



CLEARFIELD, INC.

AUDIT COMMITTEE CHARTER

Objective

The primary objective of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Clearfield, Inc. (the "Company") is to assist the Board in its oversight of:

- (i) the integrity of the Company's financial statements as well as the Company's financial reporting process and systems of internal control,
- (ii) the qualifications and independence of the Company's independent registered public accountants (the "Independent Accounting Firm"), and
- (iii) the Company's compliance with certain legal and regulatory requirements.

Membership

The Committee membership shall be comprised of at least three members of the Board. The chair of the Committee and members shall be appointed by the Board of Directors. Each member of the Committee shall satisfy the independence and literacy requirements of the NASDAQ Stock Market, Inc. and the independence requirements of the Securities and Exchange Commission ("SEC").

Meetings

The Committee shall hold regular meetings and as scheduled by the Committee chairman. At the request of the Committee, meetings may be held with members of management or the Company's internal accounting staff or representatives of the Company's independent accountants or consultants. The Committee shall meet at least quarterly with the Independent Accounting Firm in executive session and at least annually with management in executive session.

Minutes of such meetings will be prepared and distributed to each member of the Board. The chairperson of the Committee will report to the Board from time to time, or whenever so requested by the Board.

Authority and Resources

The Committee shall have the sole authority and responsibility to select, evaluate, and, where appropriate, replace the Company's Independent Accounting Firm and to approve the fees and other terms of retention. The Committee also has the sole authority and responsibility to approve any significant non-audit relationship with the Independent Accounting Firm and may engage outside legal counsel or other advisors for the Committee as the Committee may deem appropriate in its sole discretion.

Responsibility

The fundamental responsibility of the Committee is one of oversight. The management of the Company is responsible for the preparation of financial statements in accordance with generally accepted accounting principles and for compliance with reporting to the SEC. The Independent Accounting Firm is responsible for planning and conducting, in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB"), an audit of the Company's annual financial statements and a review of quarterly financial statements. The Committee shall have authority to address the following:

Financial Reporting and Disclosure Responsibilities:

- a. Review and discuss the annual audited financial statements with management and the Independent Accounting Firm, including the disclosures under the caption "Management Discussion and Analysis of Financial Condition and Results of Operations," major issues regarding accounting and auditing principles and practices, and the adequacy of internal control over financial reporting. The Committee shall make a recommendation to the Board as to whether the audited financial statements should be included in the Company's Annual Report on Form 10-K.
- b. Review and discuss with management and the Independent Accounting Firm the Company's interim or quarterly unaudited financial statements prior to the filing of the Company's Quarterly Report on Form 10-Q.
- c. Review with management and the independent auditor the Company's earnings press releases prior to issuance.
- d. Review major issues regarding accounting principles and financial statement presentation, including any changes in the Company's selection and application of accounting principles, all critical accounting policies, and judgments made in connection with the preparation of the Company's financial statements.
- e. Annually obtain and review a report from the Independent Accounting Firm, describing (i) all critical accounting policies and practices to be used in the financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management,

ramifications of the use of such alternative disclosures and the treatment preferred by the Independent Accounting Firm, and (iii) other material written communications between the Independent Accounting Firm and management, such as any management letter or schedule of unadjusted differences. Review any reports on such topics or similar topics prepared by management, including any significant financial reporting issues and judgments made in connection with the preparation of the financial statements. Discuss with the Independent Accounting Firm any material issues raised in such reports.

- f. Review any management letter provided by the Independent Accounting Firm and the Company's response to that letter. Monitor actions taken by the Company in response to any letters or reports to management provided by the Independent Accounting Firm.
- g. Discuss with management and the Independent Accounting Firm the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, on the Company's financial statements.

Responsibilities Relating to Independent Accounting Firm

- a. The Committee is responsible for the appointment, retention, termination, compensation and oversight of the Independent Accounting Firm. The Independent Accounting Firm shall report directly to the Committee.
- b. Resolve any disagreements between management and the Independent Accounting Firm regarding the Company's financial reporting.
- c. The Committee shall review the scope of the annual audit and services to be provided by the Independent Accounting Firm during the year. It shall pre-approve all auditing services, internal control-related services and permitted non-audit and tax services to be provided to the Company by the Independent Accounting Firm, subject to any exceptions provided by the Securities and Exchange Act of 1934. The Chairman of the Committee may pre-approve any such services according to the procedures approved by the Committee, provided that any approval by the Chairman must be presented to the Committee at its next meeting.
- d. Obtain and review, at least annually, a report from the Independent Accounting Firm describing: (i) the Independent Accounting Firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the Independent Accounting Firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Independent Accounting Firm, and any steps taken to deal with any such issues; and (iii) all relationships between the Independent Accounting Firm and the Company, including the matters set forth in Independence Standards Board Standard No. 1. Discuss with the Independent Accounting Firm any issues or

relationships disclosed in such report that, in the judgment of the Committee, may have an impact on the competence or independence of the Independent Accounting Firm.

- e. Discuss with the Independent Accounting Firm the matters required to be discussed pursuant to the Statement on Auditing Standards No. 114 Communication with Audit Committees, as currently in effect, including any audit problems or difficulties encountered in performing the audit and management's response, and disagreements with management.
- f. Obtain assurance from the Independent Accounting Firm that the audit was conducted in a manner consistent with the Securities and Exchange Act of 1934.
- g. Review and periodically evaluate the performance of the lead audit partner of the Independent Accounting Firm and assure the regular rotation of the lead audit partner and the audit partner responsible for reviewing the audit as required by law.
- h. Evaluate the cooperation received by the Independent Accounting Firm during their audit examination, including the access to all requested records, data, and information and elicit the comments of management regarding the responsiveness of the independent accountants to the Company's needs.

Responsibilities Relating to Disclosure and Internal Controls

- a. Review with the CFO the activities, organizational structure, and qualifications of the internal financial staff.
- b. Receive quarterly reports from management regarding the Company's system of disclosure controls and procedures.
- c. Review any disclosures provided by the Chief Executive Officer or the Chief Financial Officer to the Audit Committee regarding (i) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data; and (ii) any fraud, including that which involves management or other employees who have a significant role in the Company's internal controls.
- d. Review, as appropriate, the results of internal audits and discuss related significant internal control matters with the Company's CFO and internal auditor or such outside consultant that provides services related to audit of internal controls.
- e. Review with the CFO or CAE and the Independent Accounting Firm and/or the internal auditors or consultants the adequacy of the organizations internal controls, including computerized information systems controls.

- f. Review with management and the independent auditor the Company's policies and procedures regarding compliance with its internal policies as well as applicable laws and regulations, including without limitation with respect to maintaining books, records and accounts and a system of internal accounting controls in accordance with Section 13(b)(2) of the Securities Exchange Act of 1934.
- g. Exercise oversight of risks relating to accounting matters, financial reporting and internal control over financial reporting. Discuss such risks with management and the independent auditors, including steps taken to identify and minimize such risks.

Legal Compliance and Regulatory Responsibilities

- a. The Committee shall review and approve written procedures for the confidential receipt, retention and consideration of any report of a material violation of federal securities laws, breach of fiduciary duty or similar violations by the company or any officer, director, employee or agent of the company.
- b. The Committee shall review the procedures for the receipt, retentions and treatment of concerns received by the Company regarding accounting, internal controls or auditing matters submitted by any person. This includes the implementation of a policy for handling such concerns that prohibits retaliation against such person as required by the Sarbanes-Oxley Act of 2002.
- c. Review with the Company's Chief Financial Officer, and others as needed, legal matters that may have a material impact on the financial statements, the Company's compliance policies, and any material reports or inquiries received from regulators or governmental agencies.
- d. Inquire of the independent auditor whether any violation of Section 10A (relating to the detection of illegal acts that may have a direct and material effect on the determination of financial statement accounts) of the Securities Exchange Act of 1934 has been detected
- e. Oversee the Company's Code of Ethics and Business Conduct (the "Code"), which will also constitute the code of ethics for the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as contemplated by rules promulgated under the Securities Exchange Act of 1934. Grant waivers to senior officers and directors under the Code, when appropriate and in the best interests of the Company.
- f. Review and approve all related-party transactions in accordance with policies and procedures established by the Company from time to time relating to such transactions.

Other Responsibilities

- a. Discuss with the Independent Accounting Firm the quality of the Company's financial and accounting personnel and any relevant recommendations that the independent accountants may have, including those in their "Report to Management."
- b. Conduct an annual review of the Audit Committee Charter and recommend changes, if any, to the Board of Directors.
- c. Conduct an annual self evaluation of the effectiveness of the Committee.
- d. Provide input to the CEO regarding the annual review of the CAE.
- e. Oversee the preparation of an annual report of the Committee to be included in the Company's proxy statement.
- f. Perform other duties as requested by the Board.