Clearfield, Inc.
Form 10QSB
May 12, 2008

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2008

[ ] 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) 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 the filing requirement for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer o Non-accelerated filerx

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

Yes o No x

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 March 31, 2008
Common stock, par value $.01	11,872,331

CLEARFIELD, INC.
FORM 10-QSB
TABLE OF CONTENTS

2

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

CONSOLIDATED BALANCE SHEETS
UNAUDITED

	March 31, 2008	September 30, 2007
Assets		
Current Assets		
Cash and cash equivalents	$ 2,717,306	$ 3,304,645
Available for sale securities	-	2,825,000
Accounts receivable, net	2,789,467	2,418,651
Inventories	1,440,834	1,595,282
Other current assets	246,129	102,473
Total current assets	7,193,736	10,246,051
Property plant and equipment, net	1,735,330	1,773,739
Available for sale securities	3,136,000	-
Other Assets		
Goodwill	2,570,511	2,570,511
Other	284,309	281,589
Notes receivable	453,028	469,678
Total other assets	3,307,848	3,321,778
Total Assets	$ 15,372,914	$ 15,341,568
Liabilities and Shareholders' Equity		
Current Liabilities		
Current maturities of long term debt	$ 63,273	$ 68,215
Accounts payable	1,420,914	1,176,280
Accrued compensation	893,925	958,023
Accrued expenses	82,718	107,209
Current liabilities of discontinued operations	-	205,885
Total current liabilities	2,460,830	2,515,612
Long term debt, net of current maturities	64,798	95,207
Deferred rent	89,027	85,059
Deferred income taxes	122,193	77,701
Other long term liabilities	51,138	150,470
Long term obligations of discontinued operations	-	204,832
Total Liabilities	2,787,986	3,128,881
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, $ .01 par value; authorized 50,000,000 authorized shares; issued 11,872,331 shares	118,723	118,723
Additional paid-in capital	52,062,742	52,037,207
Accumulated deficit	(39,432,537)	(39,943,243)
Accumulated other comprehensive loss	(164,000)	-
Total shareholders' equity	12,584,928	12,212,687
Total Liabilities and Shareholders' Equity	$ 15,372,914	$ 15,341,568

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007
Revenues	$ 5,442,493	$ 3,896,057	$ 10,139,933	$ 8,400,565
Cost of sales	3,676,929	2,895,912	6,924,898	6,045,227
Gross profit	1,765,564	1,000,145	3,215,035	2,355,338
Operating expenses				
Selling, general and administrative	1,721,252	1,453,862	3,143,711	2,884,150
Goodwill impairment charge	-	852,000	-	852,000
Gain on disposal of assets	-	-	-	(727)
	1,721,252	2,305,862	3,143,711	3,735,423
Income (loss) from operations	44,312	(1,305,717)	71,324	(1,380,085)
Interest income	79,285	74,684	167,091	163,962
Interest expense	(2,836)	(549)	(5,972)	(588)
Other income	15,984	-	29,401	189
	92,433	74,135	190,520	163,563
Income (loss) before income taxes	136,745	(1,231,582)	261,844	(1,216,522)
Income tax expense (benefit)	21,407	(307,263)	48,577	(280,743)
Net income (loss) from continuing operations	115,338	(924,319)	213,267	(935,779)
Net income (loss) from discontinued operations	-	(200,005)	342,390	(614,581)
Net loss on disposal of assets of discontinued operations	-	(81,167)	(44,951)	(84,499)
Total income (loss) from discontinued operations	-	(281,172)	297,439	(699,080)
Net income (loss)	$ 115,338	$ (1,205,491)	$ 510,706	$ (1,634,859)
Net income (loss) per share:				
Continuing operations	$ 0.01	$ (0.08)	$ 0.02	$ (0.08)
Discontinued operations	$ 0.00	$ (0.02)	$ 0.02	$ (0.06)
Basic and diluted	$ 0.01	$ (0.10)	$ 0.04	$ (0.14)
Weighted average shares outstanding:				
Basic and diluted	11,872,331	11,872,331	11,872,331	11,872,331

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
UNAUDITED
Three Months Ended March 31, 2008

	Common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total shareholders'
	Shares	Amount	Capital	loss	deficit	equity
Balance at March 31, 2007	11,872,331	$ 118,723	$ 52,018,729	$ (8,164)	$ (38,652,804)	$ 13,476,484
Stock based compensation expense	-	-	18,478	-	-	18,478
Foreign currency translation	-	-	-	8,164	-	8,164
Net loss	-	-	-	-	(1,290,439)	(1,290,439)
Comprehensive loss						(1,282,275)
Balance at September 30, 2007	11,872,331	118,723	52,037,207	-	(39,943,243)	12,212,687
Stock based compensation expense	-	-	11,814	-	-	11,814
Net income	-	-	-	-	395,368	395,368
Balance at December 31, 2007	11,872,331	118,723	52,049,021	-	(39,547,875)	12,619,869
Stock based compensation expense	-	-	13,721	-	-	13,721
Unrealized loss on available for sale securities	-	-	-	(164,000)	-	(164,000)
Net income	-	-	-	-	115,338	115,338
Comprehensive loss	-	-	-	-	-	(48,662)
Balance at March 31, 2008	11,872,331	$ 118,723	$ 52,062,742	$ (164,000)	$ (39,432,537)	$ 12,584,928

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007 (Restated)
Cash flow from operating activities		
Net income (loss)	$ 510,706	$ (1,634,859)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	265,427	354,603
Deferred taxes	44,492	(283,743)
Gain (loss) on disposal of assets	55,251	(85,226)
Stock based compensation	25,535	19,495
Goodwill impairment charge	-	852,000
Lease termination accrual	(362,028)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(370,816)	548,540
Inventories	154,448	484,914
Prepaid expenses and other	(129,726)	(24,395)
Accounts payable and accrued expenses	79,908	(256,214)
Net cash provided by (used in) operating activities	273,197	(24,885)
Cash flow from investing activities		
Purchases of property and equipment	(1,801,809)	(289,453)
Proceeds from sale of assets	1,451,624	226,250
Purchase of available for sale securities	(3,675,000)	(6,900,000)
Sale of available for sale securities	3,200,000	6,500,000
Net cash used in investing activities	(825,185)	(463,203)
Cash flow from financing activities		
Repayment of long-term debt	(35,351)	(2,541)
Withdrawal of bond reserve funds, net	-	40,836
Net cash provided by financing activities	(35,351)	38,295
Foreign currency translation	-	8,827
Decrease in cash and cash equivalents	(587,339)	(440,966)
Cash and cash equivalents at beginning of period	3,304,645	1,754,335
Cash and cash equivalents at end of period	$ 2,717,306	$ 1,313,369
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 2,836	$ 40,907
Income taxes	1,185	3,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements and with the instructions of Regulation S-K as they apply to smaller reporting companies. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's transition report on Form 10-KSB for the period ended September 30, 2007.

In the opinion of management, all estimates and adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications of previously reported amounts have been made to conform that presentation to the current period presentation.

In the Transition Report for the period ended September 30, 2007, the Company restated its previously issued consolidated financial statements as of and for the years ending March 31, 2007 and 2006. These restatements resulted in a change in the classification of investments in auction rate securities, previously classified as cash and cash equivalents, to available for sale securities for each of the periods presented in the accompanying consolidated balance sheet and statements of cash flows. The Statement of Cash Flows for the six months ended March 31, 2008 reflects our investments in conformity with the appropriate classifications as available for sale securities.

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. Actual results could differ from the estimates used by management.

Effective January 2, 2008 the Company merged its sole subsidiary APA Cables and Networks, Inc. into the Company (the "Parent – Subsidiary Merger") and changed the name of the Company from APA Enterprises, Inc. to Clearfield, Inc. Since the Parent – Subsidiary Merger on January 2, 2008, the Company has no subsidiaries. For periods prior to January 2, 2008 the consolidated financial statements represent all companies of which Clearfield, Inc. directly or indirectly had majority ownership or otherwise controlled. Significant intercompany accounts and transactions have been eliminated. The Company's consolidated financial statements include the accounts of wholly-owned subsidiaries of Clearfield, Inc.

Note 2. Net Income (Loss) Per Share

Basic and diluted income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during each period. Diluted income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares and common equivalent shares outstanding during each period.

Common stock options and warrants to purchase 464,700 and 583,150 shares of common stock with a weighted average exercise price of $1.40 and $2.56 were outstanding at March 31, 2008 and 2007, respectively, but were excluded from calculating diluted net loss per share because they were antidilutive.

Note 3. Discontinued Operations

The Optronics business segment (GaN products) continued to experience lower than expected demand for its products and services during the year ended March 31, 2007 and continued to record operating losses. This caused management to critically evaluate the long term viability of the business and after careful deliberation elected to cease operations and discontinue the business. As a result of the discontinuation of GaN products and the logistics and time constraints for APACN's' fiber patch cords, India was no longer a viable sourcing option and actions were taken to control ongoing costs and recover the investment in the Company's Indian subsidiary. In addition, the Company elected to close its Blaine, Minnesota facility because it was primarily dedicated to the Optronics segment.

Blaine Facility

On October 30, 2007 the Company purchased its previous corporate headquarters in Blaine, Minnesota for $1,500,000 under the provisions of its option to purchase as stated in its lease with Jain-Olsen Properties. The Company, as owner of the building, canceled the lease to itself. The lease was scheduled to run through November of 2009. The elimination of the lease resulted in the elimination of approximately $342,000 of accrued obligations related to this lease in conjunction with the discontinuation of the Optronics segment recorded during the fiscal quarter ended June 30, 2007 and was taken into income during the three months ending December 31, 2007. On the same day, October 30, 2007, the Company sold the land and building for $1,450,000 incurring a loss of $50,000.

Aberdeen Facility

On October 1, 2007 the Company entered into a lease agreement for its Aberdeen, South Dakota facility which allows the tenant first opportunity to purchase the building over the upcoming three year period.

Prior Year

Discontinued operations for the six month period ended March 31, 2008 consisted of income of approximately $297,000. For the comparable six month period ended March 31, 2007 the Company incurred losses in the operations of APA India and APA Optics for a total of approximately $699,000.

Note 4. Severance Agreement

Effective June 28, 2007 Anil K. Jain ceased to be Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial officer), and Chairman of the Board of Directors of the Company.

Pursuant to the terms of an Amended and Restated Agreement Regarding Employment/Compensation Upon Change In Control dated September 15, 2005, Dr. Jain was being paid his salary as of the date of termination of employment ($190,000 per year) for 24 months after the date of termination of his employment, payable quarterly. As a result, the Company has recorded a severance charge in the statement of operations during the transition period ended September 30, 2007, the short term portion of the liability is included in accrued compensation and the long term portion of the liability is included in other long term liabilities. This severance provision applies notwithstanding the absence of a "change of control".

Note 5. Marketable Securities and Long-Term Investments

Our long term investment portfolio consists of $3.3 million of Auction Rate Securities (ARS), with contractual maturities between 22 and 33 years. The ARS held by us are primarily backed by student loans and are over-collateralized, and are insured by and guaranteed by the United States Federal Department of Education. In addition, all ARS held by us are rated by the major independent rating agencies as either AAA or Aaa. Most of these auction rate securities were scheduled to reset every 7 to 28 days through a Dutch Auction process. The auctions have historically provided a liquid market for these securities as investors could readily sell their investments at auction. As of February 28, 2008, ARS have experienced failed auctions, due to sell orders exceeding buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity due to pressure in other segments of the securities markets. Under the contractual terms, the issuer is typically obligated to pay penalty interest rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. We determined that no other-than-temporary impairment losses existed as of March 31, 2008. However, if the issuer of the ARS is unable to successfully close future auctions or does not redeem the ARS, or the United States government fails to support its guaranty of the obligations, we may be required to adjust the carrying value of the ARS and record other-than-temporary impairment charges in future periods, which could materially affect our results of operations and financial condition.

8

At March 31, 2008 there was insufficient observable ARS market information available to determine fair value of our investments. Therefore, we estimated fair value by using a discounted cash flow model with factors including tax status, credit quality, Durant, levels of federal guarantees and likelihood of redemption. Based on this analysis we recorded an unrealized loss of $164,000 related to our ARS investments and have classified the investments as long-term on our balance sheet as of March 31, 2008. There was no tax impact due to our net operating loss position. We believe this unrealized loss primarily attributable to the limited liquidity of these investments, and it is our intent to hold these investments long enough to avoid realizing any significant loss. Nonetheless, if uncertainties in the credit and capital market continue, if these markets further deteriorate, or if we no longer have the ability to hold these investments, we may be required to recognize permanent impairment charges.

Note 6. Warrants and Stock Based Compensation

Commencing April 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, "Share-Based Payment" ("SFAS 123R"), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values over the requisite service period.

During the period ended March 31, 2008 the Company granted 20,000 stock options to non-employee directors with a six year term and an exercise price of $0.96. The fair value of the options granted was $.54 per share.

The Company recorded $13,721 and $9,544 of related compensation expense for the three month periods ended March 31, 2008 and 2007, respectively. The Company recorded $25,535 and $19,495 of related compensation expense for the six month periods ended March 31, 2008 and 2007, 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, 2008, $133,538 of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of approximately 3.75 years.

In April of 2003, 350,000 warrants were issued at an exercise price of $3.00 per share, on March 31, 2008 they were unexercised and expired.

Note 7. Inventories

Inventories consist of the following as of:

	March 31, 2008	September 30, 2007
Raw materials	$ 1,312,537	$ 1,422,374
Work-in-progress	14,219	50,468
Finished goods	114,078	122,440
	$ 1,440,834	$ 1,595,282

Note 8. Major Customer Concentration

One customer comprised approximately 13% of total sales for the six months ended March 31, 2008 and another two customers comprised 23% of accounts receivable. Two customers comprised 25% of total sales for six months ended March 31, 2007 and one of those accounted for 18% of accounts receivable.

Note 9. Recently Issued Accounting Pronouncements