Good afternoon. Welcome to Clearfield's fiscal fourth quarter and full year 2017 earnings conference call. My name is Omar Ormon, and I will be your operator this afternoon.

Joining us for today's presentation are the company's President and CEO, Cheri Beranek and CFO, Dan Herzog. Following their remarks, we will open the call for questions.

I would like to remind everyone that this call will be recorded and made available for replay via a link in the investor relations section of the company's website. This call is also being webcasted and accompanied by a PowerPoint presentation called the FieldReport, which is also available in the investor relations section of the company's website.

Important Cautions Regarding Forward-Looking Statements

CLEARFIELD
NASDAQ:CLFD

Forward-looking statements contained herein are made pursuant to the safe harbor provisions of the Private Litigation Reform Act of 1995. These statements are based upon the Company's current expectations and judgments about future developments in the Company's business.

Certain important factors could have a material impact on the Company's performance, including, without limitation: our success depends upon adequate protection of our patent and intellectual property rights and our ability to successfully defend against claims of infringement; our results of operations could be adversely affected now that the stimulus funds of the American Recovery and Reinvestment Act are fully allocated and projections are nearing completion; National Broadband Plan's transitioning from the USF to the CAF program may cause our customers and prospective customers to delay or reduce purchases; a significant percentage of our sales in the last three fiscal years have been made to a small number of customers, and the loss of these major customers would adversely affect us; intense competition in our industry may result in price reductions, lower gross profits and loss of market share; our results of operations could be adversely affected by economic conditions and the effects of these conditions on our customers' businesses; our operating results may fluctuate significantly from quarter to quarter, which may make budgeting for expenses difficult and may negatively affect the market price of our common stock; to compete effectively, we must continually improve existing products and introduce new products that achieve market acceptance; we may face circumstances in the future that will result in impairment charges, including, but not limited to, significant goodwill impairment charges; we rely on single-source suppliers, which could cause delays, increases in costs or prevent us from completing customer orders, all of which could materially harm our business; we face risks associated with expanding our sales outside of the United States; further consolidation among our customers may result in the loss of some customers and may reduce sales during the pendency of business combinations and related integration activities; we are dependent on key personnel; product defects or the failure of our products to meet specifications could cause us to lose customers and sales or to incur unexpected expenses; and other factors set forth in Part I, Item IA. Risk Factors of Clearfield's Annual Report on Form 10-K for the year ended September 30, 2016 as well as other filings with the Securities and Exchange Commission. The Company undertakes no obligation to update these statements to reflect actual events.

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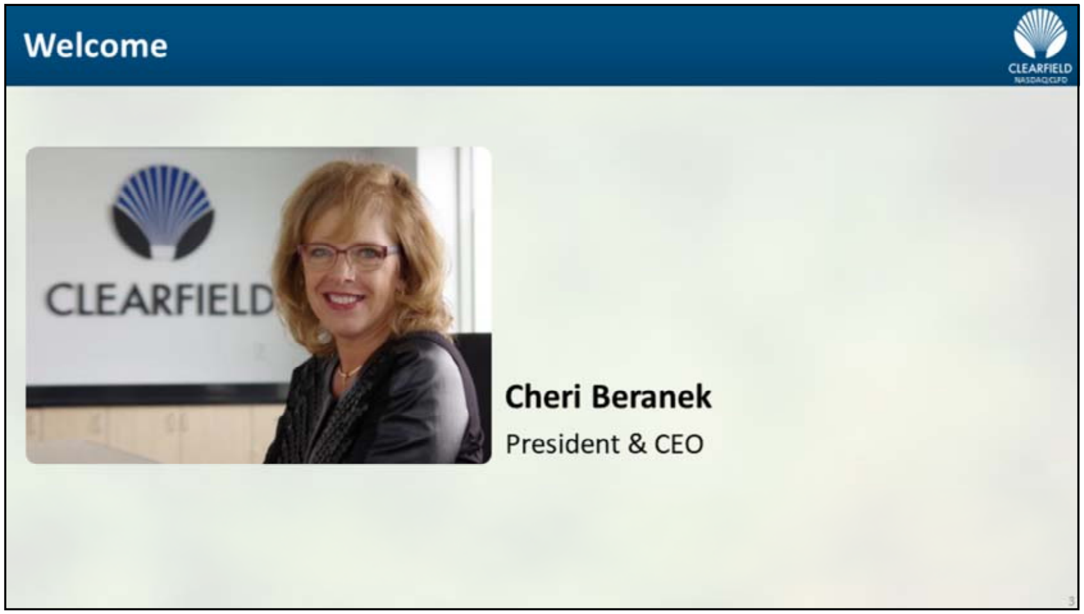
Please note that during the course of this call, management will be making forward-looking statements regarding future events and the future financial performance of the company. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

It's important to note also that the company undertakes no obligation to update such statements. The company cautions you to consider risk factors that could cause actual results to differ materially from those in the forward-looking statements contained in today's press release, FieldReport, and in this conference call. The risk factors section in Clearfield's most recent Form 10-K filing with the Securities and Exchange Commission provides examples of those risks.

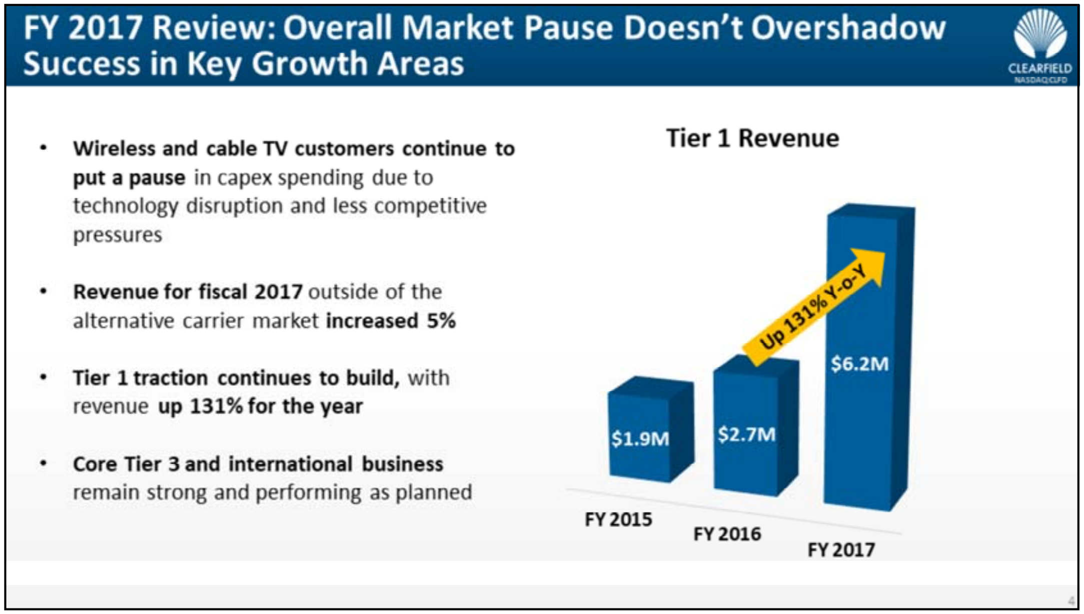
With that, I would like to turn the call over to Clearfield's CEO Cheri Beranek.

Please proceed.



Good afternoon, and thank you everyone for joining us today.

While our total revenue was lower than our expectations, fiscal 2017 as a whole was an ambitious and foundational year for the company.



Perhaps most importantly, we continued to invest in the multi-year process of increasing our presence in the Tier 1 market. While we're still early, our progress in this much larger market is encouraging. Revenue from Tier 1 carriers in fiscal 2017 more than doubled to $6.2 million compared to $2.7 million in fiscal 2016.

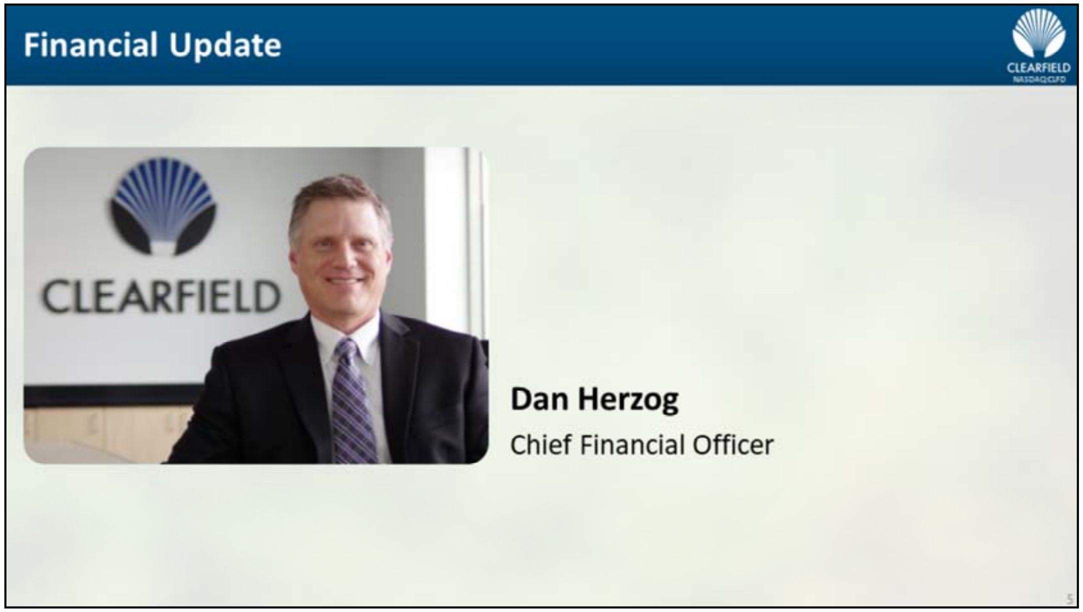
Looking at some of our more established markets, we continued to strengthen our market-leading position in the Tier 2/3 market, growing revenue 8% for the year to $42.7 million. We also made solid advances in our international markets, growing revenue 50% to $6.0 million for the year.

As you have heard from many of our larger peers, this market remains challenging. M&A activity at major telco and cable providers has introduced distractions from their network builds. In addition, the lack of competitive build pressures -- what many have dubbed the "Google Effect" -- has slowed the rate of build and prompted wireline, cable and wireless providers to retract into a more thorough planning rather than building phase for their fiber deployment programs.

While this is frustrating for us in this fiscal year, we believe the extension of this planning and evaluation stage is uniquely beneficial to Clearfield, allowing us to introduce our labor-saving technologies deeper into the decision trees within these large providers.

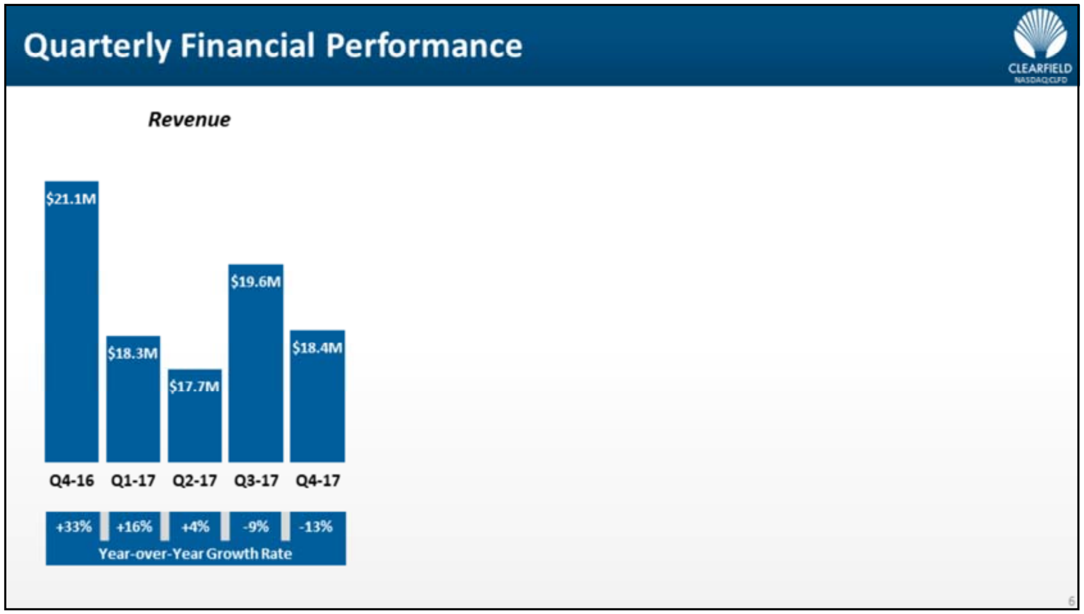
As such, we remain highly optimistic for our long-term success, but with near-term spending patterns unpredictable, we are cautious about the upcoming year.

But before I talk more about our overall operational progress, as well as our future growth strategies and outlook, I'll turn the presentation over to our CFO, Dan Herzog, who will walk us through our full financial performance for the fourth quarter and for the full year of fiscal 2017.



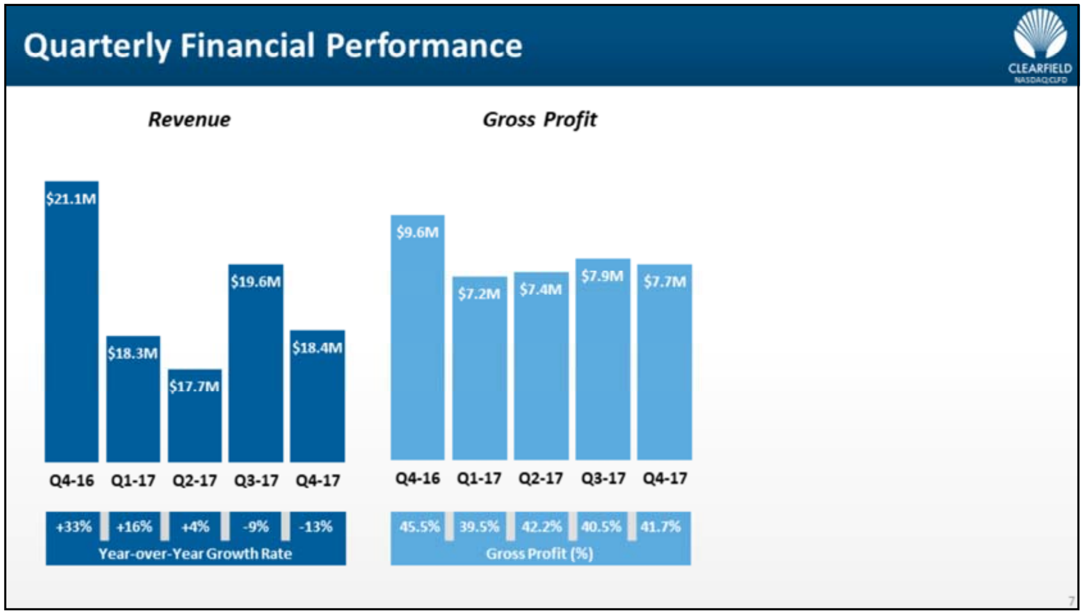
Thank you, Cheri.

Now, looking at our financial results in more detail…



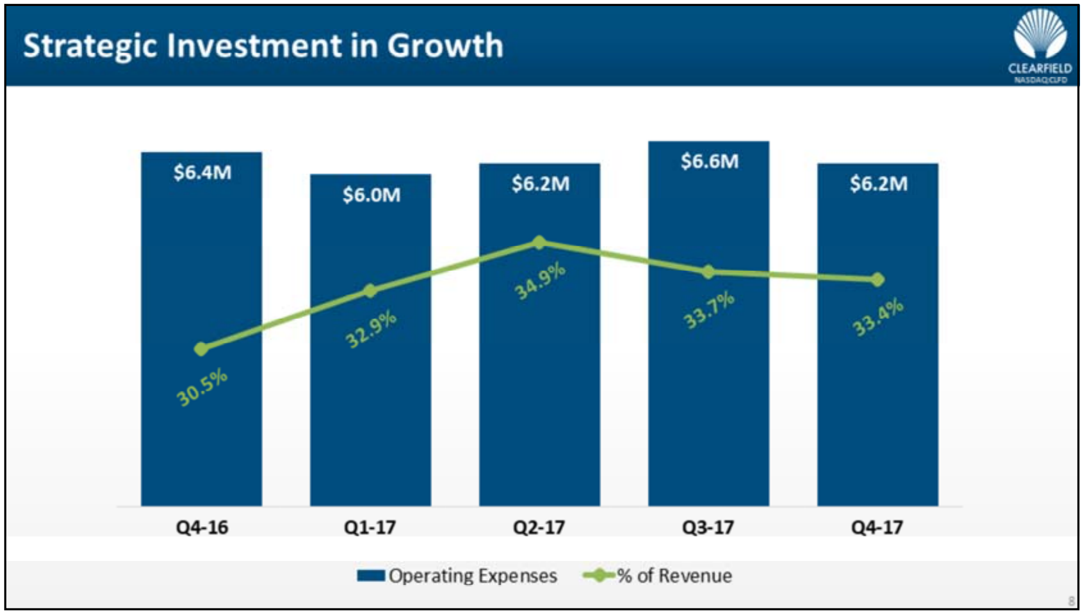
Our revenue in the fourth quarter of fiscal 2017 decreased 13% to $18.4 million from $21.1 million during the same year-ago period. For the full year, revenue decreased 2% to $73.9 million from $75.3 million in fiscal 2016. The decrease for both the quarter and full year was driven primarily by lower sales to our alternative carrier, wireless and cable TV customers. If you remove the impact from our alternative carrier business, our revenue for the full year increased 5%. The decline in sales to our alternative carrier business was offset by an increase in sales to our domestic and international wireline customers, especially in our Tier 1 business.

Looking at our international business, for the full year, international revenue increased 50% to $6.0 million from $4.0 million last year. Although international revenue in fiscal Q4 increased only 6% to $1.5 million, our expectations were considerably higher as these revenues were negatively impacted by some of the natural disasters within the Central America and Latin America markets. That being said, we do see an opportunity for continued growth in this market, especially in Q2, Q3, and Q4 of fiscal 2018, as service providers in this region replace and reconstruct damaged equipment.



Gross profit for the fiscal fourth quarter of 2017 decreased 20% to $7.7 million. At 41.7% of total revenue, gross profit percent was at the high end of our gross profit guidance of 40-42%. For the full year, gross profit decreased 8% to $30.3 million, or 40.9% of total revenue.

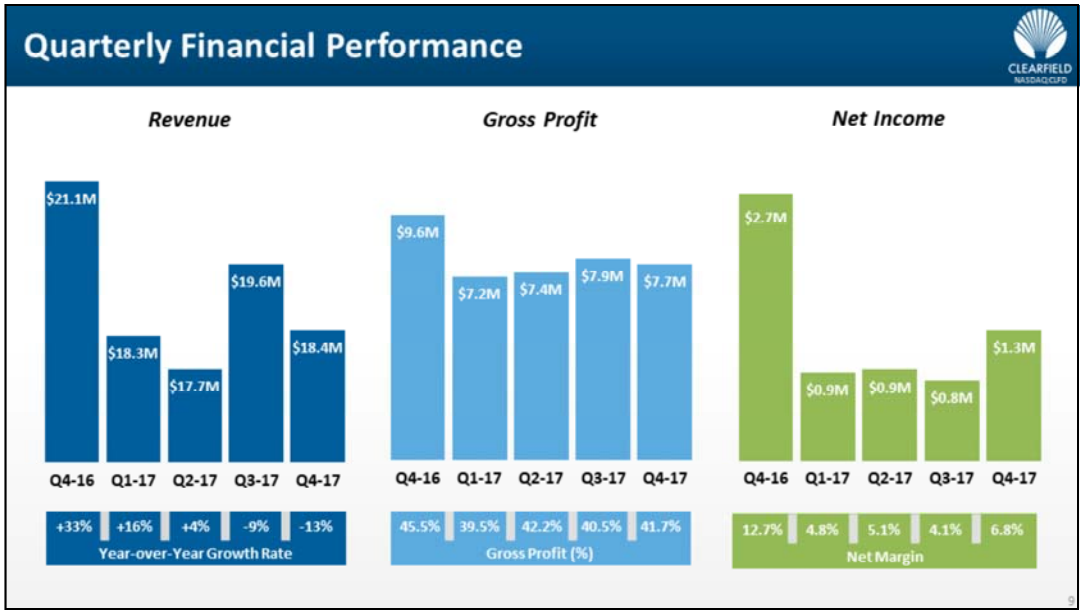
Looking ahead to fiscal 2018, we are continuing our gross profit guidance of 40-42%. However, we reiterate that this percentage may fluctuate in and around this target from quarter to quarter, due to our continued efforts to penetrate the Tier 1 market, variability in our overall product mix and the timing of our cost-reduction initiatives at our Mexican-based manufacturing facility.



Our operating expenses for fiscal Q4 were $6.2 million, which was down 4% from the same year-ago quarter. For the full year, operating expenses were up 13% to $25.0 million. The increase for the year was due in part to additional personnel to support our sales and operational expansion plans, enhancements to our current product line-up, as well as increased spending on our certification programs to position us for further expansion at the Tier 1 level.

The increase in operating expenses for fiscal 2017 included nearly $1 million dollars in expense attributable to costs associated with the patent infringement lawsuit brought by CommScope during the second quarter of fiscal year 2017. Not only are we defending our position that our innovative solutions do not violate any valid patent, but earlier this fall, we instituted proceedings with the United States Patent & Trademark Office for inter partes review to challenge the validity of several of CommScope’s claimed patents.

Given that the case is ongoing, we cannot comment any further and will not take questions today specific to the case. We will, however, continue to provide a full description of the suit and any updates on the suit as required by SEC rules in our quarterly reports.



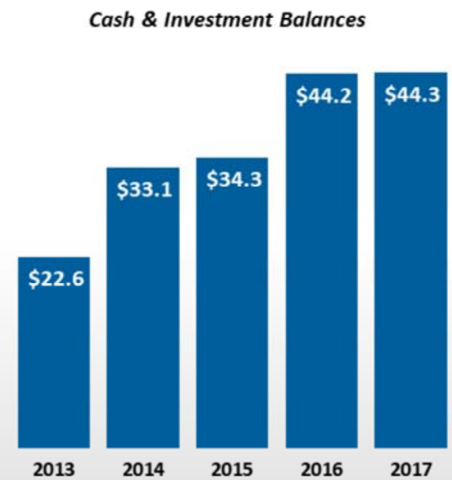
Our net income for the fiscal fourth quarter was $1.3 million, or $0.09 per diluted share, compared to $2.7 million, or $0.20 per diluted share, in the same year-ago quarter. For the full year, net income totaled $3.8 million, or $0.28 per diluted share, compared to $8.0 million, or $0.59 per diluted share, in fiscal 2016. Net income was consistent with our net income as a percentage of revenue guidance of 5% for fiscal 2017.

Turning now to our balance sheet…

Balance Sheet Supports Growth

$ in Millions

	Sept. 30, 2017	Sept. 30, 2016
Cash & Investments	$44.3	$44.2
Total Assets	$69.5	$70.6
Stockholders' Equity	$64.5	$62.6
Total Debt	$0	$0
Total Capitalization	*$64.5*	*$62.6*



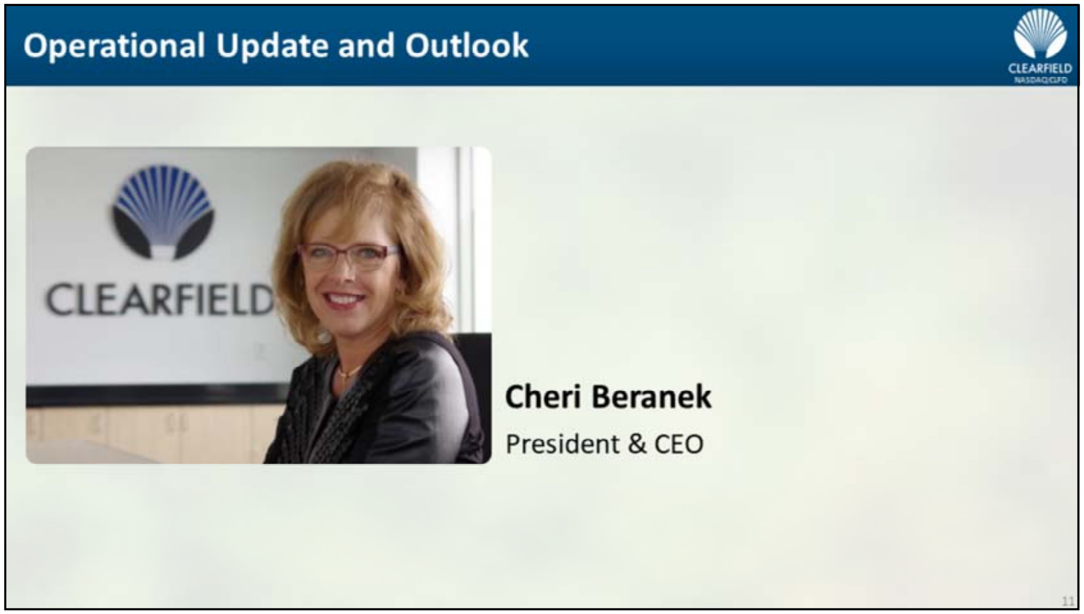
During the fiscal fourth quarter, our cash and investments increased to $44.3 million from $42.6 million in the prior quarter ended June 30, 2017.

During the quarter, we repurchased a total of 102,291 shares under our $12.0 million stock repurchase program, which was authorized in November 2014. As of September 30, 2017, we have repurchased an aggregate of 369,303 shares for approximately $4.8 million under this program, leaving approximately $7.2 million available for repurchase.

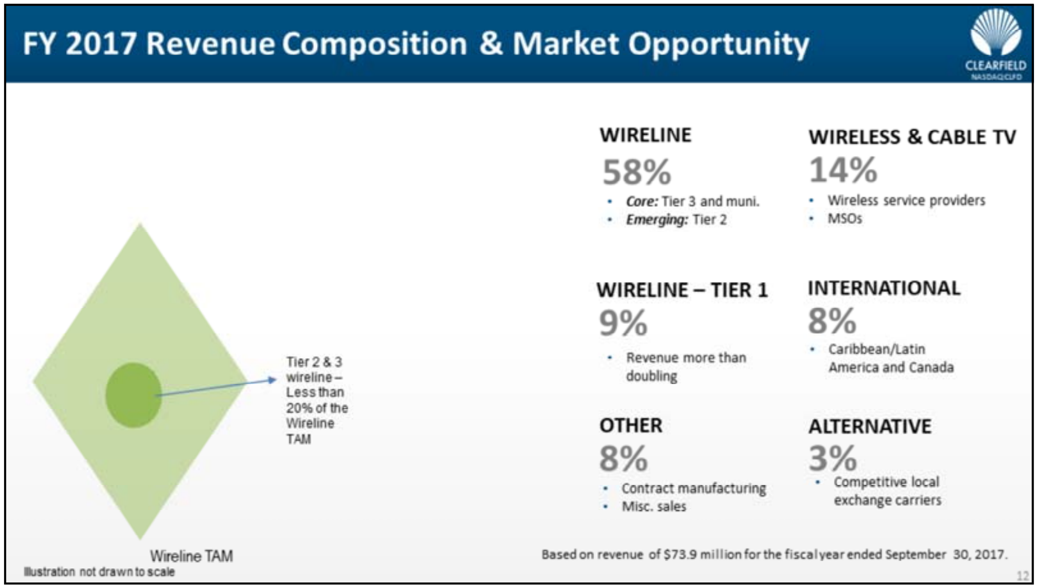
Over the years, we have organically built a solid cash position with which to scale our business and reward our shareholders through share repurchases. While we will continue to allocate our resources to these initiatives, we will also be opportunistic in how we deploy our cash, including the potential to acquire complementary technologies or businesses that can scale our growth even further.

Now with that, I would like to turn the call back over to Cheri for her insights into our operations for the fiscal quarter and full year, as well as our outlook and strategic initiatives for fiscal 2018.

Cheri?

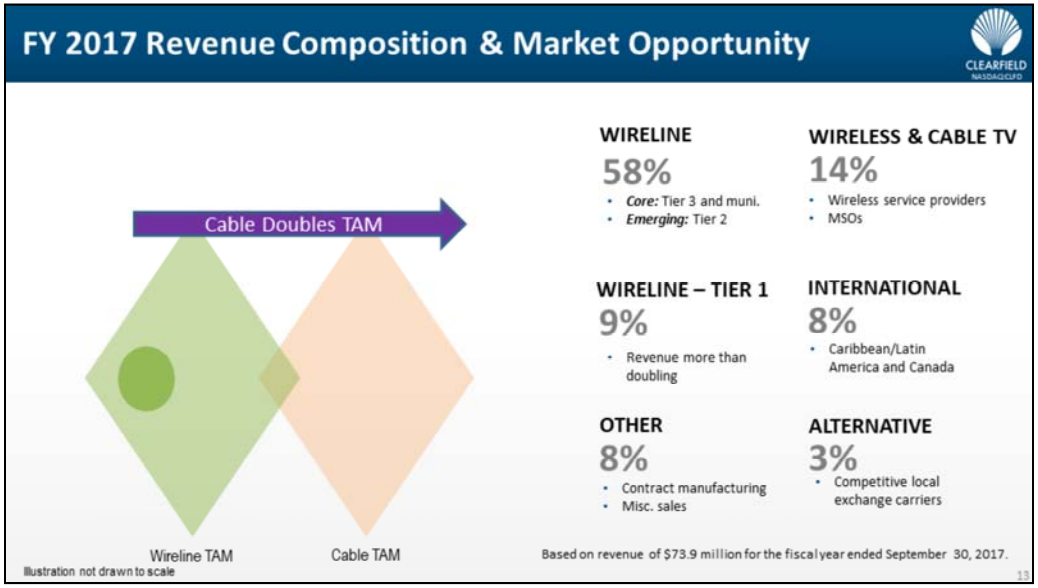

Operational Update and Outlook
CLEARFIELD
Cheri Beranek
President & CEO

Thanks, Dan.

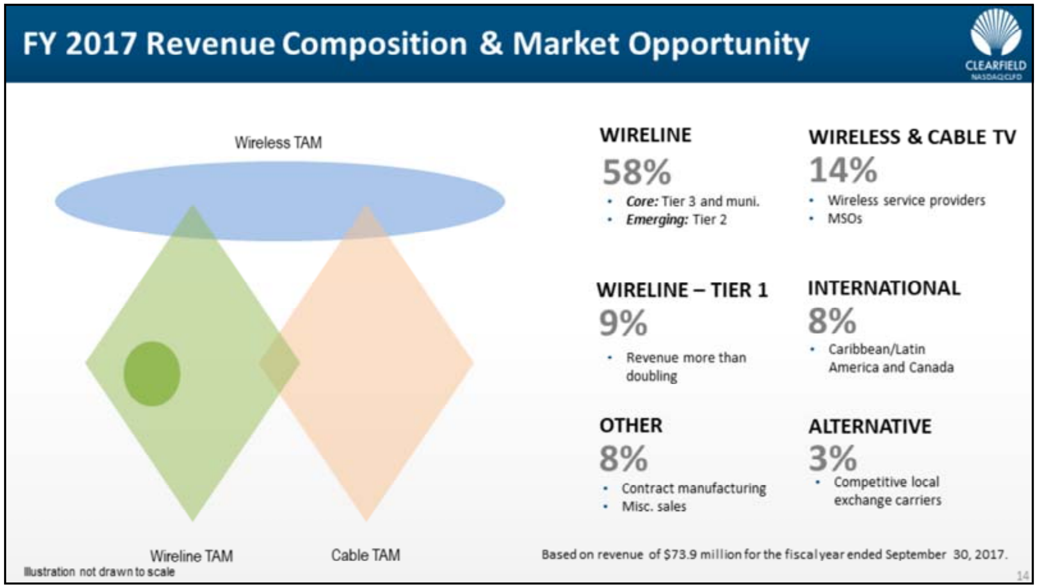


At our current revenue levels, our strongest market position is clearly in the Tier 3 wireline market, which forms the core of our business. Together with the municipality and Tier 2 markets, this market comprised nearly 60% of our revenue for the year.

Yet, the Tier 3 wireline market represents less than 20% of the total wireline connections in the United States. When we began our efforts to target the Tier 1 market two years ago, we saw the opportunity to expand our total addressable market by more than five-fold.

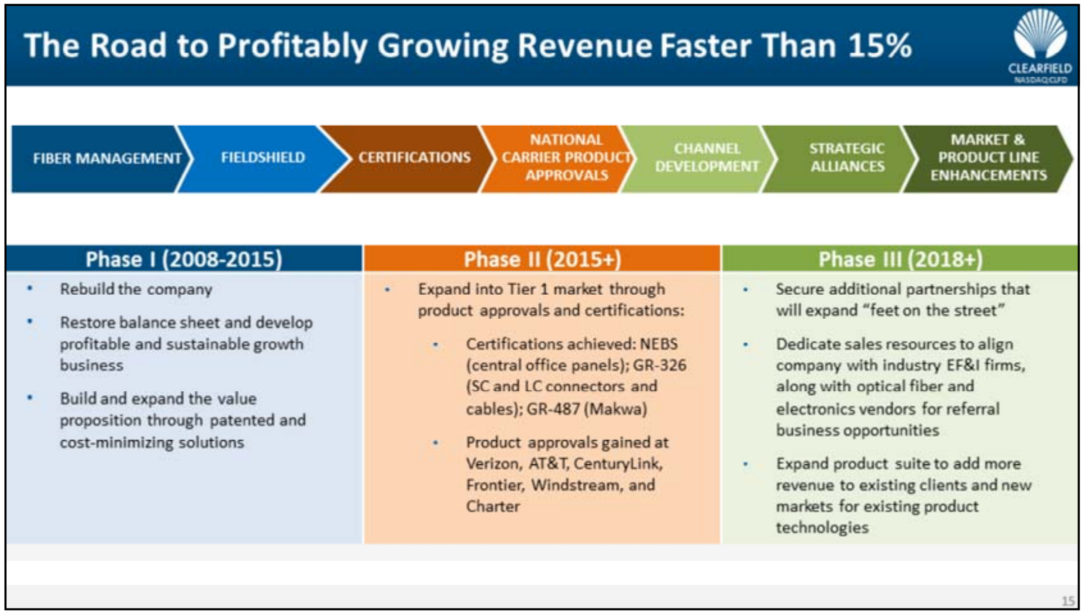


While the Tier 1 market is certainly a priority for us, I do not want to discount the importance of the wireless and cable TV markets to our long-term growth and success. To illustrate, I mentioned that the Tier 1 market expands our current TAM by at least five times. The cable TV market doubles that market opportunity.



When you factor in the wireless market, especially the emerging Internet of Things (or IoT) segment, you're looking at an environment that experts suggest will require up to 40 times the amount of fiber currently in place. Though it's hard to place exact numbers on our collective market opportunity, it's clear from this that we have a long runway ahead of us, and we believe we have the right people, solutions, and expertise to get us to that next stage of robust growth.

Ultimately, it's not a matter of IF fiber, but when. The question that remains, then, is what are the steps we're taking to not only return to our historical 15% compounded annual growth rate, but also capitalize on the significant future market opportunity.

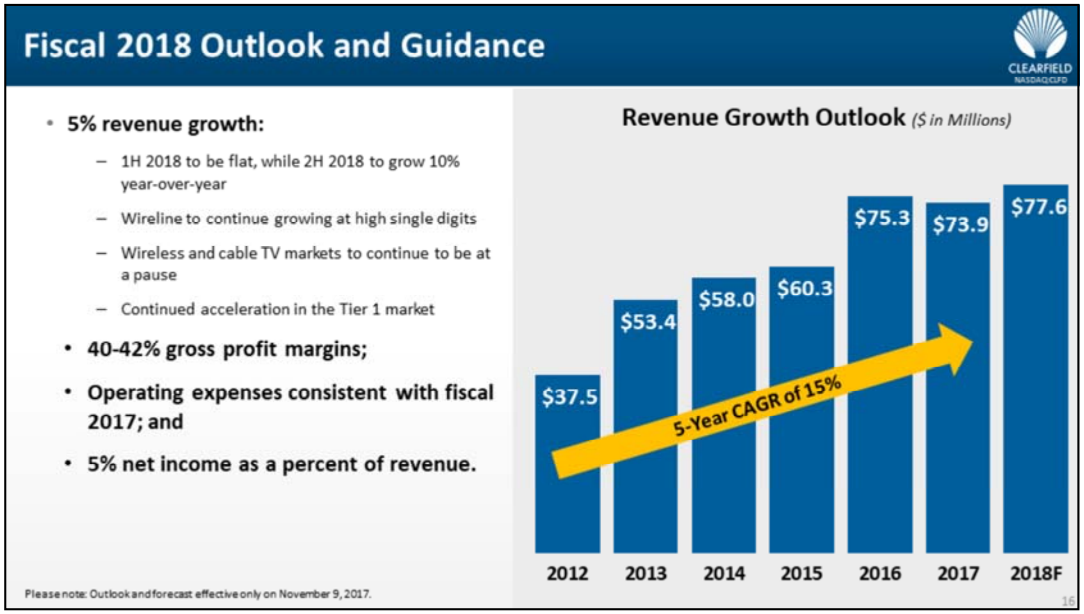


In our previous earnings FieldReport, we introduced Phase I and II of Clearfield's growth trajectory. Phase I revolved around our restructuring of the company, whereas Phase II focuses on aggressive, but disciplined, expansion of our total available market.

Part of our success in this phase begins on our ability to acquire the industry certifications necessary to win business at this level. It gives me great pleasure to report that in late fiscal 2017 we completed the test parameters for Telcordia certifications referred to as GR-326 for SC and LC connectors on all standard cable types. This General Requirements certification is the baseline of our testing platform. Above all, it represents that our terminated solutions – which comprise our entire FieldSmart and parts of our FieldShield product lines -- are now third-party verified to be reliable for deployment in national networks. Beyond GR-326, our testing must also include the certification of the enclosure within which these terminated cable assembles are placed. I am also pleased to report that we have achieved GR-487 for our distributed cabinet called Makwa, which is the industry's only fiber distribution hub designed for below grade deployment. These certifications join our previously announced NEBS compliance for central office panels.

Important also to Phase II is obtaining product approvals at the national carriers. Beyond our success at regional players, to date, we have earned product approvals for parts of our product line at Verizon, AT&T, CenturyLink, Frontier, Windstream, Comcast, and Charter. Although ongoing product approvals will be needed to successfully penetrate the national carrier markets, this has been an important step for us. Every new material code expands our exposure and supplier position with these carriers. With respect to both certifications and product approvals, we expect to realize an initial return on our investment within fiscal 2018, but emphasize that our growth strategy does not stop there.

Phase III, which begins in fiscal 2018, is about continuing to capture the broader market opportunity through channel development, strategic alliances, and market and product line enhancements. We will take a disciplined approach to Phase III investments as we want to ensure that we prudently work to size our company to current as well as future revenue opportunities.



So, to summarize, due to the size and expansion of our TAM, along with our recent certifications and product approvals gained, we believe we can return to and exceed our historical 15% compounded annual growth rate, while maintaining profitability as we achieve scale. Having said that, we reiterate that the near-term hurdles and market dynamics that I mentioned earlier are indeed slowing our progress.

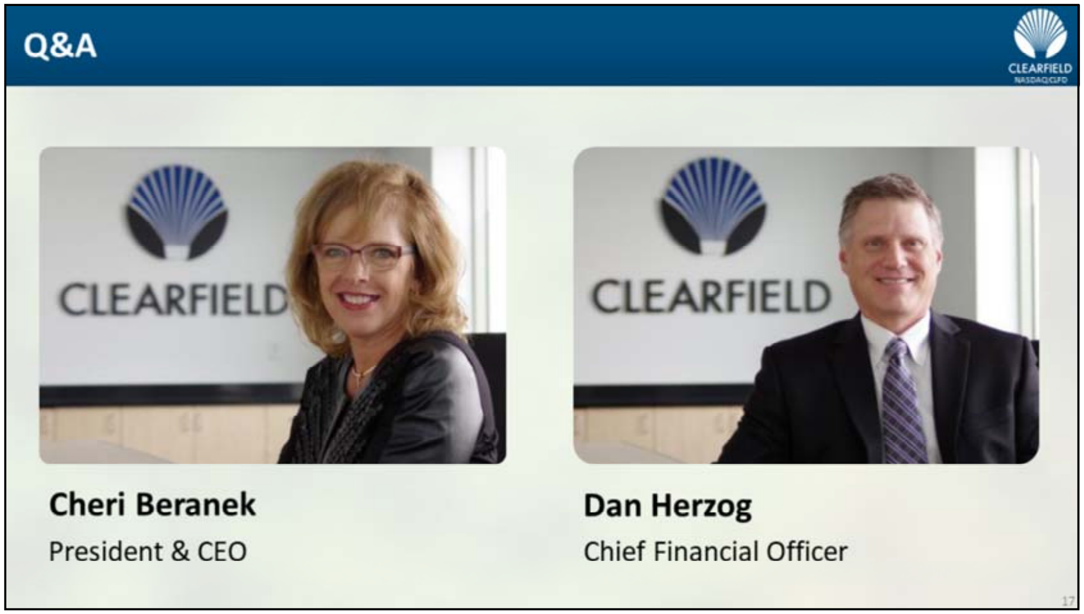
At this time, it remains difficult to determine when a meaningful market rebound will occur, which is why we're forecasting the first half of fiscal 2018 to be consistent with the same period last year. We are also forecasting the second half of fiscal year 2018, which coincides with the summer build season, to grow 10% from the same period last year. Taken all together, we expect our total revenue for fiscal 2018 to be up 5% compared to fiscal 2017.

Looking below the topline, we expect gross profit percent to remain within our 40-42% target range. While we are anticipating some pricing pressure, especially as we advance further into the Tier 1 market, we are continuing our programs to lower our cost of sales through industry partnerships and lower labor sourcing. We expect our operating expenses in fiscal 2018 to be consistent with fiscal 2017, with some lumpiness due to accounting standards for accrual of expenses. With regard to net income, we expect to achieve net income as a percentage of revenue of 3% in the first half of the fiscal year and 5% for the full year, with quarter to quarter volatility due to the negative influence associated with costs driven by the CommScope litigation. Unfortunately, net income has been—and will continue to be—negatively affected by the lawsuit, but we are confident in the process and in our intellectual property. Over time, as we achieve scale through Phases II and III, we believe we can achieve net income as a percentage of revenue of 10-12%.

Overall, during fiscal 2017 we established a sturdy foundation for us to continue capturing growth in our key markets, especially at the Tier 1 level. Just as we scaled our core Tier 3 and community broadband business one product and one customer at a time, we are scaling this business one certification, one approval, and one order at a time. Though the significant growth won't come immediately, the market opportunity is vast and ours for the taking. And if there is any indication as to where Clearfield can go in the next couple of years, one has to simply look back at the last decade since the recession and see how we've grown the business through a compelling value proposition, disciplined investments, and an unwavering focus to profitably scale the business.

Now, with that, we're ready to open the call for your questions.

Operator?



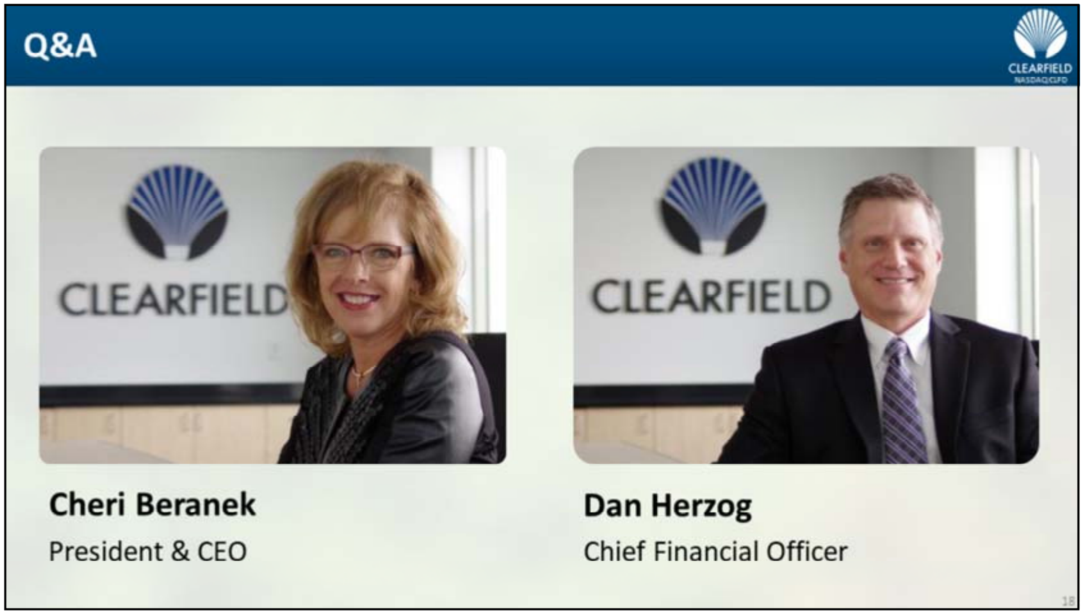
Operator
Our first question is from Tim Savageaux, Northland Securities.

Unknown Analyst
This is Greg on for Tim. First, I was wondering if you could provide any additional color on the timing and magnitude of Tier 1 traction.

Cheri Beranek
Chief Executive Officer, President & Director
The Tier 1 opportunity is -- it's been an ongoing opportunity. We've been doing some pilots and some projects in different parts of the market with multiple different vendors. There's been some -- I would say the timing isn't such that it's growing momentum based as much as it is based on pilot programs and specific programs that they're evaluating.

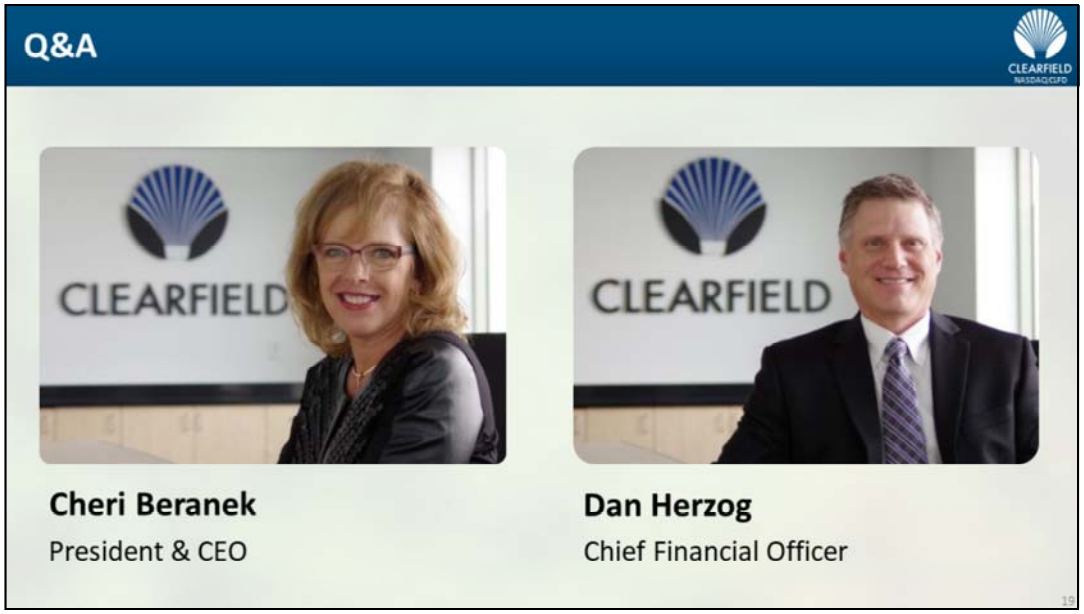
Unknown Analyst
And then also, do you expect FirstNet deployment to be beneficial on the wireless side?

Cheri Beranek
Chief Executive Officer, President & Director
We're not going after FirstNet opportunity specifically. Our strength -- FirstNet is going to be very focused on the -- an AT&T environment. AT&T is in the wireless market there, is very -- it's a boutique operation, very particular product offering. We're focused on wireless markets more associated with the 5G areas as well as issues associated with backhaul. So FirstNet is not a focus of ours.



Unknown Analyst
Got it. And then just one final question. Can you provide some additional color on the assumptions that are going into the difference in guidance between the first half and second half of 2018 on the top line?

Cheri Beranek
Chief Executive Officer, President & Director
Certainly. I mean, it's really a focus of where the market is currently at and the pause that we're seeing experienced in a variety of places. Among that is the international marketplace, and we talked a little bit about the slowdown that we experienced in fourth quarter. We're extremely pleased with our penetration into the CALA market, but I mean, the natural disaster situation there definitely slowed us down by almost $1 million in fourth quarter. The -- we're in an environment in which our representation in Mexico lost his house. I mean, 2 of our salespeople focused on the marketplace out of Miami were operating out of their cars basically for 2 weeks because they didn't have any power and needed to charge their phones on the -- it goes beyond just the issues within the territories. So right now we're seeing those territories focused on, first, priorities of getting power. We think there's some really good opportunities second, third and fourth quarter, which are going to drive second half business. In addition, we're tracking opportunities within Tier 1 in the pilot phase that are still going to be pilot in the first half of the year that we see ramping in the second half.



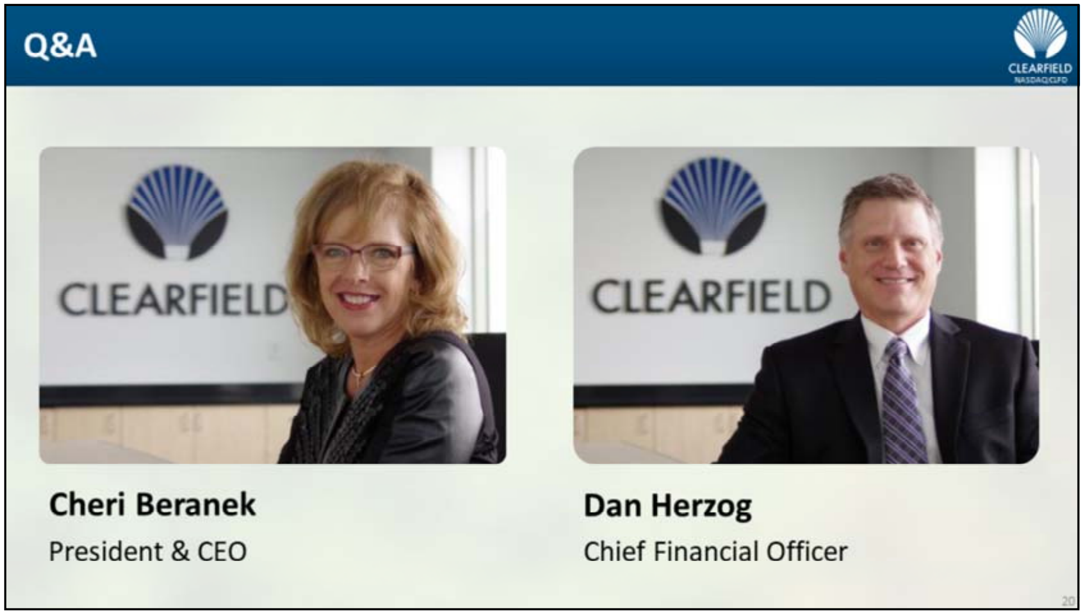
Operator
Our next question is from Jaeson Schmidt, Lake Street Capital Markets.

Jaeson Schmidt
Lake Street Capital Markets, LLC, Research Division
Just want to start with the fiscal '18 guidance. Just curious if you're baking in any meaningful traction with the Tier 1s into your assumptions.

Cheri Beranek
Chief Executive Officer, President & Director
As I pointed out, I think, in the commentary that we're seeing a return on some of the certifications in the testing that we've done in 2018 but not huge amount -- not huge traction. Those are unpredictable opportunities at this point. We're confident that we're gaining share, and we're confident in the momentum. But that's the magnitude or opportunity associated with that, is something that we can't get -- really get our hands around.

Jaeson Schmidt
Lake Street Capital Markets, LLC, Research Division
Okay. That makes sense. And then just looking at the competitive landscape. So you really think the headwinds you're currently seeing are really related to the spending environment. This isn't a result of share loss or anything along those lines.

Cheri Beranek
Chief Executive Officer, President & Director
Absolutely. I mean, you look across the marketplace and with rare exception, the spend associated with the Fiber-to-the-Anywhere architectures are down. It is absolutely an environment in which people are evaluating rather than -- evaluating and planning rather than building. I think it's really good. I think it's going to be great for the industry, and it's actually very prudent and strategic for the service providers. I applaud them. Unfortunately, it's very frustrating for us right now. But we're very bullish on where we're at within it, believe we're taking share in different places and continue to invest in the people and resources to be able to continue to be in front of them.



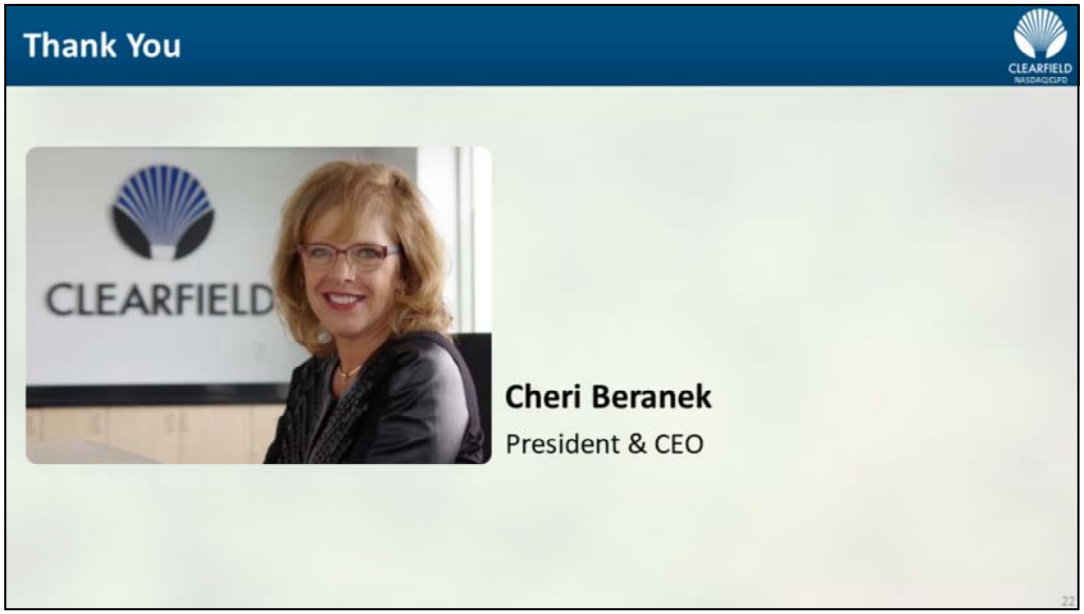
Jaeson Schmidt
Lake Street Capital Markets, LLC, Research Division
That's helpful. And then just I apologize if I missed it but a clarification on your OpEx outlook for fiscal '18. I know you said it is going to be consistent with '17 levels. Is that including the potential legal expenses related to the ongoing suit, or is that backing legal expenses out of that compare?

Cheri Beranek
Chief Executive Officer, President & Director
Right. What we said in the materials is we have spent about $1 million in the defense of that lawsuit since it was filed on the 1st of February last year. So I mean, there's only about eight months of the year associated excited with it. We're -- the forecast for next year includes kind of a run rate associated with legal expense, but there could be some volatility to that. So at this point, it includes legal expenses, but I would caution that there's some unpredictability or the volatility of it could push the -- those revenues -- those net income dollars down.

At this time, this concludes our question and answer session.

If your questions were not taken, you may contact Clearfield's investor relations team at CLFD@liolios.com. The company will post the most relevant questions and answers in the 'For Investors' section of Clearfield's website.

I'd now like to turn the call back over to CEO Cheri Beranek for her closing remarks.



Thanks again for joining us today. I just really want to first thank our employees, our partners for their continued support. I'd like to thank our shareholders who have supported the company's evolution to this next phase of growth, and we really look forward to updating you on our progress soon.

Thanks.

Thank you for joining us today for Clearfield’s fiscal fourth quarter and full year 2017 earnings conference call. You may now disconnect.