | |
| Operating income | \$10,480 | \$11,663 | \$(1,183) | (10 |)% | |
| Net income | 6,419 | 7,344 | (925) | (13 |)% | |
| Net profit margin | 11 | % | 14 | % | (3)% | |

Revenues

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

| | Three Months Ended December 31, | | | Percent | |
|-----------------------|--|-------------|---------------|----------------|---|
| | 2015 | 2014 | Change | Change | |
| Biological Indicators | \$7,819 | \$6,964 | \$ 855 | 12 | % |
| Instruments | 8,260 | 8,216 | 44 | 1 | % |
| Continuous Monitoring | 2,595 | 2,650 | (55) | (2) | % |
| Cold Chain | 1,239 | -- | 1,239 | 100 | % |
| Total | \$19,913 | \$17,830 | \$ 2,083 | 12 | % |

| | Nine Months Ended December 31, | | | Percent | |
|-----------------------|---|-------------|---------------|----------------|---|
| | 2015 | 2014 | Change | Change | |
| Biological Indicators | \$23,537 | \$19,822 | \$ 3,715 | 19 | % |
| Instruments | 25,819 | 24,966 | 853 | 3 | % |
| Continuous Monitoring | 7,412 | 7,982 | (570) | (7) | % |
| Cold Chain | 3,079 | -- | 3,079 | 100 | % |
| Total | \$59,847 | \$52,770 | \$ 7,077 | 13 | % |

Three and Nine months ended December 31, 2015 versus December 31, 2014

Biological Indicators revenues for the three and nine months ended December 31, 2015 increased as a result of the ATI, PCD, Früh, Cherwell, North Bay and October 2015 European BI Distributor Acquisitions, partially offset by decreases in organic growth of seven and one percent, respectively. The decreases in organic growth are directly related to the delays in shipping product resulting from the implementation of our new ERP system (see “General Trends and Outlook”). In addition, revenues generated from our wholly owned subsidiary in France were impacted for both the three and nine months ended December 31, 2015 due to the decrease in the value of the Euro as compared to the U.S. dollar.

Instruments revenues for the three months ended December 31, 2015 were flat. Instruments revenues for the nine months ended December 31, 2015 increased as a result of the timing of the BGI Acquisition and organic growth of three percent in our existing product lines which was achieved primarily through existing and new customers. Instruments revenues for both the three and nine months ended December 31, 2015 were impacted by delays in

shipping product resulting from the implementation of our new ERP system (see “General Trends and Outlook”).

Continuous Monitoring revenues for the three months ended December 31, 2015 were flat. Continuous Monitoring revenues for the nine months ended December 31, 2015 decreased seven percent primarily due to the timing of certain system installations in the prior year. On a go forward basis, we anticipate the run rate for our Continuous Monitoring segment to approximate \$2,500,000 per quarter over the next few quarters.

Cold Chain revenues were \$1,239,000 for the three months ended December 31, 2015 as compared to \$1,840,000 for the three months ended September 30, 2015. The decrease was due primarily to seasonality in the product line along with a decrease in the value of the Canadian dollar as compared to the U.S. dollar during the three months ended December 31, 2015. We expect revenues for the next few quarters to approximate those achieved during the three months ended September 30, 2015.

Gross Profit

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

| | Three Months Ended December 31, | | | Percent | |
|-----------------------|--|-------------|---------------|----------------|---|
| | 2015 | 2014 | Change | Change | |
| Biological Indicators | \$4,869 | \$4,194 | \$ 675 | 16 | % |
| Gross profit margin | 62 % | 60 % | 2 % | | |
| Instruments | 5,511 | 5,412 | 99 | 2 | % |
| Gross profit margin | 67 % | 66 % | 1 % | | |
| Continuous Monitoring | 1,254 | 1,446 | (192) | (13) | % |
| Gross profit margin | 48 % | 55 % | (7)% | | |
| Cold Chain | 575 | -- | 575 | 100 | % |
| Gross profit margin | 46 % | -- % | 46 % | | |
| Total gross profit | \$12,209 | \$11,052 | \$ 1,157 | 10 | % |
| Gross profit margin | 61 % | 62 % | (1)% | | |

| | Nine Months Ended December 31, | | | Percent | |
|-----------------------|---|-------------|---------------|----------------|---|
| | 2015 | 2014 | Change | Change | |
| Biological Indicators | \$15,157 | \$12,029 | \$ 3,128 | 26 | % |
| Gross profit margin | 64 % | 61 % | 3 % | | |
| Instruments | 16,571 | 15,794 | 777 | 5 | % |
| Gross profit margin | 64 % | 63 % | 1 % | | |
| Continuous Monitoring | 3,246 | 4,057 | (811) | (20) | % |
| Gross profit margin | 44 % | 51 % | (7)% | | |
| Cold Chain | 1,443 | -- | 1,443 | 100 | % |
| Gross profit margin | 47 % | -- % | 47 % | | |
| Total gross profit | \$36,417 | \$31,880 | \$ 4,537 | 14 | % |
| Gross profit margin | 61 % | 60 % | 1 % | | |

Three and nine months ended December 31, 2015 versus December 31, 2014

Biological Indicators gross profit margin percentage for the three and nine months ended December 31, 2015 increased primarily as a result of the ATI, PCD, Früh, Cherwell and October 2015 European BI Distributor Acquisitions, price increases and volume-based efficiencies associated with revenues growth.

Instruments gross profit margin percentage for the three and nine months ended December 31, 2015 increased primarily as a result of changes in product and service mix.

Continuous Monitoring gross profit margin decreased for the three and nine months ended December 31, 2015 primarily as a result of a change in our product service mix. Additionally, the gross profit margin percentage for the nine months ended December 31, 2014 was positively impacted by the timing of revenues recognized in that period (see *revenues*). We have made substantial progress on our integration activities associated with this segment and we are now also focused on cost reduction initiatives to stream line the operations and increase profitability. We saw some impact of these initiatives during the three months ended December 31, 2015 as gross profit margin percentage increased to 48 percent as compared to 43 percent for the three months ended September 30, 2015. We are hopeful that we will continue to improve the gross margin percentage in the future but it is unclear as to how much improvement we will be able to obtain.

We expect that our Cold Chain gross profit margin percentage will continue to be lower than the historical results of our other segments due to the nature of the cold chain products. This lower gross profit percentage however is offset by lower operating expenses (as a percentage of revenues) and as a result, we expect that operating income margins for our Cold Chain segment to be similar to those of our other segments.

Operating Expenses

Operating expenses for the three and nine months ended December 31, 2015 increased as compared to the prior year as follows (in thousands):

| | Increase (Decrease) | |
|---|-----------------------------------|----------------------------------|
| | Three Months Ended | Nine Months Ended |
| | December 31, 2015 | December 31, 2015 |
| Selling | \$(255) | \$ 427 |
| General and administrative | | |
| ERP system implementation | 187 | 869 |
| Recurring software related costs | -- | 170 |
| Amortization | 411 | 924 |
| Personnel costs | 406 | 1,249 |
| Acquisition costs | 40 | -- |
| Litigation settlement | -- | 1,709 |
| Administrative costs related to acquired entities | 290 | 492 |
| Sales tax accrual | (467) | (498) |
| Other, net | 278 | (92) |
| | 1,145 | 4,823 |
| Research and development | 143 | 470 |
| Operating expenses | \$1,033 | \$ 5,720 |

Selling

Three and nine months ended December 31, 2015 versus December 31, 2014

Selling expense for the three months ended December 31, 2015 decreased primarily due to the collection of old accounts receivable that had previously been written off, partially offset by additional personnel related to the Infitrak and North Bay acquisitions. As a percentage of revenues, selling expense was eight percent for the three months ended December 31, 2015 as compared to 10 percent for the three months ended December 31, 2014.

Selling expense for the nine months ended December 31, 2015 increased primarily due to additional personnel related to the PCD, Infitrak and North Bay Acquisitions. As a percentage of revenues, selling expense was nine percent for the nine months ended December 31, 2015 as compared to 10 percent for the nine months ended December 31, 2014.

Historically selling expense approximates 10 to 12 percent of revenues.

General and Administrative

Three and nine months ended December 31, 2015 versus December 31, 2014

General and administrative expenses for the three months ended December 31, 2015 increased primarily due to increased amortization, personnel and other administrative costs resulting from the PCD, Infitrak and North Bay Acquisitions and increased spending on our ERP system upgrade, partially offset by a decrease in sales tax accruals.

General and administrative expenses for the nine months ended December 31, 2015 increased primarily due to increased amortization, personnel and other administrative costs resulting from the PCD, Infitrak and North Bay Acquisitions, increased spending on our ERP system upgrade and the Amato Settlement, partially offset by a decrease in sales tax accruals.

Research and Development

Three and nine months ended December 31, 2015 versus December 31, 2015

Research and development expenses for the three and six months ended September 30, 2015 increased as a result of the addition of several new engineers to support existing and acquired businesses.

Net Income

Net income for the nine months ended December 31, 2015 was significantly impacted by the \$1,709,000 Amato Settlement. Our income tax rate varies based upon many factors but in general, we anticipate that on a go forward basis, our effective tax rate will approximate 34 to 37 percent. Otherwise, net income for the nine months ended December 31, 2015 varied with the changes in revenues, gross profit and operating expenses (which includes \$4,364,000 of non-cash amortization of intangible assets).

Liquidity and Capital Resources

Our sources of liquidity may include cash generated from operations, working capital, capacity under our Credit Facility and potential equity and debt offerings. We believe that cash generated from these sources will be sufficient to meet our short-term and long-term needs. Our more significant uses of resources include quarterly dividends to shareholders, payment of debt obligations, long-term capital expenditures and potential acquisitions.

Due to continued organic and acquisition related growth, we have outgrown the capacity of our current building in Bozeman, Montana and as a result, we are building a new facility in the same general area. Construction began in July 2015 and we are hopeful that the building will be completed no later than September 30, 2016. During our year ended March 31, 2015 we acquired the related land for \$741,000 and have spent \$4,475,000 during the nine months ended December 31, 2015, which is included in property, plant and equipment, net on the accompanying condensed consolidated balance sheets. We anticipate that the total cost of the new facility will be approximately \$14,750,000. Following the relocation from our current Bozeman building into the new facility, we expect to be able to sell the current facility for \$2,000,000 - \$3,000,000 to partially offset the cost of the new building.

We implemented a new ERP system which required a significant amount of cash. We incurred approximately \$2,000,000 of expense associated with this project of which approximately \$1,000,000 was incurred during the nine months ended December 31, 2015. On a go forward basis, we expect our annual operating costs for our ERP system to approximate \$450,000 plus any costs necessary for additional projects and enhancements.

Working capital is the amount by which current assets exceed current liabilities. We had working capital of \$13,345,000 and \$14,965,000, respectively, at December 31, 2015 and March 31, 2015.

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

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

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

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

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

The Credit Facility is secured by all of our assets and requires us to maintain a ratio of funded debt to our trailing four quarters of EBIDTA, as defined, of 3.25 to 1.0 through March 31, 2016 and 3.0 to 1.0 thereafter, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with the required covenants at December 31, 2015.

As of January 31, 2015, we had \$46,250,000 in outstanding indebtedness and unused capacity under our Credit Facility of \$21,500,000.

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

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

On November 7, 2005, our Board of Directors authorized a program to repurchase up to 300,000 shares of our outstanding common stock. Under the plan, the shares may be purchased from time to time in the open market at prevailing prices or in negotiated transactions off the market. Shares purchased will be canceled and repurchases will be made with existing cash reserves. We do not maintain a set policy or schedule for our buyback program. We have purchased 162,486 shares of common stock under this program from inception through December 31, 2015.

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

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

In January 2016, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on March 15, 2016, to shareholders of record at the close of business on February 29, 2016.

Cash Flows

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

**Nine Months
Ended December
31,
2015 2014**

| | | |
|---|----------|----------|
| Net cash provided by operating activities | \$9,953 | \$6,176 |
| Net cash used in investing activities | (29,490) | (21,262) |
| Net cash provided by financing activities | 20,826 | 11,019 |

Net cash provided by operating activities for the nine months ended December 31, 2015 increased primarily due to the efficient management of working capital.

Net cash used in investing activities for the nine months ended December 31, 2015 resulted primarily from the \$18,926,000 Infitrak and \$11,322,000 North Bay Acquisitions and the purchase of \$6,291,000 of property, plant and equipment. Net cash used in investing activities for the nine months ended December 31, 2014 resulted primarily from the \$10,268,000 BGI and \$5,000,000 PCD Acquisitions and the purchase of \$2,212,000 of property, plant and equipment.

Net cash provided by financing activities for the nine months ended December 31, 2015 resulted from borrowings under our Credit Facility of \$25,000,000 and proceeds from the exercise of stock options of \$1,800,000, partially offset by the repayment of debt of \$4,250,000 and the payment of dividends of \$1,724,000. Net cash provided by financing activities for the nine months ended December 31, 2014 resulted from borrowings under our Line of Credit of \$23,000,000 and proceeds from the exercise of stock options of \$1,137,000, partially offset by the repayment of debt of \$11,500,000 and the payment of dividends of \$1,618,000.

At December 31, 2015, we had contractual obligations for open purchase orders of approximately \$3,650,000 for routine purchases of supplies and inventory, which are payable in less than one year.

Under the terms of the PCD Agreement, we are required to pay contingent consideration if the cumulative revenues for our process challenge device business for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$1,500,000 and is based upon a sliding scale of three-year cumulative revenues between \$9,900,000 and \$12,600,000. Based upon both historical and projected growth rates, we recorded \$300,000 of contingent consideration payable which represented our best estimate of the amount that will ultimately be paid. We paid \$150,000 of the contingent consideration during the three months ended December 31, 2015 (based upon the current run rate projected over the entire three-year contingent consideration period). This amount is subject to modification at the end of the second and third years of the earn-out period based upon the actual revenues earned over the contingent consideration period. Any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of our process challenge device business and we will adjust the contingent liability on a go forward basis, based on then current information.

Under the terms of the Infitrak Agreement, we are required to pay contingent consideration if the gross profit (as defined in the Earn-Out Agreement) for the packaging component of our cold chain business for the two years subsequent to the acquisition meets certain levels. The potential consideration payable ranges from \$0 to \$15,000,000 CDN (approximately \$0 to \$10,800,000 as of December 31, 2015) and is based upon a sliding scale of growth in gross profit (as defined in the Earn-Out Agreement) for year one and year two of 30 to 70 percent and 15 to 75 percent, respectively. Based upon both historical and projected growth rates, we recorded \$9,541,000 (valued at approximately \$8,700,000 as of December 31, 2015 based on the then current exchange rate) of contingent consideration payable which represented our best estimate of the amount that will ultimately be paid. After the finalization of our purchase accounting, any changes to the contingent consideration ultimately paid will result in additional income or expense in our condensed consolidated statements of income. We will continue to monitor the results of our cold chain business and we will adjust the contingent liability on a go forward basis, based on then current information. The contingent consideration is payable in two annual installments beginning in the second quarter of our year ending March 31, 2017.

In October 2015, we entered into the Amato Settlement whereby we paid Amato \$3,165,000. In exchange, Amato agreed to dismiss the complaint, release Mesa of any and all claims by Amega and Amato, and relieve us of any future payment obligation under the Amega Earn-Out. Insurance covered \$415,000 of the settlement payment and we had \$1,041,000 accrued on our condensed consolidated balance sheet remaining from the original hold back and contingent consideration payable. The remaining \$1,709,000 was recorded as general and administrative expense in the accompanying condensed consolidated statements of income for the three and nine months ended December 31, 2015.

Critical Accounting Estimates

Our condensed consolidated financial statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the

accounting policies and estimates used to prepare the condensed consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed in our Annual Report on Form 10-K for the year ended March 31, 2015 in the Critical Accounting Policies and Estimates section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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

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

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2015. Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at December 31, 2015.

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Management evaluated the effectiveness of our internal control over financial reporting based on the framework in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as of December 31, 2015. Based on that evaluation, our management concluded that our internal control over financial reporting was effective at December 31, 2015. As allowed, this evaluation excludes the operations of acquired entities during the nine months ended December 31, 2015 due to the timing of the acquisitions.

Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting that occurred during the nine months ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

Item 1. *Legal Proceedings*

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

Item 1A. *Risk factors*

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in our Annual Report on Form 10-K for the year ended March 31, 2015, under the heading “Part I – Item 1A. Risk Factors.” There have been no material changes to those risk factors.

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

On November 7, 2005, our Board of Directors adopted a share repurchase plan which allows for the repurchase of up to 300,000 of our common shares. This plan will continue until the maximum is reached or the plan is terminated by

further action of the Board of Directors. We made the following repurchases of our common stock, including settlement of loans to employees for the exercise of stock options:

| | Shares Purchased | Average Price Paid | Total Shares Purchased as Part of Publicly Announced Plan | Remaining Shares to Purchase Under Plan |
|---------------|-----------------------------|-----------------------------------|--|--|
| October 2015 | -- | \$ -- | 162,486 | 137,514 |
| November 2015 | -- | -- | 162,486 | 137,514 |
| December 2015 | -- | -- | 162,486 | 137,514 |
| Total | -- | -- | | |

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The following financial information from the quarterly report on Form 10-Q of Mesa Laboratories, Inc. for the quarter ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language):

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

SIGNATURES

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

MESA LABORATORIES, INC.

(Registrant)

DATED: February 4, 2016

BY: /s/ John J. Sullivan, Ph.D.

John J. Sullivan, Ph.D.

Chief Executive Officer

DATED: February 4, 2016

BY: /s/ John V. Sakys

John V. Sakys

Chief Financial Officer