

Clearfield, Inc.
Form 10-Q
February 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 December 31, 2009

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
(State or other jurisdiction of incorporation or
organization)

41-1347235
(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

Edgar Filing: Clearfield, Inc. - Form 10-Q

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 February 2, 2010
Common stock, par value \$.01	11,995,331

CLEARFIELD, INC.
FORM 10-Q
TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	1
<u>ITEM 1. FINANCIAL STATEMENTS</u>	1
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	7
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	10
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	10
<u>PART II. OTHER INFORMATION</u>	11
<u>ITEM 1. LEGAL PROCEEDINGS</u>	11
<u>ITEM 1A. RISK FACTORS</u>	11
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	11
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	11
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	11
<u>ITEM 5. OTHER INFORMATION</u>	11
<u>ITEM 6. Exhibits</u>	11
<u>SIGNATURES</u>	12

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
UNAUDITED

	December 31, 2009	September 30, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,375,289	\$ 4,731,735
Short-term investments	1,153,566	2,108,566
Accounts receivable, net	1,739,721	2,723,414
Inventories	1,241,314	1,153,862
Other current assets	217,376	180,635
Total current assets	8,727,266	10,898,212
Property, plant and equipment, net	1,255,763	1,319,492
Other Assets		
Long-term investments	3,876,000	2,840,000
Goodwill	2,570,511	2,570,511
Deferred taxes –long term	2,209,745	2,231,990
Other	176,368	176,368
Notes receivable	381,553	392,186
Total other assets	9,214,177	8,211,055
Total Assets	\$ 19,197,206	\$ 20,428,759
Liabilities and Shareholders' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 16,715	\$ 33,081
Accounts payable	733,536	1,212,541
Accrued compensation	557,390	1,159,245
Accrued expenses	69,108	88,139
Total current liabilities	1,376,749	2,493,006
Deferred rent	86,068	87,942
Total Liabilities	1,462,817	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; 11,978,831 and 11,794.631, shares issued and outstanding at December 31, 2009 and September 30, 2009	119,788	119,746
Additional paid-in capital	52,418,356	52,372,139
Accumulated deficit	(34,803,755)	(34,644,074)
Total Shareholders' Equity	17,734,389	17,847,811
Total Liabilities and Shareholders' Equity	\$ 19,197,206	\$ 20,428,759

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1

CLEARFIELD, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended December 31,	
	2009	2008
Revenues	\$ 4,942,667	\$ 5,933,287
Cost of sales	3,240,959	3,919,079
Gross profit	1,701,708	2,014,208
Operating expenses		
Selling, general and administrative	1,889,615	1,804,978
Income (loss) from operations	(187,907)	209,230
Other income (expense)		
Interest income	38,056	31,750
Interest expense	(584)	(1,906)
Other income	14,515	13,644
	51,987	43,488
Income (loss) before income taxes	(135,920)	252,718
Income tax expense	23,761	35,231
Net income (loss)	\$ (159,681)	\$ 217,487
Net income (loss) per share:		
Basic	\$ (.01)	\$.02
Diluted	\$ (.01)	\$.02
Weighted average shares outstanding:		
Basic	11,977,266	11,938,131
Diluted	11,977,266	11,938,131

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended December 31,	
	2009	2008
Cash flow from operating activities		
Net income (loss)	\$ (159,681)	\$ 217,487
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	114,425	108,715
Deferred taxes	22,245	22,355
Stock based compensation	40,817	29,119
Changes in operating assets and liabilities:		
Accounts receivable, net	983,693	782,854
Inventories	(87,452)	188,536
Prepaid expenses and other	(26,108)	(57,369)
Accounts payable and accrued expenses	(1,101,765)	(1,260,336)
Net cash provided by (used in) operating activities	(213,826)	31,361
Cash flow from investing activities		
Purchases of property and equipment	(50,696)	(36,338)
Purchase of investments	(1,356,000)	-
Sale of investments	1,275,000	3,200,000
Net cash provided by (used in) investing activities	(131,696)	3,259,940
Cash flow from financing activities		
Repayment of long-term debt	(16,366)	(15,044)
Proceeds from issuance of common stock	5,442	
Net cash used in financing activities	(10,924)	(15,044)
Increase (decrease) in cash and cash equivalents	(356,446)	3,276,257
Cash and cash equivalents at beginning of period	4,731,735	4,333,709
Cash and cash equivalents at end of period	\$ 4,375,289	\$ 7,609,966

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 December 31, 2009 consolidated financial statements for subsequent events through the date the financial statements were issued which is February 4, 2010, the date this Quarterly Report on Form 10-Q was filed. 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 per common share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted EPS equals net income 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 under fair value measurements. The maturity dates of our CD's at December 31, 2009 are as follows:

Less than one year	\$3,407,254
1-3 years	3,876,000
Total	\$7,283,254

Note 4. Stock Based Compensation

The Company recorded \$40,817 and \$29,119 of compensation expense related to current and past option grants for the three month periods ended December 31, 2009 and 2008, respectively. This expense is included in selling, general and administrative expense. There was no tax benefit from recording this non-cash expense. As of December 31, 2009, \$353,488 of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.05 years.

We used the Black-Scholes option pricing model to determine the weighted average fair value of options during the three-month periods ended December 31, 2009 and 2008 respectively

During the three-month period ended December 31, 2009, 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.

The weighted-average fair values at the grant date for options issued during the three months ended December 31, 2009 and 2008 were \$2.01 and \$.43, respectively. This fair value was estimated at grant date using the weighted-average assumptions listed below.

	Three months ended December 31,	
	2009	2008
Dividend yield	0%	0%
Expected volatility	70.52%	43.73%
Average risk-free interest rate	2.20%	2.84%
Expected life	5 years	5 years
Vesting period	3 years	3 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 December 31, 2009.

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.00-1.09	826,100	6.71 years	\$ 1.04	318,099	\$ 1.04
1.10-1.49	115,900	3.15 years	1.27	55,400	1.34
1.50-1.99	20,000	0.08 years	1.60	18,600	1.60
2.00-5.00	85,000	6.89 years	3.30	-	-
	1,047,000	6.22 years	1.26	393,099	1.11

Note 5. Inventories

Inventories consist of the following as of:

	December 31, 2009	September 30, 2009
Raw materials	\$ 1,018,000	\$ 873,439
Work-in-progress	13,579	23,031
Finished goods	209,735	257,392