

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 SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

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.)

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).

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 April 27, 2016
13,790,571

CLEARFIELD, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2016	(Audited) September 30, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,550,592	\$ 18,071,210
Short-term investments	8,394,075	7,925,000
Accounts receivables, net	7,854,107	6,010,900
Inventories	8,102,529	7,182,854
Deferred taxes	-	1,146,899
Other current assets	582,186	416,766
Total current assets	45,483,489	40,753,629
Property, plant and equipment, net	5,377,459	5,689,673
Other Assets		
Long-term investments	7,783,000	8,290,000
Goodwill	2,570,511	2,570,511
Other	350,793	323,804
Total other assets	10,704,304	11,184,315
Total Assets	\$ 61,565,252	\$ 57,627,617
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	3,155,222	2,357,791
Accrued compensation	2,533,939	2,598,661
Accrued expenses	53,153	80,803
Total current liabilities	5,742,314	5,037,255
Other Liabilities		
Deferred taxes	436,988	1,082,887
Deferred rent	237,874	228,345
Total other liabilities	674,862	1,311,232
Total Liabilities	6,417,176	6,348,487
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; 13,730,571 and 13,705,658, shares issued and outstanding at March 31, 2016 and September 30, 2015	137,306	137,057
Additional paid-in capital	56,934,561	55,887,850
Accumulated deficit	(1,923,791)	(4,745,777)
Total Shareholders' Equity	55,148,076	51,279,130
Total Liabilities and Shareholders' Equity	\$ 61,565,252	\$ 57,627,617

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONDENSED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Net sales	\$ 16,947,187	\$ 12,370,784	\$ 32,636,902	\$ 26,357,404
Cost of sales	9,666,738	7,617,347	18,679,657	15,861,453
Gross profit	7,280,449	4,753,437	13,957,245	10,495,951
Operating expenses				
Selling, general and administrative	5,136,952	4,289,304	9,833,967	8,415,301
Income from operations	2,143,497	464,133	4,123,278	2,080,650
Interest income	39,169	24,528	72,708	50,384
Income before income taxes	2,182,666	488,661	4,195,986	2,131,034
Income tax expense	744,000	200,000	1,374,000	773,000
Net income	\$ 1,438,666	\$ 288,661	\$ 2,821,986	\$ 1,358,034
Net income per share:				
Basic	\$ 0.11	\$ 0.02	\$ 0.21	\$ 0.10
Diluted	\$ 0.11	\$ 0.02	\$ 0.21	\$ 0.10
Weighted average shares outstanding:				
Basic	13,309,181	13,191,234	13,298,874	13,206,877
Diluted	13,581,810	13,546,572	13,578,430	13,564,173

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.
CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 2,821,986	\$ 1,358,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	706,176	545,782
Deferred taxes	501,000	712,000
Loss (gain) on disposal of assets	1,390	(13,290)
Stock-based compensation	473,193	564,466
Tax benefit from stock-based awards	(741,000)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,843,207)	272,089
Inventories	(919,675)	226,121
Prepaid expenses and other	(166,124)	(363,352)
Accounts payable and accrued expenses	1,455,588	(386,692)
Net cash provided by operating activities	2,289,327	2,915,158
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(421,637)	(3,328,579)
Purchases of investments	(3,820,075)	(4,168,000)
Proceeds from maturities of investments	3,858,000	4,166,000
Net cash used in investing activities	(383,712)	(3,330,579)
Cash flows from financing activities		
Tax benefit from stock-based awards	741,000	-
Proceeds from issuance of common stock under employee stock purchase plan	118,013	105,615
Proceeds from issuance of common stock upon exercise of stock options	84,738	28,967
Tax withholding related to exercise of stock options	(36,223)	-
Repurchase of common stock	(333,761)	(849,157)
Net cash provided by (used in) financing activities	573,767	(714,575)
Increase (decrease) in cash and cash equivalents	2,479,382	(1,129,996)
Cash and cash equivalents, beginning of period	18,071,210	18,191,493
Cash and cash equivalents, end of period	<u>\$ 20,550,592</u>	<u>\$ 17,061,497</u>
Supplemental disclosures for cash flow information		
Cash paid during the year for income taxes	<u>\$ 83,884</u>	<u>\$ 4,750</u>
Non-cash financing activities		
Cashless exercise of stock options	<u>\$ 234,460</u>	<u>\$ 80,802</u>

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, 2015, 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, 2015.

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 March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Net income	\$ 1,438,666	\$ 288,661	\$ 2,821,986	\$ 1,358,034
Weighted average common shares	13,309,181	13,191,234	13,298,874	13,206,877
Dilutive potential common shares	272,629	355,338	279,556	357,296
Weighted average dilutive common shares outstanding	13,581,810	13,546,572	13,578,430	13,564,173
Net income per common share:				
Basic	\$ 0.11	\$ 0.02	\$ 0.21	\$ 0.10
Diluted	\$ 0.11	\$ 0.02	\$ 0.21	\$ 0.10

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. Investments maturing in less than one year are classified as short term investments on the balance sheet, and investments maturing in one year or greater are classified as long term investments on the balance sheet. The maturity dates of the Company's CDs at March 31, 2016 and September 30, 2015 are as follows:

	March 31, 2016	September 30, 2015
Less than one year	\$ 8,394,075	\$ 7,925,000
1-3 years	7,783,000	8,290,000
Total	\$ 16,177,075	\$ 16,215,000

Note 4. Stock-Based Compensation

The Company recorded \$246,426 and \$473,193 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 and six months ended March 31, 2016, respectively. For the three months ended March 31, 2016, \$224,156 of this expense is included in selling, general and administrative expense, and \$22,270 is included in cost of sales. For the six months ended March 31, 2016, \$429,037 of this expense is included in selling, general and administrative expense, and \$44,156 is included in cost of sales. The Company recorded \$280,839 and \$564,466 of compensation expense related to current and past equity awards for the three and six months ended March 31, 2015, respectively. For the three and six months ended March 31, 2015, all of this expense is included in selling, general and administrative expense. As of March 31, 2015, \$3,959,018 of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a period of approximately 8.6 years.

There were no stock options granted during the six month periods ended March 31, 2016 or March 31, 2015. The following is a summary of stock option activity during the six months ended March 31, 2016:

	Number of options	Weighted average exercise price
Outstanding at September 30, 2015	297,384	\$ 5.29
Granted	-	-
Exercised	(57,050)	5.60
Cancelled or Forfeited	-	-
Outstanding at March 31, 2016	<u>240,334</u>	<u>\$ 5.22</u>

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. As of March 31, 2016, the weighted average remaining contractual term for all outstanding and exercisable stock options was 1.2 years and their aggregate intrinsic value was \$2,608,019. During the six months ended March 31, 2016, the Company received proceeds of \$84,738 from the exercise of stock options. During the six months ended March 31, 2015, exercised stock options totaled 40,000 shares, resulting in \$28,967 of proceeds to the Company.

Restricted Stock

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

During the six month period ended March 31, 2016, the Company granted non-employee directors restricted stock awards totaling 2,712 shares of common stock, with a vesting term of approximately one year and a fair value of \$14.73 per share. The Company also granted outgoing non-employee directors fully-vested stock awards totaling 1,356 shares of common stock, with a fair value of \$14.73 per share. Additionally, the Company granted employees restricted stock awards totaling 8,500 shares of common stock, with a vesting term of five years and a fair value of \$13.64 per share during the six month period ended March 31, 2016.

During the six month period ended March 31, 2015, the Company granted non-employee directors restricted stock awards totaling 3,705 shares of common stock, with a vesting term of approximately one year and a fair value of \$13.48 per share. Additionally, 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 six month period ended March 31, 2016 are summarized as follows:

	Number of shares	Weighted average grant date fair value
Unvested shares at September 30, 2015	409,130	\$ 9.97
Granted	12,568	13.99
Vested	(5,956)	14.09
Forfeited	(8,400)	12.04
Unvested at March 31, 2016	<u>407,342</u>	<u>\$ 10.57</u>

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, 2015 and December 31, 2014, employees purchased 10,352 and 10,097 shares at a price of \$11.40 and \$10.46 per share, respectively. After the employee purchase on December 31, 2015, 155,088 shares of common stock were available for future purchase under the ESPP.

Note 5. Accounts Receivable and Net Sales

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 March 31, 2016 and September 30, 2015, the balance in the allowance for doubtful accounts was \$104,473 and \$79,473, respectively.

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

Note 6. Inventories

Inventories consist of the following as of:

	March 31, 2016	September 30, 2015
Raw materials	\$ 5,310,196	\$ 4,811,993
Work-in-progress	811,203	310,149
Finished goods	1,981,130	2,060,712
Inventories	<u>\$ 8,102,529</u>	<u>\$ 7,182,854</u>

Note 7. Major Customer Concentration

The following table summarizes customers comprising 10% or more of net sales for the three and six months ended March 31, 2016 and March 31, 2015:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Customer A	21%	31%	23%	27%
Customer B	18%	*	15%	*

* Less than 10%

As of March 31, 2016, Customer B accounted for 25% of accounts receivable. As of September 30, 2015, Customers B and A accounted for 17% and 14% of accounts receivable, respectively. Customers A and B are both distributors.

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, 2015 did not indicate an impairment of goodwill. During the six months ended March 31, 2016, 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 20 years. As of March 31, 2016, the Company has five patents granted and six pending applications inside the United States.

Note 9. Income Taxes

For the three and six months ended March 31, 2016, the Company recorded a provision for income taxes of \$744,000 and \$1,374,000, respectively, reflecting an effective tax rate of 34.1% and 32.7%, respectively. The primary difference between the effective tax rate and the statutory tax rate is related to nondeductible meals and entertainment, expenses related to equity award compensation and favorable discrete items for the three and six months ended March 31, 2016, including the benefit related to research and development credits which was permanently extended in December 2015 by the federal government.

As of both March 31, 2016 and September 30, 2015, the Company had a remaining valuation allowance of approximately \$659,000 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 quarter ended March 31, 2016.

For the three and six months ended March 31, 2015, the Company recorded a provision for income taxes of \$200,000 and \$773,000, respectively, reflecting an effective tax rate of 40.9% and 36.3%, respectively. 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.

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-forwards 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 March 31, 2016, 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.

During the quarter ended December 31, 2015, the Company early adopted Accounting Standards Update ("ASU") 2015-17 to present balance sheet classification of deferred income taxes as noncurrent. This adoption was applied prospectively and therefore, prior periods were not retrospectively adjusted.

Note 10. Accounting Pronouncements

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance creating Accounting Standards Codification ("ASC") Section 606, *Revenue from Contracts with Customers*. The new section will replace Section 605, "Revenue Recognition" and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as, to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the impact the adoption of this standard will have on our financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory* which applies to all inventory except inventory that is measured using last-in, first-out ("LIFO") or the retail inventory method. Inventory measured using first-in, first-out ("FIFO") or average cost is covered by the new amendments. Inventory within the scope of the new guidance should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments will take effect for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new guidance should be applied prospectively, and earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is evaluating the impact the adoption of this ASU will have on our financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to present right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact the adoption of this ASU will have on our financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is evaluating the impact the adoption of this ASU will have on our financial statements.

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, 2015, 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 and six months ended March 31, 2016 and 2015 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, 2015.

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. While continuing to penetrate the wireline requirements for fiber-to-the-home (“FTTH”) 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 (“ILEC”) (telephone, or “telcos”), multiple service operators (cable), wireless service providers, competitive local exchange carriers (“CLEC”), municipal-owned utilities, as well as commercial and industrial original equipment manufacturers (“OEMs”). In this and future filings, the Company will replace the historic references of customer type labels ILEC and CLEC with ‘Traditional Carrier’ and ‘Alternative Carrier,’ respectively. By Traditional Carrier, we refer to the incumbent service providers within the wireline, wireless, municipality and cable TV markets. The Alternative Carrier label will be used for the competitive providers that compete with the already established local exchange carriers through the process of overbuilding a network. Clearfield has expanded its product offerings and broadened its customer base during its years of operation.

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 plants in Brooklyn Park, Minnesota, and Mexico, with manufacturing support from a network of domestic and global manufacturing partners. On September 9, 2014, the Company entered into a lease for a new facility in Brooklyn Park, Minnesota which replaced its plant in Plymouth. The lease term commenced in January 2015 and this facility now serves as the Company's headquarters. 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 who private label their products.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2016 VS. THREE MONTHS ENDED MARCH 31, 2015

Net sales for the second quarter of fiscal 2016 ended March 31, 2016 were \$16,947,000, an increase of approximately 37%, or \$4,576,000 from net sales of \$12,371,000 for the second quarter of fiscal 2015. Net sales to broadband service providers and commercial data networks customers were \$15,678,000 in the second quarter of fiscal 2016, versus \$11,124,000 in the same period of fiscal 2015. Among this group, the Company recorded \$713,000 in international sales for the second quarter of fiscal 2016, versus \$1,362,000 in the same period of fiscal 2015. Net sales to build-to-print and OEM customers were \$1,269,000 in the second quarter of fiscal 2016 versus \$1,247,000 in the same period of fiscal 2015. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 4% and 11% of total net sales for the second quarters of fiscal 2016 and 2015, respectively.

The increase in net sales for the quarter ended March 31, 2016 of \$4,576,000 compared to the quarter ended March 31, 2015 is primarily attributable to an increase of \$4,605,000 in net sales to our customer base of commercial data network providers, build-to-print and OEM manufacturers, and broadband service providers, outside of the Alternative Carrier group and international sales noted below, when compared to fiscal 2015. The improvement was due to increased deployments by the Company's Traditional Carrier customers, as well as expanded sales channels. Ongoing builds of an Alternative Carrier customer also increased net sales by \$620,000 in the quarter ended March 31, 2016. Net sales were negatively affected by a decrease in international sales of \$649,000 during the same period due to a decrease in demand due to unfavorable foreign currency exchange rates. The Company expects its international sales could be uneven until a more favorable foreign currency exchange rate environment exists. The Company does not have the ability to forecast future sales as revenue from all customers is obtained from purchase orders submitted from time to time. Accordingly, the Company's ability to predict orders in future periods or trends affecting orders in future periods is limited.

Cost of sales for the second quarter of fiscal 2016 was \$9,667,000, an increase of \$2,050,000, or 27%, from \$7,617,000 in the comparable period of fiscal 2015. Gross margin was 43.0% in the fiscal 2016 second quarter, an increase from 38.4% for the fiscal 2015 second quarter. Gross profit increased \$2,527,000, or 53%, to \$7,280,000 for the three months ended March 31, 2016 from \$4,753,000 in the comparable period in fiscal 2015. The increase in cost of sales in the second quarter of fiscal 2016 is primarily a result of increased net sales. The increase in gross profit percentage is the result of a higher percentage of sales associated with optical component technologies, which generally have higher margins.

Selling, general and administrative expenses increased \$848,000, or 20%, to \$5,137,000 in the fiscal 2016 second quarter from \$4,289,000 for the fiscal 2015 second quarter. The increase in the second quarter of fiscal 2016 consists primarily of higher compensation expenses in the amount of \$917,000 mainly due to additional personnel, wage increases, and higher performance compensation accruals.

Income from operations for the quarter ended March 31, 2016 was \$2,143,000 compared to income from operations of \$464,000 for the comparable quarter of fiscal 2015, an increase of approximately 362%. This increase is attributable to increased net sales and higher gross profit.

Interest income for the quarter ended March 31, 2016 was \$39,000 compared to \$25,000 for the comparable quarter for fiscal 2015. The increase is due mainly to higher interest rates earned on its investments in fiscal 2016. 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 \$744,000 and \$200,000 for the three months ended March 31, 2016 and 2015, respectively. Due to net operating loss utilization, income tax expense primarily had a non-cash effect on the operating cash flow in the second quarters of both fiscal 2016 and 2015. 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 \$544,000 from the second quarter for fiscal 2015 is primarily due to higher profitability in the second quarter of fiscal 2016. The decrease in the income tax expense rate to 34.1% for the second quarter of fiscal 2016 from 40.9% for the second quarter of fiscal 2015 is primarily the result of the Company having additional positive discrete items, including the benefit related to research and development credits for fiscal 2015 as a result of the permanent extension in December 2015 by the federal government and higher profitability in the second quarter of fiscal 2016. Our provisions for income taxes include current federal alternative minimum tax expense, state income tax expense and deferred tax expense.

The Company's net income for the three months ended March 31, 2016 was \$1,439,000, or \$0.11 per basic and diluted share. The Company's net income for the three months ended March 31, 2015 was \$289,000, or \$0.02 per basic and diluted share.

SIX MONTHS ENDED MARCH 31, 2016 VS. SIX MONTHS ENDED MARCH 31, 2015

Net sales for the six months ended March 31, 2016 were \$32,637,000, an increase of 24%, or approximately \$6,280,000 from net sales of \$26,357,000 for the first six months of fiscal 2015. Net sales to broadband service providers and commercial data networks customers were \$30,321,000 for the first six months of fiscal 2016, versus \$23,917,000 in the same period of fiscal 2015. Among this group, the Company recorded \$1,459,000 in international sales versus \$2,709,000 in the same period of fiscal 2015. Net sales to build-to-print and OEM customers were \$2,316,000 in the first six months of fiscal 2016 versus \$2,440,000 in the same period of fiscal 2015. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 4% and 10% of total net sales for the first six months of fiscal 2016 and 2015, respectively.

The increase in net sales for the six months ended March 31, 2016 of \$6,280,000 compared to the six months ended March 31, 2015 is primarily attributable to an increase of \$6,136,000 in net sales to our customer base of commercial data network providers, build-to-print and OEM manufacturers, and broadband service providers, outside of the Alternative Carrier group and international sales noted below, when compared to fiscal 2015. The improvement was due to increased deployments by the Company's Traditional Carrier customers, as well as expanded sales channels. Ongoing builds of an Alternative Carrier customer also increased net sales by \$1,394,000 in the six months ended March 31, 2016. Net sales were negatively affected by a decrease in international sales of \$1,250,000 during the same period due to a decrease in demand due to unfavorable foreign currency exchange rates. The Company expects its international sales may continue to be lower than the prior years until a more favorable foreign currency exchange rate environment exists. The Company does not have the ability to forecast future sales as revenue from all customers is obtained from purchase orders submitted from time to time. Accordingly, the Company's ability to predict orders in future periods or trends affecting orders in future periods is limited.

Cost of sales for the six months ended March 31, 2016 was \$18,680,000, an increase of \$2,819,000, or 18%, from \$15,861,000 in the comparable period of fiscal 2015. Gross margin was 42.8% in the fiscal 2016 first six months, up from 39.8% for the comparable six months in fiscal 2015. Gross profit increased \$3,461,000, or 33%, to \$13,957,000 for the six months ended March 31, 2016 from \$10,496,000 in the comparable period in fiscal 2015. The increase in cost of sales in the first six months of fiscal 2016 is primarily a result of increased net sales. The increase in gross profit percentage is the result of a higher percentage of sales associated with optical component technologies, which generally have higher margins.

Selling, general and administrative expenses increased 17%, or \$1,419,000, from \$8,415,000 for the first six months of fiscal 2015 to \$9,834,000 for the first six months of fiscal 2016. The increase in the first six months of fiscal 2016 consists primarily of higher compensation expenses in the amount of \$1,276,000 mainly due to additional personnel, wage increases, and higher performance compensation accruals and increased depreciation expense of \$91,000.

Income from operations for the six months ended March 31, 2016 was \$4,123,000 compared to income of \$2,081,000 for the first six months of fiscal 2015, an increase of \$2,042,000, or 98%. This increase is attributable to increased net sales and higher gross profit.

Interest income for the six months ended March 31, 2016 was \$73,000 compared to \$50,000 for the comparable period for fiscal 2015. The increase is due mainly to higher interest rates earned on its investments in fiscal 2016. 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 \$1,374,000 and \$773,000 for the six months ended March 31, 2016 and 2015, respectively. Due to net operating loss utilization, income tax expense primarily included a non-cash effect on the operating cash flow for the first six months of both fiscal 2016 and 2015. 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 \$601,000 from the six months ended March 31, 2015 is primarily due to higher profitability in the first six months of fiscal 2016. The decrease in the income tax expense rate to 32.7% for the first six months of fiscal 2016 from 36.3% for the first six months of fiscal 2015 is primarily the result of the Company having additional positive discrete items, including the benefit related to research and development credits for fiscal 2015 as a result of the permanent extension in December 2015 by the federal government and higher profitability in the first six months of fiscal 2016. Our provisions for income taxes include current federal alternative minimum tax expense, state income tax expense and deferred tax expense.

The Company's net income for the first six months of fiscal 2016 ended March 31, 2016 was \$2,822,000, or \$0.21 per basic and diluted share. The Company's net income for the first six months of fiscal 2015 ended March 31, 2015 was \$1,358,000, or \$0.10 per basic and diluted share.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2016, the Company had combined balances of cash, short-term and long-term investments of \$36,728,000 as compared to \$34,286,000 at September 30, 2015. As of March 31, 2016, our principal source of liquidity was our cash, cash equivalents and short-term investments. Those sources total \$28,945,000 at March 31, 2016 compared to \$25,996,000 at September 30, 2015. Our excess cash is invested mainly in certificates of deposit backed by the FDIC and money market accounts. Substantially all of our funds are insured by the FDIC. Investments considered long-term were \$7,783,000 as of March 31, 2016, compared to \$8,290,000 as of September 30, 2015. 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. We had no long-term debt obligations at March 31, 2016 or September 30, 2015.

We believe our existing cash equivalents and short and long-term investments, along with cash flow from operations, will be sufficient to meet our working capital and investment requirements for beyond the next 12 months. The Company intends on utilizing its available cash and assets primarily for its continued organic growth and potential future strategic transactions, as well as execution of the \$8,000,000 share repurchase program adopted by the Board of Directors on November 13, 2014.

Operating Activities

Net cash provided by operating activities totaled \$2,289,000 for the six months ended March 31, 2016. This was primarily due to net income of \$2,822,000, non-cash expenses for depreciation and amortization of \$706,000, deferred taxes of \$501,000, and stock-based compensation of \$473,000 offset by tax benefits from stock-based awards of \$741,000, in addition to changes in operating assets and liabilities using cash. The Company has historically been utilizing its net operating losses ("NOLs") for taxes due. When the NOLs are fully consumed, the Company will no longer have this non-cash tax benefit which will result in the Company having to use cash for its tax expense. The Company expects the NOLs to be exhausted in the 2016 calendar year. Changes in operating assets and liabilities using cash include increases for the six months ending March 31, 2016 in accounts receivable and inventory of \$1,843,000 and \$920,000, respectively. Accounts receivable balances can be influenced by the timing of shipments for customer projects and payment terms. Days sales outstanding, which measures how quickly receivables are collected, increased seven days to 42 days from September 30, 2015 to March 31, 2016. The increase in inventory represents an adjustment for seasonal demand along with changes in stocking levels. Changes in working capital items providing cash include an increase in accounts payable and accrued expenses in the amount of \$1,456,000, primarily reflecting inventory purchases.

Net cash provided by operating activities totaled \$2,915,000 for the six months ended March 31, 2015. This was primarily due to net income of \$1,358,000, non-cash expenses for depreciation and amortization of \$546,000, deferred taxes of \$712,000, and stock-based compensation of \$564,000, in addition to changes in operating assets and liabilities providing cash. Changes in operating assets and liabilities providing cash include decreases in accounts receivable and inventory of \$272,000 and \$226,000, respectively. Accounts receivable balances can be influenced by the timing of shipments for customer projects and payment terms. The decrease in inventory represents an adjustment for seasonal demand along with changes in stocking levels for product development life cycles. Changes in working capital items using cash include an increase in prepaid expenses and other of \$363,000 and a decrease in accounts payable and accrued expenses of \$387,000, primarily related to a reclassification from accounts receivable of \$284,000 to accrued liabilities for customers with rebate terms as rebates owed exceeded the related accounts receivable balance at March 31, 2015.

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 six months ended March 31, 2016, we used cash to purchase \$3,820,000 of FDIC-backed securities and received \$3,858,000 on CDs that matured. Purchases of capital equipment and patents, mainly related to information technology and manufacturing equipment, consumed \$422,000 of cash in the six months ended March 31, 2016.

During the six months ended March 31, 2015, we used cash to purchase \$4,168,000 of FDIC-backed securities and received \$4,166,000 on CDs that matured. Purchases of capital equipment and patents consumed \$3,329,000 of cash. This consisted primarily of \$3,027,000 in leasehold improvements and office equipment for the build out of our new facility which was completed in the second quarter of fiscal 2015.

Financing Activities

For the six months ended March 31, 2016, we received \$118,000 from employees' participation and purchase of stock through our ESPP. We also received \$85,000 from stock option exercises. Additionally, we recognized \$741,000 in tax benefits from stock-based awards and used \$334,000 to repurchase our common stock in the six months ended March 31, 2016. As of March 31, 2016, we had authority to purchase approximately \$6,817,000 in additional shares under the repurchase program announced on November 13, 2014.

For the six months ended March 31, 2015, we received \$106,000 from employees' participation and purchase of stock through our ESPP and \$29,000 from stock option exercises. For the six months ended March 31, 2015, we used \$849,000 to repurchase our common stock under our previously announced repurchase program.

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, 2015. Management made no changes to the Company's critical accounting policies during the quarter ended March 31, 2016.

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 March 31, 2016.

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 March 31, 2016. 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

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, that occurred during the quarter ended March 31, 2016 that 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, 2015. 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

In the three months ending March 31, 2016, the Company repurchased shares of stock as follows:

Period	ISSUER PURCHASES OF EQUITY SECURITIES			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
January 1-31, 2016	6,210	\$ 12.32	6,210	\$ 6,817,082
February 1-29, 2016	—	—	—	—
March 1-31, 2016	—	—	—	—
Total	6,210	\$ 12.32	6,210	\$ 6,817,082

(1) Amount remaining from the \$8,000,000 repurchase authorization approved by the Company's Board of Directors in November 2014. The program does not obligate Clearfield to repurchase any particular amount of common stock during any period. The repurchase will be funded by cash on hand. The repurchase program is expected to continue indefinitely until the maximum dollar amount of shares has been repurchased or until the repurchase program is earlier modified, suspended or terminated by the Board of Directors.

The Company may also repurchase shares of our common stock in connection with payment of taxes upon vesting of restricted stock previously issued to employees. There were no such repurchases during the quarter ended March 31, 2016.

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.

May 4, 2016

/s/ Cheryl Beranek

By: Cheryl Beranek
Its: President and Chief Executive Officer
(Principal Executive Officer)

May 4, 2016

/s/ Daniel Herzog

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

CERTIFICATION

I, Cheryl 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.

May 4, 2016

/s/ Cheryl Beranek

By: Cheryl 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.

May 4, 2016

/s/ Daniel Herzog

By: 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 March 31, 2016 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.

May 4, 2016

/s/ Cheryl Beranek

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

May 4, 2016

/s/ Daniel Herzog

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