

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 March 31, 2019

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 every Interactive Data File required to be submitted 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 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  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 19, 2019  
13,663,981

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2019	(Audited) September 30, 2018
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 7,905,627	\$ 8,547,777
Short-term investments	17,048,473	8,930,225
Accounts receivables, net	8,987,992	12,821,258
Inventories, net	8,273,522	10,050,135
Other current assets	1,253,635	742,136
Total current assets	<u>43,469,249</u>	<u>41,091,531</u>
Property, plant and equipment, net	<u>4,412,001</u>	<u>4,744,584</u>
Other Assets		
Long-term investments	18,574,000	17,974,000
Goodwill	4,708,511	4,708,511
Intangible assets, net	5,302,721	5,482,555
Other	202,516	227,461
Total other assets	<u>28,787,748</u>	<u>28,392,527</u>
<b>Total Assets</b>	<u>\$ 76,668,998</u>	<u>\$ 74,228,642</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	\$ 2,352,411	\$ 2,363,380
Accrued compensation	2,419,704	2,048,904
Accrued expenses	39,195	568,507
Total current liabilities	<u>4,811,310</u>	<u>4,980,791</u>
Other Liabilities		
Deferred taxes	104,935	104,935
Deferred rent	258,497	268,040
Total other liabilities	<u>363,432</u>	<u>372,975</u>
Total Liabilities	<u>5,174,742</u>	<u>5,353,766</u>
Shareholders' Equity		
Preferred stock, \$.01 par value; 500,000 shares; no shares issued or outstanding	-	-
Common stock, authorized 50,000,000, \$.01 par value; 13,668,408 and 13,646,553, shares issued and outstanding at March 31, 2019 and September 30, 2018	136,684	136,466
Additional paid-in capital	56,725,019	55,483,759
Retained earnings	14,632,553	13,254,651
Total Shareholders' Equity	<u>71,494,256</u>	<u>68,874,876</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 76,668,998</u>	<u>\$ 74,228,642</u>

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF EARNINGS  
UNAUDITED

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net sales	\$ 19,084,365	\$ 16,830,895	\$ 39,173,515	\$ 33,697,779
Cost of sales	12,059,122	10,051,061	24,201,574	19,809,538
Gross profit	7,025,243	6,779,834	14,971,941	13,888,241
Operating expenses				
Selling, general and administrative	6,727,744	7,305,589	13,503,619	13,769,560
Income (loss) from operations	297,499	(525,755)	1,468,322	118,681
Interest income	169,443	119,379	304,580	215,101
Income (loss) before income taxes	466,942	(406,376)	1,772,902	333,782
Income tax expense (benefit)	99,000	(101,000)	395,000	(304,000)
Net income (loss)	\$ 367,942	\$ (305,376)	\$ 1,377,902	\$ 637,782
Net income (loss) per share Basic	\$ 0.02	\$ (0.02)	\$ 0.10	\$ 0.05
Net income (loss) per share Diluted	\$ 0.02	\$ (0.02)	\$ 0.10	\$ 0.05
Weighted average shares outstanding:				
Basic	13,422,222	13,450,482	13,411,183	13,447,178
Diluted	13,450,212	13,450,482	13,425,178	13,494,433

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY  
UNAUDITED

For the six months ended March 31, 2019

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance as of September 30, 2018	13,646,553	\$ 136,466	\$ 55,483,759	\$ 13,254,651	\$ 68,874,876
Stock-based compensation expense	-	-	1,102,190	-	1,102,190
Restricted stock issuance, net	(352)	(4)	4	-	-
Issuance of common stock under employee stock purchase plan	17,312	173	145,767	-	145,940
Exercise of stock options, net of shares exchanged for payment	5,440	54	(30)	-	24
Tax withholding related to vesting of restricted stock grants	(545)	(5)	(6,671)	-	(6,676)
Net income	-	-	-	1,377,902	1,377,902
Balance as of March 31, 2019	13,668,408	\$ 136,684	\$ 56,725,019	\$ 14,632,553	\$ 71,494,256

For the three months ended March 31, 2019

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance as of December 31, 2018	13,662,456	\$ 136,625	\$ 56,161,405	\$ 14,264,611	\$ 70,562,641
Stock-based compensation expense	-	-	563,666	-	563,666
Restricted stock issuance, net	3,486	35	(35)	-	-
Exercise of stock options, net of shares exchanged for payment	2,466	24	(17)	-	7
Net income	-	-	-	367,942	367,942
Balance as of March 31, 2019	13,668,408	\$ 136,684	\$ 56,725,019	\$ 14,632,553	\$ 71,494,256

For the six months ended March 31, 2018

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance as of September 30, 2017	13,812,821	\$ 138,128	\$ 55,406,888	\$ 8,980,104	\$ 64,525,120
Stock-based compensation expense	-	-	969,081	-	969,081
Repurchase of common stock	(19,582)	(196)	(235,828)	-	(236,024)
Restricted stock issuance, net	(1,409)	(14)	14	-	-
Issuance of common stock under employee stock purchase plan	14,242	142	148,117	-	148,259
Exercise of stock options, net of shares exchanged for payment	5,675	58	17,891	-	17,949
Tax withholding related to vesting of restricted stock grants	(671)	(7)	(9,255)	-	(9,262)
Net income	-	-	-	637,782	637,782
Balance as of March 31, 2018	13,811,076	\$ 138,111	\$ 56,296,908	\$ 9,617,886	\$ 66,052,905

For the three months ended March 31, 2018

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance as of December 31, 2017	13,824,191	\$ 138,242	\$ 56,021,457	\$ 9,923,262	\$ 66,082,961
Repurchase of common stock	(18,682)	(187)	(224,987)	-	(225,174)
Stock-based compensation expense	-	-	485,794	-	485,794
Restricted stock issuance, net	2,967	30	(30)	-	-
Exercise of stock options, net of shares exchanged for payment	2,600	26	14,674	-	14,700
Net income	-	-	-	(305,376)	(305,376)
Balance as of March 31, 2018	13,811,076	\$ 138,111	\$ 56,296,908	\$ 9,617,886	\$ 66,052,905

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
UNAUDITED

	Six Months Ended March 31,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income	\$ 1,377,902	\$ 637,782
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,064,024	989,912
Change in allowance for doubtful accounts	210,000	-
Amortization of discount on investments	(15,855)	-
Deferred taxes	-	(384,000)
Loss on disposal of assets	-	1,594
Stock based compensation	1,102,190	969,081
Changes in operating assets and liabilities:		
Accounts receivable	3,623,266	78,265
Inventories, net	1,776,613	354,984
Other assets	(486,554)	(71,117)
Accounts payable, accrued expenses and deferred rent	(179,024)	(313,921)
Net cash provided by operating activities	<u>8,472,562</u>	<u>2,262,580</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment and intangible assets	(551,607)	(516,341)
Purchases of investments	(12,274,393)	(4,181,075)
Proceeds from maturities of investments	3,572,000	3,469,000
Business acquisition	-	(10,350,000)
Net cash used in investing activities	<u>(9,254,000)</u>	<u>(11,578,416)</u>
<b>Cash flows from financing activities</b>		
Repurchases of common stock	-	(236,024)
Proceeds from issuance of common stock under employee stock purchase plan	145,940	148,259
Proceeds from issuance of common stock upon exercise of stock options	24	17,949
Tax withholding related to vesting of restricted stock grants	(6,676)	(9,262)
Net cash provided by (used in) financing activities	<u>139,288</u>	<u>(79,078)</u>
Decrease in cash and cash equivalents	(642,150)	(9,394,914)
Cash and cash equivalents, beginning of period	8,547,777	18,536,111
Cash and cash equivalents, end of period	<u>\$ 7,905,627</u>	<u>\$ 9,141,197</u>
<b>Supplemental disclosures for cash flow information</b>		
Cash paid during the year for income taxes	<u>\$ 1,051,716</u>	<u>\$ 23,987</u>
<b>Non-cash financing activities</b>		
Cashless exercise of stock options	<u>\$ 17,390</u>	<u>\$ 5,782</u>

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

**Note 1. Basis of Presentation**

The accompanying (a) condensed balance sheet as of September 30, 2018, which has been derived from audited financial statements, and (b) unaudited interim condensed financial statements as of and for the three and six months ended March 31, 2019 have been prepared by Clearfield, Inc. (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, 2018.

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.

**Recently Adopted Accounting Pronouncements**

Effective October 1, 2018, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*, which deferred the effective date of ASU 2014-09 by one year. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The adoption of ASU 2014-09, using the modified retrospective approach, had no material impact on our results of operations, cash flows, or financial position. Revenue continues to be recognized at a point in time for our product sales when products are delivered to or picked up by the customer and revenue for shipping and handling charges continues to be recognized when products are delivered to or picked up by the customer. Additional information and disclosures required by this new standard are contained in Note 5, "Revenue."

**Note 2. Net Income (Loss) Per Share**

Basic net income (loss) per common share ("EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted EPS equals net income (loss) 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.

The following is a reconciliation of the numerator and denominator of the net income (loss) per common share computations for the three and six months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income (loss)	\$ 367,942	\$ (305,376)	\$ 1,377,902	\$ 637,782
Weighted average common shares	13,422,222	13,450,482	13,411,183	13,447,178
Dilutive potential common shares	27,990	-	13,995	47,255
Weighted average dilutive common shares outstanding	13,450,212	13,450,482	13,425,178	13,494,433
Net income (loss) per common share:				
Basic	\$ 0.02	\$ (0.02)	\$ 0.10	\$ 0.05
Diluted	\$ 0.02	\$ (0.02)	\$ 0.10	\$ 0.05

### Note 3. Cash, Cash Equivalents and Investments

The Company currently invests its excess cash in money market accounts, treasury securities, and bank certificates of deposit (CDs) with a term of not more than five 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 treasury securities and CDs as of March 31, 2019 and September 30, 2018 are as follows:

	March 31, 2019	September 30, 2018
Less than one year	\$ 17,048,473	\$ 8,930,225
1-5 years	18,574,000	17,974,000
Total	\$ 35,622,473	\$ 26,904,225

### Note 4. Stock-Based Compensation

The Company recorded \$563,666 and \$1,102,190 of compensation expense related to current and past stock option grants, restricted stock grants and the Company's Employee Stock Purchase Plan ("ESPP") for the three and six months ended March 31, 2019, respectively. For the three months ended March 31, 2019, \$532,425 of this expense is included in selling, general and administrative expense, and \$31,241 is included in cost of sales. For the six months ended March 31, 2019, \$1,039,709 of this expense is included in selling, general and administrative expense, and \$62,481 is included in cost of sales. The Company recorded \$485,794 and \$969,081 of compensation expense related to current and past stock option grants, restricted stock grants and the Company's ESPP for the three and six months ended March 31, 2018, respectively. For the three months ended March 31, 2018, \$443,763 of this expense is included in selling, general and administrative expense, and \$42,031 is included in cost of sales. For the six months ended March 31, 2018, \$885,020 of this expense is included in selling, general and administrative expense, and \$84,061 is included in cost of sales. As of March 31, 2019, \$2,965,292 of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a period of approximately 5.4 years.

#### Stock Options

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of stock options granted. During the six months ended March 31, 2019, the Company granted employees non-qualified stock options to purchase an aggregate of 172,000 shares of common stock with a weighted average contractual term of four years, a three year vesting term, and a weighted average exercise price of \$12.17. There were no stock options granted during the six months ended March 31, 2018. The weighted-average fair value at the grant date for options issued during the six months ended March 31, 2019 was \$3.53.



This fair value was estimated at the grant date using the assumptions listed below:

	Six months ended March 31, 2019
Dividend yield	0%
Weighted average expected volatility	37.77%
Weighted average risk-free interest rate	2.92%
Weighted average expected life (years)	3.0
Vesting period (years)	3.0

The expected stock price volatility is based on the historical volatility of the Company's stock for a period approximating the expected life. The expected life represents the period of time that options are expected to be outstanding after their grant date. The risk-free interest rate reflects the interest rate at grant date on zero-coupon U.S. governmental bonds having a remaining life similar to the expected option term.

Options are granted at fair market values determined on the date of grant and vesting normally occurs over a three to five-year period. However, options granted to directors have a one year vesting period and a six-year contractual term. The maximum contractual term is normally six years. Shares issued upon exercise of a stock option are issued from the Company's authorized but unissued shares.

The following is a summary of stock option activity during the six months ended March 31, 2019:

	Number of options	Weighted average exercise price
Outstanding as of September 30, 2018	138,500	\$ 10.99
Granted	172,000	12.17
Exercised	(6,750)	2.58
Cancelled or Forfeited	-	-
Outstanding as of March 31, 2019	<u>303,750</u>	<u>\$ 11.85</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, 2019, the weighted average remaining contractual term for all outstanding and exercisable stock options was 1.4 years and their aggregate intrinsic value was \$287,850. During the six months ended March 31, 2019, the Company received proceeds of \$24 from the exercise of stock options. During the six months ended March 31, 2018, exercised stock options totaled 6,100 shares, resulting in proceeds of \$17,949 from the exercise of stock options.

#### 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 months ended March 31, 2019, the Company granted non-employee directors elected at the Company's 2019 Annual Meeting of Shareholders restricted stock awards totaling 4,340 shares of common stock, with a vesting term of approximately one year and a fair value of \$14.40 per share.

During the six months ended March 31, 2018, the Company granted non-employee directors elected at the Company's 2018 Annual Meeting of Shareholders restricted stock awards totaling 4,235 shares of common stock, with a vesting term of approximately one year and a fair value of \$14.75 per share.

Restricted stock transactions during the six months ended March 31, 2019 are summarized as follows:

	Number of shares	Weighted average grant date fair value
Unvested shares as of September 30, 2018	248,613	\$ 14.65
Granted	4,340	14.40
Vested	(5,935)	14.43
Forfeited	(4,692)	15.05
Unvested as of March 31, 2019	<u>242,326</u>	<u>\$ 14.64</u>

#### Employee Stock Purchase Plan

The Company'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, 2018 and December 31, 2017, employees purchased 17,312 and 14,242 shares at a price of \$8.43 and \$10.41 per share, respectively. After the employee purchase on December 31, 2018, 69,769 shares of common stock were available for future purchase under the ESPP.

#### Note 5. Revenue

##### Revenue Recognition

Net sales include products and shipping and handling charges. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with substantially all revenue recognized at the point in time the customer obtains control of the products. Revenue which has been recognized but not yet billed to the customer is recorded as a contract asset and is included in Other Current Assets on the condensed balance sheet. We recognize revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. The majority of our contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

##### Disaggregation of Revenue

The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Sales outside the United States are principally to countries in the Caribbean, Canada, Central and South America.

Our revenues related to the following geographic areas were as follows for the three and six months ended:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
United States	\$ 17,136,328	\$ 16,065,902	\$ 35,640,795	\$ 31,563,562
All other countries	1,948,037	764,993	3,532,720	2,134,217
Total Net Sales	<u>\$ 19,084,365</u>	<u>\$ 16,830,895</u>	<u>\$ 39,173,515</u>	<u>\$ 33,697,779</u>

In addition to a proprietary product line designed for the broadband service provider marketplace, Clearfield provides build-to-print services for original equipment manufacturers requiring copper and fiber cable assemblies built to their specification.

The percentages of our sales by markets were as follows for the three and six months ended:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Broadband service providers	94%	95%	94%	95%
Build-to-print customers	6%	5%	6%	5%
Total Net Sales	100%	100%	100%	100%

#### Accounts Receivable

Credit is extended based on the evaluation of a customer's financial condition and collateral is generally not required. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company writes off accounts receivable when they become uncollectible; payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of March 31, 2019 and September 30, 2018, the balance in the allowance for doubtful accounts was \$289,085 and \$79,085, respectively.

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

#### Note 6. Inventories, net

Inventories consist of the following as of:

	March 31, 2019	September 30, 2018
Raw materials	\$ 5,755,357	\$ 6,013,166
Work-in-progress	712,003	560,988
Finished goods	1,806,162	3,475,981
Inventories, net	\$ 8,273,522	\$ 10,050,135

#### Note 7. Major Customer Concentration

For the three months ended March 31, 2019, Customers A and B comprised 17% and 10%, respectively, of the Company's net sales. Both Customers A and B are distributors. For the six months ended March 31, 2019, Customers A and C comprised 18% and 11%, respectively, of the Company's net sales. Customer C is a private label original equipment manufacturer. For the three months ended March 31, 2018, Customers A and B comprised 25% and 16%, respectively, of the Company's net sales. For the six months ended March 31, 2018, Customers A and B comprised 24% and 14%, respectively, of the Company's net sales.

As of March 31, 2019, Customer B comprised 13% of the Company's accounts receivable. As of September 30, 2018, Customers C, A, and B comprised 35%, 10%, and 10%, respectively, of the Company's 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, 2018 did not indicate an impairment of goodwill. During the six months ended March 31, 2019, 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, 2019, the Company has 17 patents granted and multiple pending applications both inside and outside the United States.

#### Note 9. Income Taxes

For the three and six months ended March 31, 2019, the Company recorded a provision for income taxes of \$99,000 and \$395,000, respectively, reflecting an effective tax rate of 21.2% and 22.3%, respectively. The Tax Cut and Jobs Act of 2017 (the "Tax Reform Act") was enacted on December 22, 2017. The Tax Reform Act reduced certain federal corporate income tax rates effective January 1, 2018 and changed certain other provisions. Additionally, differences between the effective tax rate and the statutory tax rate are related to nondeductible meals and entertainment, research and development credits and nondeductible stock compensation.

As of March 31, 2019 and September 30, 2018, the Company had a remaining valuation allowance of approximately \$105,000 related to state net operating loss carry forwards the Company does not expect to utilize. As a result of recording the impact of the Tax Reform Act on its deferred assets and liabilities, the Company recorded an increase in its valuation allowance against state net operating losses carried forward of approximately \$32,000 in the six months ended March 31, 2018. Based on the Company's analysis and review of long-term forecasts and all available evidence, the Company determined that there should be no further change in the valuation allowance for the three and six months ended March 31, 2019.

For the three and six months ended March 31, 2018, the Company recorded a benefit for income taxes of \$101,000 and \$304,000, respectively, reflecting an effective tax rate of 24.9% and negative 91.1%, respectively. The effective tax rate for the six months ended March 31, 2018 was a blended rate reflecting the anticipated benefit of three quarters of federal tax rate reductions for fiscal 2018. Our six months tax benefit reflected a lower tax rate and a one-time benefit of \$384,000 related to the favorable impact of a revaluation of our net deferred tax liability that decreased the income tax provision for the six months ended March 31, 2018 and reduced long-term deferred tax liabilities during the six months ended March 31, 2018. Additionally, differences between the effective tax rate and the statutory tax rate were related to nondeductible meals and entertainment, expenses related to equity award compensation, favorable domestic manufacturing deduction, and research and development credits.

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 deferred tax temporary differences is contingent upon future taxable earnings. The Company reviewed its deferred tax assets 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, 2019 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.

#### **Note 10. Accounting Pronouncements**

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 has begun evaluating the new lease standard, including the review and implementation of the necessary changes to our existing processes and systems that will be required to implement this new standard. While we are unable to quantify the impact at this time, it is expected the adoption of this standard will lead to a material increase in the assets and liabilities recorded on the consolidated balance sheets.

In January 2017, the FASB issued ASU 2017-04 which offers amended guidance to simplify the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. A goodwill impairment will now be measured as the amount by which a reporting unit's carrying value exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. This guidance is to be applied on a prospective basis effective for the Company's interim and annual periods beginning after January 1, 2020, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company does not believe the adoption of this ASU will have a material impact 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, 2018, 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, 2019 and 2018 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, 2018.

### OVERVIEW

#### General

Clearfield, Inc. designs, manufactures and distributes fiber protection, fiber management and fiber delivery solutions to enable rapid and cost-effective fiber-fed deployment throughout the broadband service provider space across North America. Our "fiber to anywhere" platform serves the unique requirements of leading incumbent local exchange carriers (Traditional Carriers), wireless operators, MSO/cable TV companies, and competitive local exchange carriers (Alternative Carriers), while also catering to the broadband needs of the utility/municipality, enterprise, data center, and military markets. The Company also provides build-to-print services for original equipment manufacturers (OEM) requiring copper and fiber cable assemblies built to their specifications.

The Company has historically focused on the un-served or under-served rural communities that 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. 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, 2019 VS. THREE MONTHS ENDED MARCH 31, 2018

Net sales for the second quarter of fiscal 2019 ended March 31, 2019 were \$19,084,000, an increase of approximately 13%, or \$2,253,000, from net sales of \$16,831,000 for the second quarter of fiscal 2018. Net sales to broadband service providers were \$17,948,000 in the second quarter of fiscal 2019, versus \$15,978,000 in the same period of fiscal 2018. Among this group, the Company recorded \$1,948,000 in international sales for the second quarter of fiscal 2019, versus \$765,000 in the same period of fiscal 2018. Net sales to build-to-print customers were \$1,136,000 in the second quarter of fiscal 2019 versus \$853,000 in the same period of fiscal 2018. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 10% and 5% of total net sales for the second quarters of fiscal 2019 and 2018, respectively.

The increase in net sales for the quarter ended March 31, 2019 of \$2,253,000 compared to the quarter ended March 31, 2018 is primarily attributable to an increase in sales to an OEM manufacturer in the amount of \$1,059,000 driven by the acquisition of our active cabinet line in February 2018. In addition, sales to international customers increased \$1,183,000 due to higher demand in the Company's Latin America market. Sales to build-to-print customers also increased \$283,000 during the same period due to an increase in demand. 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 2019 was \$12,059,000, an increase of \$2,008,000, or 20%, from \$10,051,000 in the comparable period of fiscal 2018. Gross profit percent was 36.8% of net sales in the fiscal 2019 second quarter, a decrease from 40.3% of net sales for the fiscal 2018 second quarter. Gross profit increased \$245,000, or 4%, to \$7,025,000 for the three months ended March 31, 2019 from \$6,780,000 in the comparable period in fiscal 2018. The increase in gross profit in the second quarter of fiscal 2019 was due to increased volume while the decrease in gross profit percent was primarily due to the integration of the Company's acquired active cabinet line into its supply chain as well as a higher percentage of sales associated with these products, which have lower gross margins. Gross profit was also negatively impacted by tariff costs of approximately \$330,000.

Selling, general and administrative expenses decreased \$578,000, or 8%, to \$6,728,000 in the fiscal 2019 second quarter from \$7,306,000 for the fiscal 2018 second quarter. The decrease in the second quarter of fiscal 2019 consists primarily of a decrease of \$1,364,000 in legal expenses, mainly due to the settlement of a patent infringement lawsuit that occurred during the second quarter of fiscal 2018. This was somewhat offset by an increase of \$490,000 in compensation costs due primarily to additional sales and engineering personnel and \$210,000 in bad debt expense related to a customer bankruptcy in the period.

Income from operations for the quarter ended March 31, 2019 was \$297,000 compared to loss from operations of \$526,000 for the comparable quarter of fiscal 2018, an increase of approximately 157%. This increase is attributable to increased gross profit aided by decreased selling, general and administrative expenses.

Interest income for the quarter ended March 31, 2019 was \$169,000 compared to \$119,000 for the comparable quarter for fiscal 2018. The increase is due to increased balances and higher interest rates earned on investments in fiscal 2019. The Company invests its excess cash in FDIC-backed bank certificates of deposit, treasury securities, and money market accounts.

We recorded a provision for income taxes of \$99,000 and a benefit for income taxes of \$101,000 for the three months ended March 31, 2019 and 2018, 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 \$200,000 from the second quarter for fiscal 2018 is primarily due to increased income from operations. The decrease in the income tax expense rate to 21.2% for the second quarter of fiscal 2019 from 24.9% for the second quarter of fiscal 2018 is primarily due to the Tax Reform Act that resulted in a lower federal tax rate.

The Company's net income for the three months ended March 31, 2019 was \$368,000, or \$0.02 per basic and diluted share. The Company's net loss for the three months ended March 31, 2018 was \$305,000, or a net loss of \$0.02 per basic and diluted share.

#### **SIX MONTHS ENDED MARCH 31, 2019 VS. SIX MONTHS ENDED MARCH 31, 2018**

Net sales for the six months ended March 31, 2019 were \$39,174,000, an increase of 16%, or approximately \$5,476,000, from net sales of \$33,698,000 for the first six months of fiscal 2018. Net sales to broadband service providers were \$36,761,000 for the first six months of fiscal 2019, versus \$31,998,000 in the same period of fiscal 2018. Among this group, the Company recorded \$3,533,000 in international sales versus \$2,134,000 in the same period of fiscal 2018. Net sales to build-to-print customers were \$2,413,000 in the first six months of fiscal 2019 versus \$1,700,000 in the same period of fiscal 2018. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 9% and 6% of total net sales for the first six months of fiscal 2019 and 2018, respectively.

The increase in net sales for the six months ended March 31, 2019 of \$5,476,000 compared to the six months ended March 31, 2018 is primarily attributable to an increase in sales to an OEM manufacturer in the amount of \$3,791,000 driven by the acquisition of our active cabinet line in February 2018. In addition, sales to international customers increased \$1,399,000 due to higher demand in the Company's Latin America market. Sales to build-to-print customers also increased \$713,000 during the same period due to an increase in demand.

Cost of sales for the six months ended March 31, 2019 was \$24,202,000, an increase of \$4,392,000, or 22%, from \$19,810,000 in the comparable period of fiscal 2018. Gross profit percent was 38.2% of net sales in the fiscal 2019 first six months, down from 41.2% for the comparable six months in fiscal 2018. Gross profit increased \$1,084,000, or 8%, to \$14,972,000 for the six months ended March 31, 2019 from \$13,888,000 in the comparable period in fiscal 2018. The increase in gross profit in the second quarter of fiscal 2019 was due to increased volume while the decrease in gross profit percent was primarily due to the integration of the Company's acquired active cabinet line into its manufacturing processes as well as a higher percentage of sales associated with these products, which have lower gross margins.

Selling, general and administrative expenses decreased 2%, or \$266,000, from \$13,770,000 for the first six months of fiscal 2018 to \$13,504,000 for the first six months of fiscal 2019. The decrease in the first six months of fiscal 2019 consists primarily of a decrease of \$1,988,000 in legal expenses, mainly due to the settlement of a patent infringement lawsuit that occurred during the second quarter of fiscal 2018. This was somewhat offset by an increase of \$1,117,000 in compensation costs due primarily to additional sales and engineering personnel, \$210,000 in bad debt expense, and an increase of \$191,000 of depreciation and amortization expense.

Income from operations for the six months ended March 31, 2019 was \$1,468,000 compared to income from operations of \$119,000 for the first six months of fiscal 2018, an increase of \$1,349,000, or 1,137%. This increase is primarily attributable to increased gross profit aided by decreased selling, general and administrative expenses.

Interest income for the six months ended March 31, 2019 was \$305,000 compared to \$215,000 for the comparable period for fiscal 2018. The increase is due to increased balances and higher interest rates earned on investments in fiscal 2019.

We recorded a provision for income taxes of \$395,000 and a benefit for income taxes of \$304,000 for the six months ended March 31, 2019 and 2018, respectively. The increase in tax expense of \$699,000 from the six months ended March 31, 2018 is primarily due to the Tax Reform Act enacted on December 22, 2017 that resulted in a lower federal tax rate and a one-time benefit of \$384,000 related to the favorable impact of a revaluation of our net deferred tax liability that decreased the income tax provision for the first quarter of fiscal 2018. The increase in the income tax expense rate to 22.3% for the six months ended March 31, 2019 from negative 91.1% for the six months ended March 31, 2018 is primarily due to the Tax Reform Act as described above.

The Company's net income for the first six months of fiscal 2019 ended March 31, 2019 was \$1,378,000, or \$0.10 per basic and diluted share. The Company's net income for the first six months of fiscal 2018 ended March 31, 2018 was \$638,000, or \$0.05 per basic and diluted share.

#### **LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2019, our principal sources of liquidity were our cash, cash equivalents and short-term investments. Those sources total \$24,954,000 at March 31, 2019 compared to \$17,478,000 at September 30, 2018. Our excess cash is invested mainly in certificates of deposit backed by the FDIC, treasury securities, and money market accounts. Investments considered long-term were \$18,574,000 as of March 31, 2019, compared to \$17,974,000 as of September 30, 2018. 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 as of March 31, 2019 or September 30, 2018.

We believe our existing cash equivalents and short-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 share repurchase program adopted by our Board of Directors. The share repurchase program was originally adopted on November 13, 2014 with \$8,000,000 authorized for common stock repurchases. On April 25, 2017, our Board of Directors increased the authorization to \$12,000,000 of common stock.

### Operating Activities

Net cash provided by operating activities totaled \$8,473,000 for the six months ended March 31, 2019. This was primarily due to net income of \$1,378,000, non-cash expenses for depreciation and amortization of \$1,064,000, and stock based compensation of \$1,102,000 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 inventories of \$3,623,000 and \$1,777,000, respectively. Accounts receivable balances can be influenced by the timing of shipments for customer projects and payment terms. Day's sales outstanding, which measures how quickly receivables are collected, decreased from 52 days at September 30, 2018 to 43 days at March 31, 2019. The decrease in inventory is a result of stocking levels being maintained by suppliers, which reduced the Company's inventory.

Net cash provided by operating activities totaled \$2,263,000 for the six months ended March 31, 2018. This was primarily due to net income of \$638,000, non-cash expenses for depreciation and amortization of \$990,000, and stock based compensation of \$969,000, slightly offset by a non-cash benefit to deferred taxes of \$384,000 related to the Tax Reform Act, in addition to changes in operating assets and liabilities providing cash. Changes in operating assets and liabilities providing cash include a decrease in accounts receivable of \$78,000. Days sales outstanding increased from 36 days at September 30, 2017 to 38 days at March 31, 2018. Also, changes in operating assets and liabilities providing cash include a decrease to inventories of \$355,000, net of the acquisition of \$2,781,000 in inventories as a result of the product line acquisition of Calix powered cabinets that occurred during the six months ended March 31, 2018. Changes in working capital items using cash include a decrease in accounts payable and accrued expenses of \$314,000. The decrease in accounts payable and accrued expenses primarily reflects fiscal 2017 accrued bonus compensation accruals paid in the first quarter of fiscal 2018.

### Investing Activities

We invest our excess cash in money market accounts, treasury securities, 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, 2019, we used cash to purchase \$12,274,000 of both FDIC-backed and treasury securities and received \$3,572,000 on CDs that matured. Purchases of patents and capital equipment, mainly related to information technology and manufacturing equipment, consumed \$552,000 of cash in the six months ended March 31, 2019.

During the six months ended March 31, 2018, we acquired the powered cabinet product line from Calix for the amount of \$10,350,000, which was paid from our available cash. During the six months ended March 31, 2018, we used cash to purchase \$4,181,000 of FDIC-backed securities and received \$3,469,000 on CDs that matured. Purchases of patents and capital equipment, mainly related to information technology and manufacturing equipment, consumed \$516,000 of cash in the six months ended March 31, 2018.

### Financing Activities

For the six months ended March 31, 2019, we received \$146,000 from employees' participation and purchase of stock through our ESPP and used \$7,000 to pay for taxes as a result of employees' vesting of restricted shares using share withholding. We did not repurchase our common stock under the repurchase program in the six months ended March 31, 2019. As of March 31, 2019, we had authority to purchase approximately \$5,400,000 in additional shares under the repurchase program announced on November 13, 2014 that was subsequently increased on April 25, 2017.

For the six months ended March 31, 2018, we received \$148,000 from employees' participation and purchase of stock through our ESPP. We also received \$18,000 from stock option exercises. Additionally, we used \$236,000 to repurchase our common stock in the six months ended March 31, 2018. As of March 31, 2018, we had authority to purchase approximately \$6,934,000 in additional shares under the repurchase program announced on November 13, 2014 that was subsequently increased on April 25, 2017.

### 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, 2018. Management made no changes to the Company's critical accounting policies during the quarter ended March 31, 2019.

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, 2019.

### **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, 2019. 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, 2019 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**

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, 2018. 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.**

May 1, 2019

/s/ Cheryl Beranek

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

May 1, 2019

/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 1, 2019

/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 1, 2019

/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, 2019 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 1, 2019

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

May 1, 2019

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