

Clearfield, Inc.
Form 10-Q
May 04, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

Commission File Number 0-16106

Clearfield, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota

41-1347235

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

5480 Nathan Lane North, Suite 120, Plymouth, Minnesota 55442

(Address of principal executive offices and zip code)

(763) 476-6866

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) 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 (§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" (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒

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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.

Class:	Outstanding at April 27, 2010
Common stock, par value \$.01	11,995,331

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
UNAUDITED

	March 31, 2010	September 30, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 3,995,564	\$ 4,731,735
Short-term investments	1,105,566	2,108,566
Accounts receivable, net	2,046,388	2,723,414
Inventories	1,323,270	1,153,862
Other current assets	313,213	180,635
Total current assets	8,784,001	10,898,212
Property, plant and equipment, net	1,317,075	1,319,492
Other Assets		
Long-term investments	3,924,000	2,840,000
Goodwill	2,570,511	2,570,511
Patents	10,811	-
Deferred taxes	2,187,500	2,231,990
Other	176,368	176,368
Notes receivable	370,663	392,186
Total other assets	9,239,853	8,211,055
Total assets	\$ 19,340,929	\$ 20,428,759
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ -	\$ 33,081
Accounts payable	855,494	1,212,541
Accrued compensation	655,419	1,159,245
Accrued expenses	62,343	88,139
Total current liabilities	1,573,256	2,493,006
Deferred rent	84,193	87,942
Total liabilities	1,657,449	2,580,948
Shareholders' Equity		
Undesignated shares, 4,999,500 authorized shares; no shares issued and outstanding	-	-
Preferred stock, \$.01 par value; 500 shares; no shares outstanding	-	-
Common stock, authorized 50,000,000, \$.01 par value; 11,995,331 and 11,974,631, shares issued and outstanding at March 31, 2010 and September 30, 2009	119,953	119,746
Additional paid-in capital	52,475,652	52,372,139
Accumulated deficit	(34,912,125)	(34,644,074)

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Total Shareholders' Equity	17,683,480	17,847,811
Total Liabilities and Shareholders' Equity	\$ 19,340,929	\$ 20,428,759

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Revenues	\$ 4,724,766	\$ 5,232,604	\$ 9,667,433	\$ 11,165,891
Cost of sales	2,991,390	3,414,452	6,232,349	7,333,531
Gross profit	1,733,376	1,818,152	3,435,084	3,832,360
Operating expenses				
Selling, general and administrative	1,864,722	1,689,950	3,754,337	3,494,928
Income (loss) from operations	(131,346)	128,202	(319,253)	337,432
Other income (expense)				
Interest income	37,578	17,244	75,634	48,994
Interest expense	(236)	(1,585)	(820)	(3,491)
Other income	9,837	13,931	24,352	27,575
	47,179	29,590	99,166	73,078
Income (loss) before income taxes	(84,167)	157,792	(220,087)	410,510
Income tax expense	24,203	26,743	47,964	61,974
Net income (loss)	\$ (108,370)	\$ 131,049	\$ (268,051)	\$ 348,536
Net income (loss) per share:				
Basic	\$ (.01)	\$.01	\$ (.02)	\$.03
Diluted	\$ (.01)	\$.01	\$ (.02)	\$.03
Weighted average shares outstanding:				
Basic	11,991,544	11,938,131	11,984,238	11,938,131
Diluted	11,991,544	11,938,131	11,984,238	11,938,131

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended March 31,	
	2010	2009
Cash flow from operating activities		
Net income (loss)	\$ (268,051)	\$ 348,536
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	236,597	216,633
Deferred taxes	44,490	44,711
Stock based compensation	81,283	56,887
Changes in operating assets and liabilities:		
Accounts receivable, net	677,026	271,347
Inventories	(169,408)	535,513
Prepaid expenses and other	(111,055)	(82,649)
Accounts payable and accrued expenses	(890,418)	(1,010,246)
Net cash provided by (used in) operating activities	(399,536)	380,732
Cash flow from investing activities		
Purchases of property and equipment	(234,180)	(37,722)
Patent additions	(10,811)	-
Purchase of investments	(1,836,000)	(4,812,722)
Sale of investments	1,755,000	3,300,000
Net cash used in investing activities	(325,991)	(1,550,444)
Cash flow from financing activities		
Repayment of long-term debt	(33,081)	(30,409)
Proceeds from issuance of common stock	22,437	-
Net cash used in financing activities	(10,644)	(30,409)
Decrease in cash and cash equivalents	(736,171)	(1,200,121)
Cash and cash equivalents at beginning of period	4,731,735	4,333,709
Cash and cash equivalents at end of period	\$ 3,995,564	\$ 3,133,588

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying consolidated condensed financial statements are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009.

In preparation of the Company's consolidated financial statements, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and related revenues and expenses during the reporting periods. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

We evaluated our quarter ended March 31, 2010 consolidated financial statements for subsequent events through the date the financial statements were issued. We are not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Note 2. Net Income (Loss) Per Share

Basic net income (loss) per common share ("EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted EPS equals net income (loss) divided by the sum of the weighted average number of shares of common stock outstanding plus all additional common stock equivalents, such as stock options, when dilutive.

Note 3. Cash Equivalents and Investments

The Company currently invests its excess cash in money market accounts and bank certificates of deposit (CD's) that are fully insured by the FDIC with a term of not more than three years. CD's with original maturities of more than three months are reported as held-to-maturity investments. These investments in CD's are classified as held to maturity and are valued at cost which approximates fair value. These investments are considered Level 2 investments. The maturity dates of our CD's at March 31, 2010 are as follows:

Less than one year	\$1,105,566
1-3 years	3,924,000
Total	\$5,029,566

Note 4. Stock Based Compensation

The Company recorded \$81,283 and \$56,887 of compensation expense related to current and past option grants for the six month periods ended March 31, 2010 and 2009, respectively. This expense is included in selling, general and administrative expense. There was no tax benefit from recording this non-cash expense. As of March 31, 2010, \$310,287 of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of approximately 1.91 years.

We used the Black-Scholes option pricing model to determine the weighted average fair value of options during the six -month periods ended March 31, 2010 and 2009 respectively

During the six-month period ended March 31, 2010, the Company granted executive officers and key employees incentive stock options to purchase an aggregate of 85,000 shares of common stock with a contractual term of 7 years, a three year vesting term and an exercise price of \$3.30 with a fair value of \$1.96 per share and 5,000 shares of common stock with a contractual term of 6 years, a one year vesting term and an exercise price of \$2.87 with a fair value of \$1.77 per share.

The weighted-average fair values at the grant date for options issued during the six months ended March 31, 2010 and 2009 were \$1.95 and \$.58, respectively. This fair value was estimated at grant date using the weighted-average assumptions listed below.

	Six months ended March 31,			
	2010		2009	
Dividend yield	0	%	0	%
Average expected volatility	68.36	%	49.44	%
Average risk-free interest rate	2.44	%	2.415	%
Expected life	5-6 years		5 years	
Vesting period	1-3 years		1-4 years	

The expected stock price volatility is based on the historical volatility of the Company's stock for a period approximating the expected life. The expected life represents the period of time that options are expected to be outstanding after their grant date. The risk-free interest rate reflects the interest rate at grant date on zero-coupon U.S. governmental bonds having a remaining life similar to the expected option term.

The following table summarizes information about the stock options outstanding at March 31, 2010

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable
		Weighted Average Remaining Contractual Life	Weighted Average Exer	