

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2022

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

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

**Commission File Number 0-16106**

**Clearfield, Inc.**

(Exact name of Registrant as specified in its charter)

**Minnesota** **41-1347235**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

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

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

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

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

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

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

Yes  No

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

| Class:                        | Outstanding as of July 19, 2022 |
|-------------------------------|---------------------------------|
| Common stock, par value \$.01 | 13,777,682                      |

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

**CLEARFIELD, INC.**  
**CONDENSED BALANCE SHEETS**  
(IN THOUSANDS, EXCEPT SHARE DATA)

|  | June 30,<br>2022 (Unaudited) | September 30,<br>2021 |
|--|------------------------------|-----------------------|
| <b>Assets</b>  |                              |                       |
| Current Assets   |                              |                       |
| Cash and cash equivalents  | \$ 14,192                    | \$ 13,216             |
| Short-term investments   | 3,894                        | 10,374                |
| Accounts receivables, net  | 31,594                       | 19,438                |
| Inventories, net   | 69,341                       | 27,524                |
| Other current assets   | 1,050                        | 954                   |
| Total current assets   | 120,071                      | 71,506                |
| Property, plant and equipment, net   | 9,567                        | 4,998                 |
| Other Assets   |                              |                       |
| Long-term investments  | 24,994                       | 36,913                |
| Goodwill   | 4,709                        | 4,709                 |
| Intangible assets, net   | 4,691                        | 4,696                 |
| Right of use lease assets  | 12,715                       | 2,305                 |
| Deferred tax asset   | 647                          | 365                   |
| Other  | 553                          | 420                   |
| Total other assets   | 48,309                       | 49,408                |
| <b>Total Assets</b>  | <b>\$ 177,947</b>            | <b>\$ 125,912</b>     |
| <b>Liabilities and Shareholders' Equity</b>  |                              |                       |
| Current Liabilities  |                              |                       |
| Current portion of lease liability   | \$ 2,774                     | \$ 915                |
| Accounts payable   | 16,243                       | 9,215                 |
| Accrued compensation   | 8,918                        | 8,729                 |
| Accrued expenses   | 2,758                        | 1,613                 |
| Total current liabilities  | 30,693                       | 20,472                |
| Other Liabilities  |                              |                       |
| Long-term portion of lease liability   | 10,480                       | 1,615                 |
| Total liabilities  | 41,173                       | 22,087                |
| Shareholders' Equity   |                              |                       |
| Preferred stock, \$.01 par value; 500,000 shares; no shares issued or outstanding  | -                            | -                     |
| Common stock, authorized 50,000,000, \$.01 par value; 13,777,682 and 13,732,188 shares issued and outstanding as of June 30, 2022 and September 30, 2021 | 138                          | 137                   |
| Additional paid-in capital   | 59,784                       | 58,246                |
| Accumulated other comprehensive loss   | (960)                        | -                     |
| Retained earnings  | 77,812                       | 45,442                |
| Total shareholders' equity   | 136,774                      | 103,825               |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 177,947</b>            | <b>\$ 125,912</b>     |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

**CLEARFIELD, INC.**  
**CONDENSED STATEMENTS OF EARNINGS**  
 UNAUDITED  
 (IN THOUSANDS, EXCEPT SHARE DATA)

|                                      | Three Months Ended<br>June 30, |            | Nine Months Ended<br>June 30, |            |
|--------------------------------------|--------------------------------|------------|-------------------------------|------------|
|                                      | 2022                           | 2021       | 2022                          | 2021       |
| Net sales                            | \$ 71,250                      | \$ 38,735  | \$ 175,854                    | \$ 95,519  |
| Cost of sales                        | 41,943                         | 21,598     | 100,411                       | 54,071     |
| Gross profit                         | 29,307                         | 17,137     | 75,443                        | 41,448     |
| Operating expenses                   |                                |            |                               |            |
| Selling, general and administrative  | 12,721                         | 9,435      | 33,877                        | 25,581     |
| Income from operations               | 16,586                         | 7,702      | 41,566                        | 15,867     |
| Net investment income                | 43                             | 121        | 284                           | 378        |
| Income before income taxes           | 16,629                         | 7,823      | 41,850                        | 16,245     |
| Income tax expense                   | 3,884                          | 1,725      | 9,480                         | 3,344      |
| Net income                           | \$ 12,745                      | \$ 6,098   | \$ 32,370                     | \$ 12,901  |
| Net income per share Basic           | \$ 0.93                        | \$ 0.44    | \$ 2.35                       | \$ 0.94    |
| Net income per share Diluted         | \$ 0.92                        | \$ 0.44    | \$ 2.33                       | \$ 0.94    |
| Weighted average shares outstanding: |                                |            |                               |            |
| Basic                                | 13,772,269                     | 13,732,913 | 13,760,950                    | 13,718,394 |
| Diluted                              | 13,899,698                     | 13,812,510 | 13,900,019                    | 13,762,897 |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

**CLEARFIELD, INC.**  
**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**  
 UNAUDITED  
 (IN THOUSANDS)

|  | Three Months Ended<br>June 30, |                 | Nine Months Ended<br>June 30, |                  |
|--|--------------------------------|-----------------|-------------------------------|------------------|
|  | 2022                           | 2021            | 2022                          | 2021             |
| Net Income   | \$ 12,745                      | \$ 6,098        | \$ 32,370                     | \$ 12,901        |
| <b>Other comprehensive loss before income taxes:</b> |                                |                 |                               |                  |
| Unrealized losses on available-for-sale adjustments  | (309)                          | -               | (1,241)                       | -                |
| Total other comprehensive loss before income taxes   | (309)                          | -               | (1,241)                       | -                |
| Income tax benefit                                   | (74)                           | -               | (281)                         | -                |
| Total other comprehensive loss                       | (235)                          | -               | (960)                         | -                |
| Total comprehensive income                           | <u>\$ 12,510</u>               | <u>\$ 6,098</u> | <u>\$ 31,410</u>              | <u>\$ 12,901</u> |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY  
UNAUDITED  
(IN THOUSANDS)

**For the three months ended June 30, 2022**

|  | Common Stock |        | Additional<br>paid-in capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total share-<br>holders' equity |
|--|--------------|--------|-------------------------------|---|----------------------|---------------------------------|
|  | Shares       | Amount |                               |   |                      |                                 |
| Balance at March 31, 2022                                      | 13,773       | \$ 138 | \$ 58,949                     | \$ (725)                                      | \$ 65,067            | \$ 123,429                      |
| Stock-based compensation expense                               | -            | -      | 638                           | -   | -                    | 638                             |
| Restricted stock issuance, net of forfeitures                  | (3)          | -      | -                             | -   | -                    | -                               |
| Issuance of common stock under employee<br>stock purchase plan | 6            | -      | 294                           | -   | -                    | 294                             |
| Withholding related to exercise of stock<br>options            | 2            | -      | (97)                          | -   | -                    | (97)                            |
| Other comprehensive loss                                       | -            | -      | -                             | (235)   | -                    | (235)                           |
| Net income   | -            | -      | -                             | -   | 12,745               | 12,745                          |
| Balance at June 30, 2022                                       | 13,778       | \$ 138 | \$ 59,784                     | \$ (960)                                      | \$ 77,812            | \$ 136,774                      |

**For the three months ended June 30, 2021**

|  | Common Stock |        | Additional<br>paid-in capital | Accumulated other<br>comprehensive<br>loss | Retained<br>earnings | Total share-<br>holders' equity |
|--|--------------|--------|-------------------------------|--|----------------------|---------------------------------|
|  | Shares       | Amount |                               |  |                      |                                 |
| Balance at March 31, 2021                                      | 13,733       | \$ 137 | \$ 57,794                     | \$ -                                       | \$ 31,917            | \$ 89,848                       |
| Stock-based compensation expense                               | -            | -      | 343                           | -  | -                    | 343                             |
| Issuance of common stock under<br>employee stock purchase plan | 10           | -      | 205                           | -  | -                    | 205                             |
| Net income   | -            | -      | -                             | -  | 6,098                | 6,098                           |
| Balance at June 30, 2021                                       | 13,743       | \$ 137 | \$ 58,342                     | \$ -                                       | \$ 38,015            | \$ 96,494                       |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

CLEARFIELD, INC.  
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY  
UNAUDITED  
(IN THOUSANDS)

|  | Common Stock |        | Additional<br>paid-in capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total share-<br>holders' equity |
|--|--------------|--------|-------------------------------|---|----------------------|---------------------------------|
|  | Shares       | Amount |                               |   |                      |                                 |
| <b>For the nine months ended June 30, 2022</b>   |              |        |                               |   |                      |                                 |
| Balance as of September 30, 2021   | 13,732       | \$ 137 | \$ 58,246                     | \$ -  | \$ 45,442            | \$ 103,825                      |
| Stock-based compensation expense   | -            | -      | 1,647                         | -   | -                    | 1,647                           |
| Restricted stock issuance, net of forfeitures  | 27           | 1      | -                             | -   | -                    | 1                               |
| Issuance of common stock under employee stock purchase plan                              | 13           | -      | 544                           | -   | -                    | 544                             |
| Withholding related to exercise of stock options   | 10           | -      | (379)                         | -   | -                    | (379)                           |
| Repurchase of shares for payment of withholding taxes for vested restricted stock grants | (4)          | -      | (274)                         | -   | -                    | (274)                           |
| Other Comprehensive Loss   | -            | -      | -                             | (960)   | -                    | (960)                           |
| Net income   | -            | -      | -                             | -   | 32,370               | 32,370                          |
| Balance at June 30, 2022   | 13,778       | \$ 138 | \$ 59,784                     | \$ (960)                                      | \$ 77,812            | \$ 136,774                      |

|  | Common Stock |        | Additional<br>paid-in capital | Accumulated other<br>comprehensive<br>loss | Retained<br>earnings | Total share-<br>holders' equity |
|--|--------------|--------|-------------------------------|--|----------------------|---------------------------------|
|  | Shares       | Amount |                               |  |                      |                                 |
| <b>For the nine months ended June 30, 2021</b>   |              |        |                               |  |                      |                                 |
| Balance as of September 30, 2020   | 13,650       | \$ 137 | \$ 57,503                     | \$ -                                       | \$ 25,114            | \$ 82,754                       |
| Stock-based compensation expense   | -            | -      | 966                           | -  | -                    | 966                             |
| Restricted stock issuance, net of forfeitures  | 37           | -      | -                             | -  | -                    | -                               |
| Employee stock purchase plan   | 24           | -      | 383                           | -  | -                    | 383                             |
| Withholding related to exercise of stock options   | 34           | -      | (456)                         | -  | -                    | (456)                           |
| Repurchase of shares for payment of withholding taxes for vested restricted stock grants | (2)          | -      | (54)                          | -  | -                    | (54)                            |
| Net income   | -            | -      | -                             | -  | 12,901               | 12,901                          |
| Balance at June 30, 2021   | 13,743       | \$ 137 | \$ 58,342                     | \$ -                                       | \$ 38,015            | \$ 96,494                       |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS



**CLEARFIELD, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
 UNAUDITED

|   | Nine Months Ended June 30, |                  |
|---|----------------------------|------------------|
|   | 2022                       | 2021             |
| <b>Cash flows from operating activities</b>   |                            |                  |
| Net income  | \$ 32,370                  | \$ 12,901        |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                            |                  |
| Depreciation and amortization   | 2,174                      | 1,725            |
| Change in allowance for doubtful accounts   | -                          | 210              |
| Stock-based compensation  | 1,647                      | 966              |
| Changes in operating assets and liabilities:  |                            |                  |
| Accounts receivable   | (12,156)                   | (5,896)          |
| Inventories, net  | (41,816)                   | (6,571)          |
| Other assets  | (185)                      | (261)            |
| Accounts payable and accrued expenses   | 8,677                      | 5,043            |
| Net cash (used in) provided by operating activities   | <u>(9,289)</u>             | <u>8,117</u>     |
| <b>Cash flows from investing activities</b>   |                            |                  |
| Purchases of property, plant and equipment and intangible assets                            | (6,764)                    | (1,275)          |
| Purchases of investments  | (248)                      | (11,904)         |
| Proceeds from sales and maturities of investments   | 17,386                     | 10,044           |
| Net cash provided by (used in) investing activities   | <u>10,374</u>              | <u>(3,135)</u>   |
| <b>Cash flows from financing activities</b>   |                            |                  |
| Proceeds from issuance of common stock under employee stock purchase plan                   | 544                        | 383              |
| Repurchase of shares for payment of withholding taxes for vested restricted stock grants    | (274)                      | (54)             |
| Withholding related to exercise of stock options  | (379)                      | (456)            |
| Net cash used in financing activities   | <u>(109)</u>               | <u>(127)</u>     |
| Increase in cash and cash equivalents   | 976                        | 4,855            |
| Cash and cash equivalents, beginning of period  | 13,216                     | 16,450           |
| Cash and cash equivalents, end of period  | <u>\$ 14,192</u>           | <u>\$ 21,305</u> |
| <b>Supplemental disclosures for cash flow information</b>                                   |                            |                  |
| Cash paid during the year for income taxes  | <u>\$ 9,913</u>            | <u>\$ 3,560</u>  |
| <b>Non-cash financing activities</b>  |                            |                  |
| Cashless exercise of stock options  | <u>\$ 276</u>              | <u>\$ 1,269</u>  |

SEE ACCOMPANYING NOTES TO CONDENSED FINANCIAL STATEMENTS

**Note 1. Basis of Presentation**

The accompanying (a) condensed balance sheet as of September 30, 2021, which has been derived from audited financial statements, and (b) unaudited interim condensed financial statements as of and for the three and nine months ended June 30, 2022 have been prepared by Clearfield, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to these rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period, due to variability in customer purchasing patterns and seasonal, operating and other factors. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2021.

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.

**New Accounting Pronouncements**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments. In November 2018, the FASB issued update ASU 2018-19 that clarifies the scope of the standard in the amendments in ASU 2016-13. This guidance introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. Financial instruments impacted include accounts receivable, trade receivables, other financial assets measured at amortized cost and other off-balance sheet credit exposures. The new guidance is effective for the Company beginning in the first quarter of fiscal 2023, with early adoption permitted. The Company is evaluating the impact of the adoption of ASU 2016-13 on its financial statements.

**Note 2. Net Income Per Share**

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

The following is a reconciliation of the numerator and denominator of the net income per common share computations for the three and nine months ended June 30, 2022 and 2021:

| <i>(In thousands, except for share data)</i>        | Three Months Ended June 30, |            | Nine Months Ended June 30, |            |
|---|-----------------------------|------------|----------------------------|------------|
|   | 2022                        | 2021       | 2022                       | 2021       |
| Net income  | \$ 12,745                   | \$ 6,098   | \$ 32,370                  | \$ 12,901  |
| Weighted average common shares                      | 13,772,269                  | 13,732,913 | 13,760,950                 | 13,718,394 |
| Dilutive potential common shares                    | 127,429                     | 79,597     | 139,069                    | 44,503     |
| Weighted average dilutive common shares outstanding | 13,899,698                  | 13,812,510 | 13,900,019                 | 13,762,897 |
| Net income per common share:                        |                             |            |                            |            |
| Basic   | \$ 0.93                     | \$ 0.44    | \$ 2.35                    | \$ 0.94    |
| Diluted   | \$ 0.92                     | \$ 0.44    | \$ 2.33                    | \$ 0.94    |

### Note 3. Investments

The Company invests in certificates of deposit (“CDs”) that are fully insured by the Federal Deposit Insurance Corporation (“FDIC”) as well as U.S. Treasury and money market securities. Historically, the Company’s investment portfolio had been classified as held-to-maturity and recorded at amortized cost. During the second quarter of fiscal 2022, the Company sold investments and has reclassified its investment portfolio to available-for-sale, which is reported at fair value. The unrealized gain or loss on investment securities is recorded in other comprehensive income, net of tax.

At June 30, 2022, available-for-sale investments consist of the following:

| <i>(In thousands)</i>              | June 30, 2022 |                  |                   |            |
|------------------------------------|---------------|------------------|-------------------|------------|
|                                    | Cost          | Unrealized Gains | Unrealized Losses | Fair Value |
| Short-Term                         |               |                  |                   |            |
| Certificates of deposit            | 3,962         | 1                | 69                | 3,894      |
| Investment securities – short-term | \$ 3,962      | \$ 1             | \$ 69             | \$ 3,894   |
| Long-Term                          |               |                  |                   |            |
| U.S treasury securities            | \$ 16,167     | \$ -             | \$ 825            | \$ 15,342  |
| Certificates of deposit            | 10,000        | 1                | 348               | 9,652      |
| Investment securities – long-term  | \$ 26,167     | \$ 1             | \$ 1,173          | \$ 24,994  |

At June 30, 2022, investments in debt securities in an unrealized loss position were as follows:

| <i>(In thousands)</i>   | In Unrealized Loss Position For Less Than 12 Months |                  | In Unrealized Loss Position For Greater Than 12 Months |                  |
|-------------------------|---|------------------|--|------------------|
|                         | Fair Value  | Gross Unrealized | Fair Value   | Gross Unrealized |
|                         |   | Losses           |  | Losses           |
| U.S treasury securities | \$ 15,342   | \$ 825           | \$ -   | \$ -             |
| Certificates of deposit | 9,637   | 267              | 3,569  | 151              |
| Investment securities   | \$ 24,979   | \$ 1,092         | \$ 3,569   | \$ 151           |

As of June 30, 2022, there were 60 securities in an unrealized loss position which is due to the securities paying lower interest rates than the market. As of June 30, 2022, there are no securities which are other than temporarily impaired as the Company intends to hold these securities until their value recovers and there is negligible credit risk due to the nature of the securities which are backed by the FDIC and US federal government.

#### Note 4. Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the market price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair value of U.S. treasury securities, and certificates of deposit based on valuations provided by an external pricing service, who obtains them from a variety of industry standard data providers.

The Company's investments are categorized according to the three-level fair value hierarchy which distinguishes between observable and unobservable inputs, in one of the following levels:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those with fair value measurements that are determined using pricing models, discounted cash flow valuation or similar techniques, as well as significant management judgment or estimation.

The following provides information regarding fair value measurements for our investment securities as of June 30, 2022 according to the three-level fair value hierarchy:

| (In thousands)              | Fair Value Measurements at June 30, 2022 |             |                  |             |
|-----------------------------|--|-------------|------------------|-------------|
|                             | Total                                    | Level 1     | Level 2          | Level 3     |
| Investment securities:      |  |             |                  |             |
| U.S treasury securities     | \$ 15,342                                | \$ -        | \$ 15,342        | \$ -        |
| Certificates of deposit     | 13,546                                   | -           | 13,546           | -           |
| Total investment securities | <u>\$ 28,888</u>                         | <u>\$ -</u> | <u>\$ 28,888</u> | <u>\$ -</u> |

During the nine months ended June 30, 2022 and the year ended September 30, 2021, we owned no Level 3 securities and there were no transfers within the fair value level hierarchy.

Non-financial assets such as equipment and leasehold improvements, goodwill and intangible assets and right-of-use assets for operating leases are subject to non-recurring fair value measurements if they are deemed impaired. We had no re-measurements of non-financial assets to fair value in the three or nine months ended June 30, 2022.

#### Note 5. Other Comprehensive Loss

Changes in components of other comprehensive loss and taxes related to items of other comprehensive income (loss) are as follows:

| (In thousands)                                     | Three Months Ended June 30, 2022 |                |                   |
|--|----------------------------------|----------------|-------------------|
|  | Before Tax                       | Tax Effect     | Net of Tax Amount |
| Unrealized losses on available-for-sale securities | \$ (309)                         | \$ (74)        | \$ (235)          |
| Other comprehensive loss                           | <u>\$ (309)</u>                  | <u>\$ (74)</u> | <u>\$ (235)</u>   |

| (In thousands)                                     | Nine Months Ended June 30, 2022 |            |                   |
|--|---------------------------------|------------|-------------------|
|  | Before Tax                      | Tax Effect | Net of Tax Amount |
| Unrealized losses on available-for-sale securities | \$ (1,241)                      | \$ (281)   | \$ (960)          |
| Other comprehensive loss                           | \$ (1,241)                      | \$ (281)   | \$ (960)          |

At June 30, 2022 components of accumulated other comprehensive loss is as follows:

| (In thousands)   | Available-for-Sale Securities | Accumulated Other Comprehensive Loss |
|--|-------------------------------|--------------------------------------|
| Balances at September 30, 2021                                   | \$ -                          | \$ -                                 |
| Other comprehensive loss for the nine months ended June 30, 2022 | (960)                         | (960)                                |
| Balances at June 30, 2022  | \$ (960)                      | \$ (960)                             |

#### Note 6. Stock-Based Compensation

The Company recorded \$638,000 and \$1,647,000 of compensation expense related to current and past restricted stock grants, non-qualified stock options and the Company's Employee Stock Purchase Plan ("ESPP") for the three and nine months ended June 30, 2022, respectively. For the three months ended June 30, 2022, \$606,000 of this expense is included in selling, general and administrative expense, and \$32,000 is included in cost of sales. For the nine months ended June 30, 2022, \$1,552,000 of this expense is included in selling, general and administrative expense, and \$95,000 is included in cost of sales. The Company recorded \$343,055 and \$966,290 of compensation expense related to current and past restricted stock grants, non-qualified stock options and the Company's ESPP for the three and nine months ended June 30, 2021, respectively. For the three months ended June 30, 2021, \$328,710 of this expense is included in selling, general and administrative expense, and \$14,345 is included in cost of sales. For the nine months ended June 30, 2021, \$923,256 of this expense is included in selling, general and administrative expense, and \$43,034 is included in cost of sales. As of June 30, 2022, \$4,020,000 of total unrecognized compensation expense related to non-vested restricted stock awards and stock options is expected to be recognized over a period of approximately 2.4 years.

#### Stock Options

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. During the nine months ended June 30, 2022, the Company granted employees non-qualified stock options to purchase an aggregate of 62,730 shares of common stock with a weighted average contractual term of five years, a weighted average three-year vesting term, and a weighted average exercise price of \$66.48. During the nine months ended June 30, 2021, the Company granted employees non-qualified stock options to purchase an aggregate of 105,089 shares of common stock with a weighted average contractual term of five years, a weighted average three-year vesting term, and a weighted average exercise price of \$23.74.

The fair value of stock option awards during the nine months ended June 30, 2022 was estimated as of the respective grant dates using the assumptions listed below:

|                         | Nine months ended<br>June 30, 2022 |
|-------------------------|------------------------------------|
| Dividend yield          | 0%                                 |
| Expected volatility     | 52.02%                             |
| Risk-free interest rate | 0.97%                              |
| Expected life (years)   | 3.5                                |
| Vesting period (years)  | 3                                  |

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

Options are granted at fair market values determined on the date of grant and vesting normally occurs over a three to five-year period. Shares issued upon exercise of a stock option are issued from the Company's authorized but unissued shares.

The following is a summary of stock option activity during the nine months ended June 30, 2022:

|                                      | Number of options | Weighted average<br>exercise price |
|--------------------------------------|-------------------|------------------------------------|
| Outstanding as of September 30, 2021 | 301,514           | \$ 16.25                           |
| Granted                              | 62,730            | 66.48                              |
| Exercised                            | (20,169)          | 13.70                              |
| Forfeited or Expired                 | (2,084)           | 19.94                              |
| Outstanding as of June 30, 2022      | <u>341,991</u>    | <u>\$ 25.59</u>                    |

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. As of June 30, 2022, the weighted average remaining contractual term for all outstanding and exercisable stock options was 1.91 years and their aggregate intrinsic value was \$6,824,000.

#### Restricted Stock

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

During the nine months ended June 30, 2022, the Company granted newly elected non-employee directors restricted stock awards totaling 318 and 2,758 shares of common stock, with a vesting term of approximately one year and a fair value of \$62.77 and \$63.35 per share, respectively. During the nine months ended June 30, 2022, the Company granted non-employees restricted stock awards totaling 3,118 shares of common stock, with a vesting term of approximately one year and a fair value of \$64.11 per share. During the nine months ended June 30, 2022, the Company also granted employees restricted stock awards totaling 23,318 shares of common stock, with a vesting term of approximately three years and a fair value of \$66.48 per share.

During the nine months ended June 30, 2021, the Company granted non-employee directors elected at the Company's 2021 Annual Meeting of Shareholders restricted stock awards totaling 2,120 shares of common stock, with a vesting term of approximately one year and a fair value of \$32.41 per share. During the nine months ended June 30, 2021, the Company also granted employees restricted stock awards totaling 37,687 shares of common stock, with a vesting term of approximately three years and a fair value of \$23.74 per share.

Restricted stock transactions during the nine months ended June 30, 2022 are summarized as follows:

|  | Number of shares | Weighted average<br>grant date fair value |
|--|------------------|---|
| Unvested shares as of September 30, 2021 | 108,839          | \$ 17.14                                  |
| Granted                                  | 29,512           | 65.90                                     |
| Vested                                   | (14,384)         | 25.02                                     |
| Forfeited                                | (2,749)          | 16.84                                     |
| Unvested as of June 30, 2022             | <u>121,218</u>   | <u>\$ 28.08</u>                           |

#### Employee Stock Purchase Plan

The Company's ESPP allows participating employees to purchase shares of the Company's common stock at a discount through payroll deductions. The ESPP is available to all employees subject to certain eligibility requirements. Terms of the ESPP provide those participating employees the ability to 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 phase that ended on June 30, 2022 and December 31, 2021, employees purchased 5,605 and 7,678 shares at a price of \$52.66 and \$32.43 per share, respectively. After the employee purchase on June 30, 2022, 181,590 shares of common stock were available for future purchase under the ESPP.

## Note 7. Revenue

### Revenue Recognition

Net sales include products and shipping and handling charges. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products. All revenue is recognized when the Company satisfies its performance obligations under the contract. The Company recognizes revenue by transferring the promised products to the customer, with substantially all revenue recognized at the point in time the customer obtains control of the products. The Company recognizes revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. The majority of the Company's contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

### Disaggregation of Revenue

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

Revenues related to the following geographic areas were as follows for the three and nine months ended:

| <i>(In thousands)</i> | Three Months Ended June 30, |                  | Nine Months Ended June 30, |                  |
|-----------------------|-----------------------------|------------------|----------------------------|------------------|
|                       | 2022                        | 2021             | 2022                       | 2021             |
| United States         | \$ 68,788                   | \$ 35,810        | \$ 170,010                 | \$ 89,586        |
| All other countries   | 2,462                       | 2,925            | 5,844                      | 5,933            |
| Total Net Sales       | <u>\$ 71,250</u>            | <u>\$ 38,735</u> | <u>\$ 175,854</u>          | <u>\$ 95,519</u> |

The Company manufactures and sells a proprietary product line designed for the Broadband Service Provider marketplace. In addition, the Company's Legacy business provides build-to-print services for original equipment manufacturers requiring copper and fiber cable assemblies built to their specification.

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

|                             | Three Months Ended June 30, |             | Nine Months Ended June 30, |             |
|-----------------------------|-----------------------------|-------------|----------------------------|-------------|
|                             | 2022                        | 2021        | 2022                       | 2021        |
| Broadband service providers | 99%                         | 98%         | 99%                        | 98%         |
| Legacy customers            | 1%                          | 2%          | 1%                         | 2%          |
| Total Net Sales             | <u>100%</u>                 | <u>100%</u> | <u>100%</u>                | <u>100%</u> |

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

### Accounts Receivable

Credit is extended based on the evaluation of a customer's financial condition, and collateral is generally not required. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company writes off accounts receivable when they become uncollectible; payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of both June 30, 2022 and September 30, 2021, the balance in the allowance for doubtful accounts was \$79,000.

See Note 9, “Major Customer Concentration” for further information regarding accounts receivable and net sales.

#### Note 8. Inventories

Inventories consist of the following as of:

| (In thousands)     | June 30,<br>2022 | September 30,<br>2021 |
|--------------------|------------------|-----------------------|
| Raw materials      | \$ 58,456        | \$ 23,072             |
| Work-in-process    | 6,437            | 2,482                 |
| Finished goods     | 6,131            | 3,361                 |
| Inventories, gross | 71,023           | 28,915                |
| Inventory reserve  | (1,683)          | (1,391)               |
| Inventories, net   | \$ 69,341        | \$ 27,524             |

#### Note 9. Major Customer Concentration

For the three months ended June 30, 2022, Customers A, and B comprised 18% and 11% of the Company’s net sales, respectively. Customers A and B are distributors. For the nine months ended June 30, 2022, Customer A comprised 15% of the Company’s net sales. Customer A is a distributor. For the three months ended June 30, 2021, Customers A and C comprised 18% and 12% of the Company’s net sales, respectively. For the nine months ended June 30, 2021, Customers A and C comprised 20% and 11% of the Company’s net sales, respectively. Both of these customers were distributors. These major customers, like our other customers, purchase our products from time to time through purchase orders, and the Company does not have any agreements that obligate these major customers to purchase products from us in the future.

As of June 30, 2022, Customers A and D comprised 13% and 11% of the Company’s accounts receivable. Customer D is a National Carrier. As of September 30, 2021, Customer E was 16% of accounts receivable. Customer E is a regional broadband service provider.

#### Note 10. Goodwill and Intangibles

The Company analyzes its goodwill for impairment annually or at an interim period when events occur or changes in circumstances indicate potential impairment. The result of the analysis performed as of September 30, 2021 did not indicate an impairment of goodwill. During the nine months ended June 30, 2022, there were no triggering events that indicate potential impairment exists.

The Company capitalizes legal costs incurred to obtain patents. Once accepted by either the U.S. Patent Office or the equivalent office of a foreign country, these legal costs are amortized using the straight-line method over the remaining estimated lives, not exceeding 20 years. As of June 30, 2022, the Company has 31 patents granted and multiple pending applications both inside and outside the United States.

In addition, the Company has various finite lived intangible assets, most of which were acquired as a result of the acquisition of the active cabinet product line from Calix, Inc. during fiscal year 2018. The Company analyzes its intangible assets for impairment annually or at interim periods when events occur or changes in circumstances indicate potential impairment. The result of the analysis performed as of September 30, 2021 did not indicate an impairment of our intangible assets. During the nine months ended June 30, 2022, there were no triggering events that indicate potential impairment exists.



#### **Note 11. Income Taxes**

For the three and nine months ended June 30, 2022, the Company recorded income tax expense of \$3,884,000 and \$9,480,000, reflecting an effective tax rate of 23.4% and 22.7%, respectively. The difference between the effective tax rate and the statutory tax rate for the three and nine months ended June 30, 2022 was primarily related to Section 162(m) compensation deduction limitations, nondeductible acquisition costs, foreign derived intangibles income deduction (FDII), and research and development credits.

For the three and nine months ended June 30, 2021, the Company recorded income tax expense of \$1,725,000 and \$3,344,000, reflecting an effective tax rate of 22.1% and 20.6%, respectively. The differences between the effective tax rate and the statutory tax rate for the three and nine months ended June 30, 2021 were primarily related to excess tax benefits from non-qualified stock options exercised during the period, research and development credits, and foreign derived intangibles income deduction (FDII).

Deferred taxes recognize the impact of temporary differences between the amounts of the assets and liabilities recorded for financial statement purposes and these amounts measured in accordance with tax laws. The Company's realization of deferred tax temporary differences is contingent upon future taxable earnings. The Company reviewed its deferred tax asset for expected utilization using a "more likely than not" criteria by assessing the available positive and negative factors surrounding its recoverability and determined that as of June 30, 2022 and September 30, 2021 a valuation allowance against the deferred tax assets is not required. The Company will continue to assess the need for a valuation allowance based on changes in assumptions of estimated future income and other factors in future periods.

As of June 30, 2022, the Company does not have any unrecognized tax benefits. It is the Company's practice to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company does not expect any material changes in its unrecognized tax positions over the next 12 months.

#### **Note 12. Leases**

The Company leases an 85,000 square foot facility at 7050 Winnetka Avenue North, Brooklyn Park, Minnesota consisting of corporate offices, manufacturing and warehouse space. The lease term is ten years and two months, ending on February 28, 2025 and is renewable. The renewal options have not been included within the lease term because it is not reasonably certain that the Company will exercise either option.

In July 2021, the Company entered into an indirect lease arrangement for an approximately 318,000 square foot manufacturing facility in Tijuana, Mexico. The lease term is for 7 years of which 5 years are mandatory, commencing March 2022. The lease contains written options to renew for two additional consecutive periods of 5 years each. The lease calls for monthly rental payments of \$162,000, increasing 2% annually. The renewal options have not been included within the lease term because it is not reasonably certain that the Company will exercise either option.

On November 19, 2021, the Company signed a lease for a 105,000 square foot warehouse in Brooklyn Park, Minnesota. The lease term is five years commencing March 2022 and ending on February 28, 2027, with rent payments increasing annually. The lease includes an option to extend the lease for an additional five years. The renewal option has not been included within the lease term because it is not reasonably certain that the Company will exercise the option. The lease commenced in the second quarter of fiscal 2022.

Right-of-use lease assets and lease liabilities are recognized as of the commencement date based on the present value of the remaining lease payments over the lease term which includes renewal periods the Company is reasonably certain to exercise. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

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

| Operating lease expense within:<br>(in thousands) | Three Months Ended June 30, |               | Nine Months Ended June 30, |               |
|---|-----------------------------|---------------|----------------------------|---------------|
|   | 2022                        | 2021          | 2022                       | 2021          |
| Cost of sales                                     | \$ 797                      | \$ 242        | \$ 1,521                   | \$ 748        |
| Selling, general and administrative               | 54                          | 51            | 166                        | 162           |
| <b>Total lease expense</b>                        | <b>\$ 851</b>               | <b>\$ 293</b> | <b>\$ 1,687</b>            | <b>\$ 910</b> |

Future maturities of lease liabilities were as follows as of June 30, 2022 (in thousands):

|   |                  |
|---|------------------|
| FY2022 (Remaining)                        | \$ 778           |
| FY2023                                    | 3,158            |
| FY2024                                    | 3,233            |
| FY2025                                    | 2,997            |
| FY2026                                    | 2,844            |
| Thereafter                                | 1,196            |
| <b>Total lease payments</b>               | <b>14,206</b>    |
| Less: Interest                            | (951)            |
| <b>Present value of lease liabilities</b> | <b>\$ 13,255</b> |

The weighted average term and weighted average discount rate for the Company's leases as of June 30, 2022 were 4.47 years and 3.05%, respectively, compared to 3.09 years and 3.41%, respectively, as of June 30, 2021. For the three and nine months ended June 30, 2022, the operating cash outflows from the Company's leases was \$617,000 and \$1,167,000, compared to \$243,000 and \$723,000 for the three and nine months ended June 30, 2021.

### Note 13. Line of Credit

On April 27, 2022, the Company entered into a loan agreement and a security agreement with Bremer Bank, National Association, that provides the Company with a \$40 million revolving line of credit that is secured by certain of the Company's U.S. assets. The line of credit matures on April 27, 2025 and borrowed amounts will bear interest at a variable rate of the CME Group one-month term Secured Overnight Financing Rate ("SOFR") plus 1.85%, but not less than 1.80% per annum. The loan agreement and the security agreement contains customary affirmative and negative covenants and requirements relating to the Company and its operations, including a requirement that the Company maintain a debt service coverage ratio of not less than 1.20 to 1 as of the end of each fiscal year for the fiscal year then ended and maintain a debt to cash flow ratio of not greater than 2 to 1 measured as of the end of each of the Company's fiscal quarters for the trailing twelve (12) month period. Debt service coverage ratio is the ratio of Cash Available for Debt Service to Debt Service, each as defined in the loan agreement. Debt and Cash Flow are also as defined in the loan agreement for the purposes of the debt to cash flow ratio covenant. As of June 30, 2022, the Company had no outstanding balance on the line of credit and was in compliance with all covenants. See Note 14. Subsequent Events.

### Note 14. Subsequent Events

On July 26, 2022, the Company completed the acquisition of Nestor Cables Oy ("Nestor"), a leading developer and manufacturer of fiber optic cable solutions located in Finland, upon the terms and conditions contained in a Share Sale and Purchase Agreement entered into on May 17, 2022. The total purchase price and the acquisition date fair value of the consideration transferred for the shares totaled €7.9 million in addition to €7.6 million related to the repayment of certain of Nestor's debt. The purchase price was funded from a draw of \$16.7 million under the Company's revolving line of credit. The Company is in the process of finalizing the purchase accounting under ASC 805- *Business Combinations*.

## 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 and 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, 2021 and Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q, 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 the Company's financial condition and results of operations as of and for the three and nine months ended June 30, 2022 and 2021 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, 2021.

### **OVERVIEW**

#### **General**

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

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

Under U.S. federal and state guidance in response to the COVID-19 pandemic, Clearfield's operations are classified as part of the Cybersecurity and Infrastructure Security Agency ("CISA") critical infrastructure sector and similar categorization in Minnesota. In March 2020, we transitioned our corporate employees at our Brooklyn Park headquarters to remote work arrangements and they currently continue primarily working remote. In accordance with the Centers for Disease Control and Prevention ("CDC") and World Health Organization ("WHO") guidelines, we implemented and have continued health and safety measures for the production staff that remain onsite at our Brooklyn Park facility. We have maintained our manufacturing capacity in Brooklyn Park with these personnel at near historic levels. Similarly, we have implemented the recommended health and safety measures for the production staff that remains onsite at our Tijuana, Mexico manufacturing facilities. Throughout the COVID-19 pandemic, the Company has closely monitored the operations and staffing levels at its Brooklyn Park facility and its manufacturing operations in Tijuana, Mexico.

Due to the risks to timely supply of materials to our facilities, we have taken multiple actions to ensure sufficient safety stock inventory levels at both our Minnesota and Mexico facilities. Additionally, we made the decision to maximize the availability of all product lines at all of our plants by assuring that each location can manufacture across our broad product portfolio. These actions, combined with our historic practice of dual sourcing most of our components, has positioned us to meet our obligations to customers and to fulfill our sales order backlog. However, in the event of serious border restrictions or border delays, continuing or worsening component material shortages, supply chain transportation delays, or other serious disruption in our supply chain, we may experience diminished or temporarily suspended operations, longer lead times than typical for product deliveries, or temporarily suspended product deliveries, which would result in delayed or reduced revenue from the affected orders in production and higher operating costs. In addition, due to the unprecedented lead-times and challenges in the global supply chain, we are working with our customers to place longer lead-time purchase orders to ensure availability of components and materials from our supply chain. Based on current supply chain dynamics, lead times have stretched to 8 to 20 weeks or longer for certain product categories. The Company is working to manage lead times to more historic levels from receipt of purchase order. As part of our forward-looking capacity planning in order to meet the significant demand for our products, we've expanded our operations with two new facilities which came online in the second quarter of fiscal 2022. Our new manufacturing center in Mexico provides us with 318,000 square feet of capacity, and our new distribution center in Minnesota adds 105,000 square feet.

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED JUNE 30, 2022 VS. THREE MONTHS ENDED JUNE 30, 2021

Net sales for the third quarter of fiscal 2022 ended June 30, 2022 were \$71,250,000, an increase of approximately 84% or \$32,515,000, from net sales of \$38,735,000 for the third quarter of fiscal 2021. Net sales to Broadband Service Providers were \$70,667,000 in the third quarter of fiscal 2022 versus \$38,098,000 in the same period of fiscal 2021. Among this group, the Company recorded \$2,462,000 in international sales for the third quarter of fiscal 2022 versus \$2,925,000 in the same period of fiscal 2021. Net sales to Legacy customers were \$583,000 in the third quarter of fiscal 2022 versus \$637,000 in the same period of fiscal 2021. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 3% and 8% of total net sales for the third quarter of fiscal 2022 and 2021, respectively.

The increase in net sales for the quarter ended June 30, 2022 of \$32,515,000 compared to the quarter ended June 30, 2021 was driven primarily by increased sales to Community Broadband Service Providers of \$19,968,000. The increase in sales to these customers was due to continuing increased demand for fiber connectivity products in response to COVID-19 driven by customers accelerating their purchasing decisions and deployment schedules of our fiber optic solutions and the need for high-speed broadband required in the work from anywhere environment.

Revenue from customers is obtained from purchase orders submitted from time to time, with a limited number of customers recently issuing purchase orders for longer time frames. The Company's ability to predict orders in future periods or trends affecting orders in future periods is limited. The Company's ability to predict revenue is further limited by global supply chain issues and customer deployment schedules. The Company's ability to recognize revenue in the future for customer orders will depend on the Company's ability to manufacture and deliver products to the customers and fulfill its other contractual obligations.

Cost of sales for the third quarter of fiscal 2022 was \$41,943,000, an increase of \$20,345,000, or 94%, from \$21,598,000 in the comparable period of fiscal 2021. Gross profit percent was 41.1% of net sales in the third quarter of fiscal 2022, a decrease from 44.2% of net sales for the third quarter of fiscal 2021. Gross profit increased \$12,169,000 or 71%, to \$29,307,000 for the three months ended June 30, 2022 from \$17,138,000 in the comparable period in fiscal 2021. The decrease in gross profit margin for the quarter was primarily due to component cost increases absorbed by the Company due to the inflationary economic environment, increased facility costs from our expanded Mexico manufacturing and Minnesota distribution center operations, and increased freight and transportation costs. Despite the decrease in gross profit margin, gross profit increased due to the increase net sales.

Selling, general and administrative expenses increased \$3,285,000 or 35%, to \$12,721,000 in the third quarter fiscal 2022 from \$9,436,000 for the fiscal 2021 third quarter. The increase in expense in the third quarter of fiscal 2022 consists primarily of increases of \$1,468,000 in compensation expense due to additional headcount and increased wages, higher performance compensation accruals driven by higher net sales, increased professional fees of \$326,000, increased travel and entertainment expenses of \$460,000 due to reduced COVID-19 travel restrictions in the prior year, and an increase of stock compensation expense of \$277,000.

Income from operations for the quarter ended June 30, 2022 was \$16,586,000 compared to \$7,702,000 for the comparable quarter of fiscal 2021, an increase of approximately 115%. This increase is attributable to increased gross profit driven by higher sales to the Company's Community Broadband, MSO and National Carrier customers, offset by higher selling, general and administrative expenses.

Net investment income for the quarter ended June 30, 2022 was \$43,000 compared to \$121,000 for the comparable quarter for fiscal 2021. Net investment income for the quarter ended June 30, 2022 is comprised of solely interest income during the quarter. The decrease in interest income is due to lower interest rates earned on investments in the third quarter of fiscal 2022 and lower invested balances. We expect net investment income to decline due to the lower interest rates and the decrease in the Company's investment portfolio as part of the Company's inventory and supply chain management strategy.

We recorded a provision for income taxes of \$3,884,000 and \$1,725,000 for the three months ended June 30, 2022 and 2021, respectively. We record our quarterly provision for income taxes based on our estimated annual effective tax rate for the year. The increase in tax expense of \$2,159,000 in the third quarter of fiscal 2022 from the third quarter for fiscal 2021 is primarily due to increased income from operations. The income tax expense rate for the third quarter of fiscal 2022 increased to 23.4%, from 22.1% recorded in the third quarter of fiscal 2021, due to increased permanent addback items including nondeductible compensation and transaction costs.

The Company's net income for the three months ended June 30, 2022 was \$12,745,000, or \$0.93 per basic share or \$0.92 per diluted share. The Company's net income for the three months ended June 30, 2021 was \$6,098,000, or \$0.44 per basic and diluted share. The increase in basic and diluted earnings per share for the three months ended June 30, 2022 as compared to June 30, 2021 was due to higher net income.

#### **NINE MONTHS ENDED JUNE 30, 2022 VS. NINE MONTHS ENDED JUNE 30, 2021**

Net sales for the nine months ended June 30, 2022 were \$175,854,000, an increase of approximately 84% or \$80,335,000, from net sales of \$95,519,000 for the nine months ended June 30, 2021. Net sales to Broadband Service Providers were \$173,907,000 in the nine months ended June 30, 2022 versus \$93,569,000 in the same period of fiscal 2021. Among this group, the Company recorded \$5,844,000 in international sales for the nine months ended June 30, 2022 versus \$5,933,000 in the same period of fiscal 2021. Net sales to Legacy customers were \$1,947,000 in the nine months ended June 30, 2022 versus \$1,951,000 in the same period of fiscal 2021. The Company allocates sales from external customers to geographic areas based on the location to which the product is transported. Accordingly, international sales represented 3% and 6% of total net sales for the nine months ended 2022 and 2021.

The increase in net sales for the nine months ended June 30, 2022 of \$80,335,000 compared to the nine months ended June 30, 2021 was driven primarily by increased sales to Community Broadband Service Providers, and MSO customers of \$55,238,000, and \$16,628,000, respectively. The increase to Community Broadband, and MSO customers was due to continuing increased demand for fiber connectivity products in response to COVID-19 driven by customers accelerating their purchasing decisions and deployment schedules of our fiber optic solutions and the need for high-speed broadband required in the work from anywhere environment.

Revenue from customers is obtained from purchase orders submitted from time to time, with a limited number of customers recently issuing purchase orders for longer time frames. The Company's ability to predict orders in future periods or trends affecting orders in future periods is limited. The Company's ability to predict revenue is further limited by global supply chain issues. The Company's ability to recognize revenue in the future for customer orders will depend on the Company's ability to manufacture and deliver products to the customers and fulfill its other contractual obligations.

Cost of sales for the nine months ended 2022 was \$100,411,000, an increase of \$46,341,000, or 86%, from \$54,071,000 in the comparable period of fiscal 2021. Gross profit percent was 42.9% of net sales for the nine months ended June 30, 2022, a decrease from 43.4% of net sales for the nine months ended June 30, 2021. Gross profit increased \$33,994,000 or 82%, to \$75,442,000 for the nine months ended June 30, 2022 from \$41,449,000 in the comparable period in fiscal 2021. The decrease in gross profit margin was primarily due to increased facility costs from our expanded Mexico manufacturing and Minnesota distribution center operations, and increased freight and transportation costs.

Selling, general and administrative expenses increased \$8,294,000 or 32%, to \$33,876,000 in the third quarter fiscal 2022 from \$25,582,000 for the comparable period of fiscal 2021. The increase in expense in the nine months ended June 30, 2022 consists primarily of increases of \$4,357,000 in compensation expense due to additional headcount and increased wages and performance compensation accruals driven by higher net sales, increased professional fees of \$892,000, increased travel, entertainment, and trade show expenses of \$990,000 due to reduced COVID-19 travel restrictions, increased stock compensation expense of \$629,000 and a recovery of \$210,000 related to a bad debt recovery in the prior year.

Income from operations for nine months ended June 30, 2022 was \$41,567,000 compared to \$15,867,000 for the comparable quarter of fiscal 2021, an increase of approximately 162%. This increase is attributable to increased gross profit driven by higher sales to the Company's Community Broadband, and MSO customers, offset by higher selling, general and administrative expenses described above.

Net investment income for the nine months ended June 30, 2022 was \$284,000 compared to \$378,000 for the comparable quarter for fiscal 2021. Net investment income for the nine months ended June 30, 2022 is comprised of \$245,000 of interest income and \$39,000 net realized gains on sales of investments. The decrease in interest income is due to lower interest rates earned on investments and lower invested balances in the nine months ended June 30, 2022. We expect net investment income to decline due to the lower interest rates and the decrease in the Company's investment portfolio as part of the Company's inventory and supply chain management strategy.

We recorded a provision for income taxes of \$9,480,000 and \$3,344,000 for the nine months ended June 30, 2022 and 2021, respectively. We record our quarterly provision for income taxes based on our estimated annual effective tax rate for the year. The increase in tax expense of \$6,136,000 from the nine months ended June 30, 2021 is primarily due to increased income from operations. The income tax expense rate for the nine months ended June 30, 2022 increased to 22.7%, from 20.6% recorded in the comparable period of fiscal 2021, due to increased permanent addback items including nondeductible compensation and transaction costs.

The Company's net income for the nine months ended June 30, 2022 was \$32,370,000, or \$2.35 per basic share or \$2.33 per diluted share. The Company's net income for the nine months ended June 30, 2021 was \$12,901,000, or \$0.94 per basic and diluted share. The increase in basic and diluted earnings per share for the nine months ended June 30, 2022 as compared to June 30, 2021 was due to higher net income.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2022, our principal source of liquidity was our cash, cash equivalents, short-term investments and line of credit. Those sources total \$18,086,000 as of June 30, 2022 compared to \$23,590,000 as of September 30, 2021. Our line of credit is \$40 million and has no borrowings against it as of June 30, 2022. Our excess cash is invested mainly in certificates of deposit backed by the FDIC, U.S. Treasury securities and money market accounts. Investments considered long-term were \$24,994,000 as of June 30, 2022, compared to \$36,913,000 as of September 30, 2021. We believe the combined balances of short-term cash and investments, long-term investments, along with our line of credit provide a more accurate indication of our available liquidity. At the end of the third quarter of fiscal 2022, our cash, cash equivalents and short-term and long-term investments totaled \$43,080,000. We had no long-term debt obligations as of June 30, 2022 or September 30, 2021.

We believe our existing cash equivalents, short-term investments, and line of credit facility 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 including the acquisition of Nestor on July 26, 2022, expanding production capacity and facilities as well as inventory growth to meet customer demand, and potential future strategic transactions, the Company's share repurchase program, as well as to mitigate the potential impacts on the Company's business due to COVID-19 or supply chain, logistics, and customer fulfillment risks.

### **Operating Activities**

Net cash used by operating activities totaled \$9,289,000 for the nine months ended June 30, 2022. This was primarily due to net income of \$32,370,000, non-cash expenses for depreciation and amortization of \$2,205,000, and stock-based compensation of \$1,647,000 in addition to changes in operating assets and liabilities providing and using cash. The primary change in operating assets and liabilities using cash was an increase in inventory of \$41,816,000, and increases in accounts receivable of \$12,156,000, partially offset by increases in accounts payable and accrued expenses of \$8,677,000. The Company increased stocking levels of inventory during the quarter ending June 30, 2022 to support the Company's increased sales order backlog, as well as provide for safety stock for anticipated demand considering current long lead times for components and transportation within the global supply chain. We expect to maintain higher than historic stocking levels through fiscal year 2022. The increase in accounts receivable is due to increased sales in the most recent quarter as well as timing of payments from customers. 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, stayed consistent at 40 days from September 30, 2021 to June 30, 2022. The increase in accounts payable and accrued expenses is due to the timing of payments to vendors and inventory growth.

Net cash provided by operating activities totaled \$8,117,000 for the nine months ended June 30, 2021. This was primarily due to net income of \$12,901,000, non-cash expenses for depreciation and amortization of \$1,726,000, and stock-based compensation of \$966,000 in addition to changes in operating assets and liabilities providing cash. The primary changes in operating assets and liabilities using cash include an increase in inventory of \$6,571,000, and accounts receivable of \$5,896,000, offset by increases in accounts payable and accrued expenses of \$5,043,000. The increase in accounts receivable is due to increased sales during the most recent quarter and the timing of payments from customers. 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 five days to 38 days from September 30, 2020 to June 30, 2021. The increase in accounts payable and accrued expenses is due to the timing of payments to vendors in the quarter and \$4,500,000 of fiscal 2021 incentive compensation accruals.

#### Investing Activities

We invest our excess cash in money market accounts, U.S. Treasury securities and bank CDs in denominations across numerous banks. We believe we obtain a competitive rate of return given the economic climate along with the security provided by the FDIC on these investments. During the nine months ended June 30, 2022, we received \$17,386,000 on sales and maturities of investment securities and used cash to purchase \$248,000 of investment securities. Purchases of property, plant and equipment, mainly related to manufacturing equipment and intangible assets, consumed \$6,764,000 of cash during the nine months ended June 30, 2022.

During the nine months ended June 30, 2021, we used cash to purchase \$11,904,000 of U.S. Treasury and FDIC-backed securities and received \$10,044,000 on CDs that matured. Purchases of property, plant and equipment, mainly related to manufacturing equipment, consumed \$1,275,000 of cash during the nine months ended June 30, 2021.

#### Financing Activities

For the nine months ended June 30, 2022, we received \$544,000 from employees' participation and purchase of stock through our ESPP, we used \$379,000 related to share withholding for exercise and taxes associated with the issuance of common stock upon cashless exercise of stock options and used \$274,000 to pay for taxes as a result of employees' vesting of restricted shares using share withholding. We did not repurchase common stock under our share repurchase program in the nine months ended June 30, 2022.

For the nine months ended June 30, 2021, we received \$383,000 from employees' participation and purchase of stock through our ESPP, we used \$456,000 related to share withholding for taxes associated with the issuance of common stock upon cashless exercise of stock options and used \$54,000 to pay for taxes as a result of employees' vesting of restricted shares using share withholding. We did not repurchase common stock under our share repurchase program in the nine months ended June 30, 2021.

As of June 30, 2022 and June 30, 2021, we had the authority to purchase approximately \$14,981,000 and \$4,981,000, respectively, in additional shares under the repurchase program announced on November 13, 2014 that was subsequently increased on April 25, 2017. Effective January 27, 2022, the Company reinstated its stock repurchase program that had been suspended due to COVID uncertainty in April 2020. In addition, effective January 27, 2022, the Company's board of directors increased the share repurchase program by an additional \$10 million to an aggregate of \$22 million, from the previous \$12 million.

## **CRITICAL ACCOUNTING ESTIMATES**

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company's accounting estimates. The accounting estimates 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 the fair value of investments, stock-based compensation, and valuation of inventory, long-lived assets, finite lived intangible assets and goodwill.

These accounting estimates 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, 2021. Management made no changes to the Company's critical accounting estimates during the quarter ended June 30, 2022.

In applying its critical accounting estimates, management reassesses its estimates each reporting period based on available information. Changes in these estimates did not have a significant impact on earnings for the quarter ended June 30, 2022.

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

Not applicable.

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

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

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2022. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

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

There were no changes to the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, that occurred during the quarter ended June 30, 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

There are no pending legal proceedings against or involving the Company for which the outcome is likely to have a material adverse effect upon its financial position or results of operations.

### **ITEM 1A. RISK FACTORS**

The most significant risk factors applicable to the Company are described in Part II, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2021, as updated in our Form 10-Q for the quarter ended March 31, 2022. There have been no material changes from the risk factors previously disclosed except for the following:



*If we are unable to complete acquisitions or integrate acquired businesses, our financial results could be materially and adversely affected.*

From time to time, we evaluate acquisition candidates that may strategically fit our business objectives. On July 26, 2022, we closed the acquisition of Nestor Cables Ltd, a leading developer and manufacturer of fiber optic cable solutions located in Finland. The benefits that are expected to result from the Nestor acquisition or any future acquisition will depend, in part, on our ability to successfully integrate Nestor within our anticipated timeframe. If we are unable to complete acquisitions or successfully integrate and develop acquired businesses, our financial results could be materially and adversely affected. The risks inherent in pursuing or completing an acquisition include:

- diversion of management’s attention from existing business activities;
- difficulties or delays in integrating and assimilating information and financial systems, operations and products of an acquired business or other business venture or in realizing projected efficiencies, growth prospects, cost savings and synergies;
- potential difficulties in managing our expanded international operations and, in the case of the Nestor acquisition, potential difficulties in managing our non-U.S. subsidiaries, including the burden and cost of complying with a variety of international laws;
- potential loss of key employees, customers and suppliers of the acquired businesses or adverse effects on relationships with existing customers and suppliers;
- adverse impact on overall profitability if the acquired business does not achieve the return on investment projected at the time of acquisition;
- currency translations and fluctuations may adversely affect the financial performance of our consolidated operations; and
- with respect to the acquired assets and liabilities, inaccurate assessment of additional post-acquisition capital investments; undisclosed, contingent or other liabilities; problems executing backlog of material supply or installation projects; unanticipated costs; and an inability to recover or manage such liabilities and costs.

These risks associated with acquisition, integration of acquired businesses and management of our expanded international operations may have a material adverse effect on our sales, financial condition, and results of operations.

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

The Company repurchased no shares of stock associated with exercise and satisfaction of employee tax withholding requirements on vesting or exercise of equity awards under the Company’s 2007 Stock Compensation Plan for the three months ended June 30, 2022. Accordingly, the Company’s purchases of equity securities for the three months ended June 30, 2022 were as follows:

### ISSUER PURCHASES OF EQUITY SECURITIES

| Period           | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares<br>Purchased as Part<br>of Publicly<br>Announced Plans<br>or Programs | Approximate Dollar<br>Value<br>of Shares that<br>May Yet Be<br>Purchased<br>Under the Program<br>(1) |
|------------------|---|------------------------------------|---|--|
| April 1-30, 2022 | -   | -                                  | -   | \$ 14,980,671  |
| May 1-31, 2022   | -   | -                                  | -   | 14,980,671   |
| June 1-30, 2022  | -   | -                                  | -   | 14,980,671   |
| Total            | -   | -                                  | -   | \$ 14,980,671  |

- (1) Effective January 27, 2022, the Company reinstated its stock repurchase program that had been suspended due to COVID uncertainty in April 2020 and the Company’s board of directors increased the share repurchase program by an additional \$10 million reflected above.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

[Exhibit 10.1 – Share Sale and Purchase Agreement dated 17 May 2022 by and between the Sellers identified therein and Clearfield Finland Oy relating Nestor Cables Ltd](#)

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

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

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

101 –The following materials from Clearfield, Inc.’s Quarterly Report on Form 10-Q for the period ended June 30, 2022 are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Balance Sheets at June 30, 2022 and September 30, 2021; (ii) Condensed Statements of Earnings for the three months ended June 30, 2022 and 2021; (iii) Condensed Statements of Shareholders’ Equity for the three months ended June 30, 2022 and 2021; (iv) Condensed Statements of Cash Flows for the three months ended June 30, 2022 and 2021; and (v) Notes to the Condensed Financial Statements.

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

**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.**

August 3, 2022

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

August 3, 2022

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

**SHARE SALE AND PURCHASE AGREEMENT**

by and between

**Sellers**

and

**Clearfield Finland Oy**

regarding all shares in

**NESTOR CABLES LTD**

**17 May 2022**

**AVANCE**

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## SHARE SALE AND PURCHASE AGREEMENT

THIS SHARE SALE AND PURCHASE AGREEMENT (the **Agreement**) is entered into on 17 May 2022, by and between

1. The persons and entities listed in **Schedule A** (each individually a **Seller** and jointly the **Sellers**);  
and
2. **Clearfield Finland Oy**, a limited liability company incorporated and existing under the laws of Finland, having its registered domicile in Helsinki and the business identity code 3285629-2 (**Buyer**).

Sellers and Buyer are hereinafter collectively referred to as the **Parties** and each individually as a **Party**.

### RECITALS

- A. Sellers own 100% of the issued and outstanding shares (the **Shares**) in Nestor Cables Ltd, a limited liability company incorporated and existing under the laws of Finland, having its registered domicile in Oulu, and the Business ID 2112907-3 (the **Company**). The Company is engaged in development and manufacturing of fiber optic cable solutions in Northern Europe (the **Business**).
- B. Buyer is willing to acquire the Shares and the Shareholder Capital Loans from Sellers, and Sellers are willing to sell and transfer the Shares and the Shareholder Capital Loans to Buyer, upon the terms and subject to the conditions set out in this Agreement.
- C. The Group Companies' current external financing consists of the following arrangements:
  - (a) the capital loans with the VDR references 5.1.4.1.6.1–5.1.4.1.6.3 and 5.1.4.1.5.1–5.1.4.1.5.3 in **Schedule C** (the **Shareholder Capital Loans**), and the other capital loans set out in Part I of **Schedule C**, in each case including any accrued and unpaid interest (jointly, the **Capital Loans**);
  - (b) (i) the loans and other financing granted by banks and other institutions set out in Part II of **Schedule C**, and (ii) the security stockpiling interest subsidy loan (in Finnish: *turvavarastointikorkotukilaina*) set out in Part III of **Schedule C** (the **Interest Subsidy Loan**), in each case including any accrued and unpaid interest (items (i) and (ii) jointly, the **Loans**);
  - (c) the state guarantee (in Finnish: *valtioneuvoston*) pertaining to the Interest Subsidy Loan (the **State Guarantee**); and
  - (d) the security set out in Part IV of **Schedule C** (the **Security**).

At Closing, and upon the terms and subject to the conditions set out in this Agreement, (i) the Capital Loans will be purchased by Buyer, (ii) the Loans, which Buyer between the date hereof and the Closing confirms to be repayable, will be repaid, (iii) the State Guarantee will remain in force on its existing terms, and (iv) the Security, which Buyer between the date hereof and the Closing confirms to be released, will be released.

- D. In order to facilitate an efficient process and coverage in the event of inaccuracies in the Warranties (as defined below), Buyer has obtained a buyer-side warranty and indemnity insurance (the **W&I Insurance**) relating to the Warranties (as defined below). The W&I Insurance policy is attached hereto as **Schedule D**.



NOW, THEREFORE, the Parties hereby agree as follows:

## 1. DEFINITIONS

As used in this Agreement, the following capitalized terms have the following meanings:

- |                                  |   |
|----------------------------------|---|
| <b>1.1 Accounting Principles</b> | means the generally accepted accounting principles in Finland, which are subject to applicable Laws, including the Finnish Accounting Act (1336/1997, as amended) and the Finnish Accounting Decree (1339/1997, as amended), as consistently applied by the Company.  |
| <b>1.2 Affiliate</b>             | means with respect to any natural or legal person, any other natural or legal person that directly or through one or more intermediaries controls, is controlled by, or is under common control with such person, provided, however, that (i) none of the Group Companies shall be considered an Affiliate of Sellers and (ii) each of the Group Companies shall as of the Closing be considered an Affiliate of Buyer. |
| <b>1.3 Agreement</b>             | means this Share Sale and Purchase Agreement and the Schedules hereto.  |
| <b>1.4 Algerian Affiliate</b>    | means SARL Nestor Cables Algerie, a limited liability company incorporated and existing under the laws on Algeria, having its registered domicile in the Province of Algiers, Algeria, and the registration number 16 B 1042516 16 / 00.  |
| <b>1.5 Annual Accounts</b>       | means the audited statutory consolidated financial accounts of the Company as at, and for the period ending, on the Locked Box Date, attached as <b>Schedule 1.5</b> hereto.  |
| <b>1.6 Authority Approval</b>    | has the meaning set out in Section 5.2(a).  |
| <b>1.7 Bring Down Disclosure</b> | means a review of the Warranties given at Closing by the individuals referred to in the definition of "Sellers' Knowledge" immediately prior to the Closing Date to identify any facts or circumstances, which occur and become known to said individuals, in each case, between the date hereof and the Closing Date, constituting a breach of any of the Warranties given at Closing.                                 |
| <b>1.8 Business</b>              | has the meaning set out in the Recitals, Section A.   |
| <b>1.9 Business Day</b>          | means a day other than Saturdays, Sundays and public holidays on which banks are generally open for business in Finland and the United States (excluding internet banking).   |

|             |                                 |  |
|-------------|---------------------------------|--|
| <b>1.10</b> | <b>Business Warranties</b>      | means the Warranties which are not Fundamental Warranties.   |
| <b>1.11</b> | <b>Buyer</b>                    | has the meaning set out in the introductory paragraph of this Agreement.   |
| <b>1.12</b> | <b>Capital Loans</b>            | has the meaning set out in the Recitals, Section C.  |
| <b>1.13</b> | <b>Claim</b>                    | means any claim for a Loss made by Buyer against a Seller or Sellers in respect of any breach of this Agreement.   |
| <b>1.14</b> | <b>Closing</b>                  | means the consummation of the sale and purchase of the Shares and the Shareholder Capital Loans and certain other transactions as set out in Section 5.  |
| <b>1.15</b> | <b>Closing Date</b>             | means the date set out in Section 5.1(a).  |
| <b>1.16</b> | <b>Company</b>                  | has the meaning set out in the Recitals, Section A.  |
| <b>1.17</b> | <b>Confidential Information</b> | means any and all non-public information of any kind or nature whatsoever, whether written or oral, including, without limitation, financial information, trade secrets, client lists and other proprietary business information regarding the Business, the Group Companies, any Seller or Buyer, or any of their Affiliates, as the case may be.   |
| <b>1.18</b> | <b>Disclosure Materials</b>     | means all the documents and the written Q&A made available by Sellers (or their advisors or representatives) to Buyer (or its advisors or representatives) prior to the date hereof in the virtual data site administered by Datasite LLC, as listed in <b>Schedule 1.18</b> and as contained in the USB drive or other medium to be delivered by Sellers to Buyer at the Closing.   |
| <b>1.19</b> | <b>Encumbrance</b>              | means any pledge, mortgage, lien, retention of title or other security interest of any kind, including commitments which may create the same; or any right of pre-emption or redemption, consent, right of first refusal, call option or other similar right.  |
| <b>1.20</b> | <b>Estonian Subsidiary</b>      | means Nestor Cables Baltics OÜ, a limited liability company incorporated and existing under the laws of Estonia, having its registered domicile in Keila, Estonia, and the registry code 14281787.   |
| <b>1.21</b> | <b>Fairly Disclosed</b>         | means that a risk, fact, matter, occurrence, event or circumstance constituting a deviation from or inaccuracy in any Business Warranties is disclosed in this Agreement or the Disclosure Materials in such manner that a reasonable and professional buyer would understand the existence of, and be able to assess, such risk, fact, matter occurrence, event or circumstance and that it constitutes a deviation from or inaccuracy in such Business Warranty, without having to draw conclusions from several documents or other sources. |

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| <b>1.22</b> | <b>Fundamental Warranties</b>       | means the Warranties set out in Sections 6.1–6.4 and Section 6.24.  |
| <b>1.23</b> | <b>Group Companies</b>              | means the Company and the Estonian Subsidiary.  |
| <b>1.24</b> | <b>Independent Expert</b>           | has the meaning set out in Section 4(d).  |
| <b>1.25</b> | <b>Intellectual Property Rights</b> | means the copyrights, trade and service marks, trade names, rights in logos and get-up, inventions, registered designs, design rights, patents, utility models, all rights of whatsoever nature in computer software and any other intellectual property rights, in every case in any part of the world and whether or not registered; and including all granted registrations and all applications for registration in respect of any of the same.   |
| <b>1.26</b> | <b>Interest Subsidy Loan</b>        | has the meaning set out in the Recitals, Section C  |
| <b>1.27</b> | <b>IT Systems</b>                   | has the meaning set out in Section 6.11(a).   |
| <b>1.28</b> | <b>Law</b>                          | means any applicable law, order, decree, ordinance, statute, regulation, rule or directive in force from time to time.  |
| <b>1.29</b> | <b>Leakage</b>                      | <p>means the occurrence of any of the following during the Locked Box Period (whether paid or payable before, on or after the Closing):</p> <ul style="list-style-type: none"> <li>a) any payment or distribution of dividend or profits, or any other transfer of value, paid or made by a Group Company to any Seller or any Affiliate or Related Party of a Seller irrespective of whether in cash, assets or any other form;</li> <li>b) any amounts paid by a Group Company to a Seller or any Affiliate or Related Party of a Seller in respect of any share capital, shares or other securities or equity interests of a Group Company being redeemed, purchased or repaid, or any other return of capital;</li> <li>c) any waiver or release by a Group Company of any amount owed to such Group Company by a Seller or any Affiliate or Related Party of a Seller;</li> <li>d) any assumption by a Group Company of any liabilities of a Seller or any Affiliate or Related Party of a Seller, to the extent the Group Company is not fully compensated for such assumption or release on arm's length terms;</li> </ul> |

- e) any future benefits granted by a Group Company to any Seller or any Affiliate or Related Party of any Seller outside the Ordinary Course of Business;
- f) any payment of management, monitoring, service or similar fees by a Group Company to a Seller or any Affiliate or Related Party of a Seller;
- g) any break or prepayment fees or other irregular or unscheduled payments payable by a Group Company under the Loans, the Capital Loans or any other loan or financing arrangement of a Group Company relating to the transactions contemplated under this Agreement;
- h) any payment by a Group Company of any transaction, exit or stay-on bonus or other similar incentive payment to any director or employee of a Group Company relating to the transactions contemplated under this Agreement;
- i) any payment by a Group Company of any advisor fees or transaction costs of a Seller or any Affiliate or Related Party of a Seller relating to this Agreement or the transactions contemplated hereunder;
- j) any payment or distribution of funds or assets in breach of applicable Laws; or
- k) any binding undertaking, resolution or agreement by a Group Company to effect any payment or action described above,

excluding, in each case, any Permitted Leakage. When determining the amount of Leakage, any Tax effects (including actual Tax payable or deductible or other possible actual liability or benefit resulting from any such payment, waiver, or other action) to a Group Company will be taken into account.

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| <b>1.30</b> | <b>Loans</b>             | has the meaning set out in the Recitals, Section C.   |
| <b>1.31</b> | <b>Locked Box Date</b>   | means 31 December 2021.   |
| <b>1.32</b> | <b>Locked Box Period</b> | means the period starting at 00:01 hours (EET) on 1 January 2022 and ending upon the Closing. |
| <b>1.33</b> | <b>Long-Stop Date</b>    | has the meaning set out in Section 5.4(a).  |
| <b>1.34</b> | <b>Loss</b>              | has the meaning set out in Section 8.1(a).  |

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| 1.35 | <b>Material Adverse Effect</b>     | means any event, change, circumstance or effect that has (or will have) a material adverse effect on the business, financial condition, assets, operations, liabilities or results of operations of the Group Companies taken as a whole. The word "material" shall, for the purpose of this definition, be interpreted as an adverse change/effect (i) of EUR 150,000 or more on the annual EBITDA of the Group Companies (net of any off-setting positive effects) or (ii) that is a consequence of the Interest Subsidy Loan (or a corresponding interest subsidy loan with some other financial institution) or the State Guarantee no longer being valid for the benefit of the Group Companies.                          |
| 1.36 | <b>Material Agreements</b>         | means the following contracts, agreements, arrangements or other obligations binding on the Group Companies: <ul style="list-style-type: none"> <li>a) customer agreements which have an annual turnover (including VAT) exceeding EUR 300,000 during the twelve-month period ending on the Locked Box Date;</li> <li>b) supply or purchase agreements which have involved an annual economic commitment by the Group Companies exceeding EUR 300,000 (including VAT) during the twelve-month period ending on the Locked Box Date; and</li> <li>c) agreements that are otherwise material for the business of the Group Companies,</li> </ul> as non-exhaustively (and for convenience only) listed in <b>Schedule 1.36</b> . |
| 1.37 | <b>Notified Leakage</b>            | has the meaning set out in Section 4(a).   |
| 1.38 | <b>Ordinary Course of Business</b> | means the ordinary course of business of the Group Companies as a going concern at Signing, as conducted consistently with past practices.   |
| 1.39 | <b>Owned IP Rights</b>             | has the meaning set out in Section 6.10(b).  |
| 1.40 | <b>Party</b>                       | means any of Sellers or Buyer.   |
| 1.41 | <b>Permitted Leakage</b>           | means: <ul style="list-style-type: none"> <li>a) payments or reimbursement of costs and expenses paid or to be made by a Group Company to any member of the board of directors of such Group Company in the Ordinary Course of Business and at arm's length;</li> <li>b) salaries, remunerations, fees and reimbursement of costs and expenses paid or to be made to the employees and officers of any Group Company in accordance with their terms of employment or service, or any existing remuneration or reimbursement policy of any Group Company, including the salary increases set out in index no. 5.1.16.11;</li> </ul>   |

- c) any action undertaken or to be undertaken at the written request of Buyer or pursuant to or in accordance with this Agreement;
- d) any repayment of principal and/or interest under the Shareholder Capital Loans in accordance with their terms Fairly Disclosed;
- e) payment of any exit bonuses to certain officers of the Company not exceeding EUR 110,000 (such amount to include any Tax withholdings to be made by the Company); and
- f) any Taxes payable by a Group Company in relation to the above.

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| <b>1.42</b> | <b>Purchase Price</b>                             | has the meaning set out in Section 3.1(d).   |
| <b>1.43</b> | <b>Purchase Price (Shares)</b>                    | has the meaning set out in Section 3.1(a).   |
| <b>1.44</b> | <b>Purchase Price (Shareholder Capital Loans)</b> | has the meaning set out in Section 3.1(c).   |
| <b>1.45</b> | <b>Related Party</b>                              | means a related party as defined in Section 3 of the Finnish Act on the Recovery of Assets to a Bankruptcy Estate (758/1991, as in force on the date hereof).                                |
| <b>1.46</b> | <b>Security</b>                                   | has the meaning set out in the Recitals, Section C.  |
| <b>1.47</b> | <b>Seller; Sellers</b>                            | has the meaning set out in the introductory paragraph of this Agreement.   |
| <b>1.48</b> | <b>Sellers' Knowledge</b>                         | means the knowledge of Mauri Visuri, Markku Rentto, Jarmo Rajala, Sakari Määttä, and the Company's board of directors, after due inquiry with Aki Eklund, Lassi Siivola, and Jari Virkkunen. |
| <b>1.49</b> | <b>Sellers' Representative</b>                    | has the meaning set forth in Section 10.2.   |
| <b>1.50</b> | <b>Shareholder Capital Loans</b>                  | has the meaning set out in the Recitals, Section C.  |
| <b>1.51</b> | <b>Shares</b>                                     | has the meaning set out in the Recitals, Section A.  |

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| <b>1.52</b> | <b>Signing</b>              | means the signing of this Agreement on the date hereof.  |
| <b>1.53</b> | <b>Signing Date</b>         | means the date of this Agreement.  |
| <b>1.54</b> | <b>State Guarantee</b>      | has the meaning set out in the Recitals, Section C.  |
| <b>1.55</b> | <b>Tax</b>                  | means all income tax, value added tax, transfer tax, withholding tax and any other direct or indirect taxes and tax-like charges (including employment pension contributions, unemployment insurance contributions, employer's liability components, social security contributions and customs duties) and any similar payments imposed by any tax or other authority, including all penalties, fines, tax increases and interest related thereto. |
| <b>1.56</b> | <b>Warranty, Warranties</b> | means the warranties of Sellers set out in Section 6.  |
| <b>1.57</b> | <b>W&amp;I Insurance</b>    | has the meaning set out in the Recitals, Section D.  |

The definitions set forth or referred to above apply equally to both the singular and plural forms of the terms defined. The words "include", "includes" and "including" are deemed to be followed by the phrase "without limitation". All references herein to Sections, Subsections and Schedules are deemed to be references to Sections and Subsections of, and Schedules to, this Agreement unless the context otherwise requires. Unless the context otherwise requires, any reference to any contract, instrument or Law is a reference to it as amended and supplemented from time to time. Any reference in this Agreement to a "day" or a number of "days" (without the explicit qualification of "Business") is to be interpreted as a reference to a calendar day or number of calendar days. Unless a contrary indication appears, any reference in this Agreement to a time of day is a reference to Helsinki (EET) time.

## **2. SALE AND PURCHASE OF SHARES AND SHAREHOLDER CAPITAL LOANS**

### **2.1 Object of Sale**

Upon the terms and subject to the conditions set out herein, Sellers shall sell to Buyer and Buyer shall purchase from Sellers the Shares and the Shareholder Capital Loans free from any Encumbrances at the Closing.

### **2.2 Transfer of Ownership**

The full and unrestricted ownership of and title to the Shares and the Shareholder Capital Loans, free and clear of any Encumbrances, shall pass from Sellers to Buyer at the Closing against payment of the Purchase Price. Sellers confirm that no share or interim share certificates have been issued with respect to any of the Shares.

### **2.3 Waiver of Certain Rights**

Sellers hereby waive any and all rights of pre-emption (in Finnish: *lunastusoikeus*) over any of the Shares and any other rights which restrict the valid transfer of the Shares or the Shareholder Capital Loans free from Encumbrances, or which otherwise may prevent the fulfilment of this Agreement, whether such restriction is conferred on Sellers by the Company's articles of association, any shareholders' agreement, or otherwise.

### 3. PURCHASE PRICE

#### 3.1 Purchase Price and Payment

- (a) If the Closing takes place on or before 31 May 2022, the purchase price for the Shares (the **Purchase Price (Shares)**) is an amount equal to the aggregate of:
- (i) EUR 7,947,500;  
*minus*
  - (ii) an amount equal to the Notified Leakage (if any);  
*minus*
  - (iii) 50% of EUR 168,000, constituting the premium, underwriting fees, compensation to the insurance broker, if any, and any related Tax payable in relation to the W&I Insurance.
- (b) If the Closing takes place on or after 1 June 2022, the Purchase Price (Shares) is an amount equal to the aggregate of:
- (i) EUR 7,947,500;  
*plus*
  - (ii) an amount equal to an interest of 2% per annum (actual days/365) on the EUR 7,947,500, calculated for the period starting on 1 June 2022 and ending upon the Closing Date;  
*minus*
  - (iii) an amount equal to the Notified Leakage (if any);  
*minus*
  - (iv) 50% of EUR 168,000, constituting the premium, underwriting fees, compensation to the insurance broker, if any, and any related Tax payable in relation to the W&I Insurance.
- (c) The purchase price for the Shareholder Capital Loans (the **Purchase Price (Shareholder Capital Loans)**) is an amount equal to the principal amount under the Shareholder Capital Loans plus the unpaid interest accrued thereon in accordance with the terms of the Shareholder Capital Loans up to and including the Closing Date.
- (d) The Purchase Price (Shares) and the Purchase Price (Shareholder Capital Loans) are jointly referred to as the **Purchase Price**.



- (e) Sellers shall provide Buyer with a calculation of the Purchase Price, together with the statement referred to in Section 4(a) setting out any Notified Leakage, no later than five (5) Business Days prior to the Closing Date.
- (f) The Purchase Price is payable by Buyer at the Closing in immediately available funds (in euros) to a bank account notified by Sellers to Buyer in writing prior to the Closing Date.
- (g) The Purchase Price shall be allocated among Sellers as set out in **Schedule A**.

#### 4. LEAKAGE

- (a) No later than five (5) Business Days prior to the Closing Date, Sellers shall deliver to Buyer a statement setting out the nature and amount of any Leakage known to Sellers (any Leakage so notified constituting **Notified Leakage**). Sellers shall prepare this statement of Notified Leakage in good faith and deliver it together with such details that are required by Buyer to enable it to reasonably assess the Notified Leakage.
- (b) Except for the Notified Leakage already taken into account in the determination of the Purchase Price in accordance with Section 3.1(a), Sellers shall indemnify Buyer in respect of, and shall be liable to pay to Buyer an amount (on a euro-for-euro basis) in cash corresponding to, any Leakage notified by Buyer within the time limits set forth below in this Section 4(b). Buyer is entitled to require payment from Sellers, and Sellers shall pay to Buyer (or a Group Company, if so designated by Buyer), an amount equal to such Leakage, provided that Buyer has, without undue delay and in any event no later than on 31 December 2022, delivered to the Sellers' Representative a written notice together with the relevant particulars specifying:
  - (i) the nature of the Leakage;
  - (ii) the amount required to be paid in respect thereof; and
  - (iii) to the extent available to Buyer, such other information as is required by Sellers to enable them to reasonably assess the existence and amount of the Leakage.
- (c) Sellers shall pay to Buyer an amount equal to the Leakage in immediately available funds within 10 Business Days after the receipt by Sellers of Buyer's written notice, unless disputed by Sellers in accordance with Section 4(d).
- (d) If Sellers dispute a notification of Leakage delivered by Buyer pursuant to Section 4(b) and the Parties are unable to agree as to whether the Leakage notified therein has occurred, or as to the amount thereof, then Sellers will not be obligated to pay to Buyer the disputed amount of such Leakage until the matter has been settled by Ernst & Young or, in case such firm does not accept the appointment, a reputable and independent public accountant jointly agreed upon by the Parties (the **Independent Expert**). The Independent Expert shall seek to render a decision together with a statement of reasons thereof within 40 Business Days of the submission of any dispute concerning the determination of the Leakage. The decision may include the acceptance of either Party's proposal for the amount of the Leakage, or a determination of any amount between the two proposals. Save for clear and manifest errors affecting the substance of the decision, the decision of the Independent Expert shall be final and binding upon the Parties, without recourse to any legal proceedings, and Seller(s) shall pay to Buyer any Leakage in accordance with such decision of the Independent Expert.

- (c) The fees and expenses of the Independent Expert shall be borne by the Parties in proportion to the amounts by which their respective proposals on the Leakage differ from the final determination of such amount by the Independent Expert.

## 5. CLOSING

### 5.1 Closing

- (a) The Closing shall occur on the tenth (10th) Business Day following the fulfillment (or waiver) of the conditions set forth in Section 5.2, or on such other date as may be agreed between Sellers and Buyer in writing (the **Closing Date**).
- (b) The Closing will take place on the Closing Date starting at 10 a.m. or at such other time as may be agreed between Sellers and Buyer in writing.

### 5.2 Conditions Precedent

- (a) The obligation of the Parties, unless waived by the Parties, to proceed to the Closing and to consummate the actions set out in Section 5.4(a) is subject to the fulfillment, on or before the Closing Date, of the condition that Buyer has received the approval from the Ministry of Economic Affairs and Employment of Finland under the Finnish Act on the Screening of Foreign Corporate Acquisitions in respect of the transaction contemplated under this Agreement (the **Authority Approval**).
- (b) The obligation of Buyer, unless waived by Buyer, to proceed to the Closing and to consummate the actions set out in Section 5.4(a) is subject to:
  - (i) there not having occurred, on or before the Closing Date, a material breach of the Sellers' covenants and undertakings or the Warranties set forth in this Agreement; and
  - (ii) there not having occurred, on or before the Closing Date, any Material Adverse Effect.

### 5.3 Efforts to Complete

- (a) Buyer shall, without unreasonable delay after the Closing, make such filings to the Ministry of Economic Affairs and Employment of Finland Authority Approval as it deems necessary to obtain the Authority Approval.
- (b) Sellers shall provide, without unreasonable delay, such information and assistance as Buyer may reasonably request to receive the Authority Approval.
- (c) Sellers shall ensure that the conditions precedent for the Closing set out in Section 5.2(b) remain fulfilled until the Closing.

#### 5.4 Long-Stop Date

- (a) If the Closing has not taken place by 30 September 2022 (the **Long-Stop Date**), each of the Parties may terminate this Agreement upon written notice to the other Party; provided, however, that Buyer or Sellers, as applicable, shall not be entitled to terminate this Agreement if the failure for the Closing to take place by such time is due to a breach of this Agreement by (x) Buyer in the case of termination by Buyer or (y) any Seller in the case of termination by Sellers.
- (b) A Party having complied with its obligations under this Agreement is not liable for any loss caused by the termination of this Agreement in accordance with this Section 5.4. Nothing in this Section 5.4 relieves the breaching Party from liability for any prior breach of its obligations set out in Section 5.4 or limits the non-breaching Party's right to demand specific performance of such obligations by the breaching Party or, in the absence of such specific performance, compensation for loss.
- (c) Sections 9.4 (Confidentiality and Announcements) and 10 (Miscellaneous) shall survive the termination pursuant to this Section 5.4.

#### 5.5 Closing Events

- (a) At Closing, the following events shall take place:
  - (i) Sellers shall deliver a written description of the results of the Bring Down Disclosure to Buyer in the form of **Schedule 5.5(a)(i)**;
  - (ii) Sellers shall deliver written evidence confirming that Grenkeleasing Oy, Järvileasing Oy, Secto Automotive Oy, and Mobire Eesti As will not terminate their respective leasing agreements with the Group Companies as a consequence of the transactions contemplated under this Agreement;
  - (iii) Sellers shall deliver written evidence confirming that the Company had (i) complied with its notification obligations and (ii) received the consents required for the consummation of the transactions contemplated hereunder, in each case as required under the governmental subsidies granted by Business Finland and the Centre for Economic Development, Transport and Environment;
  - (iv) Buyer shall procure that the Loans, which Buyer between the date hereof and the Closing has confirmed to be repayable, are fully repaid and settled and the underlying agreements are terminated, and, subject to Buyer complying with its aforementioned obligation, Sellers shall procure that the Security, which Buyer between the date hereof and the Closing has confirmed as to be released, is released in full;
  - (v) the Parties shall deliver duly signed copies of the transfer agreements substantially in the form of **Schedule 5.5(a)(v)** whereby Buyer will purchase from Ilmarinen and Finnvera their respective Capital Loans upon the Closing;
  - (vi) Sellers shall confirm the termination of all shareholders' agreements concerning the Company;

- (vii) Sellers shall deliver duly signed resignation letters substantially in the form of **Schedule 5.5(a)(vii)** from the members of the board of directors of the Company, confirming that none of them has any claim against the Company relating to their positions in the board;
  - (viii) Sellers shall deliver duly signed letters substantially in the form of **Schedule 5.5(a)(viii)** from the members of the board of directors of the Estonian Subsidiary, confirming that none of them has any claim against the Estonian Subsidiary relating to their positions in the board and any unpaid compensation in relation thereto;
  - (ix) Sellers shall deliver a duly executed copy of the transfer agreement substantially in the form of **Schedule 5.5(a)(ix)** whereby the Company has sold the Algerian Affiliate to one of the Sellers prior to the Closing;
  - (x) Buyer shall pay the Purchase Price to the bank account(s) agreed between Buyer and the Sellers' Representative;
  - (xi) Sellers shall deliver a written statement confirming that allocation of the Purchase Price contained in **Schedule A** is accepted by all Sellers and correctly and fully reflect any corporate resolution, agreement or similar arrangement concluded among said parties;
  - (xii) Sellers shall sell and transfer to Buyer the Shares and the Shareholder Capital Loans free from any Encumbrances; and
  - (xiii) the Parties shall sign and execute a closing memorandum, confirming and evidencing the consummation of the actions set out in this Section 5.5(a).
- (b) All actions taken in connection with the Closing will be deemed to have occurred simultaneously as part of a single transaction and the Closing (including any delivery) will not be deemed to have occurred until all such actions have been completed by the Parties.
- (c) Sellers undertake to ensure that, after the due fulfilment of the deliveries at the Closing pursuant to Section 5.5(a), none of the Group Companies has any liabilities under the Loans, which Buyer has confirmed between the date hereof and the Closing to be repayable, and that there are no security interests valid in respect of these Loans.

**6. WARRANTIES OF SELLERS**

- (a) Sellers warrant that each Warranty is true and accurate as at the date hereof and the Closing Date (except to the extent any such Warranty refers to another date, in which case as of such other date).
- (b) The Business Warranties are qualified by the disclosures in the Disclosure Material, meaning that Sellers will not be deemed to be in breach of the Business Warranties to the extent a deviation from or inaccuracy in the Business Warranties has been Fairly Disclosed.

- (c) The Warranties are given by Sellers jointly, except for the Warranties in Section 6.2 and Section 6.3(a), which are given by each Seller separately and only as for their own behalf and, to the extent they concern the Shares or the Shareholder Capital Loans, only with respect to the Shares and the Shareholder Capital Loans sold by such Seller.

#### **6.1 Organization**

- (a) Each Group Company is duly organized and validly existing under the Laws of the jurisdiction of its incorporation.
- (b) Each Group Company has full legal and corporate power, capacity and authority to own, possess and operate its assets, property and rights and to carry on its business as conducted at Signing and at Closing.

#### **6.2 Ownership, Power and Authority**

- (a) Each Seller has full ownership of the Shares and the Shareholder Capital Loans as set out in **Schedule A**. The Shares and the Shareholder Capital Loans are transferable to Buyer and are free and clear of any Encumbrance as at the Closing.
- (b) Each Seller, which is a legal person, is duly organized and validly existing under the Laws of the jurisdiction of its incorporation.
- (c) Each Seller has full authority and power to enter into this Agreement and to consummate the transactions contemplated hereby. The execution of this Agreement, the consummation of the transactions contemplated hereby and the fulfillment of the terms hereof will not, where applicable, result in a breach of the articles of association of any Group Company or any Seller, any resolution adopted by the shareholders, the board of directors or other similar body of any Group Company, or require any consent or approval of any Group Company or any Seller, any shareholders or financiers of any Group Company, spouses or other family members, related parties or financiers of Sellers, or other third parties, which consent or approval has not been obtained. This Agreement constitutes a binding obligation of, and is enforceable against each Seller in accordance with its terms and conditions.
- (d) None of Sellers, except for Harri Niemelä who as at the date of this Agreement is subject to enforcement procedure (in Finnish: *ulosottomenettely*), is insolvent or has discontinued making payments in general or filed a petition for its winding-up, bankruptcy, administration, solvent liquidation or arrangement of debts (in Finnish: *velkajärjestely*), and no other person has filed such petition or a petition for the forced sale or sequestration of any part of the assets of any Seller.

#### **6.3 Capitalization**

- (a) The shareholding in the Company immediately prior to the Closing is as set out in **Schedule A**. The Shares represent 100% of the issued and outstanding shares in the Company. The Shares have been legally and validly issued, registered, and are fully paid. The Company has not issued any share certificates or interim share certificates in respect of the Shares.

- (a) The Company owns 100% of the shares (or other ownership interests) in the Estonian Subsidiary. The shares (or other ownership interests) in the Estonian Subsidiary have been legally and validly issued, registered, and are fully paid. No share certificates or interim share certificates have been issued in respect of the shares (or other ownership interests) in the Estonian Subsidiary.
- (b) There are no outstanding option rights, warrants, depository receipts, subscription or pre-emptive rights or other specific rights or securities entitling to or convertible into any shares or equity securities (or other ownership interests) in any Group Company, or contracts, agreements, arrangements or obligations providing for the issuance or the granting of rights to acquire any existing or new shares or securities (or other ownership interests) in any Group Company.
- (b) The shares (or other ownership interests) in the Estonian Subsidiary are upon the Closing free and clear of any Encumbrance. Save for the shares in the Estonian Subsidiary, the Company does not upon the Closing hold, directly or indirectly, any shares or other ownership interests in any legal entities and does not have any branch offices or similar.
- (c) The Estonian Subsidiary does not hold, directly or indirectly, any shares or other ownership interests in any legal entities and does not have any branch offices or similar.
- (d) The shareholder register of the Company included in the Data Room Materials is true, correct and up-to-date.

#### **6.4 Insolvency**

No Group Company is insolvent nor has discontinued making payments in general or filed a petition for its winding-up, bankruptcy, administration or solvent liquidation, and no other person has filed such petition or a petition for the forced sale or sequestration of any part of the assets of a Group Company.

#### **6.5 Corporate Documents**

- (a) True, complete and current copies of the articles of association and registration certificates for each Group Company have been included in the Data Room Materials. No resolutions have been passed to amend such articles of association or registration certificates or equivalent documents, no material registration filings are pending, and no material resolutions have been passed with respect to any Group Company, which should be, but have not yet been filed for registration.
- (b) All corporate documents of each Group Company (including but not limited to constitutional documents, shareholder registers, minutes of board meetings and general meetings of shareholders and book-keeping material) in all material respects (i) have been and are properly kept and they contain a true and complete record of the matters, which they are required to record under applicable Laws, and (ii) are in the possession of the relevant Group Company.

#### **6.6 Accounts**

- (a) The Annual Accounts are complete and correct in all material respects and present a true and fair view of the financial condition, the assets, and the results of the operations of the Group Companies as at and for the period ended on the Locked Box Date and have been prepared in accordance with the Accounting Principles.

- (b) The Group Companies have no material liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent, or otherwise), which should have been included in the Annual Accounts in accordance with the Accounting Principles as per the Locked Box Date. Since the Locked Box Date, the Group Companies have not incurred any material liabilities other than in the Ordinary Course of Business.
- (c) The Annual Accounts are not distorted or affected by inaccurate or inappropriate activations or depreciations or by the results of transactions with Sellers, other shareholders of the Group Companies, any of their Affiliates or family members or related parties or transactions otherwise outside the Ordinary Course of Business.

**6.7 Floating charges and guarantees**

- (a) Save for as Fairly Disclosed, no floating charges with respect to any Group Company have been pledged.
- (b) Save for as Fairly Disclosed, no bank guarantees have been issued by or for the benefit of any Group Company.
- (c) Other than in the Ordinary Course of Business, there is no outstanding guarantee, indemnity, surety or security given by any Group Company or for the benefit of any Group Company.

**6.8 Assets**

- (a) Each Group Company has full title to and is in possession of, or has a valid right to use, all of the assets recorded in the Annual Accounts or acquired since the Locked Box Date (except for assets disposed of in the Ordinary Course of Business after the Locked Box Date). The assets are not subject to any Encumbrances required to be included in the Annual Accounts pursuant to the Accounting Principles, except for such Encumbrances recorded in the Annual Accounts or arising in the Ordinary Course of Business after the Locked Box Date.
- (b) Each Group Company owns or has leased all the equipment, machinery and material needed to conduct its business in the Ordinary Course of Business and none of such equipment, machinery or material is owned by Sellers, other shareholders of any Group Company, any of their Affiliates or family members or related parties or any of any Group Company's employees or directors.
- (c) To Sellers' Knowledge, the assets of each Group Company recorded in the Annual Accounts are in normal working order considering their age and usage, have been regularly maintained, comply with applicable Laws, and are suitable (subject to normal wear and tear) for the purpose for which they are used in the Business.

**6.9 Real Property**

- (a) The Group Companies do not own any real property.

- (b) All leases pursuant to which the Group Companies lease premises used in the Business are included in the Disclosure Materials. These premises are sufficient to carry on the Business in the manner and to the extent conducted immediately before the Signing and the Closing.

#### **6.10 Intellectual Property Rights**

- (a) All Intellectual Property Rights necessary to conduct the Business on a standalone basis as conducted on the Signing Date and the Closing Date without the necessity to acquire any additional Intellectual Property Rights at additional cost are owned, licensed to or otherwise lawfully held by the Group Companies without Encumbrances, and can be used by the Group Companies as from the Closing Date without additional limitations and costs.
- (b) All registered Intellectual Property Rights owned by the Group Companies (**the Owned IP Rights**) have been disclosed in the Disclosure Materials. The Owned IP Rights are owned by the Group Companies free and clear of any Encumbrances, are in force and have not been cancelled or abandoned, expired or otherwise terminated. The relevant Group Company has properly registered and maintained (including payment of all registration and renewal fees) the Owned IP Rights to the extent that they are capable of being registered, and performed all other formalities required by Laws to own, use and develop them. The Group Companies have not granted any licenses with respect to any of the Owned IP Rights that are used in the operation of the Business.
- (c) To Sellers' Knowledge, none of the Owned IP Rights is being or has been infringed or opposed by any third party.
- (d) The Group Companies, and the conduct of the Business in the extent and in the manner it is conducted immediately prior to the Signing, do not, and have not (i) infringed or misappropriated the rights to Intellectual Property Rights of any third party or (ii) violated the rights of any third party (including rights to privacy or publicity). No Group Company has received written notice from, including, but not limited to, any third party claiming or alleging any such infringement, misappropriation, or violation and, to Sellers' Knowledge, there are no valid grounds for any bona fide claims by, including, but not limited to, third party alleging such infringement, misappropriation or violation.
- (e) No current or former shareholder, director, officer or employee of any Group Company own or hold any interest in any of the Intellectual Property Rights used by any Group Company.
- (f) No material know-how or Intellectual Property Rights of the Group Companies include any material which is incorporated in or linked (whether statically or dynamically) to any open-source software in a manner that will result in the delivery, license, or disclosure of any source code of any software used or held by the Group Companies to any third party.

#### **6.11 Information Technology**

- (a) All information technology systems (including, without limitation, hardware, software, domains and IP addresses) used in the Business (**the IT Systems**) are owned, licensed to or otherwise lawfully held by the Group Companies and sufficient to conduct the Business on a standalone basis. The IT Systems are not subject to any Encumbrances.



- (b) All licenses relating to the IT Systems are valid and in full force, and the Group Companies are not in breach of any such licenses. No Group Company has received written notice from any third person alleging that the Group Company is or has been in breach of any such licenses.
- (c) Each Group Company has in place commercially reasonable and tested back-up, business continuity, and disaster recovery plans, procedures and facilities for the IT Systems.
- (d) To Sellers' Knowledge, none of the IT Systems contain any bug, defect or error that materially and adversely affects, or could reasonably be expected to materially and adversely affect, the value, functionality or performance of any Group Company or the Business.
- (e) No Group Company has in the three (3) years prior to the Signing Date suffered any such material failures or bugs in or break-downs of any computer hardware or software used in connection with the Business which have caused any substantial disruption or interruption to the Business.
- (f) To Sellers' Knowledge, no Group Company has been subject to any data security related activity or event (including malicious third-party activity such as attempts to circumvent or penetrate the access control mechanisms of any IT Systems or attempts to prevent usage of such IT Systems) which has had an adverse effect on the conduct of the Business, or put at risk the privacy, security or confidentiality of any material information held by any Group Company.

#### **6.12 Agreements**

- (a) The true, complete and up-to-date terms of the Material Agreements are included as part of the Disclosure Materials. No written notice of termination or notice of intention to terminate has been received or given in respect of any Material Agreements and, to Sellers' Knowledge, there are no grounds for prematurely terminating, rescinding, rendering void or adjusting any of such agreements.
- (b) All transactions of the Group Companies have been entered into on an arms' length basis for the operations of the Group Companies.
- (c) All Material Agreements to which any Group Company is a party, written and/or oral, are in full force and effect in accordance with their respective terms and neither a Group Company nor, to Sellers' Knowledge, any of the counterparties is or has during the last three (3) years been in breach or default under a Material Agreement. The execution of this Agreement, the consummation of the transactions contemplated hereby and the fulfilment of the terms hereof do not result in a breach of any Material Agreement or entitle any counterparty to terminate any Material Agreement. No party under the Material Agreements has threatened or is, to Sellers' Knowledge, intending to cease or reduce the provision or purchase of services or products under the Material Agreements.

- (d) All warranties, indemnities or similar undertaking, direct or indirect, not consistent with fair market terms and customary industry practices granted or offered by or to any Group Company have been Fairly Disclosed.

#### **6.13 Employment Matters and Pensions**

- (a) A true and complete list of each Group Company's employees (on anonymized basis) as at the Signing is set out in Disclosure Materials. The title, salaries, other compensation, benefits and other material terms of employment or service and all applicable collective bargaining and local agreement as at the Signing Date are set forth in the Disclosure Materials.
- (b) All the employment agreements of the Group Companies have been prepared and entered into on the basis of the contract templates included in the Disclosure Materials, and any material deviations from the contract template have been Fairly Disclosed.
- (c) Each Group Company has complied with its obligations under all employment contracts, collective bargaining agreements, and under applicable Laws regarding employment, including without limitation in connection with any terminations of employment relationships and lay-offs. There are no proceedings pending or, to Sellers' Knowledge, threatening against any Group Company concerning breach of any applicable Laws regarding employment, terminations of any employment relationships or lay-offs, any employment or service contract, or any collective bargaining agreement or cooperation obligation.
- (d) In addition to pension arrangements provided by mandatory applicable pension Laws, there are no pension arrangements in force or otherwise binding upon any Group Company regarding its officers or employees. No Group Company has unfunded or under-funded liabilities in relation to pensions for any former or current employees, officers or board members, which are not fully covered by insurance or for which full provisions have not been made in the Annual Accounts. There are no "defined benefit" type pension benefits granted to any current or former officer, board member or employee of any Group Company.
- (e) No Group Company is liable to make any payment to any former director or employee by way of damages or compensation for loss of office or employment, redundancy or unfair or wrongful dismissal, or pursuant to any agreement on termination of employment, early retirement or any other agreement, or make any payment of employer's liability component (in Finnish: *työnantajan omavastuumaksu*) for any former directors or employees.
- (f) No occupational health or safety related occurrences have taken place with respect to any employee of any Group Company for which a Group Company could be obligated to pay pension, salary, or other compensation.

#### **6.14 Compliance with Laws and Permits**

- (a) The Group Companies have, in full force and effect, all licenses, permits, and other qualifications necessary to carry on its Business in the manner and to the extent conducted before the Signing and the Closing. There is no pending action and, to Sellers' Knowledge, no threatened action that seeks the revocation of any such license, permit, or other qualification. There are no grounds for the canceling or revocation of any such license, permit or other qualification as a consequence of the consummation of the transactions contemplated under this Agreement.

- (b) Each Group Company has in all material respects complied with all applicable Laws and regulations and all licenses, permits, and other qualifications, if any, necessary to carry out its Business.
- (c) Neither any Group Company, nor any of its officers, employees nor, to Sellers' Knowledge, any of its agents and other representatives have used any corporate or other funds or assets for unlawful contributions, payments, gifts or entertainment or made any unlawful expenditures relating to political activity to officials of any authority.

**6.15 Competition Matters**

- (a) No Group Company (and in respect of the Business, Sellers or any of their Affiliates) has been, and has not been alleged to be, a party to any agreement, concerted practice or arrangement or course of conduct which:
  - (i) is or was prohibited by Article 101 or 102 of the Treaty on the Functioning of the European Union; or
  - (ii) is or was prohibited by the Finnish Competition Act (948/2011, as amended),

as in force at the time of the conduct.

- (b) No Group Company (and in respect of the Business, Sellers or any of their Affiliates) has made any notification or application for guidance, exemption or negative clearance to any Finnish regulatory authority dealing with competition issues, the European Commission or any other competition authority.
- (c) No Group Company (and in respect of the Business, Sellers or any of their Affiliates) has, in relation to competition Law, given any undertaking to any competition authority or court, or been subject to any order by any competition authority or court.

**6.16 Anti-Bribery and Corruption**

- (a) No Group Company (and in respect of the Business, Sellers or any of their Affiliates) has directly or indirectly:
  - (i) induced a person to enter into an agreement or arrangement with any Group Company by means of an unlawful payment, contribution, gift or other inducement;
  - (ii) offered or made an unlawful payment, contribution, gift or other inducement to a government official or employee; or
  - (iii) made an unlawful contribution to a political activity.
- (b) No Group Company (and in respect of the Business, Sellers or any of their Affiliates) has not directly or indirectly:

- (i) given, promised, offered or authorized; or
- (ii) accepted, requested, received or agreed to receive,

any payment, gift, reward, rebate, contribution, commission, incentive, inducement or advantage to or from any person, in contravention of any Laws.

#### **6.17 Litigations**

- (a) Save for the claims presented by Naficon Liitin Oy on 4 November 2021 and 18 January 2022, and the two settled employment disputes, both on 7 October 2019, no Group Company is involved, or has been involved over the past three (3) years, in any legal or administrative proceedings or investigations involving an exposure to the Group Companies in excess of EUR 10,000, nor is there, to Sellers' Knowledge, any threat of such legal or administrative proceedings or investigations. There is no outstanding judgement, ruling, arbitral award, or other decision applicable to any Group Company or the Business or otherwise affecting them.
- (b) All (i) customer complaints that are outstanding as at the date of this Agreement and that may involve an exposure to any Group Company in excess of EUR 10,000 or that may otherwise be considered material for any Group Company or the Business and (ii) other written indications of material dissatisfaction that have been received or made by any Group Company over the past three (3) years, are Fairly Disclosed.

#### **6.18 Taxes**

- (a) Each Group Company has (i) filed all Tax returns, reports and other filings required to be filed with the relevant authorities as and when required to be filed, and (ii) has withheld and paid in due time all Taxes required to have been paid by such Group Company. All such Tax returns, reports, and other filings are complete and correct.
- (b) The Group Companies have no liabilities (whether actual or contingent) for unpaid Taxes (i) pertaining to the period prior to the Locked Box Date, except for Taxes accounted for in the Annual Accounts or (ii) pertaining to the Locked Box Period, except for Taxes incurred in the Ordinary Course of Business.
- (c) The Group Companies have not been granted any waiver or extension by any relevant authority of any period of limitation governing the time of the filing of any Tax returns or reports or the time of the payment, withholding, collection or assessment of any Taxes.
- (d) There are no Tax-related audits, proceedings, consultations, or discussions initiated, resolutions pending, or, to Sellers' Knowledge, threatened against any Group Company.
- (e) All transactions entered into by a Group Company have been on arm's length terms.

## 6.19 Absence of Certain Events

Since the Locked Box Date and until the Signing, the Business has been operated only in the Ordinary Course of Business, consistent with past practice, and there have not been any materially adverse developments as part of or affecting the Business. In particular, the Group Companies have:

- (a) not acquired, disposed of or created any Encumbrance over any asset with a value in excess of EUR 25,000, or incurred any liabilities or destruction or loss of any such asset;
- (b) not acquired, disposed of or created any Encumbrance over any shares or interest in any other entity or agreed to do the same, or agreed, resolved on or approved a plan to enter into a merger or a demerger arrangement with any other entity;
- (c) not granted any guarantee or similar commitment, except in the Ordinary Course of Business;
- (d) not waived, discharged, settled or transferred any claim or right with a value in excess of EUR 25,000, or initiated any litigation or other dispute resolution proceeding;
- (e) not issued or redeemed (be it by voluntary or involuntary redemption) any shares;
- (f) not changed any accounting methods or practices;
- (g) not incurred or made any commitments to incur capital expenditures in excess of EUR 50,000 in the aggregate (for clarity, the capital expenditures approved in index no. 5.1.16.7.33 shall be considered Fairly Disclosed);
- (h) not incurred new indebtedness in excess of EUR 25,000 or entered into guarantees for debt of third parties, in each case other than in the Ordinary Course of Business;
- (i) not dismissed any of its key employees or officers, or changed the terms of service or employment (including increase of remuneration, except as set out in index no. 5.1.16.11) of any of its employees or officers, other than in accordance with applicable Laws or the relevant employment or service contracts, or adopted or amended any profit-sharing, bonus scheme or incentive program except in the Ordinary Course of Business;
- (j) not declared, resolved on, paid or made any dividends or other distributions to any holder of its Shares;
- (k) not terminated any relationship with any material customer, supplier or partner;
- (l) not made any material changes to the invoicing or cash management policies (including collection of receivables and payment of account payables and making of prepayments or other advances); and
- (m) not committed to any of the above.

**6.20 Subsidies and Grants**

The Group Companies have complied with all terms and conditions of all subsidies, grants or other similar benefits received by them. The Group Companies have not received any governmental subsidies or other form of public financial support, grants, guarantees or benefits which can be reclaimed or be subject to claw-back due to the change of ownership in the Group Companies resulting from the transactions contemplated hereunder.

**6.21 Environmental Matters**

- (a) The Group Companies have complied with all applicable environmental Laws, licenses and permits, and have not received any written notice of any non-compliance with such Laws, licenses or permits.
- (b) The Group Companies are not engaged in any pending litigation, investigation or administrative proceeding in relation to any environmental Laws, licenses or permits and to Sellers' Knowledge, there is no threat thereof.
- (c) The Group Companies are not liable for any clean-up or other remediation acts in respect of pollution caused by any Group Company on any land or real property currently or formerly owned, leased or used by the Group Companies.

**6.22 Insurance**

- (a) All insurance policies held by the Group Companies have been included in the Disclosure Materials.
- (b) Each Group Company has paid the premiums under its insurance policies when due, and all insurance policies taken by the Group Companies are in full force and effect and their validity is not affected by the Closing. Each Group Company and the Business are covered by an insurance policy that has been issued by a financially sound insurance company and, taken as a whole, provides customary insurance coverage for the Group Companies against risks normally insured against in operations and locations similar to those of the Group Companies.
- (c) There are no insurance claims pending or outstanding and, to Sellers' Knowledge, no such claims are (i) threatened and (ii) no circumstances exist which are likely to give rise to any such claims.

**6.23 Data Protection**

- (a) Each Group Company is and has been in all material respects in compliance with all applicable data protection Laws and have the relevant rights to process all customer, invoicing, contractor and employee data used by each Group Company for the purposes required to operate the Business. Any use of customer, invoicing, contractor or employee data by any Group Company as used prior to the Closing does not constitute a breach of any applicable Law.
- (b) To Sellers' Knowledge, no Group Company has been subject to any data breaches or other malicious activity related to the personal data or other sensitive or confidential information held by a Group Company.

**6.24 Transactions with Shareholders**

- (a) There are no outstanding debts or other legal obligations or rights between any Group Company and any Group Company's shareholders or their Affiliates or family members or Related Parties, other than those disclosed in the Disclosure Materials.
- (b) No Group Company has not entered into any transaction or contract with any of the Group Company's shareholders or their Affiliates or family members or Related Parties, other than in the Ordinary Course of Business upon arms' length basis, as disclosed in the Disclosure Materials.

**6.25 Disclosure**

The Disclosure Materials have been compiled in good faith in order to give a true and fair (however, with respect to any unaudited financial information, a materially fair and true) view of the Group Companies and the Business. To Sellers' Knowledge, the Disclosure Materials (a) are true and correct in all material respects as to factual matters and not misleading, and (b) to Sellers' Knowledge, do not omit to disclose any matter, circumstance or liability which materially and adversely affects any Group Company or the Business or would otherwise be deemed material to a reasonable buyer of the Shares and the Shareholder Capital Loans.

**7. WARRANTIES OF BUYER**

Buyer hereby gives to Sellers the warranties set out in Section 7 as at the Signing and at the Closing.

**7.1 Organization**

Buyer is duly organized and validly existing under the Laws of the jurisdiction of its incorporation and has full corporate power and all necessary approvals, authorizations, licenses and permits to carry on its businesses as conducted on the Closing Date.

**7.2 Power and Authority**

Buyer has full legal and corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution of this Agreement, the consummation of the transactions contemplated hereby and the fulfillment of the terms hereof will not result in a breach of the articles of association of Buyer or any resolution adopted by the general meeting of shareholders, the board of directors or other similar body of Buyer, or require any consent or approval of the shareholders of Buyer, which consent or approval has not been obtained. This Agreement constitutes a binding obligation of and is enforceable against Buyer in accordance with its terms and conditions. No filing, registration, authorization, consent or approval or filing with any governmental authority or court is necessary to enable Buyer to enter into, and to perform its obligations under, this Agreement, save for the Authority Approval.

**7.3 Solvency**

Buyer is not insolvent, nor has it discontinued making payments in general or filed a petition for its winding-up, bankruptcy, administration or solvent liquidation, and no other person has filed such petition or a petition for the forced sale or sequestration of any part of the assets of Buyer. At the Closing, Buyer has without delay sufficient funds available to purchase the Shares and the Shareholder Capital Loans pursuant to this Agreement and to complete the transactions contemplated by this Agreement.

## **8. REMEDIES**

### **8.1 Buyer's Remedies**

- (a) Subject to the limitations set out in Section 8.2 below, Sellers hereby agree to indemnify and hold harmless Buyer or (at Buyer's discretion) the any Group Company of any direct and reasonably foreseeable indirect loss, deficiency, liability, damage, cost, or expense (including expenses of investigation, advisors and legal expenses) (the **Loss**) incurred or suffered by Buyer or any Group Company as a result of any breach by Sellers of any of the Warranties or any other terms of this Agreement.
- (b) If the Closing has occurred, any amount payable to Buyer or any Group Company under this Section 8 shall, to the extent possible, be treated for all purposes as a reduction of the Purchase Price. No remedy under the Finnish Sale of Goods Act (355/1987, as amended) or other Law is available to Buyer, provided, however, that the right to seek specific performance and injunction shall not be excluded in the event of a breach by a Party of Section 5 (Closing) or Section 9 (Certain Undertakings).

### **8.2 Limitation of Sellers' Liability**

#### **8.2.1 Monetary Limitations**

- (a) Each Seller's liability under this Agreement shall be limited to the pro rata share of the Purchase Price it is entitled to.
- (b) Buyer's right to indemnification in respect of Sellers' breach of the Business Warranties shall be limited to EUR 10,000,000, which amount shall constitute Sellers' aggregate maximum liability under the Business Warranties, and each Seller shall be liable for Losses up to its pro rata share of this limit based on its respective entitlement to the Purchase Price.
- (c) Buyer has no right to indemnification in respect of Sellers' breach of the Business Warranties, unless the Loss or the aggregate amount of the Losses, subject to any limitations under this Section 8.2, exceeds EUR 75,000. If the aggregate amount of Losses exceeds such threshold, Buyer shall have the right to indemnification for the whole amount of such Losses (and not only the amount of Losses exceeding such threshold), subject to the other limitations provided in this Section 8.
- (d) No individual Loss or series of Losses, in each case, in respect of Sellers' breach of the Business Warranties, arising from substantially identical facts or circumstances, the amount of which is less than EUR 10,000 will be taken into account when establishing the amount of a Loss in respect of Sellers' breach of the Business Warranties or the aggregate amount of such Losses.

#### **8.2.2 Time Limitations**

No Claim may be made with respect to a Loss resulting from a breach of any of the Business Warranties unless notice in writing of any such Claim has been given by Buyer to Sellers, accompanied by reasonably available particulars thereof specifying the nature of the breach and amount of the Loss, to the extent available to Buyer:



- (a) in respect of Section 6.18 (Taxes), not later than 84 months after the Closing Date; and
- (b) in respect of the other Business Warranties, not later than 24 months after the Closing Date.

### **8.2.3 Other Limitations of Sellers' Liability**

- (a) Sellers' liability under this Agreement shall be several, not joint, and such liability shall be divided among Sellers pro rata to their respective entitlements to the Purchase Price.
- (b) A Loss, which is contingent, shall not constitute a Loss unless and until such contingent Loss becomes an actual Loss (for the avoidance of doubt this shall not limit Buyer from making a Claim with respect to such contingent Loss in order to prevent lapse of the time periods set forth in Section 8.2.2 and then finalizing such Claim after it has ceased to be contingent).
- (c) To the extent that a Loss is actually a Tax-deductible item that results in a cash tax saving in the respective period or otherwise actually leads to a cash tax saving for Buyer or any Group Company, the Loss recovered by Buyer hereunder shall be reduced by an amount equivalent to the Loss multiplied by the applicable Tax rate.
- (d) Sellers shall not be liable for a Loss under this Agreement more than once (whether based on the same or a different Warranty or other provision under this Agreement).
- (e) Sellers shall not be liable for a Loss:
  - (i) to the extent that a specific provision or specific allowance for the Loss has been made in the Annual Accounts;
  - (ii) to the extent Buyer or the Group Companies actually receive compensation under a policy of insurance or otherwise from any third party, or, if such compensation or recovery has been received after Buyer or the Group Companies has been compensated under this Agreement, Buyer undertakes to refund such compensation or recovery to Sellers to the extent Buyer or the Group Companies are compensated under this Agreement;
  - (iii) to the extent that it occurs as a result of the passing of, or change in, any legislation, regulation, administrative practice, policy or generally accepted application of the same by any governmental or other regulatory body after the Closing Date; or
  - (iv) if and to the extent such liability would not have arisen in the absence of an act, omission or transaction carried out by Buyer, or persons deriving title from Buyer after the Closing Date in breach of the Buyer's obligations pursuant to this Agreement, other than pursuant to and in accordance with a legally binding obligation of the Group Companies which was in force on or before the Closing Date or a practice adopted by the Group Companies before the Closing.

- (f) Buyer shall take reasonable steps (including reasonable efforts to seek to claim compensation under any insurance policies the Group Companies have in place) to mitigate Losses, and Sellers shall not be liable for any Claim to the extent Buyer could have reasonably mitigated any Loss resulting from a breach of this Agreement.
- (g) Notwithstanding anything to the contrary in this Agreement, no limitations of Sellers' liability under this Section 8 shall apply to Losses resulting from breaches (i) of the Fundamental Warranties or (ii) in the event of fraud, willful misconduct or gross negligence.

### **8.3 W&I Insurance**

- (a) The Parties acknowledge that Buyer has obtained the W&I Insurance providing insurance coverage with respect to the Warranties as set out in the W&I Insurance.
- (b) No Seller is a party to the W&I Insurance, and the insurer is not a party to this Agreement.
- (c) Notwithstanding anything to the contrary in this Agreement, but subject to the provisions of this Section 8.3, the Parties agree that the only remedy available to Buyer for a breach of the Warranties is an insurance claim against the Insurer under the W&I Insurance. Irrespective of whether the W&I Insurance is in force or not and irrespective of whether any claim of Buyer is covered by the W&I Insurance or not, Sellers have no liability to Buyer under any of the Warranties, and this Agreement does not constitute any right for Buyer to make any claims against Sellers (or their Affiliates, directors, officers, employees, agents or advisors) for any breach of any Warranty, regardless of whether or not Buyer is entitled to actually receive compensation under the W&I Insurance, save for the following situations:
  - (i) In case of a breach of the Fundamental Warranties, and Buyer not having received full compensation for the Loss caused by such breach under the W&I Insurance after having reasonably exhausted its rights thereunder (to the extent such rights exist), then, subject to the limitations set forth in Section 8.2, Buyer may claim compensation for such unrecovered Loss directly from Sellers, provided, however, that Sellers' aggregate liability with respect to all Claims under this Section 8.3(c)(i) shall be limited to the amount of the Purchase Price; and
  - (ii) Buyer's right to receive compensation for Loss caused as a result of fraud, willful misconduct or gross negligence by any Seller in relation to the Warranties shall not be limited in any way by this Agreement, and Buyer may claim compensation for such unrecovered Loss directly from such Seller (or Sellers) who has given the Warranty subject to such breach.
- (d) For clarity, Buyer's obligation to reasonably exhaust its rights to receive compensation under the W&I Insurance referred to above shall include all acts which are commercially reasonable taking also into account Sellers' and the Group Companies' interests.

(c) If there is any conflict or other inconsistency between this Section 8.3 and any other provision of this Agreement, this Section 8.3 shall prevail.

## 9. CERTAIN UNDERTAKINGS

### 9.1 Conduct of Business between Signing and Closing

- (a) In respect of the period between Signing and Closing, each Group Company will operate their business in the Ordinary Course of Business and in all material respects in accordance with all applicable Laws, and Sellers undertake to procure that, except with the prior written consent of Buyer, each Group Company:
- (i) will not amend its articles of association (or other constitutional documents), issue new shares or securities, option rights or other specific rights entitling to or convertible into new shares or securities of any Group Company or reduce or redeem its share capital;
  - (ii) will not distribute any dividends or other assets to Sellers or otherwise carry out or permit any Leakage;
  - (iii) will not change any accounting practices of any Group Company (unless such change is required by Law or by virtue of a new statement of standard accounting practice);
  - (iv) will not acquire or divest any businesses or business assets with a value in excess of EUR 25,000, or any shares or other securities;
  - (v) will not incur any capital expenditure in excess of EUR 40,000 or realise any capital asset with a value in excess of EUR 40,000;
  - (vi) will not take steps to procure payment by any debtor in advance of the date on which book and other debts are usually payable in accordance with the standard terms of business of any Group Company or (if different) the period generally extended to any particular debtor in which to make payment;
  - (vii) will not delay making payment to any trade or other creditors beyond the date on which payment of the relevant debt should be paid in accordance with the credit period generally authorized by the relevant creditors;
  - (viii) will not make any material changes to the invoicing and cash management policies (including collection of receivables and payment of account payables and making of prepayments or other advances) of any Group Company;
  - (ix) will not dismiss or give notice of termination to any employee or officer of any Group Company or vary their remuneration or other employment terms, other than as required by Law or the related employment or service agreements;
  - (x) will not permit the establishment of any Encumbrance over its assets or provide any guarantee or indemnity;

- (xi) will not create or incur borrowing or indebtedness in the nature of borrowing which cannot be repaid or prepaid without penalty or similar cost to any Group Company (or amend the terms of existing borrowing or indebtedness in the nature of borrowing which results in such borrowing being unable to be repaid or prepaid without such a cost);
  - (xii) will not terminate or amend the terms of any of the Material Agreements;
  - (xiii) will not sell, license or dispose of any of its Intellectual Property Rights;
  - (xiv) will not make any submissions or settle or agree any open matters in respect of any claims or proceedings or reclamations;
  - (xv) will not enter into any agreement, commitment or undertaking for the benefit of any shareholders of any Group Company or their Affiliates or Related Parties; or
  - (xvi) will not enter into, adopt or make any agreements, decisions or commitments relating to any of the aforementioned Subsections (i) through (xv) (inclusive) or which would otherwise have a similar commercial effect.
- (b) Section 9.1(a) does not restrict or prevent:
- (i) any matter consented to by Buyer in writing (such consent not to be unreasonably denied, delayed or conditioned) or undertaken at the written request of Buyer;
  - (ii) any performance of any action undertaken in the Ordinary Course of Business or pursuant to any agreement or arrangement entered into by the Group Companies prior to the date hereof or any resolution or decision taken by the Group Companies and Fairly Disclosed; or
  - (iii) any action pursuant to a requirement under applicable Laws or provided for in this Agreement.
- (c) Sellers shall procure that the Group Companies provide Buyer with the financial reports and information, including interim financial statements for the quarter ending on March 31, 2022, as reasonably requested by Buyer in order to comply with regulatory or financial reporting obligations of Buyer.

## **9.2 Obligation to Inform Buyer**

If a Seller prior to the Closing becomes aware of any matter or circumstance that may reasonably be deemed: (a) to be outside the Ordinary Course of Business; (b) to deviate from the information disclosed to Buyer or its professional advisors; or (c) to give rise to a breach of this Agreement (including breach of the Warranties) by Sellers, Sellers shall inform Buyer thereof as soon as possible, in each case to the extent allowed under applicable competition and other Laws.

### 9.3 Post-Closing Items

- (a) After the Closing, Sellers undertake to promptly sign and execute all necessary documents, supply Buyer with all necessary information, and take all other actions necessary or reasonably requested by Buyer for the purpose of giving full effect to the terms of this Agreement.
- (b) The Parties undertake that the notifications and other actions with respect to the authorities required after the Closing, including trade register notices, shall be made without undue delay and in any case within the specified time required for each act.
- (c) At the next annual general meeting of the Company, Buyer undertakes to procure that those members of the board of directors of the Company who have resigned or been replaced in connection with the transactions contemplated herein are granted discharge from liability for their management and administration until the Closing Date (or the earlier date of their resignation or replacement), unless otherwise advised by the auditor of the Company.

### 9.4 Confidentiality and Announcements

- (a) The Parties shall keep, and shall cause their respective Affiliates and advisors to keep, the contents of this Agreement and the transactions contemplated hereunder as well as any negotiations and possible proceedings in relation hereto confidential indefinitely, except as required for the consummation of this Agreement or by any Laws, rulings of competent courts or authorities, or any applicable stock exchange rules, including as to Buyer and its Affiliates, the U.S. Securities Exchange Act of 1934, as amended.
- (b) Each Seller undertakes, on behalf of itself and of its Affiliates, not to disclose or use for any other purpose than the purposes of this Agreement any Confidential Information regarding Buyer or any of its Affiliates or, after the Closing, the Business or any Group Company, which Sellers have received or obtained prior to, or in connection with this Agreement. Buyer undertakes, on behalf of itself and of its Affiliates, not to disclose or use for any other purpose than the purposes of this Agreement any Confidential Information regarding Sellers or any of their Affiliates or, until and including the Closing, any Confidential Information regarding the Business or any Group Company, which Buyer or its Affiliate has received or obtained in connection with this Agreement. Notwithstanding the above, the Parties are not restricted from disclosing Confidential Information to the extent required by Law, ruling of a competent court or authorities, or any applicable stock exchange rules, including as to Buyer and its Affiliates, the U.S. Securities Exchange Act of 1934, as amended.
- (c) If disclosure or use of Confidential Information is required by any Law, ruling of competent court or authority, or applicable stock exchange rule, the Party concerned shall promptly notify, if legally permitted, the other Party of such requirement with a view to consulting with such other Party and taking into account the reasonable requests of the other Party in relation to the content of such disclosure before it is made.
- (d) The Parties will issue a press release in agreed form promptly following the date of this Agreement. Thereafter, all non-mandatory press releases and other public relations activities of the Parties or their Affiliates with regard to the transaction shall be mutually approved in writing by the Parties in advance (which approval shall not be unreasonably withheld, conditioned or delayed); provided, however, each Party may, without consultation or approval of the other Party, make any public statement, issue any press release and make any other public disclosure, so long as such public statement, press release or disclosure is consistent with previous public statements, press releases or public disclosures made by such Party in compliance with this Section 9.4.

- (c) Notwithstanding anything to the contrary set out in this Agreement, Buyer is entitled to disclose information relating to the transactions contemplated hereunder and this Agreement (i) in connection with claiming compensation or enforcing its rights towards the insurer under the W&I Insurance and (ii) any finance provider of Buyer or its Affiliates.

## 9.5 Restrictive Covenants

- (a) Without the prior written consent of Buyer, and for a period of 24 months from the Closing Date, each Seller covenants and agrees on his own behalf not to, and shall procure that its Affiliates and Related Parties will not, directly or indirectly engage in, conduct, assist or have any active interest in, own any assets or shares in, or act as an employee, advisor, consultant, or agent to, any person, corporation or entity, which is or is about to become engaged in operations or business that is competing with the Business as conducted by the Group Companies at Closing, including as planned to be conducted and expanded at such time.
- (b) The restrictions set out in Section 9.5(a) shall not prohibit Sellers from:
- (i) investing in publicly listed shares or any other publicly listed financial instruments, provided that such investments do not exceed 2% of the outstanding shares of the relevant publicly listed entity; or
  - (ii) holding any of the investments they have made prior the Signing Date or holding any of the positions they hold on the Signing Date, in each case as set out in **Schedule 9.5(b)**.
- (c) Without the written consent of Buyer, and for a period of 36 months from the Closing Date, each Seller covenants and agrees not to, and shall procure that its Affiliates and Related Parties will not, directly or indirectly employ or solicit the employment or service of any employee or director of any Group Company, or take any other measures to entice any of the employees or directors or key suppliers of any Group Company away from the employment or service of such Group Company, provided that nothing herein shall restrict or preclude the employment of any person (i) resulting from hiring practices in the ordinary course of business that are not targeted specifically at an employee or director or the employees of directors of any Group Company; or (ii) if such person approaches any Seller on an unsolicited basis.
- (d) In case of breach by a Seller of the covenants contained in this Section 9.5, which breach cannot be remedied or has not been remedied within ten (10) Business Days of the receipt of a written notice thereof, the breaching Seller shall pay to Buyer immediately by means of liquidated damages an amount equal to 20% of such Seller's entitlement to the Purchase Price per breach.

- (e) Where the actual damages suffered by Buyer or any Group Company as a result of a breach of the covenants in this Section 9.5 are greater than the amount of the liquidated damages, Buyer is entitled to receive compensation for the full amount of the damages so suffered.
- (f) Each Seller gives the undertakings in this Section 9.5 on its own behalf, and no Seller can be held liable for a breach of another Seller.
- (g) The breaching Seller be obliged to immediately cease with any actions or omissions giving rise to a breach of the covenants set out in this Section 9.5, even if liquidated damages have been paid by such Seller pursuant to this Section 9.5.

**9.6 Release**

Effective as of the Closing, each Seller shall, and shall procure that its Affiliates and Related parties shall, irrevocably release all claims of whatever kind or nature, whether known or unknown, which they may have against any Group Company, arising out of, based upon or resulting from any contract, transaction, failure to act or occurrence of any sort or type, and which occurred, existed, was taken, or begun prior to the Closing Date, except for any claims arising under this Agreement or in the Ordinary Course of Business.

**10. MISCELLANEOUS**

**10.1 Notices**

All notices, demands and other communication arising out of or relating to this Agreement are to be in writing in the English language and sent by first class mail or e-mail to the relevant Party at the following address or e-mail or at such other address, or e-mail which has been provided in accordance with this Section 10.1. Notices and other communication will be deemed to have been received by the relevant Party (a) on the third (3rd) Business Day after the day of mailing if sent by first class mail; or (b) on the day of transmission if sent by e-mail, provided that no notice of unsuccessful transmission has been obtained.

If to Buyer:

Address:

Email:

Attention:

Clearfield, Inc.

7050 Winnetka Ave N, Minneapolis

MN 55428, United States

[redacted]

Cheri Beranek

*with a copy (which does not constitute a notice) to:*

Address:

Email:

Attention:

Avance Attorneys Ltd

Mannerheimintie 20 A

00100 Helsinki, Finland

[redacted]

Ulf-Henrik Kull

If to Sellers:

Address: The Sellers' Representative  
c/o Reka Industrial Plc  
PL 12 05801, Hyvinkää, Finland  
Email: [redacted]  
Attention: Markku Rentto

*with a copy (which does not constitute a notice) to:*

Address: JV Lakiasiat Oy  
Lämsäntie 18 A 4  
90230 Oulu, Finland  
Email: [redacted]  
Attention: Jouni Vainionpää

**10.2 Sellers' Representative**

- (a) Each Seller hereby appoints Markku Rentto (the **Sellers' Representative**) as his or its attorney and agent, with power on his or its behalf to take any action required, permitted or, in the absolute discretion of the Sellers' Representative, desirable or expedient pursuant to or in connection with this Agreement, including power to:
- (i) give any consent, direction or notice to be given by Sellers under or in connection with this Agreement;
  - (ii) receive all demands, notices or other communications directed to Sellers under or in connection with this Agreement;
  - (iii) represent Sellers in any arbitration proceedings relating to this Agreement with respect to nominating arbitrator(s) for appointment; and
  - (iv) agree any amounts due to or from Sellers under this Agreement.
- (b) Any decision, act, consent, instruction or otherwise of the Sellers' Representative in accordance with the terms of and within the authority conferred in this Agreement shall constitute a decision, act, consent, instruction or otherwise of all Sellers and shall be final, binding and conclusive upon each Seller and on their respective estates and successors.
- (c) In the event of the death or incapacity of the Sellers' Representative, Sellers shall within 30 days thereafter by written notice to Buyer appoint a Seller as his successor who shall agree in writing to accept such appointment in accordance with the terms of this Agreement.



### **10.3 Schedules Incorporated**

Each Schedule to which reference is made herein and which is attached hereto will be deemed incorporated in this Agreement by such reference.

### **10.4 Entire Agreement**

This Agreement represents the entire understanding and agreement between the Parties with respect to its subject matter and supersedes all prior agreements, understandings, negotiations and communications relating to such subject matter unless otherwise specifically stated in this Agreement. No Party is liable to any other Party or to any third party for any promise, representation, warranty, covenant, provision or practice except as specifically stated in this Agreement.

### **10.5 Interpretation**

- (a) The fact that a Party has drafted or participated in drafting this Agreement or any provisions hereof does not in any way affect the interpretation of this Agreement to the disadvantage of such Party.
- (b) The headings and the table of contents of this Agreement are for convenience of reference only and do not in any way limit or affect the meaning or interpretation of the provisions of this Agreement.

### **10.6 Amendments and Waivers**

- (a) Any amendment to or waiver of this Agreement is to be made in writing and will have no effect before signed by the duly authorized representatives of all Parties or, in the case of a waiver, by the Party waiving compliance with this Agreement.
- (b) Failure by any Party at any time to require performance of any provisions of this Agreement does not in any manner affect its right to enforce the same, and the waiver by any Party of any breach of any provision of this Agreement is not to be construed to be a waiver by such Party of any succeeding breach of such provision or waiver by such Party of any breach of any other provision hereof.

### **10.7 Severability**

If any provision of this Agreement is declared to be invalid or unenforceable, the remaining provisions of this Agreement are not affected thereby but remain in full force and effect and binding upon the Parties. Without prejudice to the aforesaid, the Parties shall attempt through negotiations in good faith to replace the invalid or unenforceable provision with a provision closest to the mutually intended meaning of such provision and the spirit of this Agreement. The failure of the Parties to reach an agreement on a replacement provision does not affect the validity of the remaining part of this Agreement.

### **10.8 Assignment**

- (a) This Agreement and the rights and obligations hereunder are binding upon and inure to the benefit of the Parties and their respective legal successors, and are not assignable by a Party without the other Party's prior consent in writing, except that Buyer may assign this Agreement or the rights or claims pursuant to this Agreement to any of its Affiliates without prior consent from Sellers.

- (b) Notwithstanding the above, Buyer may assign this Agreement by way of security and/or charge all or any of its rights and/or claims under this Agreement for the benefit of:
- (i) any financial institution or other person lending money or making other credit facilities available to Buyer or the Group Companies (or their Affiliates);
  - (ii) any facility or security agent, security trustee, arranger of finance, receiver or person fulfilling a similar or related role,

as security for obligations owed by Buyer or the Group Companies (or their Affiliates) to such person, and any such beneficiary of security may assign all or any of those rights and/or claims for syndication purposes or for the purpose of enforcing such security assignment or charge.

#### **10.9 Transfer Taxes**

Buyer is liable to pay the transfer taxes (in Finnish: *varainsiirtovero*) levied on the purchase of the Shares and to file all necessary tax returns, forms and similar documents with the appropriate tax authorities.

#### **10.10 Governing Law**

This Agreement is governed by and construed in accordance with the Laws of Finland, excluding the application of its conflict of law rules and the Finnish Sale of Goods Act (355/1987, as amended).

#### **10.11 Arbitration**

- (a) Any dispute, controversy or claim arising out of or relating to this Agreement or the transactions contemplated herein, or the breach, termination or validity thereof shall be finally settled by arbitration in accordance with the Arbitration Rules of the Finland Chamber of Commerce.
- (b) The number of arbitrators shall be three (3). The seat of arbitration shall be Helsinki, and the language of arbitration shall be English. However, evidence may be submitted and witnesses may be heard in Finnish, to the extent the arbitral tribunal deems appropriate.

#### **10.12 Counterparts of Agreement**

This Agreements may be executed and delivered in any number of counterparts whether by original signature or by electronic means, each of which shall be an original but all of which taken together shall constitute one and the same instrument.

*[Signatures on the following page]*

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the day and year first above written.

**CLEARFIELD FINLAND OY**

/s/ Cheryl Beranek

Cheryl Beranek

Sole member of the board of directors

**TIMO PUHAKKA**

/s/ Timo Puhakka

**MARKKU ANTTILA**

/s/ Markku Anttila

**METSÄMARKKA 1 OY**

/s/ Markku Rentto

Markku Rentto

By proxy

**NC FUND 1 KY**

/s/ Antti Hietala

Antti Hietala

Chairman of the board of directors of Selbac Management Oy (the general partner of NC Fund 1 Ky)

**JUKKA HAAPALAINEN**

/s/ Jukka Haapalainen

**KAARLO NURMIRANTA**

/s/ Kaarlo Nurmiranta

**AKI EKLUND**

/s/ Aki Eklund

**HARRI NIEMELÄ**

/s/ Ulla Laalo

Ulla Laalo

Guardian of Harri Niemelä

**NC FUND 2 KY**

/s/ Ulla Laalo

Ulla Laalo

Guardian of Harri Niemelä (who is the general partner of NC Fund 2 Ky)

**LIISA HUKKA**

/s/ Liisa Hukka

**JUHA SILTALA**

/s/ Juha Siltala

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**EERO VESA**

/s/ Eero Vesa

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**INVESTM8 OY**

/s/ Antti Hietala

Antti Hietala

Per procuram

**MARTIN KROKFORS**

/s/ Martin Krokfors

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**JARI VIRKKUNEN**

/s/ Jari Virkkunen

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**RAUNO SIURUA**

/s/ Rauno Siurua

---

**PENTTI HÄTÄLÄ**

/s/ Pentti Hätälä

---

**JARI KLEEMOLA**

/s/ Jari Kleemola

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**LASSI SIIVOLA**

/s/ Lassi Siivola

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**GUARANTEE**

We, Clearfield, Inc., hereby give an irrevocable undertaking to Sellers to be liable as for own debt (in Finnish *omavelkainen takaus*) for all of the liabilities and obligations of Buyer set forth in Section 3.1(f) (Purchase Price and Payment) of the SPA.

Section 10.10 (Governing Law) and Section 10.11 (Arbitration) of the SPA shall apply to this guarantee.

Date: 17 May 2022

**CLEARFIELD, INC.**

/s/ Cheryl Beranek

Cheryl Beranek

CEO

## 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.

August 3, 2022

/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.

August 3, 2022

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

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

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

(1) The accompanying Quarterly Report on Form 10-Q for the period ended June 30, 2022 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.

August 3, 2022

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

August 3, 2022

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