

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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2018

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

**Commission File Number 0-16106**

**Clearfield, Inc.**

(Exact name of Registrant as specified in its charter)

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

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

**7050 Winnetka Avenue North, Suite 100, Brooklyn Park, Minnesota 55428**  
(Address of principal executive offices and zip code)

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

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:  
Common stock, par value \$.01

Outstanding at April 27, 2018  
13,809,998

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

## ITEM 1. FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED BALANCE SHEETS

|   | (Unaudited)<br>March 31,<br>2018 | (Audited)<br>September 30,<br>2017 |
|---|----------------------------------|------------------------------------|
| <b>Assets</b>   |                                  |                                    |
| <b>Current Assets</b>   |                                  |                                    |
| Cash and cash equivalents   | \$ 9,141,197                     | \$ 18,536,111                      |
| Short-term investments  | 6,285,225                        | 5,937,150                          |
| Accounts receivables, net   | 7,159,376                        | 7,237,641                          |
| Inventories, net  | 10,879,149                       | 8,453,567                          |
| Other current assets  | 1,069,504                        | 978,933                            |
| Total current assets  | <u>34,534,451</u>                | <u>41,143,402</u>                  |
| Property, plant and equipment, net  | 5,053,859                        | 5,434,172                          |
| <b>Other Assets</b>   |                                  |                                    |
| Long-term investments   | 20,180,000                       | 19,816,000                         |
| Goodwill  | 4,708,511                        | 2,570,511                          |
| Intangible assets, net  | 5,618,260                        | 284,787                            |
| Other   | 228,820                          | 245,165                            |
| Total other assets  | <u>30,735,591</u>                | <u>22,916,463</u>                  |
| Total Assets  | <u>\$ 70,323,901</u>             | <u>\$ 69,494,037</u>               |
| <b>Liabilities and Shareholders' Equity</b>   |                                  |                                    |
| <b>Current Liabilities</b>  |                                  |                                    |
| Accounts payable  | 1,798,776                        | 1,739,791                          |
| Accrued compensation  | 2,103,906                        | 2,410,026                          |
| Accrued expenses  | 31,441                           | 93,304                             |
| Total current liabilities   | <u>3,934,123</u>                 | <u>4,243,121</u>                   |
| <b>Other Liabilities</b>  |                                  |                                    |
| Deferred taxes  | 60,076                           | 444,076                            |
| Deferred rent   | 276,797                          | 281,720                            |
| Total other liabilities   | <u>336,873</u>                   | <u>725,796</u>                     |
| Total Liabilities   | <u>4,270,996</u>                 | <u>4,968,917</u>                   |
| <b>Commitments and Contingencies</b>  |                                  |                                    |
| <b>Shareholders' Equity</b>   |                                  |                                    |
| Preferred stock, \$.01 par value; 500,000 shares; no shares issued or outstanding   | -                                | -                                  |
| Common stock, authorized 50,000,000, \$.01 par value; 13,811,076 and 13,812,821, shares issued and outstanding at March 31, 2018 and September 30, 2017 | 138,111                          | 138,128                            |
| Additional paid-in capital  | 56,296,908                       | 55,406,888                         |
| Retained earnings   | 9,617,886                        | 8,980,104                          |
| Total Shareholders' Equity  | <u>66,052,905</u>                | <u>64,525,120</u>                  |
| Total Liabilities and Shareholders' Equity  | <u>\$ 70,323,901</u>             | <u>\$ 69,494,037</u>               |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
UNAUDITED

|                                      | Three Months Ended<br>March 31, |                   | Six Months Ended<br>March 31, |                     |
|--------------------------------------|---------------------------------|-------------------|-------------------------------|---------------------|
|                                      | 2018                            | 2017              | 2018                          | 2017                |
| Net sales                            | \$ 16,830,895                   | \$ 17,651,771     | \$ 33,697,779                 | \$ 35,917,933       |
| Cost of sales                        | 10,051,061                      | 10,208,957        | 19,809,538                    | 21,266,399          |
| Gross profit                         | 6,779,834                       | 7,442,814         | 13,888,241                    | 14,651,534          |
| Operating expenses                   |                                 |                   |                               |                     |
| Selling, general and administrative  | 7,305,589                       | 6,162,178         | 13,769,560                    | 12,179,702          |
| (Loss) income from operations        | (525,755)                       | 1,280,636         | 118,681                       | 2,471,832           |
| Interest income                      | 119,379                         | 59,885            | 215,101                       | 112,619             |
| (Loss) income before income taxes    | (406,376)                       | 1,340,521         | 333,782                       | 2,584,451           |
| Income tax (benefit) expense         | (101,000)                       | 433,000           | (304,000)                     | 800,000             |
| Net (loss) income                    | <u>\$ (305,376)</u>             | <u>\$ 907,521</u> | <u>\$ 637,782</u>             | <u>\$ 1,784,451</u> |
| Net (loss) income per share:         |                                 |                   |                               |                     |
| Basic                                | <u>\$ (0.02)</u>                | <u>\$ 0.07</u>    | <u>\$ 0.05</u>                | <u>\$ 0.13</u>      |
| Diluted                              | <u>\$ (0.02)</u>                | <u>\$ 0.07</u>    | <u>\$ 0.05</u>                | <u>\$ 0.13</u>      |
| Weighted average shares outstanding: |                                 |                   |                               |                     |
| Basic                                | 13,450,482                      | 13,589,109        | 13,447,178                    | 13,578,178          |
| Diluted                              | 13,450,482                      | 13,803,697        | 13,494,433                    | 13,797,126          |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
UNAUDITED

|   | Six Months Ended March 31, |                      |
|---|----------------------------|----------------------|
|   | 2018                       | 2017                 |
| <b>Cash flows from operating activities</b>   |                            |                      |
| Net income  | \$ 637,782                 | \$ 1,784,451         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                            |                      |
| Depreciation and amortization   | 989,912                    | 800,136              |
| Deferred taxes  | (384,000)                  | -                    |
| Loss (gain) on disposal of assets   | 1,594                      | (5,100)              |
| Stock-based compensation  | 969,081                    | 1,183,911            |
| Changes in operating assets and liabilities, net of business acquisition:                   |                            |                      |
| Accounts receivable, net  | 78,265                     | (115,011)            |
| Inventories   | 354,984                    | (1,597,722)          |
| Prepaid expenses and other  | (71,117)                   | 234,201              |
| Accounts payable and accrued expenses   | (313,921)                  | (2,296,544)          |
| Net cash provided by (used in) operating activities   | <u>2,262,580</u>           | <u>(11,678)</u>      |
| <b>Cash flows from investing activities</b>   |                            |                      |
| Business acquisition  | (10,350,000)               | -                    |
| Purchases of property, plant and equipment and intangible assets                            | (516,341)                  | (1,064,936)          |
| Proceeds from sale of property, plant and equipment   | -                          | 5,100                |
| Purchases of investments  | (4,181,075)                | (10,166,075)         |
| Proceeds from maturities of investments   | 3,469,000                  | 5,568,000            |
| Net cash used in investing activities   | <u>(11,578,416)</u>        | <u>(5,657,911)</u>   |
| <b>Cash flows from financing activities</b>   |                            |                      |
| Proceeds from issuance of common stock under employee stock purchase plan                   | 148,259                    | 169,500              |
| Proceeds from issuance of common stock upon exercise of stock options                       | 17,949                     | 28,459               |
| Tax withholding related to exercise of stock options  | (9,262)                    | (10,326)             |
| Repurchase of common stock  | (236,024)                  | (49,352)             |
| Net cash (used in) provided by financing activities   | <u>(79,078)</u>            | <u>138,281</u>       |
| Decrease in cash and cash equivalents   | (9,394,914)                | (5,531,308)          |
| Cash and cash equivalents, beginning of period  | 18,536,111                 | 28,014,321           |
| Cash and cash equivalents, end of period  | <u>\$ 9,141,197</u>        | <u>\$ 22,483,013</u> |
| <b>Supplemental disclosures for cash flow information</b>                                   |                            |                      |
| Cash paid during the year for income taxes  | <u>\$ 23,987</u>           | <u>\$ 416,750</u>    |
| <b>Non-cash financing activities</b>  |                            |                      |
| Cashless exercise of stock options  | <u>\$ 5,782</u>            | <u>\$ 34,268</u>     |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

**Note 1. Basis of Presentation**

The accompanying (a) condensed balance sheet as of September 30, 2017, which has been derived from audited financial statements, and (b) unaudited interim condensed financial statements as of and for the three and six months ended March 31, 2018 have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to these rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period, due to variability in customer purchasing patterns and seasonal, operating and other factors. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2017.

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.

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not affect the prior periods' net income, shareholders' equity, or cash flows.

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

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

The following is a reconciliation of the numerator and denominator of the net income (loss) per common share computations for the three and six months ended March 31, 2018 and 2017:

|   | Three Months Ended March 31, |            | Six Months Ended March 31, |              |
|---|------------------------------|------------|----------------------------|--------------|
|   | 2018                         | 2017       | 2018                       | 2017         |
| Net (loss) income                                   | \$ (305,376)                 | \$ 907,521 | \$ 637,782                 | \$ 1,784,451 |
| Weighted average common shares                      | 13,450,482                   | 13,589,109 | 13,447,178                 | 13,578,178   |
| Dilutive potential common shares                    | -                            | 214,588    | 47,255                     | 218,948      |
| Weighted average dilutive common shares outstanding | 13,450,482                   | 13,803,697 | 13,494,433                 | 13,797,126   |
| Net (loss) income per common share:                 |                              |            |                            |              |
| Basic   | \$ (0.02)                    | \$ 0.07    | \$ 0.05                    | \$ 0.13      |
| Diluted   | \$ (0.02)                    | \$ 0.07    | \$ 0.05                    | \$ 0.13      |

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

The Company currently invests its excess cash in money market accounts and bank certificates of deposit (CDs) with a term of not more than five years. CDs with original maturities of more than three months are reported as held-to-maturity investments and are carried at amortized cost. Investments maturing in less than one year are classified as short term investments on the balance sheet, and investments maturing in one year or greater are classified as long term investments on the balance sheet.

The maturity dates of the Company's CDs as of March 31, 2018 and September 30, 2017 are as follows:

|                    | March 31, 2018       | September 30, 2017   |
|--------------------|----------------------|----------------------|
| Less than one year | \$ 6,285,225         | \$ 5,937,150         |
| 1-5 years          | 20,180,000           | 19,816,000           |
| <b>Total</b>       | <b>\$ 26,465,225</b> | <b>\$ 25,753,150</b> |

#### Note 4. Stock-Based Compensation

The Company recorded \$485,794 and \$969,081 of compensation expense related to current and past option grants, restricted stock grants and the Company's Employee Stock Purchase Plan ("ESPP") for the three and six months ended March 31, 2018, respectively. For the three months ended March 31, 2018, \$443,763 of this expense is included in selling, general and administrative expense, and \$42,031 is included in cost of sales. For the six months ended March 31, 2018, \$885,020 of this expense is included in selling, general and administrative expense, and \$84,061 is included in cost of sales. The Company recorded \$590,165 and \$1,183,911 of compensation expense related to current and past equity awards for the three and six months ended March 31, 2017, respectively. For the three months ended March 31, 2017, \$535,464 of this expense was included in selling, general and administrative expense, and \$54,701 was included in cost of sales. For the six months ended March 31, 2017, \$1,074,510 of this expense was included in selling, general and administrative expense, and \$109,401 was included in cost of sales. As of March 31, 2018, \$3,999,219 of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a period of approximately 6.6 years.

There were no stock options granted during the six months ended March 31, 2018 or March 31, 2017. The following is a summary of stock option activity during the six months ended March 31, 2018:

|   | Number of options | Weighted average exercise price |
|---|-------------------|---------------------------------|
| Outstanding as of September 30, 2017    | 38,950            | \$ 2.79                         |
| Granted                                 | -                 | -                               |
| Exercised                               | (6,100)           | 3.89                            |
| Cancelled or Forfeited                  | -                 | -                               |
| <b>Outstanding as of March 31, 2018</b> | <b>32,850</b>     | <b>\$ 2.58</b>                  |

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. As of March 31, 2018, the weighted average remaining contractual term for all outstanding and exercisable stock options was 2.4 years and their aggregate intrinsic value was \$339,012. During the six months ended March 31, 2018, the Company received proceeds of \$17,949 from the exercise of stock options. During the six months ended March 31, 2017, exercised stock options totaled 15,750 shares, resulting in \$28,459 of proceeds to the Company.

#### Restricted Stock

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

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

During the six months ended March 31, 2017, the Company granted non-employee directors restricted stock awards totaling 3,795 shares of common stock, with a vesting term of approximately one year and a fair value of \$16.45 per share.

Restricted stock transactions during the six months ended March 31, 2018 are summarized as follows:

|  | Number of shares | Weighted average grant date<br>fair value |
|--|------------------|---|
| Unvested shares as of September 30, 2017 | 370,530          | \$ 15.24                                  |
| Granted                                  | 4,235            | 14.75                                     |
| Vested                                   | (5,795)          | 15.46                                     |
| Forfeited                                | (5,644)          | 15.39                                     |
| Unvested as of March 31, 2018            | 363,326          | \$ 15.23                                  |

#### Employee Stock Purchase Plan

Clearfield, Inc.'s ESPP allows participating employees to purchase shares of the Company's common stock at a discount through payroll deductions. The ESPP is available to all employees subject to certain eligibility requirements. Terms of the ESPP provide that participating employees may purchase the Company's common stock on a voluntary after-tax basis. Employees may purchase the Company's common stock at a price that is no less than the lower of 85% of the fair market value of one share of common stock at the beginning or end of each stock purchase period or phase. The ESPP is carried out in six month phases, with phases beginning on January 1 and July 1 of each calendar year. For the phases that ended on December 31, 2017 and December 31, 2016, employees purchased 14,242 and 11,144 shares at a price of \$10.41 and \$15.21 per share, respectively. After the employee purchase on December 31, 2017, 103,013 shares of common stock were available for future purchase under the ESPP.

#### Note 5. Accounts Receivable and Net Sales

Credit is extended based on the evaluation of a customer's financial condition and collateral is generally not required. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company writes off accounts receivable when they become uncollectible; payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of both March 31, 2018 and September 30, 2017, the balance in the allowance for doubtful accounts was \$79,085.

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

#### Note 6. Inventories, net

Inventories consist of the following as of:

|                  | March 31, 2018 | September 30, 2017 |
|------------------|----------------|--------------------|
| Raw materials    | \$ 5,399,534   | \$ 5,991,863       |
| Work-in-progress | 805,616        | 724,248            |
| Finished goods   | 4,673,999      | 1,737,456          |
| Inventories, net | \$ 10,879,149  | \$ 8,453,567       |

During the six months ended March 31, 2018, the Company adopted Accounting Standards Update ("ASU") 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory* which applies to all inventory except inventory that is measured using last-in, first-out or the retail inventory method. This adoption had no effect on the financial statements and was applied prospectively. Therefore, prior periods were not retrospectively adjusted.

#### Note 7. Major Customer Concentration

The following table summarizes customers comprising 10% or more of net sales for the three and six months ended March 31, 2018 and March 31, 2017:

|            | Three Months Ended March 31, |      | Six Months Ended March 31, |      |
|------------|------------------------------|------|----------------------------|------|
|            | 2018                         | 2017 | 2018                       | 2017 |
| Customer A | 25%                          | 18%  | 24%                        | 23%  |
| Customer B | 16%                          | 15%  | 14%                        | 15%  |



As of March 31, 2018, Customers B and A accounted for 22% and 13% of accounts receivable, respectively. As of September 30, 2017, Customer B accounted for 19% of accounts receivable. Customers A and B are both distributors.

#### **Note 8. Goodwill and Patents**

The Company analyzes its goodwill for impairment annually or at an interim period when events occur or changes in circumstances indicate potential impairment. The result of the analysis performed in the fourth quarter ended September 30, 2017 did not indicate an impairment of goodwill. During the six months ended March 31, 2018, there were no triggering events that indicate potential impairment exists.

The Company capitalizes legal costs incurred to obtain patents. Once accepted by either the U.S. Patent Office or the equivalent office of a foreign country, these legal costs are amortized using the straight-line method over the remaining estimated lives, not exceeding 20 years. As of March 31, 2018, the Company has 12 patents granted and multiple pending applications both inside and outside the United States.

#### **Note 9. Income Taxes**

For the three and six months ended March 31, 2018, the Company recorded a benefit for income taxes of \$101,000 and \$304,000, respectively, reflecting an effective tax rate of 24.9% and negative 91.1%, respectively. The Tax Cut and Jobs Act of 2017 (the "Tax Reform Act") was enacted on December 22, 2017. The Tax Reform Act reduced certain federal corporate income tax rates effective January 1, 2018 and changed certain other provisions. The effective tax rate for the six months ended March 31, 2018 is a blended rate reflecting the anticipated benefit of three quarters of federal tax rate reductions for fiscal 2018. Our six months tax benefit reflects a lower tax rate and a one-time benefit of \$384,000 related to the favorable impact of a revaluation of our net deferred tax liability that decreased the income tax provision for the six months ended March 31, 2018 and reduced long-term deferred tax liabilities during the six months ended March 31, 2018. The final impact of the Tax Reform Act may differ due to and among other things, changes in interpretations, assumptions made by the Company, the issuance of additional guidance, and actions the Company may take as a result of the Tax Reform Act. Additionally, differences between the effective tax rate and the statutory tax rate are related to nondeductible meals and entertainment, expenses related to equity award compensation, favorable domestic manufacturing deduction and research and development credits.

For the three and six months ended March 31, 2017, the Company recorded a provision for income taxes of \$433,000 and \$800,000, respectively, reflecting an effective tax rate of 32.3% and 31.0%, respectively. The primary difference between the effective tax rate and the statutory tax rate is related to nondeductible meals and entertainment, favorable domestic manufacturing deduction and research and development credits, expenses related to equity award compensation and favorable discrete items for the three and six months ended March 31, 2017 from tax benefits related to stock-based compensation awards.

As of March 31, 2018 and September 30, 2017, the Company had a remaining valuation allowance of approximately \$191,000 and \$159,000, respectively, related to state net operating loss carry forwards the Company does not expect to utilize. As a result of recording the impact of the Tax Reform Act on its deferred assets and liabilities, the Company recorded an increase in its valuation allowance against state net operating losses carried forward of approximately \$32,000 in the six months ended March 31, 2018. Based on the Company's analysis and review of long-term forecasts and all available evidence, the Company determined that there should be no further change in the valuation allowance for the quarter ended March 31, 2018.

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

As of March 31, 2018, 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.

We are currently under examination by the U.S. Internal Revenue Service for fiscal year 2016. We are not under examination by any other taxing jurisdiction. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense on our Statements of Operations.

#### Note 10. Acquisition

On February 20, 2018, the Company completed the acquisition of a portfolio of Telcordia certified outdoor powered cabinet products from Calix, Inc. (“Calix”) upon the terms and conditions contained in an Asset Purchase Agreement entered into on February 20, 2018.

The introduction of the Clearfield powered cabinet line provides customers a single point of contact for cabinet solutions—both passive and powered. The acquisition enables Clearfield to expand its Fiber-to-Anywhere expertise to include powered electronic cabinet platforms while leveraging its supply chain. The acquisition also enables Clearfield to capitalize on and expand its reach to a broader customer base, including service providers in the Tier 1 and Tier 2 markets.

Acquisition date fair value of the consideration transferred totaled \$10,350,000 which was comprised of a cash payment of \$10,350,000 from the Company’s cash operating account.

We assumed no liabilities in the acquisition. As part of the acquisition, we also agreed to purchase a minimum of \$3,500,000 in inventory and purchase orders from subcontractors. We expect to fulfill this commitment during the normal course of business. The allocation of purchase consideration to assets acquired is not yet finalized as we continue to evaluate the fair value of certain assets acquired. The following table summarizes the preliminary estimated fair values of the assets acquired at the acquisition date:

|                               | February 20, 2018    |
|-------------------------------|----------------------|
| Inventories                   | \$ 2,781,000         |
| Property, plant and equipment | 58,000               |
| Trademarks                    | 563,000              |
| Customer relationships        | 3,742,000            |
| Product certification         | 1,068,000            |
| Goodwill                      | 2,138,000            |
| Total Assets                  | <u>\$ 10,350,000</u> |

Pending finalization of the fair value of the intangible assets in the third quarter of 2018, the powered cabinet acquisition has preliminarily resulted in \$2,138,000 of goodwill, which is expected to be deductible for tax purposes. Specifically, the goodwill recorded as part of the acquisition of the Calix powered cabinets includes the expected synergies and other benefits that we believe will result from combining the operations of powered cabinet lines with the operations of Clearfield, Inc.

The Company has incurred approximately \$76,000 in legal, professional, and other costs related to this acquisition accounted for as selling and administrative expenses when incurred. The weighted-average useful life of intangible assets acquired is 12.9 years.

As the powered cabinet business was not operated as a separate subsidiary, division or entity, Calix did not maintain separate financial statements for the powered cabinet business. As a result, we are unable to accurately determine earnings/loss for the powered cabinet business on a standalone basis since the date of acquisition. Revenue attributable to the powered cabinet products included in reported Clearfield revenue for the three-month period ended March 31, 2018 was immaterial to the financial statements.

The following table below reflects our unaudited pro forma combined results of operations as if the acquisition had taken place as of October 1, 2016 and shows the net sales and net income (loss) as if the powered cabinet business were combined with the Clearfield business for the three-month and six month periods ended March 31, 2017 and March 31, 2018. The pro forma includes estimated expenses relating to the amortization of intangibles purchased, the amortization of the inventory fair value adjustment, and estimated personnel costs:

|                               | Pro Forma<br>Three Months Ended<br>March 31, 2017<br>(unaudited) | Pro Forma<br>Six Months Ended<br>March 31, 2017<br>(unaudited) | Pro Forma<br>Three Months Ended<br>March 31, 2018<br>(unaudited) | Pro Forma<br>Six Months Ended<br>March 31, 2018<br>(unaudited) |
|-------------------------------|--|--|--|--|
| Net sales                     | \$ 20,974,827  | \$ 44,720,355  | \$ 17,823,216  | \$ 37,005,214  |
| Income (loss) from operations | \$ 1,937,346   | \$ 4,184,133   | \$ (341,314)   | \$ 602,596   |
| Net income (loss)             | \$ 1,352,108   | \$ 2,973,195   | \$ (166,775)   | \$ 1,157,992   |
| Net income (loss) per share:  |  |  |  |  |
| Basic                         | \$ 0.10  | \$ 0.22  | \$ (0.01)  | \$ 0.09  |
| Diluted                       | \$ 0.10  | \$ 0.22  | \$ (0.01)  | \$ 0.09  |

The pro forma unaudited results do not purport to be indicative of the results which would have been obtained had the acquisition been completed as of the beginning of the earliest period presented or of results that may be obtained in the future. In addition, they do not include any benefits that may result from the acquisition due to synergies that may be derived from the elimination of any duplicative costs.

#### Note 11. Accounting Pronouncements

##### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued guidance creating Accounting Standards Codification ("ASC") Section 606, *Revenue from Contracts with Customers*. The new section will replace Section 605, "Revenue Recognition" and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is planning to complete an assessment of its revenue streams during the second and third quarters of fiscal 2018 to determine the impact that this standard will have on its business practices, financial condition, results of operations and disclosures. The updated guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The updated guidance requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required for customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The Company anticipates there will be expanded financial statement disclosures in order to comply with the updated guidance. The Company has not yet decided on the transition method upon adoption, but plans to select a transition method during the third quarter of fiscal 2018.

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

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

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

*The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. Words such as "plan," "expect," "aim," "believe," "project," "target," "anticipate," "intend," "estimate," "will," "should," "could" and other words and terms of similar meaning, typically identify these forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual results could differ from those projected in any forward-looking statements because of the factors identified in and incorporated by reference from Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended September 30, 2017, as well as in other filings we make with the Securities and Exchange Commission, which should be considered an integral part of Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." All forward-looking statements included herein are made as the date of this Quarterly Report on Form 10-Q and we assume no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.*

The following discussion and analysis of our financial condition and results of operations as of and for the three and six months ended March 31, 2018 and 2017 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, 2017.

### **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 incumbent local exchange carriers (Traditional Carriers, within the Tier 2 and Tier 3 broadband markets), including large national and global telecom providers (Tier 1), wireless operators, MSO/cable TV companies, utility/municipality, enterprise, data center and military markets, while also serving the broadband needs of the competitive local exchange carriers (Alternative Carriers). The Company also provides contract manufacturing services for original equipment manufacturers (OEM) requiring copper and fiber cable assemblies built to their specifications.

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

### **RESULTS OF OPERATIONS**

#### **THREE MONTHS ENDED MARCH 31, 2018 VS. THREE MONTHS ENDED MARCH 31, 2017**

Net sales for the second quarter of fiscal 2018 ended March 31, 2018 were \$16,831,000, a decrease of approximately 5%, or \$821,000, from net sales of \$17,652,000 for the second quarter of fiscal 2017. Net sales to broadband service providers and commercial data networks customers were \$15,978,000 in the second quarter of fiscal 2018, versus \$16,623,000 in the same period of fiscal 2017. Among this group, the Company recorded \$765,000 in international sales for the second quarter of fiscal 2018, versus \$1,787,000 in the same period of fiscal 2017. Net sales to build-to-print and OEM customers were \$853,000 in the second quarter of fiscal 2018 versus \$1,029,000 in the same period of fiscal 2017. 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 10% of total net sales for the second quarters of fiscal 2018 and 2017, respectively.

The decrease in net sales for the quarter ended March 31, 2018 of \$821,000 compared to the quarter ended March 31, 2017 is primarily attributable to a decrease in international sales of \$1,022,000 during the same period due to a decrease in demand. Additionally, net sales were negatively affected by a decrease in the ongoing builds of an Alternative Carrier customer of \$680,000 in the quarter ended March 31, 2018. These were slightly offset by an increase of \$881,000 in net sales to our domestic customer base of commercial data network providers, build-to-print and OEM manufacturers, and broadband service providers when compared to the same period of fiscal 2017. The increase was due to increased deployments by the Company's Traditional Carrier customers. Revenue from all customers is obtained from purchase orders submitted from time to time. Accordingly, the Company's ability to predict orders in future periods or trends affecting orders in future periods is limited.

Cost of sales for the second quarter of fiscal 2018 was \$10,051,000, a decrease of \$158,000, or 2%, from \$10,209,000 in the comparable period of fiscal 2017. Gross profit percent was 40.3% of net sales in the fiscal 2018 second quarter, a decrease from 42.2% of net sales for the fiscal 2017 second quarter. Gross profit decreased \$663,000, or 9%, to \$6,780,000 for the three months ended March 31, 2018 from \$7,443,000 in the comparable period in fiscal 2017. The decrease in gross profit in the second quarter of fiscal 2018 was due to decreased volume while the decrease in gross profit percent for the quarter was due to a lower percentage of sales associated with the integration of optical components within our product line, which typically have higher margins.

Selling, general and administrative expenses increased \$1,144,000, or 19%, to \$7,306,000 in the fiscal 2018 second quarter from \$6,162,000 for the fiscal 2017 second quarter. The increase in the second quarter of fiscal 2018 consists primarily of an increase of \$1,203,000 in legal expenses, mainly due to the defense of the patent infringement litigation and a one-time payment of \$850,000 in settlement of that litigation, and an increase of \$150,000 in compensation costs due primarily to additional sales and engineering personnel, somewhat offset by a decrease of \$155,000 in product development costs when compared to the fiscal 2017 second quarter.

Loss from operations for the quarter ended March 31, 2018 was \$526,000 compared to income from operations of \$1,281,000 for the comparable quarter of fiscal 2017, a decrease of approximately 141%. This decrease is primarily attributable to decreased gross profit and increased selling, general and administrative expenses for the quarter ended March 31, 2018 as noted above.

Interest income for the quarter ended March 31, 2018 was \$119,000 compared to \$60,000 for the comparable quarter for fiscal 2017. The increase is due mainly to higher interest rates earned on its investments in fiscal 2018. The Company invests its excess cash primarily in FDIC-backed bank certificates of deposit and money market accounts.

We recorded a benefit for income taxes of \$101,000 and a provision for income taxes of \$433,000 for the three months ended March 31, 2018 and 2017, respectively. We record our quarterly provision for income taxes based on our estimated annual effective tax rate for the year. The decrease in tax expense of \$534,000 from the second quarter for fiscal 2017 is primarily due to decreased income from operations. The decrease in the income tax expense rate to 24.9% for the second quarter of fiscal 2018 from 32.3% for the second quarter of fiscal 2017 is primarily due to the Tax Reform Act that resulted in a lower federal tax rate.

The Company's net loss for the three months ended March 31, 2018 was \$305,000, or \$0.02 per basic and diluted share. The Company's net income for the three months ended March 31, 2017 was \$908,000, or \$0.07 per basic and diluted share.

#### **SIX MONTHS ENDED MARCH 31, 2018 VS. SIX MONTHS ENDED MARCH 31, 2017**

Net sales for the six months ended March 31, 2018 were \$33,698,000, a decrease of 6%, or approximately \$2,220,000, from net sales of \$35,918,000 for the first six months of fiscal 2017. Net sales to broadband service providers and commercial data networks customers were \$31,998,000 for the first six months of fiscal 2018, versus \$33,651,000 in the same period of fiscal 2017. Among this group, the Company recorded \$2,134,000 in international sales versus \$3,373,000 in the same period of fiscal 2017. Net sales to build-to-print and OEM customers were \$1,700,000 in the first six months of fiscal 2018 versus \$2,267,000 in the same period of fiscal 2017. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 6% and 9% of total net sales for the first six months of fiscal 2018 and 2017, respectively.

The decrease in net sales for the six months ended March 31, 2018 of \$2,220,000 compared to the six months ended March 31, 2017 is primarily attributable to a decrease in international sales of \$1,239,000 during the same period due to a decrease in demand. Additionally, net sales were negatively affected by a decrease in the ongoing builds of an Alternative Carrier customer of \$890,000 in the six months ended March 31, 2018. These were slightly augmented by an decrease of \$91,000 in net sales to our domestic customer base of commercial data network providers, build-to-print and OEM manufacturers, and broadband service providers when compared to the same period of fiscal 2017. The decrease was due to decreased deployments by the Company's Tier 1 customers. Revenue from all customers is obtained from purchase orders submitted from time to time. Accordingly, the Company's ability to predict orders in future periods or trends affecting orders in future periods is limited.

Cost of sales for the six months ended March 31, 2018 was \$19,810,000, a decrease of \$1,456,000, or 7%, from \$21,266,000 in the comparable period of fiscal 2017. Gross profit percent was 41.2% of net sales in the fiscal 2018 first six months, up from 40.8% for the comparable six months in fiscal 2017. Gross profit decreased \$764,000, or 5%, to \$13,888,000 for the six months ended March 31, 2018 from \$14,652,000 in the comparable period in fiscal 2017. The decrease in cost of sales in the first six months of fiscal 2018 was due to decreased volume while the increase in gross profit percent was due to a lower percentage of sales to the Tier 1 customer group, which typically have lower margins.

Selling, general and administrative expenses increased 13%, or \$1,590,000, from \$12,180,000 for the first six months of fiscal 2017 to \$13,770,000 for the first six months of fiscal 2018. The increase in the first six months of fiscal 2018 consists primarily of an increase of \$1,815,000 in legal expenses, mainly due to the defense of the patent infringement litigation and a one-time payment of \$850,000 in settlement of that litigation and an increase of \$350,000 in compensation costs due primarily to additional sales and engineering personnel, somewhat offset by decreases of \$472,000 in performance compensation accruals, \$214,000 in product development costs, and \$189,000 in stock compensation expense when compared to the first six months of fiscal 2017.

Income from operations for the six months ended March 31, 2018 was \$119,000 compared to income from operations of \$2,472,000 for the first six months of fiscal 2017, a decrease of \$2,353,000, or 95%. This decrease is primarily attributable to decreased gross profit and increased selling, general and administrative expenses as noted above.

Interest income for the six months ended March 31, 2018 was \$215,000 compared to \$113,000 for the comparable period for fiscal 2017. The increase is due mainly to higher interest rates earned on its investments in fiscal 2018.

We recorded a benefit for income taxes of \$304,000 and a provision for income taxes of \$800,000 for the six months ended March 31, 2018 and 2017, respectively. The decrease in tax expense of \$1,104,000 from the six months ended March 31, 2017 is primarily due to the Tax Reform Act enacted on December 22, 2017 that resulted in a lower federal tax rate and a one-time benefit of \$384,000 related to the favorable impact of a revaluation of our net deferred tax liability that decreased the income tax provision. The decrease in the income tax expense rate to negative 91.1% for the six months ended March 31, 2018 from 31.0% for the six months ended March 31, 2017 is primarily due to the Tax Reform Act as described above.

The Company's net income for the first six months of fiscal 2018 ended March 31, 2018 was \$638,000, or \$0.05 per basic and diluted share. The Company's net income for the first six months of fiscal 2017 ended March 31, 2017 was \$1,784,000, or \$0.13 per basic and diluted share.

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

As of March 31, 2018, our principal source of liquidity was our cash, cash equivalents and short-term investments. Those sources total \$15,426,000 at March 31, 2018 compared to \$24,473,000 at September 30, 2017. Our excess cash is invested mainly in certificates of deposit backed by the FDIC and money market accounts. Substantially all of our funds are insured by the FDIC. Investments considered long-term were \$20,180,000 as of March 31, 2018, compared to \$19,816,000 as of September 30, 2017. We believe the combined balances of short-term cash and investments along with long-term investments provide a more accurate indication of our available liquidity. We had no long-term debt obligations as of March 31, 2018 or September 30, 2017.

We believe our existing cash equivalents and short-term investments, along with cash flow from operations, will be sufficient to meet our working capital and investment requirements for beyond the next 12 months. The Company intends on utilizing its available cash and assets primarily for its continued organic growth and potential future strategic transactions, as well as execution of the share repurchase program adopted by our Board of Directors. The share repurchase program was originally adopted on November 13, 2014 with \$8,000,000 authorized for common stock repurchases. On April 25, 2017, our Board of Directors increased the authorization to \$12,000,000 of common stock.

#### Operating Activities

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

Net cash used in operating activities totaled \$12,000 for the six months ended March 31, 2017. This was primarily due to net income of \$1,784,000, non-cash expenses for depreciation and amortization of \$800,000, and stock based compensation of \$1,184,000 offset by changes in operating assets and liabilities using cash. Changes in operating assets and liabilities providing cash included a decrease in other assets of \$234,000. The decrease in other assets primarily represented a decrease in the current income tax receivable. Changes in working capital items using cash included an increase in accounts receivable of \$115,000, an increase in inventory of \$1,598,000, and a decrease in accounts payable and accrued expenses of \$2,297,000. Days sales outstanding increased six days to 41 days from September 30, 2016 to March 31, 2017. The increase in inventory represented an adjustment for seasonal demand along with new product introductions while the decrease in accounts payable and accrued expenses primarily reflected fiscal 2016 accrued bonus compensation accruals paid in the first quarter of fiscal 2017.

#### Investing Activities

During the six months ended March 31, 2018, we acquired the powered cabinet product line from Calix for the amount of \$10,350,000, which was paid from our available cash. Additionally, we invest our excess cash in money market accounts and bank CDs in denominations across numerous banks. We believe we obtain a competitive rate of return given the economic climate along with the security provided by the FDIC on these investments. During the six months ended March 31, 2018, we used cash to purchase \$4,181,000 of FDIC-backed securities and received \$3,469,000 on CDs that matured. Purchases of patents and capital equipment, mainly related to information technology and manufacturing equipment, consumed \$516,000 of cash in the six months ended March 31, 2018.

During the six months ended March 31, 2017, we used cash to purchase \$10,166,000 of FDIC-backed securities and received \$5,568,000 on CDs that matured. Purchases of patents and capital equipment, mainly related to information technology and manufacturing equipment, consumed \$1,065,000 of cash in the six months ended March 31, 2017.

#### Financing Activities

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

For the six months ended March 31, 2017, we received \$170,000 from employees' participation and purchase of stock through our ESPP. We also received \$28,000 from stock option exercises. Additionally, we used \$49,000 to repurchase our common stock in the six months ended March 31, 2017.

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

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

These accounting policies are described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the year ended September 30, 2017. Management made no changes to the Company's critical accounting policies during the quarter ended March 31, 2018.

In applying its critical accounting policies, management reassesses its estimates each reporting period based on available information. Changes in these estimates did not have a significant impact on earnings for the quarter ended March 31, 2018.

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

Not applicable.

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

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

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2018. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

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

There were no changes to the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, that occurred during the quarter ended March 31, 2018 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**

On January 31, 2017, CommScope Technologies LLC ("CommScope") filed a Complaint against Clearfield, Inc. in the United States District Court for the District of Minnesota. The Complaint asserted infringement of thirteen CommScope patents by certain Clearfield products, including our FieldSmart® PON Cabinets, WaveSmart® Ruggedized Splitters, Clearview® Blue and Clearview® Classic Cassettes, FieldShield® Deployment Reel System, SmartRoute® Panel, FieldShield® Multiport SmartTerminal and FieldShield® Hardened Connectors. The asserted CommScope patents were U.S. Patent Nos. 7,233,731; 8,811,791; 7,198,409; 7,809,233; 9,201,206; 7,809,234; 7,816,602; 8,263,861; 8,705,929; 8,938,147; RE42,258; 7,397,997 and 9,122,021. CommScope's Complaint sought an injunction against further infringement and an award of unspecified compensatory and enhanced damages, interest, costs and attorneys' fees. Clearfield responded with affirmative defenses and filed inter partes reviews with the US Patent and Trademark Office relating to some of the asserted patents.



On February 22, 2018, CommScope and Clearfield agreed to terms of a settlement of the litigation and a definitive settlement agreement reflecting these terms was entered into on March 28, 2018. Under the terms of the settlement, the parties jointly dismissed the litigation and Clearfield withdrew its inter-partes reviews. In addition, Clearfield paid CommScope a one-time payment of \$850,000 on March 30, 2018. Clearfield has moved to new design solutions in place of the contested products.

In addition to the matter described above, we are exposed to a number of asserted and unasserted legal claims encountered in the ordinary course of business. Although the outcome of any such legal action cannot be predicted, we do not believe that any of these other claims or potential claims will be material to our business, results of operations or financial condition.

**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, 2017. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K.

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

In the three months ended March 31, 2018, the Company repurchased shares of stock as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period              | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program <sup>(1)</sup> |
|---------------------|----------------------------------|------------------------------|--|---|
| January 1-31, 2018  | 10,384                           | \$ 12.05                     | 10,384   | \$ 7,033,821  |
| February 1-28, 2018 | 8,298                            | 12.06                        | 8,298  | 6,933,743   |
| March 1-31, 2018    | —                                | —                            | —  | 6,933,743   |
| Total               | 18,682                           | \$ 12.05                     | 18,682   | \$ 6,933,743  |

(1) Amount remaining from the \$12,000,000 repurchase authorizations approved by the Company’s Board of Directors.

The Company may also repurchase shares of our common stock in connection with payment of taxes upon vesting of restricted stock previously issued to employees. There were no such repurchases during the quarter ended March 31, 2018.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

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

[Exhibit 32.1 – Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350](#)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CLEARFIELD, INC.**

May 2, 2018

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

May 2, 2018

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

## CERTIFICATION

I, Cheryl Beranek, certify that:

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

May 2, 2018

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

## CERTIFICATION

I, Daniel Herzog, certify that:

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

May 2, 2018

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

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

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

- (1) The accompanying Quarterly Report on Form 10-Q for the period ended March 31, 2018 of Clearfield, Inc. (the “Company”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 2, 2018

/s/ Cheryl Beranek

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

May 2, 2018

/s/ Daniel Herzog

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