

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 June 30, 2013

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

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:  
Common stock, par value \$.01

Outstanding at July 15, 2013  
12,898,027

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED BALANCE SHEETS  
UNAUDITED

	June 30, 2013	September 30, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,866,755	\$ 5,678,143
Short-term investments	8,039,000	9,107,000
Accounts receivables	5,048,271	3,022,636
Inventories	4,966,348	2,971,614
Deferred taxes	2,369,942	1,491,478
Other current assets	361,658	473,726
Total Current Assets	<u>27,651,974</u>	<u>22,744,597</u>
Property, plant and equipment, net	1,581,564	1,107,468
Other Assets		
Long-term investments	5,641,000	4,572,000
Goodwill	2,570,511	2,570,511
Deferred taxes –long term	4,269,552	6,498,250
Other	258,909	247,512
Total other assets	<u>12,739,972</u>	<u>13,888,273</u>
Total Assets	<u>\$ 41,973,510</u>	<u>\$ 37,740,338</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 1,907,466	\$ 1,492,294
Accrued compensation	2,411,808	1,470,232
Accrued expenses	43,060	54,268
Total Current Liabilities	<u>4,362,334</u>	<u>3,016,794</u>
Deferred rent	21,996	37,643
Total Liabilities	<u>4,384,330</u>	<u>3,054,437</u>
Commitment and Contingencies		
Shareholders' Equity		
Preferred stock, \$.01 par value; authorized 500 shares; no shares outstanding	-	-
Common stock, authorized 50,000,000, \$.01 par value; 12,898,027 and 12,830,100, shares issued and outstanding at June 30, 2013 and September 30, 2012	128,980	128,301
Additional paid-in capital	54,817,204	54,152,080
Accumulated deficit	(17,357,004)	(19,594,480)
Total Shareholders' Equity	<u>37,589,180</u>	<u>34,685,901</u>
Total Liabilities and Shareholders' Equity	<u>\$ 41,973,510</u>	<u>\$ 37,740,338</u>

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Revenues	\$ 13,534,769	\$ 10,793,755	\$ 34,314,499	\$ 27,071,053
Cost of sales	7,905,646	6,236,984	20,545,791	16,000,571
Gross profit	5,629,123	4,556,771	13,768,708	11,070,482
Operating expenses				
Selling, general and administrative	3,832,889	2,774,253	10,137,283	8,119,742
Income from operations	1,796,234	1,782,518	3,631,425	2,950,740
Interest income	21,754	23,878	70,052	77,423
Income before income taxes	1,817,988	1,806,396	3,701,477	3,028,163
Income tax expense	671,001	64,436	1,464,001	154,677
Net income	<u>\$ 1,146,987</u>	<u>\$ 1,741,960</u>	<u>\$ 2,237,476</u>	<u>\$ 2,873,486</u>
Net income per share:				
Basic	<u>\$ 0.09</u>	<u>\$ 0.14</u>	<u>\$ 0.18</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.14</u>	<u>\$ 0.17</u>	<u>\$ 0.23</u>
Weighted average shares outstanding:				
Basic	12,513,084	12,388,162	12,497,462	12,339,673
Diluted	13,205,818	12,670,400	12,976,795	12,728,828

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
UNAUDITED

	Nine Months Ended June 30,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net income	\$ 2,237,476	\$ 2,873,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	361,469	299,614
Deferred taxes	1,350,234	61,605
Loss on disposal of assets	11,297	21,081
Stock based compensation	570,574	326,651
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,025,635)	(863,809)
Inventories	(1,994,734)	(241,547)
Prepaid expenses and other	(54,551)	(351,443)
Accounts payable and accrued expenses	1,329,893	(1,332,165)
Net cash provided by operating activities	1,786,023	793,473
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment and intangible assets	(691,640)	(297,006)
Purchases of investments	(7,063,000)	(8,661,000)
Proceeds from maturities of investments	7,062,000	2,574,000
Net cash used in investing activities	(692,640)	(6,384,006)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock under employee stock purchase plan	135,981	142,542
Proceeds from issuance of common stock upon exercise of stock options	14,996	147,707
Other	(55,748)	-
Net cash provided by financing activities	95,229	290,249
Increase (decrease) in cash and cash equivalents	1,188,612	(5,300,284)
Cash and cash equivalents, beginning of period	5,678,143	11,281,027
Cash and cash equivalents, end of period	<u>\$ 6,866,755</u>	<u>\$ 5,980,743</u>

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

**Note 1. Basis of Presentation**

The accompanying 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 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, 2012.

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, when dilutive.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 1,146,987	\$ 1,741,960	\$ 2,237,476	\$ 2,873,486
Weighted average common shares	12,513,084	12,388,162	12,497,462	12,339,673
Dilutive potential common shares	692,734	282,238	479,334	389,155
Weighted average dilutive common shares outstanding	13,205,818	12,670,400	12,976,795	12,728,828
Net income per common share:				
Basic	\$ 0.09	\$ 0.14	\$ 0.18	\$ 0.23
Diluted	\$ 0.09	\$ 0.14	\$ 0.17	\$ 0.23

The calculation of diluted net income per common share excludes 323,500 potentially dilutive shares for the three months ended June 30, 2012 because their effect would be anti-dilutive.

**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 when purchased 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 are as follows:

	June 30, 2013	September 30, 2012
Less than one year	\$ 8,039,000	\$ 9,107,000
1-3 years	5,641,000	4,572,000
Total	\$ 13,680,000	\$ 13,679,000

#### Note 4. Stock Based Compensation

The Company recorded \$570,574 of compensation expense related to current and past option grants, restricted stock grants and the Company's Employee Stock Purchase Plan for the nine months ended June 30, 2013. The Company recorded \$326,651 of compensation expense related to current and past equity awards for the nine months ended June 30, 2012. This expense is included in selling, general and administrative expense. As of June 30, 2013, \$2,105,047 of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a weighted average period of approximately 4.2 years.

There were no stock options granted during the nine-month period ended June 30, 2013. During the nine month period ended June 30, 2012, the Company granted non-employee directors non-qualified stock options to purchase an aggregate of 12,000 shares of common stock with a contractual term of 6 years, a vesting term of one year, an exercise price of \$5.91 and a fair value of \$4.12 per share.

The following is a summary of stock option activity during the nine months ended June 30, 2013:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2012	1,029,176	\$ 3.07
Granted	-	-
Exercised	(47,657)	1.51
Cancelled or Forfeited	(9,000)	5.73
Outstanding at June 30, 2013	<u>972,519</u>	\$ 3.11

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. At June 30, 2013, the weighted average remaining contractual term for all outstanding stock options was 4.04 years and their aggregate intrinsic value was \$6,125,305. At June 30, 2013, the weighted average remaining contractual terms of options that were exercisable was 4.02 years and their aggregate intrinsic value was \$5,149,482. During the nine months ended June 30, 2013, the Company received proceeds of \$14,996 from the exercise of stock options. During the nine months ended June 30, 2012, exercised stock options totaled 168,148 shares, resulting in \$147,707 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 five years.

During the nine month period ended June 30, 2013, the Company granted non-employee directors restricted stock awards totaling 9,090 shares of common stock, with a vesting term of approximately one year and a fair value of \$5.50 per share. Restricted stock transactions during the nine-month period ended June 30, 2013 is summarized as follows:

	Number of shares	Weighted average grant date fair value
Unvested shares at September 30, 2012	363,336	\$ 5.07
Granted	9,090	5.50
Vested	-	-
Forfeited	(5,000)	5.10
Unvested at June 30, 2013	<u>367,426</u>	\$ 5.08

## Employee Stock Purchase Plan

Clearfield, Inc.'s Employee Stock Purchase Plan ("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 June 30, 2013, and December 31, 2012, employees purchased 17,597 and 18,000 shares at a price of \$3.82 per share. After the employee purchase on June 30, 2013, 203,245 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. At June 30, 2013 and 2012, respectively, the balance in the allowance for doubtful accounts was \$97,950.

## Note 6. Inventories

Inventories consist of the following as of:

	June 30, 2013	September 30, 2012
Raw materials	\$ 3,215,170	\$ 2,300,380
Work-in-progress	651,454	336,298
Finished goods	1,099,524	334,936
	<u>\$ 4,966,348</u>	<u>\$ 2,971,614</u>

## Note 7. Major Customer Concentration

Customers A and B comprised approximately 22% and 15% of total sales for the nine months ended June 30, 2013. Customer A comprised 22% of total sales for the nine months ended June 30, 2012.

At June 30, 2012, Customer C accounted for 15% of accounts receivable.

## Note 8. Goodwill and Patents

The Company analyzes its goodwill for impairment annually or at an interim period when events occur or changes in circumstances indicate potential impairment. The result of the analysis performed in the fourth quarter ended September 30, 2012 did not indicate an impairment of goodwill. During the quarter ended June 30, 2013, there were no triggering events that indicate potential impairment exists.

The Company capitalizes legal costs incurred to obtain patents. Once accepted by either the U.S. Patent Office or the equivalent office of a foreign country, these legal costs are amortized using the straight-line method over the remaining estimated lives, not exceeding 17 years. As of June 30, 2013 the Company has three patents granted and four pending applications pending inside and outside the United States.

## Note 9. Income Taxes

For the three months ended June 30, 2013, the Company recorded a provision for income taxes of approximately \$671,000, reflecting an effective tax rate of 36.9%. The primary difference between the effective tax rate and the statutory tax rate is related to nondeductible meals and entertainment and expenses related to equity award compensation.

During the fourth quarter ended September 30, 2012, the Company reversed a substantial portion of its deferred tax asset valuation allowance to record the amount of deferred tax assets that we believe are more likely than not to be realized. This determination was based on weighing both the positive and negative evidence available including, but not limited to, our earnings history, our projected future taxable income, our business strategy and the nature of each of our deferred tax assets. The reduction in the valuation allowance in the fourth quarter of fiscal year 2012 resulted in a non-cash income tax benefit of approximately \$3.5 million. As of September 30, 2012, the Company had a remaining valuation allowance of approximately \$975,000 related to state net operating loss carry forwards the Company does not expect to utilize. Based on the Company's analysis and review of long-term forecasts and all available evidence, the Company has determined that there should be no change in this existing valuation allowance in the current quarter.

For the three months ended June 30, 2012, the Company recorded a provision for income taxes of approximately \$65,000, reflecting an effective tax rate of 3.6%. For the three months ended June 30, 2012, the Company's tax provision included estimated current federal alternative minimum taxes and state franchise taxes, but was primarily related to deferred tax expense related to book and income tax basis difference in goodwill on prior asset acquisitions. The change in valuation allowance was \$234,000. This change consisted of \$238,000 of tax benefit as a result of a reduction in valuation allowance after considering current financial condition and potential future taxable income. This reduction was partially offset by a \$14,000 increase in valuation allowance from the current year AMT tax credit generated as its utilization does not meet the "more likely than not" criteria.

Deferred taxes recognize the impact of temporary differences between the amounts of the assets and liabilities recorded for financial statement purposes and these amounts measured in accordance with tax laws. The Company's realization of net operating loss carry-forward and other deferred tax temporary differences is contingent upon future taxable earnings. The Company reviewed its deferred tax asset for expected utilization using a "more likely than not" criteria by assessing the available positive and negative factors surrounding its recoverability.

As of June 30, 2013, we do not have any unrecognized tax benefits. It is the Company's practice to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company does not expect any material changes in its unrecognized tax positions over the next 12 months.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. Words such as "plan," "expect," "aim," "believe," "project," "target," "anticipate," "intend," "estimate," "will," "should," "could" and other words and terms of similar meaning, typically identify these forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual results could differ from those projected in any forward-looking statements because of the factors identified in and incorporated by reference from Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended September 30, 2012, as well as in other filings we make with the Securities and Exchange Commission, which should be considered an integral part of Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward-looking statements included herein are made as the date of this Quarterly Report on Form 10-Q and we assume no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.*

The following discussion and analysis of our financial condition and results of operations as of and for the three months ended June 30, 2013 and 2012 should be read in conjunction with the financial statements and related notes in Item 1 of this report and our Annual Report on Form 10-K for the year ended September 30, 2012.

## **OVERVIEW**

### **General**

Clearfield, Inc. manufactures, markets, and sells an end-to-end fiber management and enclosure platform that consolidates, distributes and protects fiber as it moves from the inside plant to the outside plant and all the way to the home, business and cell site (FTTx). While continuing to penetrate the wireline requirements for FTTx builds, Clearfield is actively engaged in the expansion of wireless services through the deployments of its technologies for cell backhaul and distributed antennas wireless services.

The Company has successfully established itself as a value-added supplier to its target market of broadband service providers, including independent local exchange carriers (telephone), multiple service operators (or MSO's) (cable), wireless service providers, municipal-owned utilities, as well as commercial and industrial original equipment manufacturers ("OEMs"). Clearfield has continued to expand its product offerings and broaden its customer base during the last five years.

The Company has historically focused on the un-served or under-served rural communities who receive their voice, video and data services from independent telephone companies. By aligning its in-house engineering and technical knowledge alongside its customers, the Company has been able to develop, customize and enhance products from design through production. Final build and assembly of the Company's products is completed at Clearfield's plant in Plymouth, Minnesota with manufacturing support from a network of domestic and global manufacturing partners. Clearfield specializes in producing these products on both a quick-turn and scheduled delivery basis. The Company deploys a hybrid sales model with some sales made directly to the customer, some made through two-tier distribution (channel) partners, and some sales through original equipment suppliers (OEM's) who private label their products.

### **RESULTS OF OPERATIONS**

#### **THREE MONTHS ENDED JUNE 30, 2013 VS. THREE MONTHS ENDED JUNE 30, 2012**

Revenues for the third fiscal quarter of 2013 ended June 30, 2013 were \$13,535,000, an increase of approximately 25% or \$2,741,000 from revenue of \$10,794,000 for the third fiscal quarter of fiscal 2012. Revenues to broadband service providers and commercial data networks customers were \$12,090,000 in the fiscal 2013 third quarter, versus \$9,523,000 in the same period of fiscal 2012. Revenues to build-to-print and OEM customers were \$1,445,000 in the fiscal 2013 third quarter versus \$1,271,000 in the same period of fiscal 2012. Revenue growth in fiscal 2013 was experienced from existing clients as well as from the development of accounts in traditional and new territories across the telco industry, including international territories. Project based business accelerated with multiple large orders from several customers. Revenues were positively affected by increased demand in inside and outside plant deployment of fiber. In addition, increases were driven in part by new product offerings in the access network that drives fiber closer to the home, business and cell tower (FTTx). Operating results for the third quarter of fiscal year 2013 are not necessarily indicative of results to be expected for future quarters or the entire year, due to variability in customer purchasing patterns, seasonality of the business, and operating and other factors.

Cost of sales for the third quarter of fiscal 2013 was \$7,906,000, an increase of \$1,669,000, or 27%, from \$6,237,000 in the comparable period of fiscal 2012. Gross margin was 41.6% in the fiscal 2013 third quarter, down from 42.2% for the fiscal 2012 third quarter. Gross profit increased \$1,072,000, or 23%, to \$5,629,000 for the three months ended June 30, 2013 from \$4,557,000 in the comparable period in fiscal 2012. The increase in gross profit and cost of goods in the third quarter of fiscal 2013 is primarily a result of increased sales volume, along with a higher percentage of sales associated with optical component technologies.

Selling, general and administrative expenses increased \$1,059,000, or 38%, to \$3,833,000 in the fiscal 2013 third quarter from \$2,774,000 for the fiscal 2012 third quarter. The increases in the fiscal 2013 quarter include higher compensation and incentive expenses in the amount of \$800,000 due to higher revenues, an increase in product development costs of \$50,000, and an increase in equity compensation expense of \$80,000 due to a higher number of equity awards outstanding in the three months ended June 30, 2013 versus June 30, 2012.

Income from operations for the quarter ended June 30, 2013 was \$1,796,000 compared to income from operations of \$1,783,000 for the comparable quarter of fiscal 2012, an increase of \$13,000, or approximately 1%. This increase is attributable to higher revenue and gross profit in the fiscal 2013 quarter versus the 2012 quarter.

Interest income for the quarter ended June 30, 2013 was \$22,000 compared to \$24,000 for the comparable quarter for fiscal 2012. Interest rates have continued to decline resulting in lower returns. The Company invests its excess cash primarily in FDIC-backed bank certificates of deposit and money market accounts.

We recorded a provision for income taxes of \$671,000 and \$64,000 for the three months ended June 30, 2013 and 2012, respectively. We record our quarterly provision for income taxes based on our estimated annual effective tax rate for the year. The increase in tax expense of \$607,000 from the third quarter for fiscal 2012 is primarily due to deferred tax expense resulting from the reversal of a portion of the deferred tax asset valuation allowance in the third quarter of fiscal 2012.

The Company's net income for the three months ended June 30, 2013 was \$1,147,000 or \$0.09 per basic and diluted share. The Company's net income for the three months ended June 30, 2012 was \$1,741,000, or \$0.14 per basic and diluted share.

#### **NINE MONTHS ENDED JUNE 30, 2013 VS. NINE MONTHS ENDED JUNE 30, 2012**

Revenues for the nine months ended June 30, 2013 were \$34,314,000, an increase of 27% or approximately \$7,243,000 from revenue of \$27,071,000 for the first nine months of fiscal 2012. Revenues to broadband service providers and commercial data networks customers were \$30,574,000 for the first nine months of the fiscal 2013 third quarter, versus \$23,306,000 in the same period of fiscal 2012. Revenues to build-to-print and OEM customers were \$3,740,000 in the first nine months of fiscal 2013 versus \$3,765,000 in the same period of fiscal 2012. Revenues in the nine months ended fiscal 2012 were negatively affected by new government funding regulations affecting the broadband service provider industry enacted in the second quarter of that period. Revenue growth year over year was experienced from existing clients as well as from the development of accounts in traditional and new territories across the telco industry, including new international territories. Project based business accelerated with multiple large orders from several customers. In addition to revenues from inside and outside plant deployment of fiber, increases were driven in part by new product offerings in the access network that drives fiber closer to the home, business and cell tower (FTTx). Operating results for the first three quarters of fiscal 2013 are not necessarily indicative of results to be expected for future quarters or the entire year, due to variability in customer purchasing patterns, seasonality of the business, and operating and other factors.

Cost of sales for the nine months ended June 30, 2013 was \$20,546,000, an increase of \$4,545,000, or 28%, from \$16,001,000 in the comparable period. Gross margin was 40.1% for the first nine months of fiscal 2013, down from 40.9% for the comparable nine months in fiscal 2012. Gross profit increased \$2,698,000, or 24%, to \$13,769,000 for the nine months ended June 30, 2013 from \$2,698,000 in the comparable period in fiscal 2012. The increase in gross profit and cost of goods is primarily a result of increased sales volume.

Selling, general and administrative expenses increased 25%, or \$2,018,000, from \$8,120,000 for the first nine months of fiscal 2012 to \$10,137,000 for the first nine months of fiscal 2013. This increase is primarily composed of \$1,190,000 in higher commission and performance compensation accruals associated with higher revenue increase in sales personnel. Equity compensation expense increased \$244,000 due to a higher number of equity awards outstanding, product development costs increased \$160,000, and trade show expenses increased \$83,000 in the nine months ended June 30, 2013 versus June 30, 2012.

Income from operations for the nine months ended June 30, 2013 was \$3,631,000 compared to income of \$2,950,000 for the first nine months of fiscal 2012, an increase of \$681,000, or 23%. This increase is attributable to increased revenue and gross profit.

Interest income for the nine months ended June 30, 2013 was \$70,000 compared to \$77,000 for the comparable period for fiscal 2012. Interest rates have continued to decline resulting in lower returns. The Company invests its excess cash primarily in FDIC-backed bank certificates of deposit and money market accounts.

We recorded a provision for income taxes of \$1,464,000 and \$155,000 for the nine months ended June 30, 2013 and 2012, respectively. We record our quarterly provision for income taxes based on our estimated annual effective tax rate for the year. The increase in tax expense of \$1,309,000 from the first nine months of fiscal 2012 is primarily due to deferred tax benefit resulting from the reversal of a portion of the deferred tax asset valuation allowance in the first nine months of fiscal 2012.

The Company's net income for the first nine months of fiscal 2013 ended June 30, 2013 was \$2,237,000, or \$0.18 per basic and \$0.17 per diluted share. The Company's net income for the first nine months of fiscal 2012 ended June 30, 2012 was \$2,873,000 or \$0.23 per basic share and diluted share.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2013, our principal source of liquidity was our cash, cash equivalents and short-term investments. Those sources total \$14,906,000 at June 30, 2013 compared to \$14,785,000 at September 30, 2012. Our excess cash is invested mainly in certificates of deposit backed by the FDIC and money market accounts. The majority of our funds are insured by the FDIC. Investments considered long-term are \$5,641,000 at June 30, 2013, compared to \$4,572,000 at September 30, 2012. We believe the combined balances of short-term cash and investments along with long-term investments provide a more accurate indication of our available liquidity. At June 30, 2013, Clearfield had no debt along with \$20,547,000 in cash, cash equivalents and investments, compared to \$19,357,000 at September 30, 2012.

The Company expects to fund operations with its working capital, which is the combination of existing cash and cash equivalents and cash flow from operations, accounts receivable and inventory. The Company intends to use its cash assets primarily for its continued organic growth. Additionally, the Company may use some available cash for potential future strategic initiatives or alliances. We believe our cash and cash equivalents at June 30, 2013, along with cash flow from future operations, will be sufficient to fund our working capital and capital resources needs for the next 12 months.

### **Operating Activities**

Net cash provided by operating activities totaled \$1,786,000 for the nine months ended June 30, 2013. This was primarily due to net income of \$2,237,000, non-cash expenses for depreciation and amortization of \$361,000, deferred taxes of \$1,350,000, loss on asset disposals of \$11,000, and stock based compensation of \$571,000, offset by changes in operating assets and liabilities using cash. Changes in operating assets and liabilities using cash include increases in inventory of \$1,995,000, other current assets of \$55,000, and accounts receivable of \$2,026,000. The increase in inventory reflects higher stocking levels for existing products due to higher demand, and for new product offerings including Clearview Blue and the recently announced FieldShield. Quarterly accounts receivable balances can be influenced by the timing of shipments for customer projects and payment terms within the quarter. Changes using cash also include an increase in accounts payable and accrued expenses in the amount of \$1,330,000, primarily related to increased inventory purchases.

Net cash generated from operating activities totaled \$793,000 for the nine months ended June 30, 2012. This was primarily due to net income of \$2,873,000, and non-cash expenses for depreciation and amortization of \$300,000, deferred taxes of \$62,000, loss on asset disposals of \$21,000, and stock based compensation of \$327,000. Changes in operating assets and liabilities using cash include increases in inventory of \$242,000, other current assets of \$351,000, and accounts receivable of \$864,000. Changes using cash also include a decrease in accounts payable and accrued expenses in the amount of \$1,332,000, primarily reflecting fiscal 2011 accrued bonus compensation accruals paid in the first quarter of fiscal 2012.

### **Investing Activities**

We invest our excess cash in money market accounts and bank CDs in denominations across numerous banks. We believe we obtain a competitive rate of return given the economic climate along with the security provided by the FDIC on these investments. During the nine months ended June 30, 2013 we used cash to purchase \$7,063,000 of FDIC-backed securities and received \$7,062,000 on CDs that matured. Purchases of patent fees and capital equipment, mainly information technology and manufacturing equipment, consumed \$692,000 of cash.

During the nine month period ended June 30, 2012 we used cash to purchase \$8,661,000 of FDIC-backed securities and received \$2,574,000 on CDs that matured. Purchases of patent fees and capital equipment, mainly information technology equipment and vehicles, consumed \$297,000 of cash.

#### Financing Activities

For the nine months ended June 30, 2013 we received \$136,000 from employees' participation and purchase of stock through our ESPP. We received \$15,000 from the issuance of stock as a result of employees exercising options, and used \$56,000 to pay for taxes as a result of employee's exercises of options using share withholding.

For the nine month period ended June 30, 2012 we received \$143,000 from employees' participation and purchase of stock through our ESPP and \$148,000 from the issuance of stock as a result of employees exercising options.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company's accounting policies. The accounting policies considered by management to be the most critical to the presentation of the financial statements because they require the most difficult, subjective and complex judgments include revenue recognition, stock-based compensation, deferred tax asset valuation allowances, accruals for uncertain tax positions, and impairment of goodwill and long-lived assets.

These accounting policies are described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the year ended September 30, 2012. Management made no changes to the Company's critical accounting policies during the quarter ended June 30, 2013.

In applying its critical accounting policies, management reassesses its estimates each reporting period based on available information. Changes in these estimates did not have a significant impact on earnings for the quarter ended June 30, 2013.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2013. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

#### **Changes in Internal Control over Financial Reporting**

As previously disclosed, the Company identified a material weakness at December 31, 2012 related to the evaluation of non-routine events or transactions. Subsequent to the identification of this material weakness, the Company implemented additional procedures relating to non-routine events as part of its remediation efforts. However, these additional control procedures had not operated for an appropriate amount of time to determine their effectiveness at March 31, 2013, and as such, the Company determined the material weakness in internal control over financial reporting has not been remediated as of March 31, 2013. The Company conducted additional remediation and testing in the quarter ended June 30, 2013 and determined that the material weakness in internal control over financial reporting relating to non-routine events had been remediated as of June 30, 2013.

Other than changes relating to the remediation of the material weakness described above, there were no changes to the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended, that occurred during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is exposed to a number of asserted and unasserted legal claims encountered in the ordinary course of business. Although the outcome of any such legal action cannot be predicted, management believes that there are no pending legal proceedings against or involving the Company for which the outcome is likely to have a material adverse effect upon its financial position or results of operations.

### **ITEM 1A. RISK FACTORS**

The most significant risk factors applicable to the Company are described in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2012. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

Exhibit 31.1 – Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act

Exhibit 31.2 – Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act

Exhibit 32.1 – Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350

**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.

**CLEARFIELD, INC.**

August 8, 2013

/s/ Cheryl P. Beranek  
By: Cheryl P. Beranek  
Its: President and Chief Executive Officer  
(Principal Executive Officer)

August 8, 2013

/s/ Daniel Herzog  
By: Daniel Herzog  
Its: Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Cheryl P. Beranek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clearfield, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2013

/s/ Cheryl P. Beranek

By: Cheryl P. Beranek, President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Daniel Herzog, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Clearfield, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2013

/s/ Daniel Herzog

Daniel Herzog, Chief Financial Officer  
(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned certify pursuant to 18 U.S.C. § 1350, that:

- (1) The accompanying Quarterly Report on Form 10-Q for the period ended June 30, 2013 of Clearfield, Inc. (the "Company") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2013

/s/ Cheryl P. Beranek  
By: Cheryl P. Beranek, President and Chief Executive Officer  
(Principal Executive Officer)

August 8, 2013

/s/ Daniel Herzog  
Daniel Herzog, Chief Financial Officer  
(Principal Financial and Accounting Officer)