

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

FORM 10-QSB

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

For the quarterly period ended December 31, 2007

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

Commission File Number 0-16106

**Clearfield, Inc.**

(Exact name of Registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of incorporation or organization)

**41-1347235**  
(I.R.S. Employer Identification No.)

**5480 Nathan Lane North, Suite 120, Plymouth, Minnesota 55442**  
(Address of principal executive offices and zip code)

**(763) 476-6866**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirement for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

January 23, 2008  
11,872,331

CLEARFIELD, INC.  
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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CLEARFIELD, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited)**

	<u>December 31, 2007</u>	<u>September 30, 2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,158,117	\$ 3,304,645
Available for sale securities	5,050,000	2,825,000
Accounts receivable, net	1,771,608	2,418,651
Inventories	1,565,345	1,595,282
Other current assets	167,557	102,473
Total current assets	<u>9,712,627</u>	<u>10,246,051</u>
PROPERTY, PLANT AND EQUIPMENT, net	1,798,226	1,773,739
OTHER ASSETS		
Goodwill	2,570,511	2,570,511
Other	284,309	281,589
Notes receivable	466,303	469,678
TOTAL OTHER ASSETS	<u>3,321,123</u>	<u>3,321,778</u>
TOTAL ASSETS	<u>\$ 14,831,976</u>	<u>\$ 15,341,568</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**CLEARFIELD, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(Unaudited)**

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2007	September 30, 2007
<b>CURRENT LIABILITIES</b>		
Current maturities of long term debt	\$ 65,734	\$ 68,215
Accounts payable	1,019,283	1,176,280
Accrued compensation	620,574	958,023
Accrued expenses	134,765	107,209
Current liabilities of discontinued operations	-	205,885
Total current liabilities	<u>1,840,356</u>	<u>2,515,612</u>
LONG-TERM DEBT, net of current maturities	80,163	95,207
DEFERRED RENT	87,340	85,059
DEFERRED INCOME TAXES	101,971	77,701
OTHER LONG TERM LIABILITIES	102,277	150,470
LONG TERM OBLIGATIONS OF DISCONTINUED OPERATIONS	-	204,832
Total Liabilities	<u>2,212,107</u>	<u>3,128,881</u>
<b>SHAREHOLDERS' EQUITY</b>		
Undesignated shares, 4,999,500 authorized shares; no shares issued and outstanding	-	-
Preferred stock, \$.01 par value; 500 shares; no shares outstanding	-	-
Common stock, \$.01 par value; 50,000,000 authorized shares; 11,872,331 shares issued and outstanding at December 31, 2007 and September 30, 2007	118,723	118,723
Additional paid-in capital	52,049,021	52,037,207
Accumulated deficit	(39,547,875)	(39,943,243)
TOTAL SHAREHOLDERS' EQUITY	<u>12,619,869</u>	<u>12,212,687</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 14,831,976</u>	<u>\$ 15,341,568</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**CLEARFIELD, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended December 31,	
	2007	2006
Revenues	\$ 4,697,440	\$ 4,504,508
Cost of revenues	<u>3,247,969</u>	<u>3,149,315</u>
Gross profit	1,449,471	1,355,193
Operating expenses:		
Selling, general and administrative	1,422,459	1,430,288
(Gain) loss on sale of assets, net	-	(727)
	<u>1,422,459</u>	<u>1,429,561</u>
Income (loss) from continuing operations	27,012	(74,368)
Interest income	87,806	89,278
Interest expense	(3,136)	(39)
Other income (expense), net	13,417	189
	<u>98,087</u>	<u>89,428</u>
Income from continuing operations before income taxes	125,099	15,060
Income tax expense (benefit)	<u>27,170</u>	<u>26,520</u>
Net income (loss) from continuing operations	97,929	(11,460)
Net income (loss) from discontinued operations	342,390	(421,240)
Net gain (loss) on disposal of assets of discontinued operations	<u>(44,951)</u>	<u>3,332</u>
Total Income (loss) from discontinued operations	297,439	(417,908)
Net income (loss)	<u>\$ 395,368</u>	<u>\$ (429,368)</u>
Net income (loss) per share (basic and diluted):		
Continuing operations	\$ 0.01	\$ 0.00
Discontinued operations	\$ 0.02	\$ (0.04)
Total	<u>\$ 0.03</u>	<u>\$ (0.04)</u>
Weighted average shares outstanding		
Basic and diluted	<u>11,872,331</u>	<u>11,872,331</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**CLEARFIELD, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Three Months Ended December 31, 2007 and transition period ended September 30, 2007**

	Common stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	paid-in	other	deficit	shareholders'
			Capital	comprehensive		equity
				loss		
<b>Balance at March 31, 2007</b>	11,872,331	118,723	52,018,729	( 8,164)	(38,652,804)	13,476,484
Stock based compensation expense	-	-	18,478	-	-	18,478
Foreign currency translation	-	-	-	8,164	-	8,164
Net loss	-	-	-	-	(1,290,439)	(1,290,439)
Comprehensive loss	-	-	-	-	-	(1,282,275)
<b>Balance at September 30, 2007</b>	11,872,331	118,723	52,037,207	-	(39,943,243)	12,212,687
Stock based compensation expense	-	-	11,814	-	-	11,814
Net income	-	-	-	-	395,368	395,368
<b>Balance at December 31, 2007</b>	<u>11,872,331</u>	<u>\$ 118,723</u>	<u>\$ 52,049,021</u>	<u>\$ -</u>	<u>\$ (39,547,875)</u>	<u>\$ 12,619,869</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

**CLEARFIELD, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three Months Ended December 31,	
	2007	2006 (Restated)
<b>Cash Flow from operating activities</b>		
Net income (loss)	\$ 395,368	\$ (429,368)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	120,673	137,652
Deferred taxes	24,270	24,270
Gain (loss) on disposal of assets	55,251	(4,059)
Stock based compensation	11,814	9,951
Lease termination accrual	(362,028)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	647,043	655,267
Inventories	29,937	231,481
Prepaid expenses and other	(64,429)	(31,047)
Accounts payable and accrued expenses	(493,575)	(454,321)
Net cash provided by operating activities	364,324	139,826
<b>Cash flow from investing activities</b>		
Purchases of property and equipment	(1,719,951)	(32,879)
Proceeds from sale of assets	1,451,624	44,000
Purchase of available for sale securities	(3,675,000)	(3,800,000)
Sale of available for sale securities	1,450,000	3,500,000
Net cash used by investing activities	(2,493,327)	(288,879)
<b>Cash flow from financing activities</b>		
Repayment of long-term debt	(17,525)	-
Withdrawal of bond reserve funds, net	-	41,974
Net cash used in financing activities	(17,525)	41,974
Foreign currency translation	-	16,761
Decrease in cash and cash equivalents	(2,146,528)	(90,318)
Cash and cash equivalents at beginning of period	3,304,645	1,754,335
Cash and cash equivalents at end of period	\$ 1,158,117	\$ 1,664,017
<b>Supplemental cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 3,136	\$ 11,449
Income taxes	2,900	2,250

SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### Note 1. Basis of Presentation

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

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

Effective January 2, 2008 the company changed its name from APA Enterprises, Inc. to Clearfield, Inc.

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

In preparation of the Company's consolidated financial statements, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and related revenues and expenses during the reporting periods. Actual results could differ from the estimates used by management.

The consolidated financial statements represent all companies of which Clearfield, Inc. directly or indirectly has majority ownership or otherwise controls. Significant intercompany accounts and transactions have been eliminated. The Company's consolidated financial statements include the accounts of wholly-owned subsidiaries of Clearfield, Inc.

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

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

Common stock options and warrants to purchase 794,700 and 588,565 shares of common stock with a weighted average exercise price of \$2.12 and \$2.61 were outstanding at December 31, 2007 and 2006, respectively, but were excluded from calculating diluted net loss per share because they were antidilutive.

### Note 3. Discontinued Operations

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



Blaine Facility

On October 30, 2007 the Company purchased its previous corporate headquarters in Blaine, Minnesota for \$1,500,000 under the provisions of its option to purchase as stated in its lease with Jain-Olsen Properties. The Company, as owner of the building, canceled the lease to itself. The lease was scheduled to run through November of 2009. The elimination of the lease resulted in the elimination of approximately \$342,000 of accrued obligations related to this lease in conjunction with the discontinuation of the Optronics segment recorded during the fiscal quarter ended June 30, 2007 and was taken into income during the three months ending December 31, 2007. The Company, on the same day, then sold the land and building for \$1,450,000 incurring a loss of \$55,000.

Aberdeen Facility

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

Prior Year

Discontinued operations for the three month period ended December 31, 2006 consisted of losses incurred in the operations of APA India \$38,000 and APA Optics of \$380,000 for a total of approximately \$418,000.

**Note 4. Severance Agreement**

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

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

**Note 5. Stock Based Compensation**

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

During the period ended December 31, 2007 the Company granted 208,700 stock options to employees with a six year term and an exercise price of \$1.09. The fair value of the options granted was \$.44 per share.

The Company recorded \$11,814 and \$9,951 of related compensation expense for the three month periods ended December 31, 2007 and 2006, respectively. This expense is included in selling, general and administrative expense. There was no tax benefit from recording this non-cash expense. As of December 31, 2007, \$141,538 of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of approximately 4.48 years.

**Note 6. Inventories**

Inventories consist of the following as of:

	December 31, 2007	September 30, 2007
Raw Materials	\$ 1,419,828	\$ 1,422,374
Work-in-progress	30,793	50,468
Finished Goods	114,724	122,440
	<u>\$ 1,565,345</u>	<u>\$ 1,595,282</u>

**Note 7. Major Customer Concentration**

One customer comprised approximately 13% of total sales for the three months ended December 31, 2007 and another customer comprised 12% of accounts receivable. Two customers comprised 23% of total sales for quarter ended December 31, 2006 and one of those accounted for 17% of accounts receivable.

**Note 8. Income Taxes – Adoption of Financial Interpretation No. 48**

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FIN No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (“FIN48”)*. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation clarifies the application of FASB Statement No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise’s financial statements. Additionally, this Interpretation provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted the provisions of FIN 48, on April 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies*. As required by FIN 48, which clarifies Statement 109, *Accounting for Income Taxes*, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. Both prior and subsequent to the adoption of FIN 48, the Company had no liability for unrecognized tax benefits.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company may be subject to U.S. federal, state or local, income tax examinations by tax authorities for all prior years.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses for all periods presented. The Company has no accrual related to the payment of interest and penalties at October 1, 2007, due to no outstanding tax issues. There has been no subsequent change to accrued interest and penalties since the end of fiscal 2007.

**Note 9. Recently Issued Accounting Pronouncements**

On February 15, 2007, the Financial Accounting Standards Board issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact this pronouncement will have on its consolidated financial position or results of operations.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement but does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact this pronouncement will have on its consolidated financial position or results of operations.

On December 4, 2007, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 141 (Revised 2007), *Business Combinations*. Statement 141R will significantly change the accounting for business combinations. Under Statement 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement 141R will change the accounting treatment for certain specific items. Statement 141R also includes a substantial number of new disclosure requirements. Statement 141 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

The Company is currently assessing the potential impact that the adoption of this Statement will have on its financial statements.

On December 4, 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51*. Statement 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. Statement 160 is effective for fiscal years, and interim periods with those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited.

The Company is currently assessing the potential impact that the adoption of this Statement will have on its financial statements

#### **Note 10. Certain Relationships and Transactions**

*India Facility.* Prior to June 28, 2007, Kul B. Jain, brother of our former chief executive officer, Anil K. Jain, was a director of our APA Optronics (India) Private Limited subsidiary that was established in fiscal 2005. Kul B. Jain was paid approximately \$250 per month in this position. He was not an employee of APA Optronics (India) or Clearfield, Inc. (formerly APA Enterprises, Inc.). On June 28, 2007, we sold all of our interest in our Indian subsidiary to an entity controlled by Anil K. Jain, our former chief executive officer, on terms deemed by the independent directors to be fair and reasonable to the Company. The purchase price of \$500,000 is payable over 5 years and is secured by pledges of stock and Dr. Jain’s payments under his separation agreement, as well as by a guarantee from Dr. Jain.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Statements in this Report about future sales prospects and other matters to occur in the future are forward looking statements and are subject to uncertainties due to many factors, many of which are beyond our control. These factors include, but are not limited to, the continued development of our products, acceptance of those products by potential customers, our ability to sell such products at a profitable price, and our ability to fund our operations. For further discussion regarding these factors, see "Factors That May Influence Future Results."

### OVERVIEW

On January 2, 2008, Clearfield, Inc., formerly known as APA Enterprises, Inc., consolidated its sole subsidiary APA Cables & Networks, Inc., (APACN) into the parent company, Clearfield, Inc. Since the discontinuation of the Optronics business, the operations of the company consisted solely of the operations of APACN.

The Company focuses on highly configurable products for telecommunications customers, primarily related to cabling management requirements of the Fiber-to-the-Home ("FTTH") marketplace and in designing and terminating custom cable assemblies for commercial and industrial original equipment manufacturers ("OEM's"). Over the past four years the Company has expanded its product offerings and broadened its customer base. We continue to see positive trends in the business segments we serve and believe our solid reputation of quality service and competitive and innovative product line which will permit us achieve our growth plans.

Management periodically conducts a critical review of its business operations. During the review of the Optronics business segment it became clear that the scale of the business was not capable of generating a positive income or cash flow. Therefore, management took the necessary steps to eliminate any further losses and recommended to the Board of Directors ("BOD") to discontinue operations. The BOD accepted the recommendations and the Company moved forward to recognize the costs of closing the Optronics business and the related costs of closing the Blaine facility.

With the discontinuation of GaN products and the logistics and time constraints for APACN's fiber patch cords, the benefit of manufacturing in India has been less than expected. As a result India was no longer a viable sourcing option and actions were taken to control ongoing costs and recover the investment in the Company's India subsidiary. On June 28, 2007, the Company sold APA Optronics (India) Private Limited ("APA India") to an entity owned by the former Chief Executive Officer of the Company, Dr. Anil K. Jain.

Dr. Anil K. Jain resigned as Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial officer), and Chairman of the Board of Directors of the Company effective June 28, 2007. His resignation triggered an agreement that requires payment of his then current salary (\$190,000 per year) for 24 months after the date of termination of his employment. As a result, the Company has recorded a severance charge of \$397,481 in the statement of operations during the transition period ended September 30, 2007. The short term portion of the liability is included in accrued compensation and the long term portion of the liability is included in other long term liabilities. The balance of this liability as of December 31, 2007 is \$301,094 (see Note 4. Severance Agreement).

## **RESULTS OF OPERATIONS**

### **THREE MONTHS ENDED DECEMBER 31, 2007 VS. THREE MONTHS ENDED DECEMBER 31, 2006**

The Company had consolidated revenues of \$4,697,000 for the three months ended December 31, 2007 compared to revenues of \$4,505,000 for the comparable quarter in 2006, an increase of 4% or \$192,000. This increase is the result of growth of existing customer sales.

#### **GROSS PROFIT AND COST OF SALES**

Gross profit increased \$94,000, or 7%, to \$1,449,000 compared to \$1,355,000 for the same quarter in 2006. Gross profit as a percent of revenue was 31% in the current quarter as compared to 30% in the same quarter of 2006. The increase in margin percentage reflects on the results of ongoing programs to reduce the cost of products through a combination of product re-design, process improvement, global sourcing of components, and outside manufacturing.

#### **SELLING, GENERAL, AND ADMINISTRATIVE**

Consolidated selling, general, and administrative (S, G, & A) expenses during the three months ended December 31, 2007 were flat at \$1,422,000 compared to \$1,430,000 in the same quarter of 2006.

#### **INCOME (LOSS) FROM OPERATIONS**

The Company recorded income of \$27,000, an increase of \$101,000 over the prior comparable period. The increase in income is attributable to increased sales, improved gross margins, and the elimination of unprofitable operations.

#### **OTHER INCOME AND EXPENSE**

Consolidated other income increased slightly by \$9,000 to \$98,000 compared to \$89,000 for the comparable period in 2007.

#### **NET INCOME (LOSS) FROM CONTINUING OPERATIONS**

The net income for the quarter was \$98,000 or \$0.01 per share compared to a loss of \$11,000, or \$0.00 per share, in the comparable period in 2006.

#### **INCOME (LOSS) FROM DISCONTINUED OPERATIONS**

Income from discontinued operations of \$342,000 was recorded in the three month period ended December 31, 2007, primarily as a result of the lease termination for the Blaine building obligation. On October 30, 2007 the Company purchased its previous corporate headquarters in Blaine, Minnesota for \$1,500,000 under the provisions of its option to purchase as stated in its lease from Jain-Olsen Properties. The Company, as owner of the building, canceled the lease to itself. The lease was scheduled to run through November of 2009. The termination of the lease resulted in the elimination of approximately \$362,000 of accrued obligations related to this lease in conjunction with the discontinuation of the Optronics segment recorded during the fiscal quarter ended June 30, 2007 and was taken into income during the three months ending December 31, 2007. For the same period in 2006 loss from discontinued operations was \$421,000.

The loss on disposal of assets for income for the period ended December 31, 2007 was \$45,000. As described in the above paragraph, the Company purchased its Blaine, Minnesota facility on October 30, 2007 for \$1,500,000. The Company, on the same day, then sold the land and building for \$1,450,000 incurring a loss on sale of \$55,000. In addition, during the current period miscellaneous assets relating to the discontinued operations were sold creating income of approximately \$10,000 reducing the loss on sale to \$45,000. For the same period in 2006, the gain on disposal of assets was \$3,000.

**NET INCOME (LOSS)**

Net income increased by \$824,000 approximately a 192% over the comparable period in 2006. The company recorded net income of \$395,000 for the quarter ended December 31, 2007 compared to a loss of \$429,000 for the comparable period for 2006.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash and cash equivalents were \$1,158,000 at December 31, 2007, a decrease of \$2,147,000, compared to \$3,305,000 as of September 30, 2007. The reasons for this are decreases as described below under the captions "Operating Activities, Investing Activities" and "Financing Activities". We believe we have sufficient funds for operations for at least the next twelve months.

*Operating Activities*

Net cash provided by operating activities from both continuing operations and discontinued operations for the three month period ended December 31, 2007 was \$364,000. This cash inflow was primarily due to income of \$395,000 from continuing and discontinued operations, depreciation of \$121,000, and a reduction of accounts receivable of \$647,000. This was offset by a reduction in accounts payable and accrued expenses of \$494,000 and non-cash charges related to discontinued operations of \$307,000.

Net cash provided by operating activities from both continuing operations and discontinued operations for the three month period ended December 31, 2006 was \$140,000. This cash inflow was primarily due to a reduction of accounts receivable of \$655,000, inventory of \$ 231,000 and depreciation of \$138,000. This was offset by a net operating loss of \$429,000 and reduction in accounts payable \$454,000.

*Investing Activities*

We invest our excess cash in Auction Rate Securities to obtain a market rate return on our excess cash. During the three month period ended December 31, 2007 we utilized cash to purchase \$3,675,000 of securities and received \$1,450,000 on the sale of like securities. During the same period we utilized \$1,500,000 to purchase the Blaine building and subsequently received proceeds on the sale of \$1,450,000. Purchases of capital equipment, enterprise resource planning software and implementation services consumed \$219,000 of cash.

In the three months ended December 31, 2006 we utilized cash to purchase \$3,800,000 of securities and received \$3,500,000 on the sale of like securities as part of our excess cash investment program. In addition we purchased equipment of \$33,000 and sold equipment for \$44,000.

*Financing Activities*

Net cash used in financing activities for the three months ended December 31, 2007 totaled \$18,000.

We received \$42,000 from an escrow account; these funds were applied to interest expense associated with the over all reduction of debt for the Aberdeen building during the three month period ended December 31, 2006.

*Noncash investing and financing*

Our contractual obligations and commitments are summarized in the table below (in 000's) as of December 31, 2007:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Long-term debt (1)	\$ 160	\$ 75	\$ 85	\$ -	\$ -
Leases	1,398	222	465	481	230
<b>Total Contractual Cash Obligations</b>	<b>\$ 1,558</b>	<b>\$ 297</b>	<b>\$ 550</b>	<b>\$ 481</b>	<b>\$ 230</b>

(1) Includes fixed interest ranging from 0.62% to 8.5%

## **FACTORS THAT MAY INFLUENCE FUTURE RESULTS**

The statements contained in this Report on Form 10-QSB that are not purely historical are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitations, statements regarding the Company’s expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. Forward-looking statements include, but are not limited to, statements contained in Management’s Discussion or Plan of Operation. Actual results could differ from those projected in any forward-looking statements for the reasons, among others, detailed below. We believe that many of the risks detailed here are part of doing business in the industry in which we compete and will likely be present in all periods reported. The fact that certain risks are characteristic to the industry does not lessen the significance of the risk. The forward-looking statements are made as of the date of this Report as Form 10-QSB 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. Readers of this Report and prospective investors should also review the Risk Factors set forth in our Report on Form 10-KSB for the fiscal year ended September 30, 2007.

### **Manufacturing and Operations**

*We are dependent upon skilled employees; If we lose the services of our key personnel our ability to execute our operating plan, and our operating results, may suffer.*

Our future performance depends in part upon the continued service and contributions of key management, engineering, sales and marketing personnel, many of whom would be difficult to replace quickly. If we lose any of these key personnel, our business, operating results and financial condition could be materially adversely affected or delay the development or marketing of existing or future products. Competition for these personnel is intense and we may not be able to retain or attract such personnel. Our success will depend in part upon our ability to attract and retain additional personnel with the highly specialized expertise necessary to generate revenue and to engineer, design and support our products and services.

### **Markets and Market Conditions**

*Our profitability can be adversely affected due to increased raw material costs.*

Our manufacturing costs may be impacted by unanticipated increases in raw material costs during the time span between the cost quotes and actual procurement of raw materials. The impact can be significant for purchase orders requiring multiple scheduled deliveries. Whereas we may be able to approach some of the customers for costs adjustments, there is no assurance that we would be successful in obtaining these adjustments. Failure to obtain price adjustments would result in decreased profitability and/or losses.

*Our inventory of raw material and supplies may incur significant obsolescence.*

Our market demands rapid turn around from receipt of purchase orders to shipping of the products. We maintain significant inventory of raw materials and supplies to meet this demand resulting in risk of inventory obsolescence. Whereas we anticipate and make provisions for a reasonable fraction of inventory obsolescence, a significant higher level of obsolescence can adversely impact our profitability.

### **Our Customers**

*Our sales could be negatively impacted if one or more of our key customers substantially reduce orders for our products.*

If we lose a significant customer, our sales and gross margins would be negatively impacted. In addition, the loss of sales may require us to record impairment, restructuring charges or exit a particular business or product line. One customer comprised approximately 13% of total sales for the three months ended December 31, 2007 and another customer comprised 12% of accounts receivable. Two customers comprised 23% of total sales for quarter ended December 31, 2006 and one of those accounted for 17% of accounts receivable.

## **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

Our significant accounting policies are described in Note A to the Consolidated Financial Statements in our Transition Report for the transition period ended September 30, 2007. The accounting policies used in preparing our interim 2007 Consolidated Financial Statements are the same as those described in our Annual Report.

### **ITEM 3 A (T). CONTROLS AND PROCEDURES**

- (a) *Evaluation of disclosure controls and procedures.* The Company's chief executive officer and chief financial officer have evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) as of the end of the period covered by this report and determined the controls and procedures were ineffective. We have identified certain material weaknesses related to the Company and addressed them as follows:
- The Company did not maintain effective controls over the accounting for certain auction rate securities. This oversight was discovered in the transition period ended September 30, 2007 and the financial statements were restated accordingly.
  - The Company did not maintain effective controls to ensure that it is regularly checking for appropriate compliance on all GAAP and SEC reporting matters as they change or become updated.
- (b) *Changes in internal controls.* There were no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

#### *Remediation Efforts Related to Material Weaknesses*

Management has created a board of directors Investment Committee to provide oversight on matters of banking relationships and investing of cash. In addition the Company is in the process of developing and implementing a formal investment policy. Company management is utilizing the expertise of its professional investment advisor to provide insight into an appropriate policy.

Management recognizes it cannot be expert in all of the complex matters of financial reporting as it is a constantly changing and technical environment. Therefore we will be procuring subscriptions to publications and services that provide regular updates regarding SEC and GAAP reporting. These services will include checklists to ensure the internal accounting staff has the necessary tools and resources to comply with both SEC and GAAP regulations. This service will also include continuing education for the Company's professional accounting staff.



**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

[Exhibit 31.1](#) – Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

[Exhibit 31.2](#) – Certification required of Chief Financial Officer by Section 302 of the Sarbanes Oxley Act of 2002

[Exhibit 32.1](#) – Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

[Exhibit 32.2](#) – Certification required of Chief Financial Officer by Section 906 of the Sarbanes Oxley Act of 2002

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.

February 13, 2008

Signature: /s/ Cheryl Beranek Podzimek

Print Name: Cheryl Beranek Podzimek

Print Title: Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cheryl Beranek Podzimek, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Clearfield, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report, fairly represent 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. Clearfield, Inc.'s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a and 15(e)) for Clearfield, Inc. and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to Clearfield, Inc., 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) Evaluated the effectiveness of our disclosure controls and procedures as of a date and presented in this quarterly 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 our evaluation.
  - c) Disclosed in this report any change in Clearfield, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.
5. Clearfield, Inc.'s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to our auditors and the audit committee of our board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect Clearfield, Inc.'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 controls over financial reporting.

February 13, 2008

Signature: /s/ Cheryl Beranek Podzimek

Print Name: Cheryl Beranek Podzimek

Print Title: Chief Executive Officer (Principal Executive Officer)

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**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bruce G. Blackey, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Clearfield, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report, fairly represent 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. Clearfield, Inc.'s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a and 15(e)) for Clearfield, Inc. and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to Clearfield, Inc., 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) Evaluated the effectiveness of our disclosure controls and procedures as of a date and presented in this quarterly 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 our evaluation.
  - c) Disclosed in this report any change in Clearfield, Inc.'s internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.
5. Clearfield, Inc.'s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to our auditors and the audit committee of our board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect Clearfield, Inc.'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 controls over financial reporting.

February 13, 2008

Signature: /s/ Bruce G. Blackey

Print Name: Bruce G. Blackey

Print Title: Chief Financial Officer (Principal Financial and Accounting Officer)

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CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
AS ADOPTED PURSUANT TO 18 U.S.C. SECTION 1350,  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-QSB (the "the Report") of Clearfield, Inc. a Minnesota corporation. (the "Company"), for the quarter ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies pursuant to 18 U.S.C. § 1350, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, that, to her knowledge

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

February 13, 2008

Signature: /s/ Cheryl Beranek Podzimek

Print Name: Cheryl Beranek Podzimek

Print Title: Chief Executive Officer (Principal Executive Officer)

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CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
AS ADOPTED PURSUANT TO 18 U.S.C. SECTION 1350,  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-QSB (the "the Report") of Clearfield, Inc. a Minnesota corporation. (the "Company"), for the quarter ended December 31,2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies pursuant to 18 U.S.C. § 1350, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, that, to his knowledge

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

February 13, 2008

Signature: /s/ Bruce G. Blackey

Print Name: Bruce G. Blackey

Print Title: Chief Financial Officer (Principal Financial and Accounting Officer)

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