

# **Q3 Financial Results**

## **Issued October 25, 2012**

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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 including those set forth in our filings with the Securities and Exchange Commission (“SEC”), including our most recent report on Form 10-Q for the period ending June 30, 2012 and our Form 10-K for the fiscal year ended Dec. 31, 2011, filed with the SEC and available at <http://www.sec.gov>.

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.

# Q3 2012 Highlights

## ◀ Solid execution

- Exceeded guidance on Revenue and EPS\*
- Operating expenses lower than guidance\*
- Fifth consecutive quarter of positive cash flow
- Continued progress on inventory reduction

## ◀ Revenue of \$81.3 million

- Up 3.0% vs. prior quarter
- Good momentum from our Tier 1 and 2 customers
- Slowdown in U. S. Tier 3 customer spending continues, but not worsening
- Continued growth in E-Series revenue supporting fiber and VDSL applications
- BBS revenue up sequentially; BBS shipments support an increase in deferred revenue

## ◀ TAM expansion opportunities

- Increasing orders from former Verizon properties at Frontier
- On track for Q4 revenue shipments to former Qwest properties at CenturyLink
- International update
  - Ericsson transactions targeting Tier 1 global accounts expected to close in November
  - Funnel of Tier 2 and 3 opportunities continues to expand

\*Revenue and non-GAAP Gross Margin, Operating Expenses and EPS guidance issued on July 31, 2012 for Q3 2012

# Q3 2012 Financial Results vs. Guidance

<b>\$s in millions, except EPS</b>	<b>Actual Results</b>	<b>Q3 2012 Guidance**</b>	<b>Comments</b>
<b>Revenue</b>	<b>\$81.3</b>	<b>Flat with Q2 2012 revenue of \$78.9</b>	<b>Across the board stronger than prior quarter</b>
<b>Gross Margin*</b>	<b>44.2%</b>	<b>Down 1% from Q2 2012 gross margin of 45.2%</b>	<b>Decline primarily due to an increase in the professional service revenue related to BBS projects</b>
<b>Operating Expenses*</b>	<b>\$34.1</b>	<b>\$35 million range</b>	<b>Continuing tight control over operating expenses</b>
<b>EPS*</b>	<b>\$0.04</b>	<b>\$0.01 to \$0.02</b>	<b>Favorable to guidance</b>
<b>Cashflow</b>	<b>\$4.3</b>	<b>Slightly positive</b>	<b>Solid working capital management including ongoing activities to reduce inventory levels</b>

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

\*\*Guidance issued on July 31, 2012 for the quarter ending Sept. 29, 2012.

# Income Statement Summary

## Q3 2012 vs. Prior Quarter and Year

\$s in millions, except EPS	Actual Q3 2012	Actual Q2 2012	Actual Q3 2011	Chg Q3 12 vs. Q2 12	Chg Q3 12 vs. Q3 11
<b>Revenue</b>	<b>\$81.3</b>	<b>\$78.9</b>	<b>\$83.7</b>	<b>\$2.4</b>	<b>-\$2.4</b>
Domestic	\$76.4	\$73.1	\$78.6	\$3.3	-\$2.2
International	\$4.9	\$5.8	\$5.0	-\$0.9	-\$0.1
10% or greater customers	1	1	1	0	0
<b>Gross Margins*</b>	<b>44.2%</b>	<b>45.2%</b>	<b>41.8%</b>	<b>-1.0%</b>	<b>2.4%</b>
<b>Operating Expenses*</b>	<b>\$34.1</b>	<b>\$33.5</b>	<b>\$31.4</b>	<b>\$0.6</b>	<b>\$2.7</b>
<b>Operating Income*</b>	<b>\$1.9</b>	<b>\$2.1</b>	<b>\$3.6</b>	<b>-\$0.2</b>	<b>-\$1.7</b>
<b>EPS*</b>	<b>\$0.04</b>	<b>\$0.04</b>	<b>\$0.07</b>	<b>\$0.00</b>	<b>-\$0.03</b>

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

# Selected Balance Sheet Metrics

\$s in millions	Actual Q3 2012	Actual Q2 2012	Actual Q3 2011	% Chg Q3 12 vs. Q2 12	% Chg Q3 12 vs. Q3 11	Comments
<b>Cash*</b>	<b>\$57.4</b>	<b>\$53.1</b>	<b>\$30.2</b>	<b>8.1%</b>	<b>90.1%</b>	
<b>CF From Operating Activities</b>	<b>\$6.7</b>	<b>\$4.6</b>	<b>\$7.8</b>	<b>45.7%</b>	<b>-14.1%</b>	<b>Solid working capital management</b>
<b>DSOs</b>	<b>58 Days</b>	<b>52 Days</b>	<b>52 Days</b>	<b>-</b>	<b>-</b>	<b>Slightly above target range of 50 to 55 days; increase due to the timing of shipments and the increase in Deferred Revenue from RUS contracts</b>
<b>Inventory</b>						<b>Continued focus on improving inventory turns</b>
Dollars	\$30.2	\$33.2	\$44.2	-9.0%	-31.7%	
Turns	4.7 x	4.4 x	3.6 x			
<b>Deferred Revenue</b>	<b>\$46.0</b>	<b>\$39.1</b>	<b>\$31.7</b>	<b>17.6%</b>	<b>45.1%</b>	<b>Driven primarily by shipments against RUS contracts</b>

\*Cash includes Cash, Cash Equivalents, Marketable Securities and Restricted Cash

# Other Metrics

<b>\$s in millions, on GAAP basis</b>	<b>Actual Q3 2012</b>	<b>Actual Q2 2012</b>	<b>Actual Q3 2011</b>
<b>Capital Ex</b>	<b>\$1.6</b>	<b>\$3.3</b>	<b>\$1.8</b>
<b>Depreciation</b>	<b>\$2.2</b>	<b>\$2.2</b>	<b>\$2.1</b>
<b>Stock base compensation</b>			
COGS	<b>\$0.3</b>	<b>\$0.4</b>	<b>\$0.3</b>
R&D	<b>\$1.0</b>	<b>\$1.1</b>	<b>\$0.9</b>
S&M	<b>\$1.3</b>	<b>\$1.3</b>	<b>\$1.1</b>
G&A	<b>\$1.7</b>	<b>\$1.5</b>	<b>\$1.4</b>
<b>Total</b>	<b>\$4.3</b>	<b>\$4.3</b>	<b>\$3.8</b>
<b>Amortization of Intangibles</b>	<b>\$4.6</b>	<b>\$4.6</b>	<b>\$5.4</b>

# GAAP to Non-GAAP Reconciliation

The Company uses certain non-GAAP financial measures in this press release 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 merger-related and other expenses, which the Company believes are not indicative of its core operating results. Merger-related and other expenses largely include the charge resulting from the required revaluation of Occam inventory to its estimated fair value, legal and professional expenses, and severance and integration-related expenses and inventory-related charges associated with our merger with 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

## Q3 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<b>Non-GAAP</b>	<b>Stock-Based Compensation</b>	<b>Amortization of Intangible Assets</b>	<b>GAAP</b>
Revenue	\$ 81,301	\$ -	\$ -	\$ 81,301
Cost of revenue	45,362	345	2,088	47,795
Gross profit	35,939	(345)	(2,088)	33,506
Gross margin	44.2%	-0.4%	-2.6%	41.2%
Operating expenses	34,069	3,962	2,552	40,583
Operating income (loss)	1,870	(4,307)	(4,640)	(7,077)
Interest and other income (expense), net	(19)	-	-	(19)
Income (loss) before taxes	1,851	(4,307)	(4,640)	(7,096)
Provision for income taxes	44	-	-	44
Net income (loss)	<u>\$ 1,807</u>	<u>\$ (4,307)</u>	<u>\$ (4,640)</u>	<u>\$ (7,140)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>48,353</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,472</u>	<u>48,472</u>	<u>48,472</u>	
GAAP net loss per common share				<u>\$ (0.15)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	

# GAAP to Non-GAAP

## Q2 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<u>Non-GAAP</u>	<u>Stock-Based Compensation</u>	<u>Amortization of Intangible Assets</u>	<u>GAAP</u>
Revenue	\$ 78,928	\$ -	\$ -	\$ 78,928
Cost of revenue	43,238	381	2,088	45,707
Gross profit	35,690	(381)	(2,088)	33,221
Gross margin	45.2%	-0.5%	-2.6%	42.1%
Operating expenses	33,541	3,958	2,552	40,051
Operating income (loss)	2,149	(4,339)	(4,640)	(6,830)
Interest and other income (expense), net	(120)	-	-	(120)
Income (loss) before taxes	2,029	(4,339)	(4,640)	(6,950)
Provision for income taxes	141	-	-	141
Net income (loss)	<u>\$ 1,888</u>	<u>\$ (4,339)</u>	<u>\$ (4,640)</u>	<u>\$ (7,091)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>47,972</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,113</u>	<u>48,113</u>	<u>48,113</u>	
GAAP net loss per common share				<u>\$ (0.15)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	

# GAAP to Non-GAAP

## Q3 2011 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Merger Related and Other Expenses	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 83,655	\$ -	\$ -	\$ -	\$ 83,655
Cost of revenue	48,696	-	306	2,806	51,808
Gross profit	34,959	-	(306)	(2,806)	31,847
Gross margin	41.8%	0.0%	-0.4%	-3.4%	38.1%
Operating expense	31,365	1,334	3,490	2,552	38,741
Operating income (loss)	3,594	(1,334)	(3,796)	(5,358)	(6,894)
Other income (expense), net	(2)	-	-	-	(2)
Income (loss) before taxes	3,592	(1,334)	(3,796)	(5,358)	(6,896)
Provision for income taxes	38	-	-	-	38
Net income (loss)	\$ 3,554	\$ (1,334)	\$ (3,796)	\$ (5,358)	\$ (6,934)
Weighted average basic and diluted shares used to compute GAAP net loss per common share					47,128
Weighted average diluted shares used to compute non-GAAP net income per common share	48,092	48,092	48,092	48,092	
GAAP net loss per common share					\$ (0.15)
Non-GAAP net income (loss) per share	\$ 0.07	\$ (0.03)	\$ (0.08)	\$ (0.11)	

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