

MESA LABORATORIES INC /CO
Form 10-Q
February 06, 2017

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, 2016

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 3,700,704 shares of the Issuer’s common stock, no par value, outstanding as of January 27, 2017.

Table of Contents

Part I

| | | |
|----|---|----|
| 1. | Financial Statements | 1 |
| | Condensed Consolidated Balance Sheets | 1 |
| | Condensed Consolidated Statements of Income | 2 |
| | Condensed Consolidated Statements of Comprehensive Income | 3 |
| | Condensed Consolidated Statements of Cash Flows | 4 |
| | Notes to Condensed Consolidated Financial Statements | 5 |
| 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| 3. | Quantitative and Qualitative Disclosures About Market Risk | 23 |
| 4. | Controls and Procedures | 23 |

Part II

| | | |
|-----|---|----|
| 1 | Legal Proceedings | 24 |
| 1A. | Risk Factors | 24 |
| 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 24 |
| 6. | Exhibits | 24 |

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 | |

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

(In thousands, except share amounts)

| | December 31, 2016 | March 31, 2016 |
|---|------------------------------|---------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,405 | \$5,695 |
| Accounts receivable, less allowances of \$234 and \$375, respectively | 12,944 | 15,313 |
| Inventories, net | 14,578 | 14,017 |
| Prepaid expenses and other | 2,037 | 943 |
| Deferred income taxes | -- | 1,218 |
| Total current assets | 34,964 | 37,186 |
| Property, plant and equipment, net | 24,273 | 16,628 |
| Intangibles, net | 39,300 | 40,797 |
| Goodwill | 71,916 | 66,137 |
| Total assets | \$ 170,453 | \$160,748 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,919 | \$2,823 |
| Accrued salaries and payroll taxes | 3,884 | 5,040 |
| Unearned revenues | 3,733 | 3,026 |
| Current portion of contingent consideration | 5,729 | 4,757 |
| Other accrued expenses | 2,753 | 3,085 |
| Income taxes payable | -- | 2,240 |
| Current portion of long-term debt | 3,000 | 3,000 |
| Total current liabilities | 22,018 | 23,971 |
| Deferred income taxes | 4,602 | 5,419 |
| Long-term debt | 50,000 | 42,250 |

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

| | | |
|--|------------|------------|
| Contingent consideration | 108 | 4,430 |
| Total liabilities | 76,728 | 76,070 |
| Commitments and Contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Common stock, no par value; authorized 25,000,000 shares; issued and outstanding, 3,698,444 and 3,637,273 shares, respectively | 25,037 | 21,001 |
| Retained earnings | 70,608 | 64,828 |
| Accumulated other comprehensive loss | (1,920) | (1,151) |
| Total stockholders' equity | 93,725 | 84,678 |
| Total liabilities and stockholders' equity | \$ 170,453 | \$ 160,748 |

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, | |
|--|--|-------------|---|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | \$23,843 | \$19,913 | \$69,366 | \$59,847 |
| Cost of revenues | 10,306 | 7,704 | 30,091 | 23,430 |
| Gross profit | 13,537 | 12,209 | 39,275 | 36,417 |
| Operating expenses | | | | |
| Selling | 2,409 | 1,517 | 7,527 | 5,604 |
| General and administrative | 5,881 | 5,885 | 17,834 | 17,404 |
| Research and development | 861 | 975 | 2,941 | 2,929 |
| Total operating expenses | 9,151 | 8,377 | 28,302 | 25,937 |
| Operating income | 4,386 | 3,832 | 10,973 | 10,480 |
| Other expense, net | 506 | 381 | 1,712 | 710 |
| Earnings before income taxes | 3,880 | 3,451 | 9,261 | 9,770 |
| Income taxes | 628 | 854 | 1,721 | 2,592 |
| Net income | \$3,252 | \$2,597 | \$7,540 | \$7,178 |
| Net income per share: | | | | |
| Basic | \$0.88 | \$0.72 | \$2.06 | \$2.00 |
| Diluted | 0.84 | 0.69 | 1.97 | 1.91 |
| Weighted average common shares outstanding: | | | | |
| Basic | 3,688 | 3,614 | 3,668 | 3,596 |
| Diluted | 3,868 | 3,786 | 3,835 | 3,758 |

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, 2016 2015 | | Nine Months Ended December 31, 2016 2015 | |
|---------------------------------------|--|---------|---|---------|
| Net Income | \$3,252 | \$2,597 | \$7,540 | \$7,178 |
| Other comprehensive loss, net of tax: | | | | |
| Foreign currency translation | (634) | (1,847) | (769) | (1,216) |
| Total comprehensive income | \$2,618 | \$750 | \$6,771 | \$5,962 |

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, | |
|--|---|-------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$7,540 | \$7,178 |
| Depreciation and amortization | 6,609 | 5,207 |
| Stock-based compensation | 1,221 | 1,001 |
| Deferred income taxes | 418 | 128 |
| Foreign currency adjustments | (17) | 85 |
| Change in assets and liabilities, net of effects of acquisitions | | |
| Accounts receivable, net | 2,369 | 72 |
| Inventories, net | (410) | (1,901) |
| Prepaid expenses and other | (1,094) | 40 |
| Accounts payable | 96 | 80 |
| Accrued liabilities and taxes payable | (4,401) | (49) |
| Unearned revenues | (484) | (118) |
| Contingent consideration | (5,076) | (1,770) |
| Net cash provided by operating activities | 6,771 | 9,953 |
| Cash flows from investing activities: | | |
| Acquisitions | (6,618) | (23,199) |
| Purchases of property, plant and equipment | (9,367) | (6,291) |
| Net cash used in investing activities | (15,985) | (29,490) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of debt | 11,500 | 25,000 |
| Payments on debt | (3,750) | (4,250) |
| Dividends | (1,760) | (1,724) |
| Proceeds from the exercise of stock options | 2,815 | 1,800 |
| Net cash provided by financing activities | 8,805 | 20,826 |
| Effect of exchange rate changes on cash and cash equivalents | 119 | (51) |
| Net (decrease) increase in cash and cash equivalents | (290) | 1,238 |
| Cash and cash equivalents at beginning of period | 5,695 | 2,034 |

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

| | | |
|--|---------|---------|
| Cash and cash equivalents at end of period | \$5,405 | \$3,272 |
| Cash paid for: | | |
| Income taxes | \$4,188 | \$3,375 |
| Interest | 913 | 563 |
| Supplemental non-cash activity: | | |
| Contingent consideration as part of an acquisition | 1,822 | 9,541 |

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

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 Cold Chain 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 Monitoring Division also provides parameter (primarily temperature) monitoring of products during transport in a cold chain and consulting services such as compliance monitoring and validation or mapping of transport and storage containers. Our Cold Chain Packaging Division provides packaging development consulting services 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, 2016, 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, 2016.

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, 2016.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation—Stock Compensation (Topic 718)*, as part of its simplification initiative, which affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. The ASU was effective for our fiscal year ending March 31, 2018 using either the prospective, retrospective or modified retrospective transition method, depending on the area covered in this update. As permitted within the amendment, we elected to early adopt and prospectively apply the provisions of this amendment as of April 1, 2015.

As a result of the adoption of ASU No. 2016-09, the captions of income taxes, net income, and net income per share basic and diluted on the condensed consolidated statements of income for the three months ended December 31, 2015 have been restated to \$854,000, \$2,597,000, \$0.72 and \$0.69 as compared to amounts previously reported of \$1,090,000, \$2,361,000, \$0.65 and \$0.63, respectively. The captions of net income and total comprehensive income on the condensed consolidated statements of comprehensive income for the three months ended December 31, 2015 have been restated to \$2,597,000 and \$750,000 as compared to amounts previously reported of \$2,361,000 and \$514,000, respectively.

As a result of the adoption of ASU No. 2016-09, the captions of income taxes, net income, and net income per share basic and diluted on the condensed consolidated statements of income for the nine months ended December 31, 2015 have been restated to \$2,592,000, \$7,178,000, \$2.00 and \$1.91 as compared to amounts previously reported of \$3,351,000, \$6,419,000, \$1.79 and \$1.72, respectively. The captions of net income and total comprehensive income on the condensed consolidated statements of comprehensive income for the nine months ended December 31, 2015 have been restated to \$7,178,000 and \$5,962,000 as compared to amounts previously reported of \$6,419,000 and \$5,203,000, respectively. The captions of net income and accrued liabilities and taxes payable on the condensed consolidated statements of cash flows for the nine months ended December 31, 2015 have been restated to \$7,178,000 and (\$49,000) as compared to amounts previously reported of \$6,419,000 and \$710,000, respectively.

In December 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (“ASU 2015-17”). ASU 2015-17 simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The standard was effective for our fiscal year (and interim periods within that year) ending March 31, 2018. As permitted within the amendment, we elected to early adopt and prospectively apply the provisions of this amendment as of April 1, 2016.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which impacts virtually all aspects of an entity’s revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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 currently evaluating when to adopt the new standard, the impacts of adoption and the implementation approach to be used.

Note 2 – Acquisitions

For the nine months ended December 31, 2016, our acquisitions of businesses totaled \$8,440,000, of which none were material in nature (see Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*).

Note 3 - Inventories

Inventories consist of the following (in thousands):

| | December 31, 2016 | March 31, 2016 |
|-----------------|------------------------------|-------------------------------|
| Raw materials | \$ 10,430 | \$9,433 |
| Work-in-process | 683 | 337 |
| Finished goods | 3,867 | 4,941 |
| Less: reserve | (402) | (694) |
| | \$ 14,578 | \$14,017 |

Note 4 - Long-Term Debt

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

| | December 31, 2016 | March 31, 2016 |
|---|------------------------------|-------------------------------|
| Line of credit (2.77% at December 31, 2016) | \$ 37,500 | \$27,500 |
| Term loan (2.77% at December 31, 2016) | 15,500 | 17,750 |
| Less: current portion | (3,000) | (3,000) |
| Long-term portion | \$ 50,000 | \$42,250 |

On July 1, 2015, we entered into a five year agreement (the “Credit Facility”) for a \$50,000,000 revolving line of credit (“Line of Credit”), a \$20,000,000 term loan (the “Term Loan”) and up to \$1,000,000 of letters of credit.

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 3.0 to 1.0, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with the required covenants at December 31, 2016.

As of December 31, 2016, future contractual maturities of debt are as follows (in thousands):

Year ending March 31,

| | |
|------|----------|
| 2017 | \$750 |
| 2018 | 3,000 |
| 2019 | 3,000 |
| 2020 | 3,000 |
| 2021 | 43,250 |
| | \$53,000 |

In January 2017, we made a \$750,000 required principle payment on the Term Loan and a \$2,000,000 principle payment on the Line of Credit.

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, 2016 | | December 31, 2015 | |
| | 2016 | 2015 | 2016 | 2015 |
| Total cost of stock-based compensation charged against income before income taxes | \$380 | \$344 | \$1,221 | \$1,001 |
| Amount of income tax benefit recognized in earnings | 62 | 85 | 227 | 266 |
| Amount charged against net income | \$318 | \$259 | \$994 | \$735 |
| Impact on net income per common share: | | | | |
| Basic | \$0.09 | \$0.07 | \$0.27 | \$0.20 |
| Diluted | 0.08 | 0.07 | \$0.26 | 0.20 |

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, 2016:

| | Number of Shares | Weighted- Average Exercise Price per Share | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value (000s) |
|----------------------------------|---------------------------------|---|---|---|
| Outstanding at March 31, 2016 | 515,720 | \$ 64.32 | 5.2 | \$ 16,561 |
| Stock options granted | 111,955 | 98.31 | 5.3 | |
| Stock options forfeited | (17,924) | 82.35 | 5.4 | |
| Stock options expired | (862) | 39.17 | -- | |
| Stock options exercised | (71,848) | 56.72 | -- | |
| Outstanding at December 31, 2016 | 537,041 | 71.86 | 4.8 | 27,330 |
| Exercisable at December 31, 2016 | 169,115 | 47.7 | 3.6 | 12,690 |

The total intrinsic value of stock options exercised was \$4,701,000 and \$4,264,000 for the nine months ended December 31, 2016 and 2015, respectively.

A summary of the status of our unvested stock option shares as of December 31, 2016, is as follows:

| | Number of Shares | Weighted- Average Grant-Date Fair Value |
|-------------------------------|---------------------------------|--|
| Unvested at March 31, 2016 | 358,263 | \$ 19.46 |
| Stock options granted | 111,955 | 27.94 |
| Stock options forfeited | (17,924) | 22.17 |
| Stock options vested | (84,368) | 16.95 |
| Unvested at December 31, 2016 | 367,926 | 22.49 |

As of December 31, 2016, there was \$5,490,000 of total unrecognized compensation expense related to unvested stock options. As of December 31, 2016, we have 835,062 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 | Nine Months Ended |
|-------------------------------|------------------------------|
| December 31, | December 31, |

| | 2016 | 2015 | 2016 | 2015 |
|---|---------|---------|---------|---------|
| Net income available for shareholders | \$3,252 | \$2,597 | \$7,540 | \$7,178 |
| Weighted average outstanding shares of common stock | 3,688 | 3,614 | 3,668 | 3,596 |
| Dilutive effect of stock options | 180 | 172 | 167 | 162 |
| Common stock and equivalents | 3,868 | 3,786 | 3,835 | 3,758 |
| Net income per share: | | | | |
| Basic | \$0.88 | \$0.72 | \$2.06 | \$2.00 |
| Diluted | 0.84 | 0.69 | 1.97 | 1.91 |

For the three and nine months ended December 31, 2016, 3,000 and 110,000 outstanding stock options, respectively, were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

For the three and nine months ended December 31, 2015, 138,000 and 136,000 outstanding stock options, respectively, were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

Note 7- Commitments and Contingencies

Under the terms of the Infitrak Agreement, we are required to pay contingent consideration if the gross profit (as defined in the Infitrak Earn-Out Agreement) for our cold chain packaging business for the two years subsequent to the acquisition meets certain levels. The potential undiscounted consideration payable ranges from \$0 to \$15,000,000 CDN and is based upon a sliding scale of growth in gross profit (as defined in the Infitrak 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 \$9,271,000 of contingent consideration payable which represented our best estimate of the then current fair value of the amount that would ultimately be paid. In July 2016 we made the first Earn-Out payment in the amount of \$6,000,000 CDN (\$4,594,000). As a result of this payment, the remaining potential undiscounted consideration payable ranges from \$0 to \$9,000,000 CDN (approximately \$0 to \$6,682,000 as of December 31, 2016). We have recorded \$4,436,000 in our condensed consolidated balance sheet as of December 31, 2016, which represents our best estimate of the then current fair value of the amount that will ultimately be paid. 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 packaging business and we will adjust the contingent liability on a go forward basis, based on then current information. The remaining contingent consideration is payable in the second quarter of our year ending March 31, 2018.

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 initially recorded \$300,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. We paid \$150,000 of the contingent consideration during the year ended March 31, 2016 (based upon the then current run rate projected over the entire three-year contingent consideration period). Since the initial payment, the revenues have significantly increased and as a result, during the three months ended September 30, 2016 we recorded an additional \$450,000 accrual (which is included in other expense, net in our condensed consolidated statements of income for the nine months ended December 31, 2016). We paid \$450,000 of the contingent consideration in our third quarter ending December 31, 2016. The remaining contingent consideration amount is also subject to modification at the end of the third year 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.

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 while 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.

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, 2016 | \$ (1,286 |) \$(1,286) |
| Quarter ended December 31, 2016: | | |
| Unrealized loss arising during the period | (634 |) (634) |
| Balance at December 31, 2016 | \$ (1,920 |) \$(1,920) |

| | Foreign Currency Translation | AOCI |
|---|---|-------------|
| Balance at September 30, 2015 | \$ 397 | \$397 |
| Quarter ended December 31, 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 March 31, 2016 | \$ (1,151) | \$(1,151) |
| Nine months ended December 31, 2016: | | |
| Unrealized loss arising during the period | (769) | (769) |
| Balance at December 31, 2016 | \$ (1,920) | \$(1,920) |

| | 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) |

Note 9 - Segment Information

As of March 31, 2016, our four operating segments were Biological Indicators, Instruments, Continuous Monitoring and Cold Chain. Effective April 1, 2016 we renamed our Continuous Monitoring and Cold Chain operating segments to Cold Chain Monitoring and Cold Chain Packaging, respectively. In addition, we transferred certain of the Cold Chain monitoring and other services to our Cold Chain Monitoring operating segment (historically included in our cold chain operating segment) to align with the information being used by the chief decision maker of the Company. Accordingly, all prior period segment information presented herein has been adjusted to reflect this change in our organization structure. The following tables set forth our segment information (in thousands):

| | Three Months Ended December 31, 2016 | | | | |
|----------------------------------|---|--------------------|----------------------------------|-------------------------------------|--------------|
| | Biological Indicators | Instruments | Cold Chain Monitoring | Cold Chain Packaging | Total |
| Revenues | \$9,248 | \$ 9,013 | \$ 3,102 | \$ 2,480 | \$23,843 |
| Gross profit | \$6,066 | \$ 5,706 | \$ 1,254 | \$ 511 | 13,537 |
| Reconciling items ⁽¹⁾ | | | | | (9,657) |
| Earnings before income taxes | | | | | \$3,880 |

| | Three Months Ended December 31, 2015 | | | | |
|----------------------------------|---|--------------------|----------------------------------|-------------------------------------|--------------|
| | Biological Indicators | Instruments | Cold Chain Monitoring | Cold Chain Packaging | Total |
| Revenues | \$7,819 | \$ 8,260 | \$ 2,853 | \$ 981 | \$19,913 |
| Gross profit | \$4,869 | \$ 5,511 | \$ 1,313 | \$ 516 | 12,209 |
| Reconciling items ⁽¹⁾ | | | | | (8,758) |
| Earnings before income taxes | | | | | \$3,451 |

Nine Months Ended December 31, 2016

| | Biological Indicators | Instruments | Cold Chain Monitoring | Cold Chain Packaging | Total |
|----------------------------------|----------------------------------|--------------------|----------------------------------|-------------------------------------|--------------|
| Revenues | \$27,612 | \$ 25,928 | \$ 8,964 | \$ 6,862 | \$69,366 |
| Gross profit | \$17,986 | \$ 15,881 | \$ 3,578 | \$ 1,830 | 39,275 |
| Reconciling items ⁽¹⁾ | | | | | (30,014) |
| Earnings before income taxes | | | | | \$9,261 |

Nine Months Ended December 31, 2015

| | Biological Indicators | Instruments | Cold Chain Monitoring | Cold Chain Packaging | Total |
|----------------------------------|----------------------------------|--------------------|----------------------------------|-------------------------------------|--------------|
| Revenues | \$23,537 | \$ 25,819 | \$ 7,954 | \$ 2,537 | \$59,847 |
| Gross profit | \$15,157 | \$ 16,571 | \$ 3,326 | \$ 1,363 | 36,417 |
| Reconciling items ⁽¹⁾ | | | | | (26,647) |
| Earnings before income taxes | | | | | \$9,770 |

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

| | December 31, 2016 | March 31, 2016 |
|------------------------------|------------------------------|---------------------------|
| Total assets (in thousands): | | |
| Biological Indicators | \$ 67,894 | \$ 56,724 |
| Instruments | 38,295 | 49,077 |
| Cold Chain Monitoring | 35,497 | 27,613 |
| Cold Chain Packaging | 21,325 | 19,478 |
| Corporate and administrative | 7,442 | 7,856 |
| | \$ 170,453 | \$ 160,748 |

All long-lived assets are located in the United States except for \$6,460,000 and \$ 20,702,000 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, 2016 | 2015 | December 31, 2016 | 2015 |
| Net revenues from unaffiliated customers: | | | | |
| United States | \$ 13,844 | \$ 12,787 | \$ 44,758 | \$ 37,510 |
| Foreign | 9,999 | 7,126 | 24,608 | 22,337 |
| | \$ 23,843 | \$ 19,913 | \$ 69,366 | \$ 59,847 |

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 16.2 and 24.7 percent for the three months ended December 31, 2016 and 2015, respectively, and 18.6 and 26.5 percent for the nine months ended December 31, 2016 and 2015, respectively. The effective tax rate for the three and nine months ended December 31, 2016 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, foreign rate differential and share-based payment awards for employees. We anticipate that our effective tax rate for the year ending March 31, 2017 will approximate 22 to 25 percent, plus or minus the fourth-quarter impact of excess tax benefits and deficiencies associated with share-based payment awards to employees. The excess tax benefits and deficiencies associated with share-based payment awards to our employees have and, in the future, may cause large fluctuations in our realized effective tax rate based on the timing, volume, and nature of stock options exercised under our share-based payment program.

During the nine months ended December 31, 2016, the IRS examination of our tax year ended March 31, 2015 was completed with no change to the reported tax liability. We have reserved for any other potential adjustments for income taxes that may result from future examinations by tax authorities, and we believe the final outcome of these examinations or agreements will not have a material effect on our financial condition, results of operations or cash flows.

Since we are subject to audit by various taxing authorities, it is reasonably possible that the amount of unrecognized tax benefits will change during the next 12 months. However, we do not expect the change, if any, to have a material effect on our financial condition or results of operations within the next 12 months.

Note 11 – Fair Value Measurements

We follow authoritative guidance (GAAP) which requires that assets and liabilities carried at fair value be classified and disclosed in one of the established categories. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three categories are defined as follows:

- Level 1: Quoted prices in active markets for identical assets.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Significant inputs to the valuation model are unobservable inputs.

Assets and liabilities measured on a recurring basis:

Our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities (including certain contingent consideration amounts that are short-term in nature) are carried at cost, which is considered to be representative of their fair value due to the short term maturity of these instruments. The recorded value of the Line of Credit and Term Loan (See Note 4), approximates fair value due to their variable rate structure.

The following table presents items required to be measured at fair value on a recurring basis by the level in which they are classified within the valuation hierarchy as follows (in thousands):

| | December 31, 2016 | | | |
|--------------------------|--------------------------|--------------------|--------------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | \$-- | \$ -- | \$-- | \$-- |
| Liabilities: | | | | |
| Contingent Consideration | \$-- | \$ -- | \$4,436 | \$4,436 |

March 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|------------|------------|------------|---------|
| Assets: | \$-- | \$ -- | \$-- | \$-- |
| Liabilities: | | | | |
| Contingent Consideration | \$-- | \$ -- | \$9,037 | \$9,037 |

Under the Infitrak Agreement (See Note 7), we were required to make two annual payments to the former owners based on future growth in gross profit (as defined in the Infitrak Earn-Out Agreement). In July 2016 we made the first Earn-Out payment in the amount of \$6,000,000 CDN (\$4,594,000). The remaining contingent consideration payable is a standalone liability that is measured at fair value on a recurring basis for which there is no available quoted market price, principal market or market participants. As such, the inputs for this instrument are unobservable and therefore classified as Level 3 inputs. This contingent consideration liability is valued using a discounted cash flow model based on internal forecasts and our current cost of borrowing. There were no changes to the valuation methodology during the period.

The contingent consideration arising from this agreement is our only Level 3 asset or liability. The following table presents a roll forward of the contingent consideration payable for the nine months ended December 31, 2016 and 2015 (in thousands):

| | Nine Months Ended December 31, 2016 2015 | |
|---|--|-------|
| Opening balance | \$9,037 | \$ -- |
| Payment | (4,594) | -- |
| Fair value adjustment – expense | 137 | -- |
| Foreign exchange rate impact – included in other comprehensive gain | (144) | -- |
| Ending Balance | \$4,436 | \$ -- |

Note 12 - Subsequent Event

In January 2017, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on March 15, 2017, to shareholders of record at the close of business on February 28, 2017.

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," "intend," "estimate," "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 revenues 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, 2016, 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 Cold Chain 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 Monitoring Division also provides parameter (primarily temperature) monitoring of products during transport in a cold chain and consulting services such as compliance monitoring and validation or mapping of transport and storage containers. Our Cold Chain Packaging Division provides packaging development consulting services 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 indicators and many of the packaging products of our Cold Chain Packaging Division are disposable and are used on a routine basis, thus product sales are less sensitive to general economic conditions. Instrument products and cold chain monitoring systems and products 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, which require periodic repair and recalibration or certification of our instrument products and cold chain monitoring systems. We typically evaluate costs and pricing annually. Our policy is to price our products competitively and, where possible, we 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, 2017 Acquisitions

During the year ending March 31, 2017, we completed the following six acquisitions (the “2017 Acquisitions”):

In November 2016, we completed a business combination (the “Mydent Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Mydent International Corp’s business segment associated with biological indicator mail-in testing services to the dental market in the United States;

In November 2016, we completed a business combination (the “FreshLoc Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of the continuous monitoring business of FreshLoc Technologies, Inc;

In August 2016, we completed a business combination (the “Rapid Aid Acquisition”) whereby we acquired certain assets (consisting primarily of fixed assets) and certain liabilities of Rapid Aid Corp’s (“Rapid Aid”) business segment associated with the manufacture and sale of cold chain packaging gel products;

In July 2016, we completed a business combination (the “HANSAméd Acquisition) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of HANSAméd Limited’s (“HANSAméd”) business segment associated with the distribution of our biological indicator products and mail-in testing services to the dental market in Canada;

In April 2016, we completed a business combination (the “ATS Acquisition”) whereby we acquired substantially all the assets (other than cash and certain inventories and fixed assets) and certain liabilities of Autoclave Testing Services, Inc. and Autoclave Testing Supplies, Inc., (collectively, “ATS”). ATS was in the business of supplying products and services for dental sterilizer testing in both the U.S. and Canada; and

In April 2016, we completed a business combination (the “Pulse Acquisition”) whereby we acquired substantially all of the assets (other than cash and accounts receivable) and certain liabilities of Pulse Scientific, Inc.’s (“Pulse”) business segment associated with the distribution of our biological indicator products.

Year Ended March 31, 2016 Acquisitions

During the year ended 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 the business segment associated with the distribution of our biological indicator products from CoaChrom Diagnostica GmbH of Austria and bioTRADING Benelux B.V of the Netherlands;

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 the business segment associated with the distribution of our biological indicator products from BIOLOGIK S.R.L.(Italy), VWR International PBI S.R.L.(Italy), Cruinn Diagnostics Ltd.(Ireland), Mecolab AG (Switzerland), Miclev Medical Products AB (Sweden) and Tiselab S.L.(Spain);

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”); and

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.

General Trends and Outlook

Our strategic objectives include growth both organically and through further acquisitions. During the year ended March 31, 2016, 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. In addition, on October 1, 2015 we converted from our legacy enterprise resource planning (“ERP”) system to our new cloud based system. This represented a significant upgrade and we will continue to make smaller enhancements to the system in future periods.

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 and cold chain services and 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, and cold chain services and 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.

As a result of the significant employee time allocation associated with going live and operating on our new ERP system, we were delayed in the fulfillment of several orders which resulted in an approximate \$500,000 increase in our open-order backlog at the end of our quarter ended December 31, 2015. 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 for the three months ended December 31, 2015. This issue was timing-related in nature as we fulfilled the orders and decreased our backlog to its normal level during the three months ended March 31, 2016.

Organic revenues growth for the three and nine months ended December 31, 2016 was 18 and nine percent, respectively. Had the approximate \$500,000 of revenues discussed in the paragraph above been recognized during the three and nine months ended December 31, 2015, organic revenues growth for the three and nine months ended December 31, 2016 would have been 15 and eight percent, respectively. A significant portion of the increase in organic revenues growth for both the three and nine months ended December 31, 2016 was due to increases in our Cold Chain Packaging Division which has a lower gross margin percentage than our other Divisions.

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 | |
|----------------------------|---------------------------------|-----------|----------|---------|------|
| | 2016 | 2015 | Change | Change | |
| Revenues | \$ 23,843 | \$ 19,913 | \$ 3,930 | 20 | % |
| Cost of revenues | 10,306 | 7,704 | 2,602 | 34 | % |
| Gross profit | \$ 13,537 | \$ 12,209 | \$ 1,328 | 11 | % |
| Gross profit margin | 57 | % 61 | % (4 |)% | |
| Operating expenses | | | | | |
| Selling | \$ 2,409 | \$ 1,517 | \$ 892 | 59 | % |
| General and administrative | 5,881 | 5,885 | (4 |) | -- |
| Research and development | 861 | 975 | (114 |) | (12) |
| | \$ 9,151 | \$ 8,377 | \$ 774 | 9 | % |
| Operating income | \$ 4,386 | \$ 3,832 | \$ 554 | 14 | % |
| Net income | 3,252 | 2,597 | 655 | 25 | % |
| Net profit margin | 14 | % 13 | % 1 | % | |

| | Nine Months Ended December 31, | | | Percent | |
|----------------------------|--------------------------------------|----------|---------|---------|---|
| | 2016 | 2015 | Change | Change | |
| Revenues | \$69,366 | \$59,847 | \$9,519 | 16 | % |
| Cost of revenues | 30,091 | 23,430 | 6,661 | 28 | % |
| Gross profit | \$39,275 | \$36,417 | \$2,858 | 8 | % |
| Gross profit margin | 57 % | 61 % | (4)% | | |
| Operating expenses | | | | | |
| Selling | \$7,527 | \$5,604 | \$1,923 | 34 | % |
| General and administrative | 17,834 | 17,404 | 430 | 2 | % |
| Research and development | 2,941 | 2,929 | 12 | -- | % |
| | \$28,302 | \$25,937 | \$2,365 | 9 | % |
| Operating income | \$10,973 | \$10,480 | \$493 | 5 | % |
| Net income | 7,540 | 7,178 | 362 | 5 | % |
| Net profit margin | 11 % | 12 % | (1)% | | |

Revenues

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

| | Three Months Ended December 31, | | | Percent | |
|-----------------------|---------------------------------------|----------|---------|---------|---|
| | 2016 | 2015 | Change | Change | |
| Biological Indicators | \$9,248 | \$7,819 | \$1,429 | 18 | % |
| Instruments | 9,013 | 8,260 | 753 | 9 | % |
| Cold Chain Monitoring | 3,102 | 2,853 | 249 | 9 | % |
| Cold Chain Packaging | 2,480 | 981 | 1,499 | 153 | % |
| Total | \$23,843 | \$19,913 | \$3,930 | 20 | % |

| | Nine Months Ended December 31, | | | Percent | |
|-----------------------|--------------------------------------|----------|---------|---------|---|
| | 2016 | 2015 | Change | Change | |
| Biological Indicators | \$27,612 | \$23,537 | \$4,075 | 17 | % |
| Instruments | 25,928 | 25,819 | 109 | -- | % |
| Cold Chain Monitoring | 8,964 | 7,954 | 1,010 | 13 | % |
| Cold Chain Packaging | 6,862 | 2,537 | 4,325 | 170 | % |
| Total | \$69,366 | \$59,847 | \$9,519 | 16 | % |

Three and nine months ended December 31, 2016 versus December 31, 2015

Biological Indicators revenues for the three months ended December 31, 2016 increased as a result of the January 2016 European BI Distributor, Pulse, ATS, HANSAméd and Mydent Acquisitions, and organic growth of 17 percent. Biological Indicators revenues for the nine months ended December 31, 2016 increased as a result of the North Bay, October 2015 European BI Distributor, January 2016 European BI Distributor, Pulse, ATS, HANSAméd and Mydent Acquisitions, and organic growth of seven percent. Biological Indicators revenues for 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”).

Instruments revenues for the three months ended December 31, 2016 increased as a result of organic growth of nine percent in our existing product lines which was achieved primarily through existing and new customers and modest price increases. Instruments organic growth for the nine months ended December 31, 2016 was flat. Instruments revenues for 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”).

Cold Chain Monitoring revenues for the three months ended December 31, 2016 increased as a result of the FreshLoc Acquisition, partially offset by an organic decrease of one percent. Cold Chain Monitoring revenues for the nine months ended December 31, 2016 increased as a result of the FreshLoc Acquisition and organic growth of six percent. Historically, Cold Chain Monitoring revenues fluctuate between quarters due to the complex nature and sometimes lengthy time periods associated with these types of installations and customer readiness for installation after placing an order.

Cold Chain packaging revenues for the three months ended December 31, 2016 increased due to organic growth of 153 percent which was achieved through existing and new customers. We expect that revenues for this division will fluctuate due to seasonality but overall growth will be significant as compared to the same periods in the prior year.

Gross Profit

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

| | Three Months Ended December 31, | | | Percent | |
|-----------------------|--|-------------|---------------|----------------|---|
| | 2016 | 2015 | Change | Change | |
| Biological Indicators | \$6,066 | \$4,869 | \$ 1,197 | 25 | % |
| Gross profit margin | 66 % | 62 % | 4 % | | |
| Instruments | 5,706 | 5,511 | 195 | 4 | % |
| Gross profit margin | 63 % | 67 % | (4) % | | |
| Cold Chain Monitoring | 1,254 | 1,313 | (59) | (4) | % |
| Gross profit margin | 40 % | 46 % | (6) % | | |
| Cold Chain Packaging | 511 | 516 | (5) | (1) | % |
| Gross profit margin | 21 % | 53 % | (32) % | | |
| Total gross profit | \$13,537 | \$12,209 | \$ 1,328 | 11 | % |
| Gross profit margin | 57 % | 61 % | (4) % | | |

| | Nine Months Ended December 31, | | | Percent | |
|-----------------------|---|-------------|---------------|----------------|---|
| | 2016 | 2015 | Change | Change | |
| Biological Indicators | \$17,986 | \$15,157 | \$ 2,829 | 19 | % |
| Gross profit margin | 65 % | 64 % | 1 % | | |
| Instruments | 15,881 | 16,571 | (690) | (4) | % |
| Gross profit margin | 61 % | 64 % | (3) % | | |
| Cold Chain Monitoring | 3,578 | 3,326 | 252 | 8 | % |
| Gross profit margin | 40 % | 42 % | (2) % | | |
| Cold Chain Packaging | 1,830 | 1,363 | 467 | 34 | % |

| | | | | | | |
|---------------------|----------|---|----------|---|---------|-----|
| Gross profit margin | 27 | % | 54 | % | (27) |)% |
| Total gross profit | \$39,275 | | \$36,417 | | \$2,858 | 8 % |
| Gross profit margin | 57 | % | 61 | % | (4) |)% |

Three and nine months ended December 31, 2016 versus December 31, 2015

Biological Indicators gross profit margin percentage increased for the three and nine months ended December 31, 2016 primarily due to the January 2016 European BI Distributor Acquisitions and the impact of the North Bay Acquisition on the results for the three and nine months ended December 31, 2015. The results for the nine months ended December 31, 2016 were also positively impacted by the October 2015 European BI Distributor Acquisitions. After the completion of the North Bay Acquisition, we were contractually committed to purchase from a third party a significant portion of the BI's that were used in the acquired North Bay dental sterilizer testing business which negatively impacted our gross margin percentage. The contractual commitment gradually decreased each quarter after the acquisition and was completed during the three months ended December 31, 2016. Each quarterly decrease in these purchases allowed for the additional use of internally produced BI's which resulted in greater gross margin percentages.

Instruments gross margin percentage decreased for the three and nine months ended December 31, 2016 as a result of product and services mix and the loss of certain volume based efficiencies associated with the decrease in revenues in certain product lines.

Cold Chain Monitoring gross profit margin percentage decreased for the three and nine months ended December 31, 2016 primarily as a result of the product and service revenues mix along with the impact of integrating the FreshLoc Acquisition.

Cold Chain Packaging gross profit margin decreased for the three and nine months ended December 31, 2016 primarily as a result of increased revenues due primarily to one significant contract that has a lower gross profit margin percentage. We expect that our Cold Chain Packaging gross profit margin percentage will continue to be lower than the historical results of our other segments due to the nature of these products.

Operating Expenses

Operating expenses for the three and nine months ended December 31, 2016 increased as compared to the prior year as follows (in thousands):

| | Increase (Decrease) | |
|---------------------------------------|-----------------------------------|----------------------------------|
| | Three Months Ended | Nine Months Ended |
| | December 31, 2016 | December 31, 2016 |
| Selling | \$892 | \$ 1,923 |
| General and administrative | | |
| ERP system implementation | (65) | (515) |
| Legal costs and litigation settlement | 93 | (1,629) |
| Amortization | 105 | 818 |
| Personnel | 413 | 1,611 |
| Professional services | (159) | 55 |
| Banking fees | 33 | 111 |
| Depreciation | 129 | 363 |
| Medical device excise tax | (60) | (150) |
| Other, net | (493) | (234) |
| | (4) | 430 |
| Research and development | (114) | 12 |
| Operating expenses | \$774 | \$ 2,365 |

Selling

Three and nine months ended December 31, 2016 versus December 31, 2015

Selling expense for the three months ended December 30, 2016 increased primarily due to additional personnel related to the 2017 Acquisitions and the January 2016 European BI Distributor Acquisitions. As a percentage of revenues, selling expense was 10 percent for the three months ended December 31, 2016 as compared to eight percent for the three months ended December 31, 2015, respectively.

Selling expense for the nine months ended December 31, 2016 increased primarily due to additional personnel related to the 2017 and 2016 Acquisitions. As a percentage of revenues, selling expense was 11 percent for the nine months ended December 31, 2016 as compared to nine percent for the nine months ended December 31, 2015.

Included in the increase of selling expenses are \$175,000 and \$671,000 for the three and nine months ended December 31, 2016, respectively, of recently hired U.S. Cold Chain Packaging sales personnel. We are currently making an investment to grow this segment and are hopeful that increases in related revenues will continue to be realized during calendar 2017.

Historically selling expense approximates nine to 12 percent of revenues.

General and Administrative

Three and nine months ended December 31, 2016 versus December 31, 2015

General and administrative expenses for the three months ended December 31, 2016 were flat as compared to the three months ended December 31, 2015.

General and administrative expenses for the nine months ended December 31, 2016 increased primarily due to increased personnel costs, amortization and depreciation, partially offset by the \$1,709,000 charge related to the Amato Settlement during the nine months ended December 31, 2015.

Included in the increase of personnel expenses are \$237,000 and \$457,000 for the three and nine months ended December 31, 2016, respectively of stay bonuses for employees currently working at our Omaha and Traverse City facilities. In August 2016 we announced that we will be relocating such facilities during calendar 2017 to our new facility in Bozeman (See Liquidity and Capital Resources for additional discussion).

Research and Development

Three and nine months ended December 31, 2016 versus December 31, 2015

Research and development expenses for the three months ended December 31, 2016 decreased due to a decrease in engineers necessary to support existing and acquired businesses. Research and development expenses for the nine months ended December 31, 2016 were flat.

Other Expense

Other expense for the three months ended December 31, 2016 is comprised primarily of interest expense associated with our credit facility. Other expense for the nine months ended December 31, 2016 is comprised primarily of \$450,000 related to an additional accrual for the PCD earn-out (see Note 7 – Commitments and Contingencies) and interest expense associated with our credit facility.

Net Income

Our income tax rate varies based upon many factors but in general, we anticipate that our effective tax rate for the year ending March 31, 2017 will approximate 22 to 25 percent, plus or minus the fourth-quarter impact of excess tax benefits and deficiencies associated with share-based payment awards to employees. The excess tax benefits and deficiencies associated with share-based payment awards to our employees have and, in the future, may cause large fluctuations in our realized effective tax rate based on the timing, volume, and nature of stock options exercised under our share-based payment program. Otherwise, net income for the nine months ended December 31, 2016 varied with the changes in revenues, gross profit and operating expenses (which includes \$4,852,000 of non-cash amortization of intangible assets).

Net income for the nine months ended December 31, 2015 was significantly impacted by the \$1,709,000 Amato Settlement. 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 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 February 28, 2017. We spent \$6,711,000 on the development of the building and the related land prior to this year and have spent \$8,008,000 during the nine months ended December 31, 2016, 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 \$17,000,000. 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 - \$2,500,000 to partially offset the cost of the new building.

In August 2016, we announced that we plan to shut down both our Omaha and Traverse City Biological Indicator facilities and relocate those operations to the new Bozeman building. The move of these two facilities, along with the current Bozeman operations will begin in the first quarter of calendar 2017 and is estimated to be completed by the end of calendar 2017. We estimate that the total costs of the restructuring will be \$2,100,000 (which is comprised primarily of facility moving expenses, retention bonuses for existing personnel and payroll costs for duplicative personnel during the transition period) of which \$457,000 was incurred during the nine months ended December 31, 2016 and is reflected in general and administrative expenses in the accompanying condensed consolidated statements of income. After the completion of the relocation of all three facilities, we estimate that the annual savings will be approximately \$750,000. In addition, after completing the move of the Omaha facility, we expect to be able to sell that building for approximately \$1,000,000-\$1,500,000 to partially offset the cost of the new Bozeman building.

We implemented a new ERP system which required a significant amount of cash. We incurred approximately \$2,100,000 of expense associated with this project of which approximately \$1,400,000 was incurred during the year ended March 31, 2016. 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 \$12,946,000 and \$13,215,000 respectively, at December 31, 2016 and March 31, 2016.

On July 1, 2015, we entered into a five year agreement (the "Credit Facility") for a \$50,000,000 revolving line of credit ("Line of Credit"), a \$20,000,000 term loan (the "Term Loan") and up to \$1,000,000 of letters of credit.

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 3.0 to 1.0, and a minimum fixed charge coverage ratio of 1.35 to 1.0. We were in compliance with the required covenants at December 31, 2016.

As of January 31, 2017, we had \$50,250,000 in outstanding indebtedness and unused capacity under our Credit Facility of \$14,500,000.

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 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, 2016.

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

| | Year Ending | |
|----------------|--------------------|-------------|
| | March 31, | |
| | 2017 | 2016 |
| First quarter | \$0.16 | \$0.16 |
| Second quarter | 0.16 | 0.16 |
| Third quarter | 0.16 | 0.16 |
| Fourth quarter | -- | 0.16 |

In January 2017, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on March 15, 2017, to shareholders of record at the close of business on February 28, 2017.

Cash Flows

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

| | Nine Months Ended December 31, | |
|---|---|-------------|
| | 2016 | 2015 |
| Net cash provided by operating activities | \$6,771 | \$9,953 |
| Net cash used in investing activities | (15,985) | (29,490) |
| Net cash provided by financing activities | 8,805 | 20,826 |

Net cash provided by operating activities for the nine months ended December 31, 2016 decreased primarily due to the payment of \$5,076,000 in contingent consideration and \$4,401,000 in accrued salaries, taxes and various other accrued expenses, partially offset by increases in collections of accounts receivable of \$2,369,000.

Net cash used in investing activities for the nine months ended December 31, 2016 resulted from \$6,618,000 associated with the 2017 Acquisitions and the purchase of \$9,367,000 of property, plant and equipment. 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 provided by financing activities for the nine months ended December 31, 2016 resulted from borrowings under our Credit Facility of \$11,500,000 and proceeds from the exercise of stock options of \$2,815,000, partially offset by the repayment of debt of \$3,750,000 and the payment of dividends of \$1,760,000. 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.

At December 31, 2016, we had contractual obligations for open purchase orders of approximately \$5,175,000 for routine purchases of supplies and inventory, which are payable in less than one year.

Under the terms of the Infitrak Agreement, we are required to pay contingent consideration if the gross profit (as defined in the Infitrak Earn-Out Agreement) for our cold chain packaging business for the two years subsequent to the acquisition meets certain levels. The potential undiscounted consideration payable ranges from \$0 to \$15,000,000 CDN and is based upon a sliding scale of growth in gross profit (as defined in the Infitrak 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 \$9,271,000 of contingent consideration payable which represented our best estimate of the then current fair value of the amount that would ultimately be paid. In July 2016 we made the first Earn-Out payment in the amount of \$6,000,000 CDN (\$4,594,000). As a result of this payment, the remaining potential undiscounted consideration payable ranges from \$0 to \$9,000,000 CDN (approximately \$0 to \$6,682,000 as of December 31, 2016). We have recorded \$4,436,000 in our condensed consolidated balance sheet as of December 31, 2016, which represents our best estimate of the then current fair value of the amount that will ultimately be paid. 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 packaging business and we will adjust the contingent liability on a go forward basis, based on then current information. The remaining contingent consideration is payable in the second quarter of our year ending March 31, 2018.

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 initially recorded \$300,000 of contingent consideration payable which represented our best estimate of the amount that would ultimately be paid. We paid \$150,000 of the contingent consideration during the year ended March 31, 2016 (based upon the then current run rate projected over the entire three-year contingent consideration period). Since the initial payment, the revenues have significantly increased and as a result, during the three months ended September 30, 2016 we recorded an additional \$450,000 accrual (which is included in other expense, net in our condensed consolidated statements of income for the nine months ended December 31, 2016). We paid \$450,000 of the contingent consideration in our third quarter ending December 31, 2016. The remaining contingent consideration amount is also subject to modification at the end of the third year 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.

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 while 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.

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, 2016 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, 2016. Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at December 31, 2016.

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, 2016. Based on that evaluation, our management concluded that our internal control over financial reporting was effective at December 31, 2016. As allowed, this evaluation excludes the operations of acquired entities during the nine months ended December 31, 2016 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, 2016, 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 any legal proceedings in which we may be 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, 2016, 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 2016 | -- | \$ -- | 162,486 | 137,514 |
| November 2016 | -- | -- | 162,486 | 137,514 |
| December 2016 | -- | -- | 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, 2016, formatted in XBRL (eXtensible Business Reporting Language):

101 (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) 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 6, 2017

BY: /s/ John J. Sullivan, Ph.D.
John J. Sullivan, Ph.D.
Chief Executive Officer

DATED: February 6, 2017

BY: /s/ John V. Sakys
John V. Sakys
Chief Financial Officer