

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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value	CLFD	The NASDAQ Stock Market LLC

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, a smaller reporting company or an emerging growth company 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 as of July 15, 2020  
13,647,005

CLEARFIELD, INC.  
FORM 10-Q  
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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED BALANCE SHEETS

	(Unaudited) June 30, 2020	September 30, 2019
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 9,278,968	\$ 10,081,721
Short-term investments	11,093,527	13,524,270
Accounts receivables, net	9,099,727	9,118,639
Inventories, net	14,881,952	9,012,980
Other current assets	602,700	769,161
Total current assets	44,956,874	42,506,771
Property, plant and equipment, net	5,354,082	5,413,241
Other Assets		
Long-term investments	28,072,000	23,902,000
Goodwill	4,708,511	4,708,511
Intangible assets, net	4,875,117	5,147,135
Right of use lease asset	2,710,073	-
Other	186,571	210,905
Total other assets	40,552,272	33,968,551
<b>Total Assets</b>	\$ 90,863,228	\$ 81,888,563
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Current portion of lease liability	\$ 672,384	\$ -
Accounts payable	3,878,915	3,173,599
Accrued compensation	3,279,018	3,224,860
Accrued expenses	987,205	208,603
Total current liabilities	8,817,522	6,607,062
Other Liabilities		
Long-term portion of lease liability	2,299,835	-
Deferred taxes	101,690	101,690

Deferred rent	-	246,424
Total other liabilities	2,401,525	348,114
Total liabilities	11,219,047	6,955,176
Shareholders' Equity		
Preferred stock, \$.01 par value; 500,000 shares; no shares issued or outstanding	-	-
Common stock, authorized 50,000,000, \$.01 par value; 13,647,005 and 13,641,805 shares issued and outstanding as of June 30, 2020 and September 30, 2019	136,470	136,418
Additional paid-in capital	57,443,281	56,976,162
Retained earnings	22,064,430	17,820,807
Total shareholders' equity	79,644,181	74,933,387
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 90,863,228</b>	<b>\$ 81,888,563</b>

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

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**CLEARFIELD, INC.**  
**CONDENSED STATEMENTS OF EARNINGS**  
UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Net sales	\$ 25,970,045	\$ 21,892,244	\$ 65,756,545	\$ 61,065,759
Cost of sales	15,179,875	13,479,617	39,087,407	37,681,191
Gross profit	10,790,170	8,412,627	26,669,138	23,384,568
Operating expenses				
Selling, general and administrative	7,207,157	6,870,994	21,965,038	20,374,613
Income from operations	3,583,013	1,541,633	4,704,100	3,009,955
Interest income	174,555	212,894	615,523	517,474
Income before income taxes	3,757,568	1,754,527	5,319,623	3,527,429
Income tax expense	763,000	454,000	1,076,000	849,000
Net income	\$ 2,994,568	\$ 1,300,527	\$ 4,243,623	\$ 2,678,429
Net income per share Basic	\$ 0.22	\$ 0.10	\$ 0.31	\$ 0.20
Net income per share Diluted	\$ 0.22	\$ 0.10	\$ 0.31	\$ 0.20
Weighted average shares outstanding:				
Basic	13,497,955	13,446,289	13,510,413	13,422,885
Diluted	13,497,955	13,451,671	13,547,124	13,434,009

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

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CLEARFIELD, INC.  
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY  
UNAUDITED

**For the three months ended June 30, 2020**

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance at March 31, 2020	13,627,639	\$ 136,276	\$ 57,042,604	\$ 19,069,862	\$ 76,248,742
Repurchase of common stock	-	-	-	-	-
Stock-based compensation expense	-	-	213,361	-	213,361
Restricted stock issuance, net	-	-	-	-	-
Issuance of common stock under employee stock purchase plan	15,116	151	178,973	-	179,124
Exercise of stock options, net of shares exchanged for payment	4,250	43	8,343	-	8,386
Tax withholding related to vesting of restricted stock grants	-	-	-	-	-
Net income	-	-	-	2,994,568	2,994,568
Balance at June 30, 2020	13,647,005	\$ 136,470	\$ 57,443,281	\$ 22,064,430	\$ 79,644,181

**For the three months ended June 30, 2019**

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance at March 31, 2019	13,668,408	\$ 136,684	\$ 56,725,019	\$ 14,632,553	\$ 71,494,256
Stock-based compensation expense	-	-	433,438	-	433,438
Restricted stock issuance, net	(6,538)	(65)	65	-	-
Issuance of common stock under employee stock purchase plan	19,923	199	167,752	-	167,951
Exercise of stock options, net of shares exchanged for payment	-	-	-	-	-
Tax withholding related to vesting of restricted stock grants	(29,924)	(299)	(424,804)	-	(425,103)
Net income	-	-	-	1,300,527	1,300,527
Balance at June 30, 2019	13,651,869	\$ 136,519	\$ 56,901,470	\$ 15,933,080	\$ 72,971,069

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

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CLEARFIELD, INC.  
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY  
UNAUDITED

**For the nine months ended June 30, 2020**

	Common Stock		Additional paid-in capital	Retained earnings	Total share- holders' equity
	Shares	Amount			
Balance as of September 30, 2019	13,641,805	\$ 136,418	\$ 56,976,162	\$ 17,820,807	\$ 74,933,387
Repurchase of common stock	(41,796)	\$ (418)	\$ (428,236)	\$ -	\$ (428,654)
Stock-based compensation expense	-	-	541,884	-	541,884
Restricted stock issuance, net	9,580	96	(96)	-	-
Issuance of common stock under employee stock purchase plan	30,223	302	348,474	-	348,776
Exercise of stock options, net of shares exchanged for payment	7,646	76	10,892	-	10,968
Tax withholding related to vesting of restricted stock grants	(453)	(4)	(5,799)	-	(5,803)
Net income	-	-	-	4,243,623	4,243,623
Balance at June 30, 2020	13,647,005	\$ 136,470	\$ 57,443,281	\$ 22,064,430	\$ 79,644,181

**For the nine months ended June 30, 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	-	-	1,535,628	-	1,535,628
Restricted stock issuance, net	(6,890)	(69)	69	-	-
Issuance of common stock under employee stock purchase plan	37,235	372	313,519	-	313,891
Exercise of stock options, net of shares exchanged for payment	5,440	54	(30)	-	24
Tax withholding related to vesting of restricted stock grants	(30,469)	(304)	(431,475)	-	(431,779)
Net income	-	-	-	2,678,429	2,678,429
Balance at June 30, 2019	13,651,869	\$ 136,519	\$ 56,901,470	\$ 15,933,080	\$ 72,971,069

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

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CLEARFIELD, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
UNAUDITED

	Nine Months Ended June 30,	
	2020	2019
<b>Cash flows from operating activities</b>		
Net income	\$ 4,243,623	\$ 2,678,429
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,824,517	1,613,394
Change in allowance for doubtful accounts	-	210,000

Amortization of discount on investments	(64,327)	(43,601)
Stock-based compensation	541,884	1,535,628
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	18,912	3,308,314
Inventories, net	(5,868,972)	625,873
Other assets	190,796	(116,872)
Accounts payable, accrued expenses and deferred rent	1,553,798	(901,754)
Net cash provided by operating activities	2,440,231	8,909,411
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment and intangible assets	(1,493,341)	(1,099,089)
Purchases of investments	(31,837,930)	(17,444,393)
Proceeds from maturities of investments	30,163,000	7,235,000
Net cash used in investing activities	(3,168,271)	(11,308,482)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock under employee stock purchase plan	348,776	313,891
Proceeds from issuance of common stock upon exercise of stock options	10,968	24
Tax withholding related to vesting of restricted stock grants	(5,803)	(431,779)
Repurchase of common stock	(428,654)	-
Net cash used in financing activities	(74,713)	(117,864)
Decrease in cash and cash equivalents	(802,753)	(2,516,935)
Cash and cash equivalents, beginning of period	10,081,721	8,547,777
Cash and cash equivalents, end of period	9,278,968	6,030,842
<b>Supplemental disclosures for cash flow information</b>		
Cash paid during the year for income taxes	\$ 469,529	\$ 1,081,068
<b>Non-cash financing activities</b>		
Cashless exercise of stock options	\$ 10,962	\$ 17,390

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, 2019, which has been derived from audited financial statements, and (b) unaudited interim condensed financial statements as of and for the three and nine months ended June 30, 2020 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, 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, 2019.

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, 2019 we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, *Leases*, using the effective date method under the modified retrospective approach. The amended guidance requires lessees, at the commencement date, to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and to record a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. In July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which gave companies the option of applying the new standard at the adoption date, rather than retrospectively to the earliest period presented in the financial statements. The Company elected the package of practical expedients permitted under the new standard, which among other things, allowed the Company to carry forward the historical lease classification. The Company also elected the practical expedient to not recognize a lease liability and ROU asset for short-term leases less than 12 months. We chose the option to apply the new standard at the adoption date, and therefore we are not required to restate the financial statements for prior periods, nor are we required to provide the disclosures required by the new standard for prior periods. Upon adoption, we recognized an approximate \$2.4 million right-of-use asset, and an approximate \$2.6 million lease liability. Our adoption of the new standard did not impact our cash flows or have a material impact on our results of operations. We have expanded our financial statement disclosures to comply with the requirements of the new standard.

### Note 2. Net Income Per Share

Basic net income per common share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted EPS equals net income divided by the sum of the weighted average number of shares of common stock outstanding plus all additional common stock equivalents, such as stock options, when dilutive.

The following is a reconciliation of the numerator and denominator of the net income per common share computations for the three and nine months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 2,994,568	\$ 1,300,527	\$ 4,243,623	\$ 2,678,429
Weighted average common shares	13,497,955	13,446,289	13,510,413	13,422,885
Dilutive potential common shares	-	5,382	36,711	11,124
Weighted average dilutive common shares outstanding	13,497,955	13,451,671	13,547,124	13,434,009
Net income per common share:				
Basic	\$ 0.22	\$ 0.10	\$ 0.31	\$ 0.20
Diluted	\$ 0.22	\$ 0.10	\$ 0.31	\$ 0.20

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

The Company invests its excess cash in bank certificates of deposit (“CDs”) that are fully insured by the Federal Deposit Insurance Corporation (“FDIC”) and United States Treasury (“Treasuries”) securities with terms of not more than five years, as well as money market accounts. CDs and Treasuries with original maturities of more than three months are reported as held-to-maturity investments and are recorded at amortized cost, which approximates fair value due to the negligible risk of changes in value due to interest rates. The maturity dates of the Company’s investments as of June 30, 2020 and September 30, 2019 are as follows:

	June 30, 2020	September 30, 2019
Less than one year	\$ 11,093,527	\$ 13,524,270
1-5 years	28,072,000	23,902,000
Total	\$ 39,165,527	\$ 37,426,270

### Note 4. Stock-Based Compensation

The Company recorded \$213,361 and \$541,884 of compensation expense related to current and past restricted stock grants, non-qualified stock options and the Company’s Employee Stock Purchase Plan (“ESPP”) for the three and nine months ended June 30, 2020, respectively. For the three months ended June 30, 2020, \$207,653 of this expense is included in selling, general and administrative expense, and \$5,708 is included in cost of sales. For the nine months ended June 30, 2020, \$526,580 of this expense is included in selling, general and administrative expense, and \$15,304 is included in cost of sales. The Company recorded \$433,438 and \$1,535,628 of compensation expense related to current and past stock option grants, restricted stock grants and the Company’s ESPP for the three and nine months ended June 30, 2019, respectively. For the three months ended June 30, 2019, \$410,784 of this expense is included in selling, general and administrative expense, and \$22,654 is included in cost of sales. For the nine months ended June 30, 2019, \$1,450,489 of this expense is included in selling, general and administrative expense, and \$85,139 is included in cost of sales. As of June 30, 2020, \$ 2,147,356 of total unrecognized compensation expense related to non-vested restricted stock awards and stock options is expected to be recognized over a period of approximately 4.2 years.

#### Stock Options

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. During the nine months ended June 30, 2020, the Company granted employees non-qualified stock options to purchase an aggregate of 121,350 shares of common stock with a weighted average contractual term of 5.71 years, a 4.71 year weighted average vesting term, and an exercise price of \$12.43. During the nine months ended June 30, 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.

This fair value of awards during the nine months ended June 30, 2020 was estimated as of the grant date using the range of assumptions listed below:

	Nine months ended June 30, 2020	
		0%
Dividend yield		
Expected volatility	39.5	44.9%
Risk-free interest rate	0.24	1.69%
Expected life (in years)	4	6
Vesting period (in years)	3	5

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 as of the 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. 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 nine months ended June 30, 2020:

	Number of options	Weighted average exercise price
Outstanding as of September 30, 2019	290,750	\$ 11.86
Granted	121,350	12.43
Exercised	(8,500)	2.58
Cancelled or Forfeited	(48,250)	13.35

Outstanding as of June 30, 2020	355,350	\$ 12.08
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The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. As of June 30, 2020, the weighted average remaining contractual term for all outstanding and exercisable stock options was 2.31 years and their aggregate intrinsic value was \$278,995. During the nine months ended June 30, 2020, the Company received proceeds of \$10,968 from the exercise of stock options. During the nine months ended June 30, 2019, the Company received proceeds of \$24 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 nine months ended June 30, 2020, the Company granted non-employee directors elected at the Company's 2020 Annual Meeting of Shareholders restricted stock awards totaling 5,830 shares of common stock, with a vesting term of approximately one year and a fair value of \$10.72 per share. In February, the Company granted 5,000 shares of restricted stock, with a vesting term of approximately one year and a fair value of \$11.01 per share. The Company also granted 8,625 performance stock units entitling the participant to receive the same number of shares of the Company's common stock, upon achievement of a fiscal year 2020 performance goal. The shares issued to the participant in settlement of the performance stock unit, if any, will be restricted stock subject to forfeiture that will vest one year following the settlement date of the performance stock unit. The Company has determined the fair value per underlying share of the performance stock unit awards to be \$11.86 as of the grant date. These performance stock unit awards were forfeited during the nine months ended June 30, 2020.

During the nine months ended June 30, 2019, the Company granted non-employee directors 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.

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Restricted stock transactions during the nine months ended June 30, 2020 are summarized as follows:

	Number of shares	Weighted average grant date fair value
Unvested shares as of September 30, 2019	130,440	\$ 13.25
Granted	19,455	11.30
Vested	(5,740)	14.01
Forfeited	(9,875)	12.03
Unvested as of June 30, 2020	134,280	\$ 13.02

### 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 June 30, 2020 and December 31, 2019, employees purchased 15,116 and 15,107 shares at a price of \$11.85 and \$11.23 per share, respectively. In February 2020, the shareholders of Clearfield approved an increase of 200,000 in the shares authorized for issuance under the ESPP. As a result, as of June 30, 2020, the Company has 219,623 shares of common stock available for future purchases 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. 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 nine months ended:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
United States	\$ 25,090,614	\$ 20,243,754	\$ 62,765,455	\$ 55,861,025
All other countries	879,431	1,648,490	2,991,090	5,204,734
Total Net Sales	\$ 25,970,045	\$ 21,892,244	\$ 65,756,545	\$ 61,065,759

Clearfield manufactures and sells a proprietary product line designed for the Broadband Service Provider marketplace. In addition, the Company provides Build-to-Print services for original equipment manufacturers requiring copper and fiber cable assemblies built to their specification.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Broadband service providers	97%	97%	96%	95%
Build-to-print customers	3%	3%	4%	5%
Total Net Sales	100%	100%	100%	100%

Broadband Service Providers are made up of Community Broadband, which includes local and regional telecom companies, utilities, municipalities and alternative carriers, also referred to as Tier 2 and 3 customers, National Carriers, which includes large national and global wireline and wireless providers also referred to as Tier 1's, multiple system operators ("MSO's"), which include cable television companies, and international customers.

#### Accounts Receivable

Credit is extended based on the evaluation of a customer's financial condition, and collateral is generally not required. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company writes off accounts receivable when they become uncollectible; payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of both June 30, 2020 and September 30, 2019, the balance in the allowance for doubtful accounts was \$289,085.

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:

	June 30, 2020	September 30, 2019
Raw materials	\$ 11,340,314	\$ 7,115,298
Work-in-progress	1,384,876	540,962
Finished goods	2,156,763	1,356,720
Inventories, net	\$ 14,881,952	\$ 9,012,980

#### Note 7. Major Customer Concentration

For the three months ended June 30, 2020, Customer A comprised 20% and Customer B comprised 11% of the Company's net sales. For the nine months ended June 30, 2020, Customers A and B comprised 20% and 11% of the Company's net sales, respectively. Both of these customers are distributors. For the three months ended June 30, 2019, Customers A and B comprised 19% and 12%, respectively, of the Company's net sales. Both Customers A and B are distributors. For the nine months ended June 30, 2019, Customers A and B comprised 18% and 10%, respectively, while Customer C comprised 11% of the Company's net sales. Customer C is a private label original equipment manufacturer. These major customers, like our other customers, purchase our products from time to time through purchase orders, and we do not have any agreements that obligate these major customers to purchase products in the future from us.

As of June 30, 2020, two customers accounted for 17% and 11% respectively, or 28% in the aggregate, of accounts receivable. Both of these customers are distributors. As of September 30, 2019, two customers accounted for 16%, and 12%, respectively, or 28% in the aggregate of accounts receivable. Both of these customers are distributors.

#### Note 8. Goodwill and Intangibles

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 as of September 30, 2019 did not indicate an impairment of goodwill. During the nine months ended June 30, 2020, 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 June 30, 2020, the Company has 22 patents granted and multiple pending applications both inside and outside the United States.

In addition, the Company has various finite lived intangible assets, most of which were acquired as a result of the acquisition of the active cabinet product line from Calix, Inc. ("Calix") during fiscal year 2018. The Company analyzes its intangible assets for impairment annually or at interim periods when events occur or changes in circumstances indicate potential impairment. The result of the analysis performed as of September 30, 2019 did not indicate an impairment of our intangible assets. During the nine months ended June 30, 2020, there were no triggering events that indicate potential impairment exists.

#### Note 9. Income Taxes

For the three and nine months ended June 30, 2020, the Company recorded income tax expense of \$763,000 and \$1,076,000 reflecting an effective tax rate of 20.3% and 20.2%, respectively. For the three and nine months ended June 30, 2019, the Company recorded a provision for income taxes of \$454,000 and \$849,000, respectively, reflecting an effective tax rate of 25.9% and 24.1%, respectively. The differences between the effective tax rate and the statutory tax rate were related to nondeductible meals and entertainment, nondeductible stock compensation, foreign derived intangibles income deduction (FDII) 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 asset for expected utilization using a "more likely than not" criteria by assessing the available positive and negative factors surrounding its recoverability.

As of June 30, 2020 and September 30, 2019, the Company had a remaining valuation allowance of approximately \$47,000 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 determined that there should be no further change in the valuation allowance for the nine months ended June 30, 2020.

As of June 30, 2020, 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. Leases

Clearfield leases a 71,000 square foot facility at 7050 Winnetka Avenue North, Brooklyn Park, Minnesota consisting of our corporate offices, manufacturing and warehouse space. The lease term is ten years and two months and commenced on January 1, 2015. On June 30, 2019, the Company amended its lease to add 14,000 square feet to this facility, with the lease term for the additional space coterminous with the original lease. Upon proper notice and payment of a termination fee of approximately \$249,000, the Company has a one-time option to terminate the lease effective as of the last day of the eighth year of the term after the Company commenced paying base rent. The renewal and termination options have not been included within the lease term because it is not reasonably certain that we will exercise either option.

We also have an indirect lease arrangement for a 46,000 square foot manufacturing facility in Tijuana, Mexico. The lease term is three years and commenced on August 1, 2017. This lease does not contain a written option to renew.

On February 12, 2020, the Company entered into an indirect lease arrangement for an additional 52,000 square foot manufacturing facility in Tijuana, Mexico. The lease term is approximately 42 months and commenced on February 12, 2020. The lease contains written options to renew for two additional consecutive periods of three years each.

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Right-of-use lease assets and lease liabilities are recognized as of the commencement date based on the present value of the remaining lease payments over the lease term which includes renewal periods we are reasonably certain to exercise. Our leases do not contain any material residual value guarantees or material restrictive covenants. As of June 30, 2020, we do not have material lease commitments that have not commenced.

Operating lease expense included within cost of goods sold and selling, general and administrative expense was as follows for the three and nine months ended June 30, 2020:

	Three months ended June 30, 2020	Nine months ended June 30, 2020
Operating lease expense under ASC 842, <i>Leases</i> , within:		
Cost of goods sold	\$ 247,897	\$ 652,399
Selling, general and administrative	54,345	166,109
Total lease expense	<u>\$ 302,242</u>	<u>\$ 818,508</u>

Future maturities of lease liabilities were as follows as of June 30, 2020:

	Operating Leases
2020 (remainder of fiscal year)	\$ 202,586
2021	752,423
2022	772,803
2023	744,963
2024	516,725
Thereafter	217,552
Total lease payments	<u>\$ 3,207,052</u>
Less: Interest	<u>(234,833)</u>
Present value of lease liabilities	<u>\$ 2,972,219</u>

The weighted average term and weighted average discount rate for our leases as of June 30, 2020 were 4.21 years and 3.48%, respectively. For the three and nine months ended June 30, 2020, the operating cash outflows from our leases were \$237,726 and \$574,381, respectively.

Rent expense for our operating leases as accounted for under ASC 840, *Leases*, included within cost of goods sold and selling, general and administrative expense was as follows for the three and nine months ended June 30, 2019.

	Three months ended June 30, 2019	Nine months ended June 30, 2019
Operating lease expense under ASC 840, <i>Leases</i> , within:		
Cost of goods sold	\$ 158,932	\$ 491,878
Selling, general and administrative	54,990	162,366
Total lease expense	<u>\$ 213,922</u>	<u>\$ 654,244</u>

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As previously disclosed in Note B of the Notes to the Financial Statements in our 2019 Annual Report on Form 10-K, prior to the adoption of ASU 2016-02, *Leases (Topic 842)*, the future minimum payments required under lease agreements were as follows:

	As of September 30, 2019
2020	\$ 643,040
2021	479,213
2022	491,397
2023	503,895
2024	516,720

Thereafter

217,551

Total minimum lease payments

\$ 2,851,816

## 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, 2019, 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 nine months ended June 30, 2020 and 2019 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, 2019.

### OVERVIEW

#### General

Clearfield, Inc. designs, manufactures and distributes fiber optic management, protection and delivery products for communications networks. Our "fiber to the anywhere" platform serves the unique requirements of leading Broadband Service Providers in the United States, which include Community Broadband, National Carriers, and MSO's, while also serving the broadband needs of the International markets, primarily countries in the Caribbean, Canada, and Central and South America. These customers are collectively included in Broadband Service Providers. The Company also provides contract manufacturing services for Build-to-Print customers which include original equipment manufacturers (OEM) requiring copper and fiber cable assemblies built to their specifications.

The Company has historically focused on the unserved or underserved rural communities that receive 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 manufacturing facilities in Brooklyn Park, Minnesota, and Tijuana, 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 customers, some made through two-tier distribution (channel) partners, sales agents and manufacturing representatives, and sales through original equipment suppliers who private label their products.

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Due to the role Clearfield's solutions play in supporting communications infrastructure, the Company's operations in Minnesota have been classified as critical sector work under the State of Minnesota's "stay at home" and "stay safe" executive orders adopted in response to the novel coronavirus ("COVID-19") pandemic. We have transitioned our corporate employees at our Brooklyn Park headquarters to remote work arrangements. In accordance with the CDC and WHO guidelines, we also have implemented health and safety measures for the production staff that remain onsite at our Brooklyn Park facility. We have continued to maintain our manufacturing capacity in Brooklyn Park with these personnel. Similarly, we have implemented the recommended health and safety measures for the production staff that remains onsite at our Tijuana, Mexico manufacturing facilities.

The Company is closely monitoring the operations and staffing levels at its manufacturing facilities in Tijuana, Mexico and the status of restrictions at the U.S.-Mexico border. The State of Baja California, where our facilities are located, adopted an order that temporarily suspended the operations of other manufacturers in the region. While our operations in Tijuana have not been affected, we may become subject to local enforcement orders at any time.

Since the start of the pandemic, we have continued to be fully operational in both our US and Mexico manufacturing facilities and have established multiple contingency plans in the event our ability to operate is diminished or eliminated at either location. Even if our manufacturing capacity in Mexico continues, we may experience challenges to timely supply of materials to our Mexico facilities and timely product deliveries from the facilities due to border restrictions or border delays. Depending on the severity of these border issues, we may experience diminished or temporarily suspended operations, longer lead times than typical for product deliveries, or temporarily suspended product deliveries, which would result in delayed or reduced revenue from the affected orders in production and higher operating costs.

We dual source all our components and most of our supply chain partners remain operational and continue to provide the necessary components for our products to be manufactured in Minnesota and Mexico. We continue to monitor our supply chain, however uncertainties caused by the impact of COVID-19 present significant risk of disruption in our supply chain.

Should the Company experience a disruption in our ability to continue to produce in one or both of our facilities, disruption in our supply chain, or a decline in operational abilities, our contingency plans would result in a potentially significant increase in manufacturing costs and could impair our ability to fulfill customer orders.

### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED JUNE 30, 2020 VS. THREE MONTHS ENDED JUNE 30, 2019

Net sales for the third quarter of fiscal 2020 ended June 30, 2020 were \$25,970,000, an increase of approximately 19% or \$4,078,000, from net sales of \$21,892,000 for the third quarter of fiscal 2019. Net sales to Broadband Service Providers were \$25,293,000 in the third quarter of fiscal 2020 versus \$21,127,000 in the same period of fiscal 2019. Among this group, the Company recorded \$879,000 in international sales for the third quarter of fiscal 2020 versus \$1,648,000 in the same period of fiscal 2019. Net sales to Build-to-Print customers decreased \$87,000 to \$678,000 in the third quarter of fiscal 2020 from \$765,000 in the same period of fiscal 2019. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 3% and 8% of total net sales for the third quarter of fiscal 2020 and 2019, respectively.

The increase in net sales for the quarter ended June 30, 2020 of \$4,078,000 compared to the quarter ended June 30, 2019 was driven by increased sales to Community Broadband Service Providers, MSO and Tier 1 customers of \$3,004,000, \$1,218,000 and \$637,000, respectively. Offsetting this were decreased sales to International customers of \$769,000 due to lower demand for each in the period. The decline in international revenue in the fiscal third quarter 2020 was primarily related to currency conversion issues in the Company's international markets that have made the Company's products temporarily cost-prohibitive, causing customers to delay purchasing decisions.

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. The Company's ability to predict revenue has become further limited by potential disruption to product delivery or changes in customer ordering patterns due to COVID-19. The Company's ability to recognize revenue in the fourth quarter of 2020 for its backlog of customer orders will depend on the Company's ability to manufacture and deliver products to the customers and fulfill its other contractual obligations. Beginning March 2020, the Company has experienced increased orders as the Company's customers remained committed to their builds and other projects to expand communications networks, which are part of the world's critical infrastructure. However, while national carriers have declared a commitment to capital equipment expenditures despite the COVID pandemic, COVID has impacted the deployments plans for 5G both in the near and mid-term. At this time, the Company does not have visibility into how long these customer ordering trends will continue. We expect that restrictions on our employees' ability to access our customers may negatively impact sales in future quarters.

Cost of sales for the third quarter of fiscal 2020 was \$15,180,000, an increase of \$1,700,000, or 13%, from \$13,480,000 in the comparable period of fiscal 2019. Gross profit percent was 41.5% of net sales in the fiscal 2020 third quarter, an increase from 38.4% of net sales for the fiscal 2019 third quarter. Gross profit increased \$2,378,000, or 28%, to \$10,790,000 for the three months ended June 30, 2020 from \$8,413,000 in the comparable period in fiscal 2019. The increase in gross profit in the third quarter of fiscal 2020 was due to increased volume while the increase in gross profit percent was primarily due to a favorable product mix and cost reduction efforts across the Company's product lines, including greater use of its Mexico manufacturing plant, efficiencies realized from supply chain programs, and lower tariff costs. Gross profit was negatively impacted by tariff costs of approximately \$127,000 for the three months ended June 30, 2020 and \$318,000 in the comparable period in fiscal 2019. In the third quarter of fiscal 2020, the Company did not experience any significant impacts on cost of sales due to COVID-19.

Selling, general and administrative expenses increased \$336,000, or 5%, to \$7,207,000 in the third quarter fiscal 2020 from \$6,871,000 for the fiscal 2019 third quarter. The increase in expense in the third quarter of fiscal 2020 consists primarily of increases of \$692,000 in compensation expense due to additional personnel, and \$279,000 in product certification testing expenses, offset by lower travel, entertainment and marketing costs of \$499,000 and \$126,000, respectively, due to COVID-19 restrictions. In the third quarter of fiscal 2020, other than the travel and marketing costs mentioned, the Company did not experience any significant impacts on selling, general and administrative expense due to COVID-19.

Income from operations for the quarter ended June 30, 2020 was \$3,583,000 compared to \$1,542,000 for the comparable quarter of fiscal 2019, an increase of approximately 132%. This increase is attributable to increased gross profit, offset by higher selling, general and administrative expenses.

Interest income for the quarter ended June 30, 2020 was \$175,000 compared to \$213,000 for the comparable quarter for fiscal 2019. The decrease is due to lower interest rates earned on investments in the third quarter of fiscal 2020. We expect interest income to decline due to the prevailing lower interest rates and the potential for further decreases in rates in the current economic environment. The Company invests its excess cash in FDIC-backed bank certificates of deposit, U.S. treasury securities, and money market accounts.

We recorded a provision for income taxes of \$763,000 and \$454,000 for the three months ended June 30, 2020 and 2019, 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 \$309,000 from the third quarter for fiscal 2019 is primarily due to increased income from operations. The decrease in the income tax expense rate to 20.3% for the third quarter of fiscal 2020 from 25.9% for the third quarter of fiscal 2019 is primarily due to increased research and development tax credits and FDII deduction.

The Company's net income for the three months ended June 30, 2020 was \$2,995,000, or \$0.22 per basic and diluted share. The Company's net income for the three months ended June 30, 2019 was \$1,301,000, or \$0.10 per basic and diluted share.

#### **NINE MONTHS ENDED JUNE 30, 2020 VS. NINE MONTHS ENDED JUNE 30, 2019**

Net sales for the nine months ended June 30, 2020 were \$65,757,000, an increase of 8%, or approximately \$4,691,000, from net sales of \$61,066,000 for the first nine months of fiscal 2019. Net sales to Broadband Service providers were \$63,102,000 for the first nine months of fiscal 2020, versus \$57,887,000 in the same period of fiscal 2019. Among this group, the Company recorded \$2,991,000 in International sales versus \$5,205,000 in the same period of fiscal 2019. Net sales to Build-to-Print customers were \$2,655,000 in the first nine months of fiscal 2020 versus \$3,179,000 in the same period of fiscal 2019. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 5% and 9% of total net sales for the first nine months of fiscal 2020 and 2019, respectively.

The increase in net sales for the nine months ended June 30, 2020 of \$4,691,000 compared to the nine months ended June 30, 2019 is primarily attributable to an increase in sales to Tier 1, MSO, and Community Broadband customers of \$2,960,000, \$2,773,000 and \$1,701,000 respectively. This was offset by decreased sales to International customers of \$2,213,000, and Build-to-Print of \$530,000.

Cost of sales for the nine months ended June 30, 2020 was \$39,087,000, an increase of \$1,406,000, or 4%, from \$37,681,000 in the comparable period of fiscal 2019. Gross profit percent was 40.6% of net sales in the fiscal 2020 first nine months, up from 38.3% for the comparable nine months in fiscal 2019. Gross profit increased \$3,285,000, or 14%, to \$26,669,000 for the nine months ended June 30, 2020 from \$23,385,000 in the comparable period in fiscal 2019. The increase in gross profit in the nine months ended June 30, 2020 was due to increased volume and a higher gross profit percent. The increase in gross profit percent was primarily due to improved manufacturing efficiencies and costs in its manufacturing facilities, and lower tariff costs. Tariff costs were \$288,000 in the nine months ended June 30, 2020, compared to \$877,000 in the comparable nine month period. In the nine months ended June 30, 2020, the Company did not experience any significant impacts on cost of sales due to COVID-19.

Selling, general and administrative expenses increased 8%, or \$1,590,000, from \$20,375,000 for the first nine months of fiscal 2019 to \$21,965,000 for the first nine months of fiscal 2020. The increase in the first nine months of fiscal 2020 consists primarily of increases of \$2,524,000 in compensation expense due to additional personnel, and \$536,000 in product certification testing expenses, offset by decreases of \$924,000 in stock-based compensation expense, and lower travel, entertainment and marketing costs of \$590,000 and \$178,000, respectively, due to COVID-19 restrictions.

Income from operations for the nine months ended June 30, 2020 was \$4,704,000 compared to income from operations of \$3,010,000 for the first nine months of fiscal 2019, a increase of \$1,694,000, or 56%. This increase is primarily attributable to increased gross profit, offset by increased selling, general and administrative expenses.

Interest income for the nine months ended June 30, 2020 was \$616,000 compared to \$517,000 for the comparable period for fiscal 2019. The increase is due to increased balances and higher interest rates earned on investments in the first half of fiscal 2020.

We recorded a provision for income taxes of \$1,076,000 and \$849,000 for the nine months ended June 30, 2020 and 2019, respectively. The increase in tax expense of \$227,000 from the nine months ended June 30, 2019 is primarily due to increased pre-tax income offset by a lower effective tax rate for the nine months ended June 30, 2020. The decrease in the effective tax rate to 20.2% for the nine months ended June 30, 2020 from 24.1% for the nine months ended June 30, 2019 is primarily due to increased research and development credits and FDII deduction.

The Company's net income for the first nine months of fiscal 2020 ended June 30, 2020 was \$4,244,000, or \$0.31 per basic and diluted share. The Company's net income for the first nine months of fiscal 2019 ended June 30, 2019 was \$2,678,000, or \$0.20 per basic and diluted share.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2020, our principal source of liquidity was our cash, cash equivalents and short-term investments. Those sources total \$20,372,000 as of June 30, 2020 compared to \$23,606,000 as of September 30, 2019. Our excess cash is invested mainly in certificates of deposit backed by the FDIC, U.S. Treasury securities and money market accounts. Substantially all of our funds are insured by the FDIC or backed by the U.S. Government. Investments considered long-term were \$28,072,000 as of June 30, 2020, compared to \$23,902,000 as of September 30, 2019. We believe the combined balances of short-term cash and investments along with long-term investments provide a more accurate indication of our available liquidity. At the end of the third quarter 2020, our cash, cash equivalents and short-term and long-term investments remained consistent at \$48.4 million compared to the prior quarter end. We had no long-term debt obligations as of June 30, 2020 or September 30, 2019.

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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 to mitigate the potential impacts of COVID-19 on the Company's business.

Due to the economic crisis resulting from the COVID-19 pandemic, our future cash flow from operating and investing activities may be negatively impacted. Our uses of cash may also be materially impacted by increased operating expense associated with mitigating supply chain, logistics, and customer fulfillment risks caused by COVID-19.

### **Operating Activities**

Net cash provided by operating activities totaled \$2,440,000 for the nine months ended June 30, 2020. This was primarily due to net income of \$4,244,000, non-cash expenses for depreciation and amortization of \$1,825,000, and stock-based compensation of \$542,000 in addition to changes in operating assets and liabilities providing cash. Changes in operating assets and liabilities using cash include an increase in inventory of \$5,869,000, offset by increases in accounts payable, accrued expenses and deferred rent of \$1,554,000. The increase in inventory is a result of additional stocking levels to support the Company's increased backlog and higher demand, and additional safety stock across the Company's multiple locations due to the uncertainty of COVID-19 on the Company's supply chain and manufacturing locations. 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 one day to 32 days from September 30, 2019 to June 30, 2020.

Net cash provided by operating activities totaled \$8,909,000 for the nine months ended June 30, 2019. This was primarily due to net income of \$2,678,000, non-cash expenses for depreciation and amortization of \$1,613,000, and stock-based compensation of \$1,536,000 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 \$3,308,000 and \$626,000, 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 39 days at June 30, 2019. The decrease in inventory is a result of stocking levels being maintained by suppliers, which reduced the Company's inventory.

### **Investing Activities**

We invest our excess cash in money market accounts, U.S. 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 and U.S. Government on these investments. During the nine months ended June 30, 2020, we used cash to purchase \$31,838,000 of both FDIC-backed and treasury securities and received \$30,163,000 on CDs and treasuries that matured. Purchases of property, plant and equipment, mainly related to manufacturing equipment, consumed \$1,493,000 of cash during the nine months ended June 30, 2020.

During the nine months ended June 30, 2019, we used cash to purchase \$17,444,000 of both FDIC-backed and treasury securities and received \$7,235,000 on CDs that matured. Purchases of patents and capital equipment, mainly related to information technology and manufacturing equipment, consumed \$1,100,000 of cash in the nine months ended June 30, 2019.

### **Financing Activities**

For the nine months ended June 30, 2020, we received \$349,000 from employees' participation and purchase of stock through our ESPP and used \$6,000 to pay for taxes as a result of employees' vesting of restricted shares using share withholding. We used \$429,000 to repurchase 41,796 shares of our common stock under the share repurchase program in the nine months ended June 30, 2020. As of June 30, 2020, we had the authority to purchase approximately \$4,981,000 in additional shares under the repurchase program announced on November 13, 2014 that was subsequently increased on April 25, 2017. In April 2020, the Board of Directors suspended the share repurchase plan due to uncertainties caused by COVID-19 and the Company's desire to maintain capital flexibility.

For the nine months ended June 30, 2019, we received \$314,000 from employees' participation and purchase of stock through our ESPP and used \$432,000 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 nine months ended June 30, 2019. As of June 30, 2019, approximately \$5,400,000 in additional shares were available for purchase under the repurchase program announced on November 13, 2014 that was subsequently increased on April 25, 2017.

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## **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, and valuation of inventory, long-lived assets, finite lived intangible assets and goodwill.

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, 2019. Management made no changes to the Company's critical accounting policies during the quarter ended June 30, 2020.

In applying its critical accounting policies, management reassesses its estimates each reporting period based on available information. Changes in these estimates did not have a significant impact on earnings for the quarter ended June 30, 2020.

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

Not applicable.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2020. 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 June 30, 2020 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, 2019, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K, as updated.

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### 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

Not applicable.

### 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](#)

101.INS XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\*Furnished herewith.

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## 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.

July 30, 2020

/s/ Cheryl Beranek

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

July 30, 2020

/s/ Daniel Herzog

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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.

July 30, 2020

/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.

July 30, 2020

/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 June 30, 2020 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.

July 30, 2020

/s/ Cheryl Beranek

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

July 30, 2020

/s/ Daniel Herzog

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