

MESA LABORATORIES INC /CO
Form 10-Q
February 05, 2014
Table of Contents

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 SECURITES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2013

TRANSITION REPORT PURSUANT TOSECTION 13 OR 15 (d) OF THE SECURITES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No: 0-11740

MESA LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

84-0872291

(I.R.S. Employer
Identification number)

12100 West Sixth Avenue

Lakewood, Colorado

(Address of principal executive offices)

80228

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

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

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 3,447,034 shares of the Issuer's common stock, no par value, outstanding as of January 29, 2014.

Table of Contents

Table of Contents

Part I

<u>1.</u>	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets</u>	1
	<u>Condensed Consolidated Statements of Income</u>	2
	<u>Condensed Consolidated Statements of Cash Flows</u>	3
	<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
<u>4.</u>	<u>Controls and Procedures</u>	18

Part II

<u>1A.</u>	<u>Risk Factors</u>	19
<u>2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>6.</u>	<u>Exhibits</u>	19

Signatures

Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) and 18 U.S.C.
Section 1350
Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) and 18 U.S.C.
Section 1350

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

(In thousands, except share amounts)

	December 31, 2013 (Unaudited)	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,160	\$ 4,006
Accounts receivable, net	8,844	8,474
Inventories, net	7,155	5,576
Prepaid expenses and other	2,441	1,399
Total current assets	20,600	19,455
Property, plant and equipment, net	7,681	7,406
Intangibles, net	26,345	15,418
Goodwill	37,929	23,640
Total assets	\$ 92,555	\$ 65,919
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,370	\$ 1,010
Accrued salaries and payroll taxes	3,825	2,085
Unearned revenues	1,714	
Other accrued expenses	2,603	422
Income taxes payable	1,271	1,145
Total current liabilities	10,783	4,662
Deferred income taxes	4,591	2,364
Long-term debt	16,000	4,000
Contingent consideration	2,676	2,140
Total liabilities	34,050	13,166
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, no par value		
Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,446,362 and 3,388,548 shares, respectively	12,312	10,723
Employee loans to purchase stock	(57)	(149)
Retained earnings	46,250	42,179
Total stockholders' equity	58,505	52,753

Total liabilities and stockholders' equity	\$	92,555	\$	65,919
--	----	--------	----	--------

See accompanying notes to condensed consolidated financial statements.

Table of Contents**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,	
	2013	2012	2013	2012
Revenues	\$ 13,116	\$ 11,361	\$ 37,010	\$ 33,627
Cost of revenues	5,410	4,414	14,907	12,976
Gross profit	7,706	6,947	22,103	20,651
Operating expenses				
Selling	1,595	1,223	4,097	3,297
General and administrative	2,781	2,759	8,003	6,782
Research and development	524	501	1,639	1,399
Total operating expenses	4,900	4,483	13,739	11,478
Operating income	2,806	2,464	8,364	9,173
Other (expense) income, net	(79)	(38)	316	(109)
Earnings before income taxes	2,727	2,426	8,680	9,064
Income taxes	981	883	3,142	3,173
Net income	\$ 1,746	\$ 1,543	\$ 5,538	\$ 5,891
Net income per share:				
Basic	\$ 0.51	\$ 0.46	\$ 1.62	\$ 1.76
Diluted	0.48	0.44	1.54	1.67
Weighted average common shares outstanding:				
Basic	3,434	3,360	3,414	3,349
Diluted	3,637	3,542	3,591	3,527

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

(In thousands)

	Nine Months Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 5,538	\$ 5,891
Depreciation and amortization	2,682	2,585
Gain on dispositions, net	(420)	
Stock-based compensation	629	897
Change in assets and liabilities, net of effects of acquisitions and dispositions		
Accounts receivable, net	1,202	(631)
Inventories, net	(684)	67
Prepaid expenses and other	(425)	114
Accounts payable	105	310
Accrued liabilities and taxes payable	714	(782)
Unearned Revenues	133	
Net cash provided by operating activities	9,474	8,451
Cash flows from investing activities:		
Acquisitions	(22,758)	(16,660)
Proceeds from dispositions	661	
Purchases of property, plant and equipment	(808)	(656)
Net cash used in investing activities	(22,905)	(17,316)
Cash flows from financing activities:		
Proceeds from the issuance of debt	18,000	11,000
Payments on debt	(6,000)	(6,000)
Dividends	(1,467)	(1,341)
Purchase and retirement of common stock	(15)	(57)
Proceeds from the exercise of stock options	1,067	794
Net cash provided by financing activities	11,585	4,396
Net decrease in cash and cash equivalents	(1,846)	(4,469)
Cash and cash equivalents at beginning of period	4,006	7,191
Cash and cash equivalents at end of period	\$ 2,160	\$ 2,722
Cash paid for:		
Income taxes	\$ 3,248	\$ 4,125
Interest	52	120
Supplemental non-cash activity:		
Employee loans issued for the exercise of stock options	\$	\$ 177
Repayment of employee loans for stock options	92	347
Contingent consideration as part of an acquisition	500	2,140

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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, 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 three divisions across six 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, semiconductor and petrochemical industries. Our Biological Indicators Division manufactures and markets biological indicators and distributes chemical indicators used to assess the effectiveness of sterilization processes, including steam, gas, hydrogen peroxide 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.

Basis of Presentation

The accompanying condensed balance sheet as of March 31, 2013, has been derived from audited financial statements. The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual audited 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 financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 31, 2013.

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, 2013.

Note 2 Acquisitions and Dispositions

Acquisitions

Amega Scientific

On November 6, 2013, we completed a business combination (the *Amega Acquisition*) whereby we acquired substantially all of the assets and certain liabilities of Amega Scientific Corporation s (*Amega*) business which provides continuous monitoring systems to regulated industries. The asset acquisition agreement (the *Amega Agreement*) includes provisions for both contingent consideration based on the cumulative three year revenues of our Continuous Monitoring Division and for a holdback payment, payable to the seller no later than November 6, 2014 less any losses incurred by the buyer, as defined.

Under the terms of the *Amega Agreement*, we are required to pay contingent consideration if the cumulative revenues for our Continuous Monitoring Division for the three years subsequent to the acquisition meet certain levels. The potential consideration payable ranges from \$0 to \$10,000,000 and is based upon a sliding scale of three-year cumulative revenues between \$31,625,000 and \$43,500,000. Based on both historical and projected growth rates, we recorded \$500,000 of contingent consideration payable.

We expect to achieve savings and generate growth as we integrate the *Amega* 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 Continuous Monitoring segment.

Table of Contents

The Amega 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 Amega Agreement (in thousands):

Cash consideration	\$	11,268
Holdback payment liability		1,000
Contingent consideration liability		500
Aggregate consideration	\$	12,768

The purchase price was allocated as follows:

Accounts receivable, net	\$	734
Inventories, net		410
Prepaid expenses and other		11
Property, plant and equipment, net		115
Intangibles, net		5,838
Goodwill		6,756
Accrued salaries and payroll taxes		(53)
Unearned revenues		(1,043)
Total purchase price allocation	\$	12,768

TempSys

On November 6, 2013, we completed a business combination (the TempSys Acquisition) whereby we acquired all of the common stock of TempSys, Inc. (TempSys), a company in the business of providing continuous monitoring systems to regulated industries, for \$9,826,000.

We expect to achieve savings and generate growth as we integrate the TempSys 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 Continuous Monitoring segment.

The TempSys 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 TempSys Agreement (in thousands):

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

The purchase price was allocated as follows:

Cash	\$	57
Accounts receivable, net		838
Inventories, net		447
Prepaid expenses and other		21
Property, plant and equipment, net		25
Deferred income taxes		585
Intangibles, net		6,135
Goodwill		6,954
Accounts payable		(255)
Accrued salaries and payroll taxes		(2,134)
Unearned revenues		(485)
Other accrued expenses		(135)
Deferred income taxes		(2,227)
Total purchase price allocation	\$	9,826

Table of Contents*Suretorque*

On July 1, 2013, we completed a business combination (the Suretorque Acquisition) whereby we acquired substantially all of the assets of ST Acquisitions, LLC s (ST Acquisitions) business involving the design, manufacturing, sale and service of its SureTorque line of bottle cap torque testing instrumentation. The asset acquisition agreement (the Suretorque Agreement) includes a provision for a holdback payment, payable to the seller one year from the effective date less any losses incurred by the buyer, as defined.

We expect to achieve savings and income growth as we integrate the Suretorque operations and sales 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. All of the goodwill was assigned to our Instruments segment.

The Suretorque 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 in accordance with the Suretorque Agreement (in thousands):

Cash consideration	\$	1,721
Holdback payment liability		100
Aggregate consideration	\$	1,821

The purchase price was allocated as follows:

Inventories, net	\$	230
Property, plant and equipment, net		7
Intangibles, net		1,005
Goodwill		579
Total purchase price allocation	\$	1,821

Bios

On May 15, 2012, we completed a business combination (the Bios Acquisition) by acquiring specific assets and assuming certain liabilities of Bios International Corporation (Bios), a New Jersey corporation. The asset acquisition agreement (the Bios Agreement) includes a provision for contingent consideration based on revenue growth over a three year earn-out period. The Bios Acquisition further diversified and grew our Instruments segment.

The contingent consideration arrangement requires us to pay Bios if cumulative revenues related to the acquisition for the three years subsequent to the acquisition exceed \$22,127,000. The potential undiscounted future payment that we could be required to make ranges from \$0 to

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

\$6,710,000. The fair value of the contingent consideration arrangement included in the purchase price below was estimated based on the historic revenue growth rates of Bios. Over the remaining term of the agreement, we are accreting through interest expense the difference between the estimated fair value of the contingent consideration, \$2,140,000, and the amount we estimate we will pay, \$2,240,000.

The Bios 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 financial statements for the three months ended June 30, 2012, reflected our preliminary purchase price allocation, which was finalized in the second quarter of the year ended March 31, 2013. The following reflects our allocation of the consideration in accordance with the Bios Agreement (in thousands):

Cash consideration	\$	16,660
Contingent purchase price liability		2,140
Aggregate consideration	\$	18,800

The purchase price was allocated as follows:

Accounts receivable, net	\$	478
Inventories, net		910
Other current assets		28
Property, plant and equipment, net		63
Intangibles, net		8,200
Goodwill		9,190
Other accrued expenses		(69)
Total purchase price allocation	\$	18,800

Table of Contents*Pro forma results*

Our condensed consolidated statements of income include the results of the Bios Acquisition from the acquisition date of May 15, 2012, the Suretorque Acquisition from the acquisition date of July 1, 2013, and the TempSys and Amega Acquisitions from the acquisition date of Nov 6, 2013. The pro forma effects of these acquisitions were adjusted for the following material nonrecurring events that occurred prior to, but directly attributable to, the business combinations discussed: a one-time bonus accrual at TempSys in the amount of \$2,048,000 for employees past services and a one-time disposal of inventories at TempSys in the amount of \$335,000, related to an un-marketed product that will not be developed post-acquisition. The adjusted pro forma effect of these acquisitions on our results of operations as if the acquisitions had been completed on April 1, 2013 and 2012 are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Revenues	\$ 14,777	\$ 14,074	\$ 43,559	\$ 42,476
Net income	2,112	2,116	6,849	6,982
Net Income per common share:				
Basic	\$ 0.62	\$ 0.63	\$ 2.01	\$ 2.08
Diluted	0.58	0.60	1.91	1.98

Dispositions

On August 12, 2013, we entered into an agreement whereby we sold our NuSonics product line (the NuSonics Disposal) for \$661,000. The carrying value of this product line was \$193,000 which resulted in a pre-tax gain of \$468,000.

Note 3 - Inventories

Inventories consist of the following (in thousands):

	December 31, 2013	March 31, 2013
Raw materials	\$ 5,692	\$ 4,052
Work-in-process	419	271
Finished goods	1,873	1,514
Less: reserve	(829)	(261)
	\$ 7,155	\$ 5,576

Note 4 - Long-term Debt

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

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

	December 31, 2013		March 31, 2013	
Line of credit (1.4% at Dec 31, 2013)	\$	16,000	\$	4,000
Less: current portion				
Long-term portion	\$	16,000	\$	4,000

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, maturing in February 2015. Funds from the Credit Facility may be used for general working capital and corporate needs, retiring existing debt, or to support acquisitions and capital expenditures.

Under the Credit Facility, indebtedness bears interest at either: (1) LIBOR, as defined, plus an applicable margin ranging from 1.25% to 2.00%; or (2) the bank's commercial bank floating rate (CBFRR), which is the greater of the bank's prime rate or one month LIBOR + 2.50%, adjusted down, from 1.25% to 0.50%. We elect the interest rate with each borrowing under the Line of Credit. In addition, there is an unused capacity fee of 0.15% to 0.30%. The adjustments and unused capacity fee depend on the ratio of funded debt to our trailing four quarters of EBITDA, as defined, with four tiers ranging from a ratio of less than one to greater than two. Letter of credit fees are based on the applicable LIBOR rate.

Table of Contents

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 EBITDA, as defined, of 2.5 to 1.0, and a minimum fixed charge coverage ratio of 1.5 to 1.0. We were in compliance with these covenants at December 31, 2013.

In order to facilitate the TempSys and Amega Acquisitions, in November 2013 we borrowed \$18,000,000 under the terms of the Line of Credit. During the three months ended December 31, 2013 we made principal repayments of \$2,000,000. As a result, the amount outstanding under the Line of Credit was \$16,000,000 as of December 31, 2013. In January 2014, we made an additional principal payment of \$1,000,000.

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 December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Total cost of stock-based compensation charged against income before income taxes	\$ 272	\$ 459	\$ 629	\$ 897
Amount of income tax benefit recognized in earnings	98	163	228	314
Amount charged against net income	\$ 174	\$ 296	401	583
Impact on net income per common share:				
Basic	\$ 0.05	\$ 0.09	\$ 0.12	\$ 0.17
Diluted	0.05	0.08	0.11	0.17

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, 2013:

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

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at March 31, 2013	416,125	\$ 29.87	3.7	\$ 9,529
Stock options granted	128,124	55.33	6.3	
Stock options forfeited	(17,680)	44.21		
Stock options expired				
Stock options exercised	(66,140)	21.85		
Outstanding at December 31, 2013	460,429	37.57	4.4	18,884
Exercisable at December 31, 2013	192,570	25.59	3.1	10,204

The total intrinsic value of stock options exercised was \$2,889,000 and \$1,800,000 for the nine months ended December 31, 2013 and 2012, respectively.

Table of Contents

A summary of the status of our unvested stock option shares as of December 31, 2013 is as follows:

	Number of Shares	Weighted- Average Grant-Date Fair Value
Unvested at March 31, 2013	257,805	\$ 9.55
Stock options granted	128,124	15.90
Stock options forfeited	(17,270)	10.32
Stock options vested	(100,800)	8.54
Unvested at December 31, 2013	267,859	13.01

As of December 31, 2013, there was \$ 2,407,000 of total unrecognized compensation expense related to unvested stock options. As of December 31, 2013, we have 200,376 shares available for future stock option grants.

Effective November 30, 2012, as part of our Chief Financial Officer transition, 14,400 unvested options were modified to a) extend the expiration date to 10 years following the original grant date, b) allow them to be exercised through their expiration date, and c) accelerate the vesting such that all options would vest by November 30, 2014. This was a modification of the terms of an equity award and, accordingly, we treated this as an exchange of the original award for a new award. We recorded incremental compensation expense of approximately \$240,000 for the three and nine months ended December 31, 2012, which is included in general and administrative expense on the accompanying condensed consolidated statements of income.

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,	
	2013	2012	2013	2012
Net income available for stockholders	\$ 1,746	\$ 1,543	\$ 5,538	\$ 5,891
Weighted average outstanding shares of common stock	3,434	3,360	3,414	3,349
Dilutive effect of stock options	203	182	177	178
Common stock and equivalents	3,637	3,542	3,591	3,527

Net income per share:

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

Basic	\$	0.51	\$	0.46	\$	1.62	1.76
Diluted		0.48		0.44		1.54	1.67

For the three and nine months ended December 31, 2013, 27,000 and 60,000 outstanding stock options, respectively, were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive. For both the three and nine months ended December 31, 2012, zero outstanding stock options were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

Note 7- Commitments and Contingencies

As part of the Amega Acquisition, the Amega Agreement includes a provision for contingent consideration based on revenue growth over a three year earn-out period. The contingent consideration arrangement requires us to pay Amega if the cumulative revenues from our Continuous Monitoring Division for the three years subsequent to the acquisition exceed \$31,625,000. The potential undiscounted future payment that we could be required to make ranges from \$0 to \$10,000,000 and is based upon a sliding scale of three-year cumulative revenues between \$31,625,000 and \$43,500,000. The fair value of the contingent consideration arrangement included in the purchase price was estimated based on the historic revenue growth and current projections for the Continuous Monitoring Division. We recorded \$500,000 of contingent consideration payable on the accompanying condensed consolidated

Table of Contents

balance sheets. Any changes to the contingent consideration ultimately paid would result in additional income or expense on the condensed consolidated statements of income. The contingent consideration is payable in the third quarter of our year ending March 31, 2017.

As part of the Bios Acquisition, the Bios Agreement includes a provision for contingent consideration based on revenue growth over a three year earn-out period. The contingent consideration arrangement requires us to pay Bios if the cumulative revenues from the acquisition for the three years subsequent to the acquisition exceed \$22,127,000. The potential undiscounted future payment that we could be required to make ranges from \$0 to \$6,710,000. The fair value of the contingent consideration arrangement included in the purchase price was estimated based on the historic revenue growth of Bios. We recorded a contingent consideration liability of \$2,140,000 on the accompanying condensed consolidated balance sheets. Any changes to the contingent consideration ultimately paid would result in additional income or expense on the condensed consolidated statements of income. There has been no material change to the contingent consideration liability as of December 31, 2013. The contingent consideration is payable in the first quarter of our year ending March 31, 2016.

A company is required to collect and remit state sales tax from certain of its customers if that company is determined to have nexus in a particular state. The determination of nexus varies state by state and often requires knowledge of each jurisdiction's tax case law. During the year ended March 31, 2013, we determined that there are states in which we most likely had established nexus during prior periods without properly collecting and remitting sales tax. We recorded an estimate of \$100,000 associated with one specific state but we were unable to estimate our remaining exposure at that time. The ultimate amount due in remaining states will depend upon a number of factors, including the amount of sales that were made to customers who are either exempt or have already paid the tax, the number of years of exposure, and any penalties or interest that might be due. During the three months ended September 30, 2013 we completed our analysis associated with the remaining states and we recorded an estimate of \$1,106,000, which is included in other accrued expenses on the accompanying condensed consolidated balance sheets and in general and administrative expense on the accompanying condensed consolidated statements of income for the nine months ended December 31, 2013. This estimate was based upon facts and circumstances known at such time and our ultimate liability may change as further analysis is completed and state sales tax returns are filed.

Note 8 - Segment Information

Prior to the November 2013 acquisitions of TempSys and Amega, we had two reporting segments: Biological Indicators and Instruments. As a result of these acquisitions we added a third reporting segment, Continuous Monitoring. The following tables set forth our segment information (in thousands):

	Three Months Ended December 31, 2013			
	Biological Indicators	Instruments	Continuous Monitoring	Total
Revenues	\$ 5,317	\$ 6,438	\$ 1,361	\$ 13,116
Gross profit	\$ 2,976	\$ 4,137	\$ 593	\$ 7,706
Selling expenses	404	1,047	144	1,595
	\$ 2,572	\$ 3,090	\$ 449	6,111
Reconciling items (1)				(3,384)
Earnings before income taxes				\$ 2,727

Three Months Ended December 31, 2012
Instruments

Total

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

	Biological Indicators		Continuous Monitoring			
Revenues	\$	5,154	\$	6,207	\$	11,361
Gross profit	\$	2,936	\$	4,011	\$	6,947
Selling expenses		385		838		1,223
	\$	2,551	\$	3,173		5,724
Reconciling items (1)						(3,298)
Earnings before income taxes					\$	2,426

Table of Contents

	Nine Months Ended December 31, 2013			
	Biological Indicators	Instruments	Continuous Monitoring	Total
Revenues	\$ 16,181	\$ 19,468	\$ 1,361	\$ 37,010
Gross profit	\$			