

Calix Q1 2013 Financial Results

Issued April 25, 2013



Safe Harbor

All statements other than statements of historical facts contained in this presentation, including statements regarding our future operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “potential,” or the negative of these terms or other similar expressions.

This presentation includes forward-looking statements regarding future events, including but not limited to: our development of new products that will continue to help our customers transform their networks; our growth drivers, including our expansion into legacy Qwest lines at CenturyLink and former Verizon properties at Frontier; a rebounding of investments by U.S. Tier 3 service providers; growth in our “organic” international Tier 2/3 pipeline; opportunities associated with our Ericsson Global Reseller Agreement; domestic Tier 1 service providers and for fiber access solutions among telcos; MSOs, and non-traditional providers; the ongoing expansion of our total addressable market; the future business and financial performance of the Company; and our long-term model for revenue, gross margin, operating expenses and operating profit margin. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in our filings with the Securities and Exchange Commission (“SEC”), especially in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections of Calix’s Annual Report on Form 10-K filed with the SEC for fiscal year 2012, our current reports on Form 8-K and other SEC filings, including our Form 10-Qs.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or will occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations. You should read our SEC filings and the documents that we have filed with the SEC as exhibits to those filings, with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect.

Q1 2013 Solid Execution

- ▶ Executing on growth drivers
 - Solid execution against our strategy to expand our TAM beyond the 15% of the global market historically addressed
 - Strength across all of our product offerings and customer account tiers and geographies
- ▶ \$90.5 million in revenue in line with guidance*
 - Record revenue for a first quarter
 - Up 15.3% compared to Q1 2012
 - Down just 1.0% compared to Q4 2012; much lower than the seasonal declines of 20% sequentially typically experienced in Q1
- ▶ Record gross margin better than guidance*
 - Increasing demand for E-Series systems
 - Favorable customer and product mix led to GM up 494 bps sequentially to 48.1%
- ▶ Operating expenses in line with guidance*
 - Strong expense management
- ▶ EPS better than guidance*
 - Fueled by better-than-anticipated gross margin

*Revenue, Operating Expenses and EPS guidance issued on Feb. 5, 2013

Calix Growth Drivers

New opportunities, expanded geographies, adjacent markets



Near-term growth opportunities

- ▶ **Expanding** into legacy Qwest lines at CenturyLink
- ▶ **Penetrating** former Verizon properties at Frontier
- ▶ **Rebounding** investment by U.S. Tier 3 service providers
- ▶ **Growing** “organic” international Tier 2/3 pipeline
- ▶ **Burgeoning** Ericsson Global Reseller Agreement



Long-term growth opportunities

- ▶ **Leveraging** E-Series at global Tier 1s via position as Ericsson’s preferred broadband access solution
- ▶ **Expanding** into domestic Tier 1 service providers
- ▶ **Increasing** demand for fiber access solutions among telcos, MSOs, and non-traditional providers

Additional information about these growth drivers is available in the [Calix Investor Relations presentation](#) posted on the Investor section of [Calix.com](#).

Q1 2013 Financial Results vs. Guidance

\$s in millions, except EPS	Actual Results	Q1 2013 Guidance Issued on Feb 5	Comments
Revenue	\$90.5	Approximately \$90.0, slight decline from \$91.4 in Q4 vs. large seasonal decline typically expected	Highest Calix revenue for a Q1; continuing adoption of VDSL2 and fiber-based broadband solutions by domestic and international service providers
Gross Margin*	48.1%	44.0%	Record gross margins fueled by a better than expected customer and product mix
Operating Expenses*	\$39.7	\$39.5, an increase of approximately \$3.0 vs. Q4 from a full quarter of Ericsson employees, funding of bonus plan and absence of the one-time accrual reversal that lowered Q4 expenses	Strong expense control focus; flat headcount with end of Q4
EPS*	\$0.06	\$0.00	Higher than anticipated EPS due to gross margin expansion
Cashflow	\$1.1	Positive	Continued focus on balance sheet management

*Non-GAAP metrics; see reconciliation in the appendix.

Income Statement Summary

Q1 2013 vs. Prior Quarter and Year

\$s in millions, except EPS	Actual Q1 2013	Actual Q4 2012	Actual Q1 2012	Chg Q1 13 vs. Q4 12	Chg Q1 13 vs. Q1 12
Revenue	\$90.5	\$91.4	\$78.6	-\$0.9	\$11.9
Domestic	\$77.8	\$83.6	\$72.9	-\$5.8	\$4.9
International	\$12.7	\$7.8	\$5.7	\$4.9	\$7.0
10% or greater customers	1	1	1	0	0
Gross Margins*	48.1%	43.2%	45.1%	4.9%	3.0%
Operating Expenses*	\$39.7	\$36.7	\$34.7	\$3.0	\$5.0
Operating Income*	\$3.8	\$2.8	\$0.8	\$1.0	\$3.0
EPS*	\$0.06	\$0.06	\$0.01	\$0.00	\$0.05

*Non-GAAP metrics; see reconciliation in the appendix.

Progress Toward Long Term Model

Leverage and Product Mix Opportunities

\$s in millions	FY 2009	FY 2010	FY 2011	FY 2012	Q1 FY 2013	Long Term Model
Revenue	\$232.9	\$287.0	\$344.7	\$330.2	\$90.5	Double digit growth rate
Yr/Yr Chg	-7.0%	23.2%	20.1%	-4.2%	15.3%	
Gross Margin*	35.5%	41.8%	43.7%	44.4%	48.1%	Low 50% range
Operating Expenses*	37.2%	35.4%	38.1%	42.1%	43.9%	Low 30% range
Operating Profit*	-1.7%	6.3%	5.5%	2.3%	4.2%	High teens low 20% range

*Non-GAAP metrics; see reconciliation in the appendix and [historical financial results on Calix's Investor Relations website](#).

Selected Balance Sheet Metrics

\$s in millions	Actual Q1 2013	Actual Q4 2012	Actual Q1 2012	% Chg Q1 13 vs. Q4 12	% Chg Q1 13 vs. Q1 12	Comments
Cash*	\$48.1	\$47.0	\$49.6	2.3%	-3.0%	
CF From Operating Activities	\$2.4	\$2.9	\$13.5	-17.2%	-82.2%	7th consecutive quarter of positive CF from operations
DSOs	56 Days	51 Days	49 Days	-	-	Slightly above targeted range of 50 to 55 days due to linearity of the quarter
Inventory						Focus on achieving lower inventory levels and higher turns continues
Dollars	\$39.2	\$43.3	\$37.2	-9.5%	5.4%	
Turns	3.7 x	5.3 x	3.6 x			
Deferred Revenue	\$65.5	\$55.1	\$34.3	18.9%	91.0%	Increase due to RUS contracts and extended warranties

*Cash includes Cash, Cash Equivalents and Restricted Cash

Other Metrics

\$s in millions, on GAAP basis	Actual Q1 2013	Actual Q4 2012	Actual Q1 2012
Capital Ex	\$1.3	\$2.3	\$3.0
Depreciation	\$2.9	\$2.2	\$2.0
Stock base compensation			
COGS	\$0.4	\$0.3	\$0.4
R&D	\$1.2	\$1.1	\$1.0
S&M	\$1.3	\$1.3	\$1.2
G&A	\$1.9	\$1.7	\$1.7
Total	\$4.7	\$4.5	\$4.3
Amortization of Intangibles	\$4.6	\$4.6	\$3.8
MRE	\$0.0	\$1.4	\$0.0

GAAP to Non-GAAP Reconciliation

The Company uses certain non-GAAP financial measures in this presentation to supplement its consolidated financial statements, which are presented in accordance with GAAP. These non-GAAP measures include non-GAAP net income and non-GAAP basic and diluted net income per common share. These non-GAAP measures are provided to enhance the reader's understanding of the Company's operating performance as they primarily exclude certain non-cash charges for stock-based compensation and amortization of acquisition-related intangible assets, and non-recurring acquisition-related expenses, which the Company believes are not indicative of its core operating results. Acquisition-related expenses include the charges resulting from our acquisitions of Ericsson's fiber access assets in 2012 and of Occam in 2011, which in general include legal and professional expenses, severance, and integration-related expenses. For fiscal 2011, acquisition-related expenses also include the required revaluation of Occam inventory to its estimated fair value, and inventory-related charges associated with our acquisition of Occam. Management believes that the use of non-GAAP measures provides investors with important perspectives into the Company's ongoing business performance and management uses these non-GAAP measures to evaluate financial results and to establish operational goals. The presentation of these non-GAAP measures is not meant to be a substitute for results presented in accordance with GAAP, but rather should be evaluated in conjunction with those GAAP results. The non-GAAP financial measures used by the company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

GAAP to Non-GAAP

Q1 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Three Months Ended March 30, 2013			
	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 90,548	\$ -	\$ -	\$ 90,548
Cost of revenue	46,994	351	2,088	49,433
Gross profit	43,554	(351)	(2,088)	41,115
Gross margin	48.1%	-0.4%	-2.3%	45.4%
Operating expenses	39,735	4,368	2,552	46,655
Operating income (loss)	3,819	(4,719)	(4,640)	(5,540)
Interest and other income (expense), net	(306)	-	-	(306)
Income (loss) before taxes	3,513	(4,719)	(4,640)	(5,846)
Provision for income taxes	357	-	-	357
Net income (loss)	<u>\$ 3,156</u>	<u>\$ (4,719)</u>	<u>\$ (4,640)</u>	<u>\$ (6,203)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>48,911</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>49,422</u>	<u>49,422</u>	<u>49,422</u>	
GAAP net loss per common share				<u>\$ (0.13)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>	

GAAP to Non-GAAP

Q1 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 78,565	-	-	\$ 78,565
Cost of revenue	43,108	363	1,275	44,746
Gross profit	35,457	(363)	(1,275)	33,819
Gross margin	45.1%	-0.5%	-1.6%	43.0%
Operating expenses	34,684	3,952	2,552	41,188
Operating income (loss)	773	(4,315)	(3,827)	(7,369)
Other income (expense), net	(57)	-	-	(57)
Income (loss) before taxes	716	(4,315)	(3,827)	(7,426)
Provision for income taxes	95	-	-	95
Net income (loss)	\$ 621	\$ (4,315)	\$ (3,827)	\$ (7,521)
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>47,850</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,039</u>	<u>48,039</u>	<u>48,039</u>	
GAAP net loss per common share				<u>\$ (0.16)</u>
Non-GAAP net income per share	<u>\$ 0.01</u>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>	

GAAP to Non-GAAP

Q4 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Acquisition Related Expenses	Gain on Bargain Purchase	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 91,424	\$ -	\$ -	\$ -	\$ -	\$ 91,424
Cost of revenue	51,962	-	-	344	2,088	54,394
Gross profit	39,462	-	-	(344)	(2,088)	37,030
Gross margin	43.2%	-	-	-0.4%	-2.3%	40.5%
Operating expenses	36,693	1,401	-	4,132	2,552	44,778
Operating income (loss)	2,769	(1,401)	-	(4,476)	(4,640)	(7,748)
Interest and other income (expense), net	23	-	1,029	-	-	1,052
Income (loss) before taxes	2,792	(1,401)	1,029	(4,476)	(4,640)	(6,696)
Benefit from income taxes	(122)	-	-	-	-	(122)
Net income (loss)	<u>\$ 2,914</u>	<u>\$ (1,401)</u>	<u>\$ 1,029</u>	<u>\$ (4,476)</u>	<u>\$ (4,640)</u>	<u>\$ (6,574)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share						<u>48,538</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,836</u>	<u>48,836</u>	<u>48,836</u>	<u>48,836</u>	<u>48,836</u>	
GAAP net loss per common share						<u>\$ (0.14)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	

GAAP to Non-GAAP FY 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Acquisition Related Expenses	Gain on Bargain Purchase	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 330,218	\$ -	\$ -	\$ -	\$ -	\$ 330,218
Cost of revenue	183,670	-	-	1,433	7,539	192,642
Gross profit	146,548	-	-	(1,433)	(7,539)	137,576
Gross margin	44.4%	-	-	-0.4%	-2.3%	41.7%
Operating expenses	138,987	1,401	-	16,004	10,208	166,600
Operating income (loss)	7,561	(1,401)	-	(17,437)	(17,747)	(29,024)
Interest and other income (expense), net	(173)	-	1,029	-	-	856
Income (loss) before taxes	7,388	(1,401)	1,029	(17,437)	(17,747)	(28,168)
Provision for income taxes	158	-	-	-	-	158
Net income (loss)	<u>\$ 7,230</u>	<u>\$ (1,401)</u>	<u>\$ 1,029</u>	<u>\$ (17,437)</u>	<u>\$ (17,747)</u>	<u>\$ (28,326)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share						<u>48,180</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,367</u>	<u>48,367</u>	<u>48,367</u>	<u>48,367</u>	<u>48,367</u>	
GAAP net loss per common share						<u>\$ (0.59)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.15</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.36)</u>	<u>\$ (0.37)</u>	

GAAP to Non-GAAP FY 2011 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Acquisition Related Expenses	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 344,669	\$ -	\$ -	\$ -	\$ 344,669
Cost of revenue	194,195	19,966	1,503	9,552	225,216
Gross profit	150,474	(19,966)	(1,503)	(9,552)	119,453
Gross margin	43.7%	-5.8%	-0.4%	-2.8%	34.7%
Operating expenses	131,412	11,693	20,100	8,569	171,774
Operating income (loss)	19,062	(31,659)	(21,603)	(18,121)	(52,321)
Interest and other income (expense), net	(5)	-	-	-	(5)
Income (loss) before taxes	19,057	(31,659)	(21,603)	(18,121)	(52,326)
Provision for income taxes	224	-	-	-	224
Net income (loss)	<u>\$ 18,833</u>	<u>\$ (31,659)</u>	<u>\$ (21,603)</u>	<u>\$ (18,121)</u>	<u>\$ (52,550)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share					<u>45,546</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>46,947</u>	<u>46,947</u>	<u>46,947</u>	<u>46,947</u>	
GAAP net loss per common share					<u>\$ (1.15)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.40</u>	<u>\$ (0.67)</u>	<u>\$ (0.46)</u>	<u>\$ (0.39)</u>	

GAAP to Non-GAAP FY 2010 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<u>Non-GAAP</u>	<u>Preferred Stock Dividends</u>	<u>Change in Fair Value of Preferred Stock Warrants</u>	<u>Acquisition Related Expenses</u>	<u>Stock-Based Compensation</u>	<u>Amortization of Intangible Assets</u>	<u>GAAP</u>
Revenue	\$ 287,043	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 287,043
Cost of revenue	167,128	-	-	-	1,745	5,440	174,313
Gross profit	119,915	-	-	-	(1,745)	(5,440)	112,730
Gross margin	41.8%	-	-	-	-0.6%	-1.9%	39.3%
Operating expenses	101,701	-	-	3,942	23,830	740	130,213
Operating income (loss)	18,214	-	-	(3,942)	(25,575)	(6,180)	(17,483)
Interest and other income (expense), net	(816)	-	(173)	-	-	-	(989)
Income (loss) before taxes	17,398	-	(173)	(3,942)	(25,575)	(6,180)	(18,472)
Provision for income taxes	81	-	-	-	-	-	81
Net income (loss)	17,317	-	(173)	(3,942)	(25,575)	(6,180)	(18,553)
Preferred stock dividends	-	900	-	-	-	-	900
Net income (loss) attributable to common stock holders	<u>\$ 17,317</u>	<u>\$ (900)</u>	<u>\$ (173)</u>	<u>\$ (3,942)</u>	<u>\$ (25,575)</u>	<u>\$ (6,180)</u>	<u>\$ (19,453)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share							<u>29,778</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	
GAAP net loss per common share							<u>\$ (0.65)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.45</u>	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>	<u>\$ (0.10)</u>	<u>\$ (0.66)</u>	<u>\$ (0.16)</u>	

GAAP to Non-GAAP FY 2009 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<u>Non-GAAP</u>	<u>Preferred Stock Dividends</u>	<u>Change in Fair Value of Preferred Stock Warrants</u>	<u>Stock-Based Compensation</u>	<u>Amortization of Intangible Assets</u>	<u>GAAP</u>
Revenue	\$ 232,947	\$ -	\$ -	\$ -	\$ -	\$ 232,947
Cost of revenue	150,181	-	-	682	5,440	156,303
Gross profit	82,766	-	-	(682)	(5,440)	76,644
Gross margin	35.5%	-	-	-0.3%	-2.3%	32.9%
Operating expenses	86,717	-	-	8,514	740	95,971
Operating income (loss)	(3,951)	-	-	(9,196)	(6,180)	(19,327)
Interest and other income (expense), net	(3,503)	-	37	-	-	(3,466)
Income (loss) before taxes	(7,454)	-	37	(9,196)	(6,180)	(22,793)
Benefit from income taxes	(352)	-	-	-	-	(352)
Net income (loss)	(7,102)	-	37	(9,196)	(6,180)	(22,441)
Preferred stock dividends	-	3,747	-	-	-	3,747
Net income (loss) attributable to common stock holders	<u>\$ (7,102)</u>	<u>\$ (3,747)</u>	<u>\$ 37</u>	<u>\$ (9,196)</u>	<u>\$ (6,180)</u>	<u>\$ (26,188)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share						<u>4,040</u>
Weighted average diluted shares used to compute non-GAAP net income per common share (1)	<u>28,991</u>	<u>28,991</u>	<u>28,991</u>	<u>28,991</u>	<u>28,991</u>	
GAAP net loss per common share						<u>\$ (6.48)</u>
Non-GAAP net income (loss) per share	<u>\$ (0.24)</u>	<u>\$ (0.13)</u>	<u>\$ 0.00</u>	<u>\$ (0.32)</u>	<u>\$ (0.21)</u>	

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