

Clearfield, Inc.
Form 10-Q
February 04, 2015

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, 2014

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

7050 Winnetka Avenue North, Suite 100, Brooklyn Park, Minnesota 55428
(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

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

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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 January 29, 2015
Common stock, par value \$.01	13,687,691

CLEARFIELD, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) December 31, 2014	(Audited) September 30, 2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 17,174,024	\$ 18,191,493
Short-term investments	6,894,000	6,632,000
Accounts receivables, net	4,654,977	5,027,856
Inventories, net	5,359,155	5,390,342
Deferred taxes	1,986,037	2,249,435
Other current assets	771,970	543,257
Total Current Assets	36,840,163	38,034,383
Property, plant and equipment, net	3,997,151	2,462,250
Other Assets		
Long-term investments	8,303,000	8,302,000
Goodwill	2,570,511	2,570,511
Deferred taxes	-	156,622
Other	316,293	322,132
Total other assets	11,189,804	11,351,265
Total Assets	\$ 52,027,118	\$ 51,847,898
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	2,468,594	2,104,526
Accrued compensation	1,152,388	2,749,080
Accrued expenses	260,801	247,658
Total Current Liabilities	3,881,783	5,101,264
Other Liabilities		
Deferred taxes	108,980	-
Total other liabilities	108,980	-
Total Liabilities	3,990,763	5,101,264
Commitments and Contingencies		
	-	-
Shareholders' Equity		
Preferred stock, \$.01 par value; authorized 500 shares; no shares outstanding	-	-
Common stock, authorized 50,000,000, \$.01 par value; 13,742,873 and 13,742,964, shares issued and outstanding at December 31, 2014 and September 30, 2014	137,429	137,430
Additional paid-in capital	56,257,338	56,036,989
Accumulated deficit	(8,358,412)	(9,427,785)
Total Shareholders' Equity	48,036,355	46,746,634

Total Liabilities and Shareholders' Equity	\$ 52,027,118	\$ 51,847,898
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SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

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CLEARFIELD, INC.
 CONDENSED STATEMENTS OF EARNINGS
 UNAUDITED

	Three Months Ended December 31,	
	2014	2013
Net sales	\$ 13,986,620	\$ 16,147,622
Cost of sales	8,244,106	9,209,977
Gross profit	5,742,514	6,937,645
Operating expenses		
Selling, general and administrative	4,125,997	3,865,019
Income from operations	1,616,517	3,072,626
Interest income	25,856	19,700
Income before income taxes	1,642,373	3,092,326
Income tax expense	573,000	1,110,000
Net income	\$ 1,069,373	\$ 1,982,326
Net income per share:		
Basic	\$ 0.08	\$ 0.16
Diluted	\$ 0.08	\$ 0.15
Weighted average shares outstanding:		
Basic	13,222,180	12,689,412
Diluted	13,581,434	13,544,424

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended December	
	2014	2013
31		
Cash flows from operating activities		
Net income	\$ 1,069,373	\$ 1,982,326
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	229,900	151,910
Deferred taxes	529,000	1,028,210
Gain on disposal of assets	-	(86)
Stock based compensation	283,627	188,160
Changes in operating assets and liabilities:		
Accounts receivable, net	372,879	5,553,199
Inventories, net	31,187	499,673
Other assets	(222,800)	(189,241)
Accounts payable and accrued expenses	(1,219,481)	(2,414,434)
Net cash provided by operating activities	1,073,685	6,799,717
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(1,764,875)	(92,298)
Purchases of investments	(1,638,000)	(2,606,000)
Proceeds from maturities of investments	1,375,000	3,782,000
Net cash (used in) provided by investing activities	(2,027,875)	1,083,702
Cash flows from financing activities		
Proceeds from issuance of common stock under employee stock purchase plan	105,615	90,417
Proceeds from issuance of common stock upon exercise of stock options	1,276	25,327
Tax withholding related to exercise of stock options	-	(72,816)
Repurchase of common stock	(170,170)	-
Net cash (used in) provided by financing activities	(63,279)	42,928
(Decrease) increase in cash and cash equivalents	(1,017,469)	7,926,347
Cash and cash equivalents, beginning of period	18,191,493	9,807,957
Cash and cash equivalents, end of period	\$ 17,174,024	\$ 17,734,304
Supplemental disclosures for cash flow information		
Cash paid during the year for income taxes	\$ -	\$ 79,276
Non-cash financing activities		
Cashless exercise of stock options	\$ 3,220	\$ 22,427

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying (a) condensed balance sheet as of September 30, 2014, which has been derived from audited financial statements, and (b) unaudited interim condensed financial statements 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 these 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. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period, due to variability in customer purchasing patterns and seasonal, operating and other factors. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.

In preparation of the Company's 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.

Note 2. Net Income 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 and restricted stock awards, when dilutive.

	Three Months Ended December	
	31	
	2014	2013
Net income	\$ 1,069,373	\$ 1,982,326
Weighted average common shares	13,222,180	12,689,412
Dilutive potential common shares	359,254	855,012
Weighted average dilutive common shares outstanding	13,581,434	13,544,424
Net income per common share:		
Basic	\$ 0.08	\$ 0.16
Diluted	\$ 0.08	\$ 0.15

Note 3. Cash, Cash Equivalents and Investments

The Company currently invests its excess cash in money market accounts and bank certificates of deposit (CDs) with a term of not more than three years. CDs with original maturities of more than three months are reported as held-to-maturity investments and are carried at amortized cost. The maturity dates of the Company's CDs at December 31, 2014 and September 30, 2014 are as follows:

	December 31,	September 30,
	2014	2014
Less than one year	\$ 6,894,000	\$ 6,632,000

1-3 years	8,303,000	8,302,000
Total	\$ 15,197,000	\$ 14,934,000

Note 4. Stock Based Compensation

The Company recorded \$283,627 of compensation expense related to current and past option grants, restricted stock grants and the Company's Employee Stock Purchase Plan ("ESPP") for the three months ended December 31, 2014. The Company recorded \$188,160 of compensation expense related to current and past equity awards for the three months ended December 31, 2013. This expense is included in selling, general and administrative expense. As of December 31, 2014, \$4,968,406 of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a weighted average period of approximately 9.8 years.

There were no stock options granted during the three-month periods ended December 31, 2014 and December 31, 2013. The following is a summary of stock option activity during the three months ended December 31, 2014:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2014	373,051	\$ 4.93
Granted	-	-
Exercised	(1,450)	3.10
Cancelled or Forfeited	-	-
Outstanding at December 31, 2014	371,601	\$ 4.94

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. At December 31, 2014, the weighted average remaining contractual term for all outstanding stock options was 2.3 years and their aggregate intrinsic value was \$2,737,943. At December 31, 2014, the weighted average remaining contractual terms of options that were exercisable was 2.4 years and their aggregate intrinsic value was \$2,383,960. During the three months ended December 31, 2014, the Company received proceeds of \$1,276 from the exercise of stock options. During the three months ended December 31, 2013, exercised stock options totaled 20,400 shares, resulting in \$25,327 of proceeds to the Company.

Restricted Stock

The Company's 2007 Stock Compensation Plan permits its Compensation Committee to grant other stock-based awards. The Company makes restricted stock grants to key employees and non-employee directors that vest over one to ten years.

During the three-month period ended December 31, 2014, the Company granted employees restricted stock awards totaling 3,000 shares of common stock, with a vesting term of ten years and a fair value of \$13.33 per share. Restricted stock transactions during the three-month period ended December 31, 2014 are summarized as follows:

	Number of shares	Weighted average grant date fair value
Unvested shares at September 30, 2014	518,515	\$ 10.02
Granted	3,000	13.33
Vested	-	-
Forfeited	-	-
Unvested at December 31, 2014	521,515	\$ 10.04

Employee Stock Purchase Plan

Clearfield, Inc.'s ESPP allows participating employees to purchase shares of the Company's common stock at a discount through payroll deductions. The ESPP is available to all employees subject to certain eligibility requirements. Terms of the ESPP provide that participating employees may purchase the Company's common stock on a voluntary after-tax basis. Employees may purchase the Company's common stock at a price that is no less than the lower of 85% of the fair market value of one share of common stock at the beginning or end of each stock purchase period or phase. The ESPP is carried out in six month phases, with phases beginning on January 1 and July 1 of each calendar year. For the phases that ended on December 31, 2014 and December 31, 2013, employees purchased 10,097 and 10,920 shares at a price of \$10.46 and \$8.28 per share, respectively. After the employee

purchase on December 31, 2014, 175,559 shares of common stock were available for future purchase under the ESPP.

Note 5. Accounts Receivable

Credit is extended based on the evaluation of a customer's financial condition and collateral is generally not required. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company writes off accounts receivable when they become uncollectible; payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of both December 31, 2014 and September 30, 2014, the balance in the allowance for doubtful accounts was \$97,950.

See Note 7, "Major Customer Concentration" for further information regarding accounts receivable.

Note 6. Inventories

Inventories consist of the following as of:

	December 31, 2014	September 30, 2014
Raw materials	\$ 3,691,417	\$ 3,729,160
Work-in-progress	483,593	292,557
Finished goods	1,184,145	1,368,625
	\$ 5,359,155	\$ 5,390,342

Note 7. Major Customer Concentration

The following table summarizes customers comprising 10% or more of net sales for the three months ended December 31, 2014 and December 31, 2013:

Three Months Ended December 31,