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CALX - Q1 2011 Calix Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Geoff Burke
Calix Inc. - Senior Director of Corporate Marketing

Carl Russo
Calix Inc. - President, CEO

Michael Ashby
Calix Inc. - Executive Vice President, CFO

CONFERENCE CALL PARTICIPANTS

Nikos Theodosopoulos
UBS Investment Research - Analyst

George Notter
Jeffries & Co. - Analyst

Amir Rozwadowski
Barclays Capital - Analyst

Sanjiv Wadhwani
Stifel Nicolaus - Analyst

Ehud Gelblum
Morgan Stanley - Analyst

Erin Riley
Goldman Sachs - Analyst

PRESENTATION

Operator

Thank you for joining the Calix First Quarter 2011 Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be facilitating a question-answer session towards the end of this conference.

(Operator Instructions)

I would now like to turn the floor over to Mr. Geoff Burke, Senior Director, Corporate Marketing at Calix.

Mr. Burke?

Geoff Burke - *Calix Inc. - Senior Director of Corporate Marketing*

Thank you, operator, and good afternoon, everyone. This conference call contains forward-looking statements regarding future events, including the future business and financial performance of the Company and our expectations of revenue, gross margins, earnings per share, merger-related expenses, stock-based compensation, and amortization of intangibles.

These forward-looking statements are based on management's expectations, estimates and judgment and current trends and market conditions and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements.

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More information is contained in the Company's periodic reports, including our annual report on Form 10-K for the fiscal year ended December 31, 2010, available at www.sec.gov. All forward-looking statements are made as of the date of this conference call, and except as required by law we do not intend to update this information.

In addition, on this conference call, we will be discussing GAAP and non-GAAP results. These non-GAAP measures exclude certain charges and benefits, including merchant-related expenses, stock-based compensation expense, and amortization of acquisition-related intangible assets, as we do not consider these items to be part of the company's ongoing operating activities or meaningful in evaluating the Company's financial performance.

To help you better understand the results, we have included a reconciliation of our GAAP and non-GAAP results in our earnings press release. This conference call will be available for audio replay in the investor relation section of the Calix website, at investorrelations.calix.com. In addition, our earnings press release has been posted to our website.

I'd now like to turn the call over the Calix President and CEO, Carl Russo.

Carl Russo - *Calix Inc. - President, CEO*

Good afternoon, everyone, and welcome to our earnings conference call for the first quarter of fiscal year 2011. Joining me on the call today is Michael Ashby, our Executive Vice President and Chief Financial Officer. I will provide a brief review of the business and marketplace and then turn the call over to Michael to walk through the financials in detail. After that, I will come back and briefly discuss the business and marketplace looking forward.

Our first quarter results exceeded our expectations and demonstrated that the benefits of our Unified Access architecture continue to resonate with our customers. We achieved record Q1 revenues for the company, up 48% year-over-year.

Non-GAAP gross margin achievement set an all-time record, improving eight full percentage points year-over-year. As you would expect, record revenues and record gross margins led to record Q1 profitability for Calix as well.

The virtuous cycle that our Unified Access architecture creates continued this quarter with growth across all aspects of our business, with increasing sales activity across all of our named regional and international accounts, and increasing acceptance of all our product offerings.

Broadband Stimulus, while not yet a driver of revenue, is clearly a driver of sales activity. And as a combined entity, we have announced 45 wins to date, whose aggregate project funding is over $787 million, of which broadband access is just a portion of that total.

Our EXA platforms, the C7, the industry's most versatile and North America's most successful multiservice access platform, and the E7, the industry's most powerful Ethernet service access platform, have now been joined by the B6, one of the industry's most capable and most successful Ethernet services access nodes.

I am pleased to say that the B6 hasn't skipped a beat as we have announced six new B6 wins since the close of the acquisition. And regarding the integration of Occam, we continue to execute according to plan.

All functional organizations are fully integrated. Virtually all back office systems are fully integrated and we are running the day-in and day-out business on one set of systems. Virtually all supply chain integration work is complete and R&D acceleration is already showing results. As within four weeks of the close, we had demonstrated the B6 working with our 700 ONT family.

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While some transitional work remains to be completed before year-end, in sum, after just eight short weeks, we are more than 90% complete with our integration. I am extremely proud of the precision with which the entire Calix team has executed this important task.

And with that, I would like to turn it over to Michael Ashby. Michael?

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

Thank you, Carl, and good afternoon, everyone. I am going to take the through our unaudited statement of operations and compare the first quarter ended March 26, 2011 to the first quarter of 2010, and also speak to the guidance that we gave you on our April 4, 2011 conference call. After that, I'll briefly discuss the balance sheet.

The earnings release income statement shows by column our non-GAAP income statements, the merger related and other expenses, the non-cash expenses relating to stock-based compensation and amortization of intangibles and, finally, the GAAP income statement. My commentary will go to each one of those items. Let me start with the non-GAAP income statement.

Revenue for the first quarter came in at $71.5 million, an increase of over 48% compared to $48.2 million in the first quarter of 2010, and 2% above the $70 million guidance for Q1 that we gave you on April 4th.

As we mentioned on April 4th, we only recognized a small amount of revenue from Occam in the first quarter. So, this quarter represents a strong performance in Calix in each of the business areas.

During the first quarter, we have two 10% customers. This compares to one 10% customer in the first quarter of 2010. International revenues comprised 6% of total revenues in the first quarter of 2011 versus 9% in the first quarter of 2010.

Broadband stimulus revenue in the first quarter was negligible. We do expect to start shipping again some of the broadband stimulus orders in the second quarter. But revenue will primarily be in the second half of this year and 2012.

Non-GAAP gross margin for the first quarter was 45.7%, up from 37.7% in the first quarter of 2010 and also above our recent guidance between 42% and 44%. The increase over the prior year was the result of cost reductions, product mix, and within product mix, the introduction of many new products in the last 12 months.

In comparison to our guidance, the increase was the result of higher cost reductions obtained in Q1, favorable purchase price variances and lower excess (inaudible) reserves. Purchase price variances are one-time gains that we do not expect to continue.

Turning to operating expenses. In total, non-GAAP operating expenses are $28.9 million, up from $22.4 million in the same period last year, and slightly over our guidance of $28 million.

Non-GAAP R&D spending was $13.4 million for the first quarter of 2011, an increase from the $11.2 million in the first quarter of 2010. That increase was primarily due to increased headcount associated with new product development, former Occam employees for one month, the expansion of (inaudible) development center and the pursuit of OSMINE certification.

Non-GAAP sales and marketing expenses was $10.8 million for the first quarter, an increase from $8 million compared to the same quarter of 2010. This increase was primarily in headcount and the associated costs, including one month of former Occam employees, as well as commissions on much higher bookings in 2011 versus 2010.

Non-GAAP G&A spending was $4.7 million for the first quarter of 2011, an increase from $3.1 million in the first quarter of 2010. The increase was driven by one month of the Occam acquisition and most significantly through the cost associated with becoming a fully-operational public company and severance for the former CFO.

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And compared to our guidance, research and development came in as expected, but sales and marketing was over due to higher than planned commission expense from a strong quarter and additional payments due to the sales reorganization following the acquisition. G&A was also over because of the severance payment to the former CFO.

Non-GAAP operating income for the first quarter of 2011 was $3.8 million as compared to a loss of $4.2 million in the first quarter of 2010. With offsetting interest income and expense and a minimal tax provision this quarter, non-GAAP net income for the first quarter was $3.8 million or fully diluted earnings of $0.09 per share.

This compares with a non-GAAP loss of $4.7 million or fully diluted earnings of minus $0.15 per share in the first quarter of 2010. This is considerably above the guidance of $0.05 per share that we gave on April 4th as a result of the improved revenues and higher gross margins partially offset by high operating expenses.

Turning next to the merger related and other expenses. We have told you they would amount to $13.4 million in cost of goods sold and $5.8 million in operating expenses in the quarter.

The actual numbers are $10.3 million in cost of goods sold and $6 million in operating expenses. The difference in cost of goods sold results primarily from a reduction in the amortization of purchase accounting adjustments to Occam inventory compared to our estimate for the month of March.

We still expect this item to be fully amortized by the end of the second quarter, which means a larger amount will be booked in the second quarter. The difference in the operating expense resulted from the actual results for Occam merger-related expenses, running slightly favorable to our forecast, offset by an accrual booked in the first quarter, relating to an agreed settlement for alleged patent infringements.

On a going-forward basis, we expect that the operating expense merger-related expenses will run slightly under our forecasted number each quarter. Amortization of stock-based compensation amounted to $8.1 million in line with our forecast.

The final item, the amortization of intangibles, this amounted to $2.2 million in Q1 as compared to our estimate of $3.8 million. This is the result of changed assumptions. We had assumed that the in process R&D expense would be amortized straight line over the remainder of the year starting in March.

After discussion with our auditors, we have not taken any amortization position in the first quarter, and will do an impairment test in the second quarter and then decide on the term of the amortization. So, this number would change as we go forward.

Now, let's turn to the balance sheet. Cash and marketable securities are $39.6 million, down from $98.3 million of 12/31/2010. This decrease reflects the use of $60.8 million net for the cash portion of the Occam acquisition and some cash from operations generated during the quarter.

We had estimated cash to be at $31 million at the end of the quarter, but helped by strong collections in March, we were able to improve on that number. The accounts receivable is $64.3 million of the end of the quarter. And this concludes the Occam receivables were transferred over.

Our average DSOs on accounts receivable were at 56. We had expected DSO to be slightly higher at the end of the first quarter. But as mentioned above, collections were ahead of plan and it's allowed us to keep DSO within our target range.

Inventory is $49.4 million using inventory turns of 3.4, well down from the 7.6 at the end of the prior year. The Occam inventory at the close of the transaction was higher than we had expected and when market valued under purchase accounting added to our overall inventory and, thus, reduced inventory turns.

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However, this market value will be fully amortized by the end of the second quarter. And as I've told you on the April 4th call, we do expect to return to close to eight turns by the end of this year.

So the revenue was $29.7 million, up from $25.1 million at the end of 2010, as the result of an increased shipment volume. As we start to ship against the broadband stimulus order, this number will begin to increase.

Finally, let's move to guidance. On our April 4th call we gave you some specific non-GAAP guidance to each quarter of 2011. Each quarter during this year, we will give you guidance for the following quarter and explain any variance on the guidance we gave you on April 4th.

For the second quarter, we gave you revenue guidance of $97 million and confirmed that guidance. For gross margin, our guidance was that gross margin percent could be between 42% to 44%.

While we were over 45% in the first quarter, as I mentioned previously, we did have some one-time favorable variances to push that number higher than we had expected. Having said that, we do expect gross margins to remain strong and to be at the high-end of the range that we gave you.

The margin strength translates to improving bottom line, and we would expect the second quarter non-GAAP earnings per share to be in the range of $0.12 to $0.14 per share, up from the previous guidance of $0.10 per share.

With that, I'll turn the call back over to Carl.

Carl Russo - *Calix Inc. - President, CEO*

Thank you, Michael. As we close the Occam integration, we find the special urgency to execute on our vision of the Unified Access architecture has only heightened. Our customers face tremendous demands as they shift their business models to be the winning communications service provider to the future.

In short, we see a lot of opportunity and we have the resources to get the job done. While we have many new products coming to market, I would like to take a moment to highlight one significant milestone.

At the Calix User Group Conference, we announced the E7-20 Multi-Terabit Ethernet Service Access Platform, a low-latency, high-capacity access concentrator with a two terabits per second backplane that ushers in a new era of next-generation access systems.

Optimized for the emerging capacity requirements of an all-video world, the E7-20 supports 100 gigabits per second to every one of its 20 line card slots and has a mechanical design capable of handling massive fiber access deployments. An all fiber-access edge can the data centers of our customers will be a reality in the immediate future.

Having a system that was architected for this all-IP over fiber environment will be a necessity.

I am proud to say that the E7-20 will begin field trials on schedule later this quarter, an exciting time for Calix and for our customers. Furthermore, as many of you may have noticed, we are beginning to execute on our plan to expand internationally.

A new effort requires a leader and, for Calix, that leader is Andy Lockhart, who joined us last week. Andy comes to Calix from Cisco after a two-decade career building successful operations worldwide -- a significant addition to the executive team and another reason it is an exciting time at Calix.

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As we look to Q2, we see a clear path to achieving our goals, but remain mindful of the macroeconomic climate. And, therefore, we will keep our hands close to the levers as we manage our business.

At this point, I'd like to turn the call over for questions.

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And the first question will come from the line of Nikos Theodosopoulos, UBS.

Nikos Theodosopoulos - *UBS Investment Research - Analyst*

Okay, thank you. I think I heard -- I think I heard earlier in the call that you had two 10% customers this quarter and international was less than 10% of sales. So if I heard that right, it sounded like you had another US 10% customer in the quarter.

Is that correct? And can you -- I realize you don't want to provide any names, but can you provide any insight as to whether that was a one-time order or something that shows increased purchasing or a new customer? Can you elaborate a little bit on that?

Carl Russo - *Calix Inc. - President, CEO*

I can elaborate a little bit, Nikos. So you're correct. We don't announce those bases. We did have two 10% customers. Obviously your conclusion about them both being domestic is correct.

But beyond that, I'm not sure I would offer anything other than -- I think if you saw the names, you wouldn't be surprised. How's' that?

Nikos Theodosopoulos - *UBS Investment Research - Analyst*

Okay. Okay. All right, fair enough. And then second question, I guess, on Occam, can you -- do you have an actual revenue contribution that they provided in the quarter? And then the second part of that question would be, you mentioned that their inventories were higher than you thought when you closed the transaction.

Are you comfortable with the inventories that you have from them, that you'll be able to sell it? Or is there a potential write-down there? Any comments on that? Thank you.

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

Nikos, this is Michael. I'll take that question. So, no, we're not going to give you an actual number of Occam, but we did say that it was a very small amount and much smaller -- as we told you on the April 4th, much smaller than we had actually anticipated.

We've now fully integrated Occam. So we're not actually tracking Occam revenue separate in any way from going forward. So we won't even be able to break it out that way. It's fully integrated and running on the same systems.

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As far as the inventory was concerned, the Occam inventory was higher than we had expected. And then under purchase accounting, you have to value that inventory at sales -- or effectively at sales price; what they call fair market price, which is effectively sales prices less a small commission for selling, which in effect almost doubles the inventory.

So that's why we have a very large inventory number on our books. That's actually getting written off by the end of the second quarter. So our inventory will drop quite a lot by the end of the second quarter.

As to whether or not we can sell it, you know, we have analyzed that inventory, we have built up some reserves for anything that we think is excess or obsolete or might not be used or any product rationalization. So the amount is net. So we don't anticipate any issues on inventory moving forward.

Carl Russo - *Calix Inc. - President, CEO*

Yes. Nikos, just one piece of color, as you may have noticed from my commentary and also from press releases, the B6, which came over from Occam, has really not skipped a beat.

And I think we announced six new wins just since the integration and the close of the transaction. So, customers clearly understand that we intend to go forward with the B6. So I think that would address the other concern.

Does that make sense?

Nikos Theodosopoulos - *UBS Investment Research - Analyst*

Yes, it does. I'll follow up post the call. I was just trying to make sure that if there was a situation where you were planning to write this down, but then it was a little -- it's higher than you thought and then you might sell it later, would we -- does that impact any of the revenue generation.

But I could follow up after the call on that. Thank you.

Carl Russo - *Calix Inc. - President, CEO*

Great. Thanks, Nikos.

Operator

And the next question will come from the line of George Notter, Jeffries.

George Notter - *Jeffries & Co. - Analyst*

Thanks very much, guys. I guess I want to ask about guidance. Any update on the guidance for the full year or the out quarters. Obviously, you gave a pretty explicit guidance coming off of the update post the Occam transaction. Any updates there?

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

George, this is Michael. No, we're not going to update the full year guidance. We did give you that detailed guidance. And what we'll do from now on is just compare against that guidance each quarter and just give you the next quarter.

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So, no change in any outlook, except the numbers that we just gave you for the second quarter.

George Notter - *Jeffries & Co. - Analyst*

Got it. Okay, sure. And then CenturyLink, in the wake of the Qwest deal closing, I think, about a month ago, any update there in terms of their appetite for spending on broadband infrastructure? Are you seeing any slowdown or acceleration in spending there, post-deal? I mean, any flavor for that would be helpful.

Carl Russo - *Calix Inc. - President, CEO*

So, first, congratulations to them for closing the transaction on the 1st of April. And as we've always -- and has been our tradition, if things are nominal, we don't pretty much talk about them unless there's something that's new news in either direction.

And so this quarter, everything appears nominal and going according to plan. So, nothing that I would attenuate left or right.

George Notter - *Jeffries & Co. - Analyst*

Got it. Great. And then the last question I had just had to do with your international strategy. You announced the addition in the management team there. But I think in memory service, you guys kind of talked about the idea that you'd flush out the international strategy a little bit more for folks.

Can you talk about that? How do you staff up the international expansion strategy. Do you do it in a surgical way with specific accounts in mind? Could you arrange an OEM arrangement? Walk us through what that might look like, if you could.

Carl Russo - *Calix Inc. - President, CEO*

So I think we alluded to we would flush it out later. Consider the announcement of Andy joining us as that flush. You may look at it and can say, well, that's sort of a skeleton.

We are really proud to have Andy join us. This is an executive that has built many, many international organizations, and quite a few them from scratch. So he's been here a week and a half.

We certainly have our opinions and we're now starting to merge those with his. I would ask you to give us this one quarter and we'll come out and give you further details, because frankly, George, any and all of the above are possible.

We certainly have a view, but I don't want to steal his thunder.

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

Yes. I would just add, George, that we have a -- within our guidance and within our plans, we have additions in international. It's not just Andy.

We have a plan to add people actually starting immediately. And those are included in our numbers in our guidance for the year, but there is no revenue included in that guidance for the year for international.

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Carl Russo - *Calix Inc. - President, CEO*

That's a good point, Michael.

George Notter - *Jeffries & Co. - Analyst*

Great. Fair enough. Thank you very much.

Carl Russo - *Calix Inc. - President, CEO*

Thanks, George.

Operator

And the next question will come from the line of Amir Rozwadowski, Barclays Capital.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much. And good afternoon, folks.

Carl Russo - *Calix Inc. - President, CEO*

Hi, Amir.

Amir Rozwadowski - *Barclays Capital - Analyst*

Well, (inaudible) call. I wanted to see if we could touch base a bit on broadband stimulus. It seems as though you continue to announce when this -- in terms of vendors selecting your equipment.

I was wondering if you could give us an update now that the integration is completed with Occam. Are you seeing a pickup in activity with respect to your products or any change in sort of the award rate that you're seeing now that both companies are integrated?

Carl Russo - *Calix Inc. - President, CEO*

I don't know that it's due the companies are being integrated. Clearly, as we've said, the activity continues to grow, because as we've discussed on prior calls, the service providers that have won awards have to get on with the business of [letting] awards and then building the networks.

So I don't know that there's anything that I would attribute to actually closing the transaction. There might have been a little bit of pent up demand. I think, frankly, the acceleration that we're seeing is what we would expect from broadband stimulus, coupled with the fact that, quite literally, on day one, we had the sales teams realigned and on the ground.

So I think those two events is what I would point to, not necessarily because of the acquisition. Does that make sense?

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Amir Rozwadowski - *Barclays Capital - Analyst*

Yes, that's very helpful. But you do feel comfortable that we should start to see sort of a pickup in revenue from this point going forward, Carl?

Carl Russo - *Calix Inc. - President, CEO*

Well, I think I'll let Michael comment on the revenue. I'll talk to the sales activity. I think the sales activity continues to increase. Michael, maybe you want to shape the revenue course?

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

Sure. We do have a backlog of orders for BBS. We will start to ship again some of those in the second quarter, but primarily in the second half of the year.

Revenue is delayed because the type of contract they're going to be. So we don't expect much revenue in the second quarter -- the start in the second half for the year and then move through 2012.

Amir Rozwadowski - *Barclays Capital - Analyst*

That's certainly very helpful. And then, if I may, on your gross margins, I mean, certainly, gross margins seem to be continually exceeding your own expectations. It seems though you're benefiting from sort of increased traction with some of your higher margin products.

I was wondering if you could give us an update when it comes to the 7.0 upgrade --software upgrade cycle that's taking place with the C7 and where you stand on that upgrade cycle.

Carl Russo - *Calix Inc. - President, CEO*

Yes. So as you may remember last quarter, Amir, we got pass certain points and just said it's part of a normal business. But let me just give you a general trend on those levers and I'll put it under the heading of all the EXA-based architecture, which as you know is release 7.0 and the RAP-10 gig and the C7, and the E7s.

They continue their growth ramps and they are not linear. So that's the best way I could characterize them. And they are clearly becoming increasingly meaningful part of the business.

Amir Rozwadowski - *Barclays Capital - Analyst*

Great. That's helpful, Carl. I'll pass along the next question.

Carl Russo - *Calix Inc. - President, CEO*

Great. Thanks very much, Amir.

Operator

And the next question will come from the line of Sanjiv Wadhwani, Stifel Nicolaus.

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Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Thanks so much. Carl, just some broadband stimulus, I just wanted to confirm numbers that we kind of discussed in the update call on April 4. I think it was $40 million to $50 million on the Calix side and perhaps about $20 million on the Occam side.

I just wanted to make sure those numbers still looked kind of in the ballpark of what you're expecting to do.

Carl Russo - *Calix Inc. - President, CEO*

Well, I think at the end of the day, what you're referring to were sort of estimates of trickling it down, looking at the numbers, trying to shape and go accordingly, correct?

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Right.

Carl Russo - *Calix Inc. - President, CEO*

Yes. There's nothing in there that, again, from an order of magnitude, would cause me any concern.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Fair enough. Okay. And then on Frontier, Carl, last quarter, obviously, they came in, I think, surprising in the sense of a little bit ahead of what people had expected. Any updates on what the activity was on Q1 about Frontier?

Carl Russo - *Calix Inc. - President, CEO*

It continues to grow.

Sanjiv Wadhwani - *Stifel Nicolaus - Analyst*

Got it. All right, thanks so much.

Operator

And the next question will come from the line of Ehud Gelblum, Morgan Stanley.

Ehud Gelblum - *Morgan Stanley - Analyst*

Hi, guys. Thanks. I appreciate it. A couple of things. I want to go back to the gross margin again. When you look at gross margin, should we be looking at it as the $38.8 million of gross profit or -- I mean, the 54% percent gross margin or close to that 45.7% that you mentioned, Mike?

And then I'll just kind of go into the drivers behind that.

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Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

I wasn't quite sure I understood you. Are you saying -- you're asking whether the percent should be close to 45.7%, is that right?

Ehud Gelblum - *Morgan Stanley - Analyst*

When you said gross margin, what did you say the percentage was?

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

It's 45.7 was the actual for Q1 and I said that we will be in the high-end of our range in Q2, which the range is 42% to 44%, so close to 44%.

To give you a little bit of color on that, in Q1 we had some cost reductions which came in higher than we had planned. We normally have ASP erosion that offsets those cost reduction. But in Q1, we had some additional cost reductions and slightly better ASPs.

So that helped us out there. We had some purchase price variances, our outsourced manufacturers that came in lower than planned, which benefited gross margin for that quarter. And we had some E&O expense, which is slightly less than forecasted.

So that led to the 45.7%. As we look towards Q2, we're assuming that the ASP erosion offsets the cost reduction. So that virtually becomes zero there, no gain to margin as we have in Q1.

We were not having a continued purchase price variances that was a year-end item. And we have some volume purchase agreement that would begin to affect our margins as we go forward. So that's why we're (inaudible) to the high-end of the range of 42% to 44%.

Ehud Gelblum - *Morgan Stanley - Analyst*

You mentioned ASP increases. Was that basically mixed driven? And as the E7-20 comes out, should we assume that that has similar margins (inaudible) under? So we should be seeing continued strength at least from that part of the (inaudible)?

And also, it looks like broadband stimulus, for the most part, is coming in more -- is it correct to say that when that hits it'll be more on the Es than on the Cs? Or in the B6s?

Carl Russo - *Calix Inc. - President, CEO*

So, wow, a lot of questions there. Let me take --

Ehud Gelblum - *Morgan Stanley - Analyst*

You don't understand. If gross margin were to be above your range, what would the product mix look like and then vice-versa? Could the product mix sort of look like (inaudible) 45%?

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

But let me just take a stab, part of that. The mix is obviously extremely important. But BBS, those BBS orders when they come in, they have a high percentage of ONTs, which are lower margin products.

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So that actually pulls it down a little bit. So that's why we think that, to a certain extent, we're going to stay and (inaudible) for the high-end of the range going forward.

Ehud Gelblum - *Morgan Stanley - Analyst*

The final question, when you look at your larger customers, your tier twos, and you compare them to the tier threes and tier fours, do they all have the same type of seasonality in Q1 or were some -- did you see better strength out of the smaller players and less so out of the larger ones or vice-versa?

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

I think of it as pretty much a strength across the board. We were actually a little weak in international than we had been certainly from Q4, but across the board strength in the various other segments of our business.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. So customer type didn't have any difference in North America.

Michael Ashby - *Calix Inc. - Executive Vice President, CFO*

No. No.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

The next question will come from the line of Simona Jankowski, Goldman Sachs.

Erin Riley - *Goldman Sachs - Analyst*

Hi, Carl. This is Erin Riley on behalf of Simona Jankowski. I have a couple of questions.

First, did the Frontier upgrade contribute meaningfully to the quarter? Or do you say the bulk of that is still ahead?

Carl Russo - *Calix Inc. - President, CEO*

Frontier upgrade.

Erin Riley - *Goldman Sachs - Analyst*

Verizon Lines.

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Carl Russo - *Calix Inc. - President, CEO*

So I'll stand by what I said earlier, which is we continue to grow our business for Frontier and I would not -- to me, it's all Frontier. So that's the way I look at it.

Erin Riley - *Goldman Sachs - Analyst*

Okay. And earlier this week, Corning had record shipments in their optical fiber business, which is led by North America and Europe. They said their sales were up about 30% year-over-year, which was about 10% ahead of what we were modeling.

Carl Russo - *Calix Inc. - President, CEO*

We saw that.

Erin Riley - *Goldman Sachs - Analyst*

Should we look at that as a leading indicator for your business, assuming that fiber gets (inaudible) a quarter or two before the equipment?

Carl Russo - *Calix Inc. - President, CEO*

So the answer yes. I don't know if I would extrapolate it linearly, okay?

Erin Riley - *Goldman Sachs - Analyst*

Okay.

Carl Russo - *Calix Inc. - President, CEO*

But, to your point, very clearly, as we've stated, there's a whole set of things that have to happen before the optical electronics go in to the network. Does that make sense?

Erin Riley - *Goldman Sachs - Analyst*

Yes, it does. Thank you.

Carl Russo - *Calix Inc. - President, CEO*

It is a leading indicator for sure.

Erin Riley - *Goldman Sachs - Analyst*

And then, lastly, with Andy coming onboard to lead your international expansion efforts, can you give us your latest thinking on your overseas expansion strategy? Is it broader than Latin America initially or still primarily focused on Latin America?

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Carl Russo - *Calix Inc. - President, CEO*

Well, very clearly, Andy is based in London, so we're thinking globally now. But the sequencing of it, which was asked earlier, we'll address at a later date.

Erin Riley - *Goldman Sachs - Analyst*

Okay. That's all for my side. Thank you so much.

Carl Russo - *Calix Inc. - President, CEO*

Thanks, Erin.

Operator

And we have a follow-up question from the line Nikos Theodosopoulos.

Nikos Theodosopoulos - *UBS Investment Research - Analyst*

Yes. Carl, just a quick follow-up. With the acquisition of Savvis by CenturyLink, your largest customer, does that, in anyway, change how you service the customer? Or does it create any disruption with the customer?

I guess the question there is anything you're going to do differently with them because of that acquisition.

Carl Russo - *Calix Inc. - President, CEO*

So the answer is not a thing, number one. Number two, as we've been very clear, we view the leadership at CenturyLink as having a view and a vision of where they want to take their company, and I think Mr. Post has been very clear about that.

And I think as a result (inaudible) make clear we expect them to continue pursuing that strategy. And I think the acquisition or at least the announcement of the intent to acquire status is just another milestone in that strategy.

So it all makes sense to us. It doesn't change anything about our view of the customer or how we'll address them.

Nikos Theodosopoulos - *UBS Investment Research - Analyst*

And in terms of product innovation, anything you might -- anything you would perhaps think about doing that you weren't doing before? Or, really, no change at all?

Carl Russo - *Calix Inc. - President, CEO*

No. I mean, literally reinforces slides that we present to our customers and to investors, et cetera. I mean, if you think back on slides that you've seen, if it fits straight into that model, and, no, it would not change a thing, Nikos.

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Nikos Theodosopoulos - *UBS Investment Research - Analyst*

Okay, thank you.

Carl Russo - *Calix Inc. - President, CEO*

Great.

Operator

Then this concludes the question and answer session for today's call. I would like to turn the call back to Mr. Carl Russo, President and CEO, for closing remarks.

Carl Russo - *Calix Inc. - President, CEO*

Great. Thanks. It's just if there's no further questions, we look forward to seeing you in 91 days. We very much appreciate the attention. You all have a great day.

Operator

And ladies and gentlemen, this concludes today's conference. Thank you once again for your participation. You may now disconnect. Have a great day.

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