CALIX, INC (CALX)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 07/22/2011
Filed Period 06/25/2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 25, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-34674

Calix, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**68-0438710** **(I.R.S. Employer Identification No.)**

1035 N. McDowell Blvd., Petaluma, CA 94954
(Address of Principal Executive Offices) (Zip Code)

(707) 766-3000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: ☒ No: ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: ☒ No: ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting Company)	Smaller Reporting Company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: ☐ No: ☒

As of July 15, 2011, 46,709,582 shares of the Registrant's common stock, par value $0.025, were outstanding.

Calix, Inc.

Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CALIX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 25, 2011 (unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 18,660	$ 66,304
Marketable securities	8,911	32,020
Restricted cash	1,054	—
Accounts receivable, net	57,940	43,377
Inventory	38,489	24,557
Deferred cost of revenue	10,835	7,771
Prepaids and other current assets	5,340	3,245
Total current assets	141,229	177,274
Property and equipment, net	18,206	11,815
Goodwill	116,175	65,576
Intangible assets, net	90,001	515
Other assets	2,381	2,376
Total assets	$ 367,992	$ 257,556
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 10,932	$ 10,268
Accrued liabilities	39,629	25,987
Deferred revenue	23,081	14,062
Total current liabilities	73,642	50,317
Long-term portion of deferred revenue	11,970	10,985
Other long-term liabilities	1,588	951
Total liabilities	87,200	62,253
Commitments and contingencies (See Note 8)		
Stockholders' equity:		
Preferred stock, $0.025 par value; 5,000 shares authorized; no shares issued and outstanding as of June 25, 2011 and December 31, 2010	—	—
Common stock, $0.025 par value; 100,000 shares authorized; 46,703 and 38,712 shares issued and outstanding as of June 25, 2011 and December 31, 2010	1,167	968
Additional paid-in capital	731,617	605,939
Other comprehensive income	45	31
Accumulated deficit	(452,037)	(411,635)
Total stockholders' equity	280,792	195,303
Total liabilities and stockholders' equity	$ 367,992	$ 257,556

See notes to condensed consolidated financial statements.

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CALIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Revenue	$ 97,959	$ 71,653	$ 169,429	$ 119,856
Cost of revenue:				
Products and services[1]	54,899	41,855	94,207	72,026
Merger-related expenses	9,709	—	19,966	—
Amortization of intangible assets	3,188	1,360	4,704	2,720
Total cost of revenue	67,796	43,215	118,877	74,746
Gross profit	30,163	28,438	50,552	45,110
Operating expenses:				
Research and development[1]	18,584	13,086	33,623	24,933
Sales and marketing[1]	14,172	10,184	26,238	18,606
General and administrative[1]	6,667	7,423	15,975	12,171
Merger-related and other expenses[1]	5,482	—	11,523	—
Amortization of intangible assets	2,795	185	3,464	370
Total operating expenses	47,700	30,878	90,823	56,080
Loss from operations	(17,537)	(2,440)	(40,271)	(10,970)
Other income (expense):				
Interest income	26	103	69	177
Interest expense	(45)	(620)	(91)	(1,093)
Change in fair value of preferred stock warrants	—	—	—	(173)
Other income (expense)	24	(2)	29	9
Net loss before provision for income taxes	(17,532)	(2,959)	(40,264)	(12,050)
Provision for income taxes	114	243	138	414
Net loss	(17,646)	(3,202)	(40,402)	(12,464)
Preferred stock dividends	—	—	—	900
Net loss attributable to common stockholders	$ (17,646)	$ (3,202)	(40,402)	$ (13,364)
Net loss per common share:				
Basic and diluted	$ (0.38)	$ (0.09)	$ (0.92)	$ (0.63)
Weighted average number of shares used to compute net loss per common share:				
Basic and diluted	46,050	37,212	43,697	21,305

(1) Includes stock-based compensation as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Cost of revenue	$ 331	$ 484	$ 835	$ 624
Research and development	1,233	1,686	2,875	2,256
Sales and marketing	831	1,247	2,129	1,681
General and administrative	1,855	3,764	6,438	5,427
Merger-related expenses	1,074	—	1,164	—
	$ 5,324	$ 7,181	$ 13,441	$ 9,988

See notes to condensed consolidated financial statements.

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CALIX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June 25, 2011	June 26, 2010
Operating activities		
Net loss	$ (40,402)	$ (12,464)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of premiums relating to available-for-sale securities	184	415
Depreciation and amortization	3,859	2,381
Loss on retirement of property and equipment	1,621	—
Amortization of intangible assets	8,168	3,090
Revaluation of warranty liability	—	173
Stock-based compensation	13,441	9,988
Changes in operating assets and liabilities:		
Change in restricted cash	—	629
Accounts receivable, net	2,290	11,452
Inventory	15,297	(6,387)
Deferred cost of revenue	(3,064)	622
Prepaids and other current assets	(1,246)	858
Accounts Payable	(11,136)	(10,326)
Accrued liabilities	3,029	(2,119)
Deferred revenue	9,138	1,358
Other long-term liabilities	(253)	130
Net cash provided by (used in) operating activities	926	(200)
Investing activities		
Purchase of property and equipment	(4,508)	(2,906)
Acquisition of Occam Networks, net of cash assumed (Note 3)	(60,809)	—
Purchase of marketable securities	—	(56,567)
Sales of marketable securities	—	15,208
Maturities of marketable securities	22,905	—
Net cash used in investing activities	(42,412)	(44,265)
Financing activities		
Proceeds from exercise of stock options and other	667	72
Proceeds from issuance of common stock under employee stock purchase plan	2,062	—
Taxes withheld upon vesting of restricted stock units	(8,921)	—
Principal payments on loans	—	(20,000)
Proceeds from initial public offering of common stock, net of issuance costs	—	57,293
Net cash (used in) provided by financing activities	(6,192)	37,365
Effect of exchange rate changes on cash and cash equivalents	34	—
Net decrease in cash and cash equivalents	(47,644)	(7,100)
Cash and cash equivalents at beginning of period	66,304	31,821
Cash and cash equivalents at end of period	$ 18,660	$ 24,721
Non-cash investing activities		
Value of common stock issued in acquisition	$ 117,258	$ —
Fair value of equity awards assumed	$ 1,370	$ —

See notes to condensed consolidated financial statements.

CALIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Company and Basis of Presentation

Company

Calix (together with its subsidiaries referred to as "Calix," the "Company," "we," "us," or "our") was incorporated in August 1999, and is a Delaware corporation. Calix is a leading provider in North America of broadband communications access systems and software for fiber and copper-based network architectures that enables communications service providers, or CSPs, to connect to their residential and business subscribers. Calix enables CSPs to provide a wide range of revenue-generating services, from basic voice and data to advanced broadband services, over legacy and next-generation access networks. The Company focuses solely on CSP access networks, the portion of the network which governs available bandwidth and determines the range and quality of services that can be offered to subscribers. The Company develops and sells carrier-class hardware and software products, referred to as the Unified Access portfolio, that are designed to enhance and transform CSP access networks to meet the changing demands of subscribers rapidly and cost-effectively.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, including the accounts of Calix, Inc. and its wholly owned subsidiaries, have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. generally accepted accounting principles ("GAAP") can be condensed or omitted. In the opinion of management, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date.

The results of the Company's operations can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year or any future periods. The information included in this quarterly report on Form 10-Q should be read in conjunction with the audited financial statements for the year ended December 31, 2010, included in the Company's Form 10-K filed with the SEC on February 24, 2011.

The Company operates on a 4-4-5 fiscal calendar which divides the year into four quarters with each quarter having 13 weeks which are grouped into two 4-week months and one 5-week month. The Company's fiscal year ends on December 31. The preparation of financial statements in conformity with GAAP for interim financial reporting requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

On February 22, 2011, the Company completed its acquisition of Occam Networks, Inc. ("Occam") in a stock and cash transaction valued at $213.1 million. The Company's results of operations for the second quarter and six months ended June 25, 2011 reflect the operations of the Occam business beginning on the February 22, 2011 acquisition date. See Note 3 "Acquisition of Occam Networks" in the notes to these condensed consolidated financial statements for more information regarding the acquisition of Occam.

2. Significant Accounting Policies

Applicable Accounting Guidance

Any reference in these notes to applicable accounting guidance ("guidance") is meant to refer to the authoritative nongovernmental U.S. generally accepted accounting principles as found in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Business Combination

On February 22, 2011, the Company completed the acquisition of Occam Networks for a purchase price of $213.1 million which consisted of $94.4 million of cash consideration, which included $33.6 million of cash assumed in the acquisition and a value of $118.7 million of common stock and equity awards issued. See Note 3, "Acquisition of Occam Networks" in the Notes to Condensed Consolidated Financial Statements.

The Company accounted for the acquisition of Occam under ASC Topic 805, "Business Combinations". Under this guidance all of the assets acquired and liabilities assumed are recognized at their fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and net intangible assets acquired is recorded as goodwill. The fair values assigned to the acquired assets and assumed liabilities are based on valuations using management's best estimates and assumptions at the time these condensed consolidated financial statements were issued. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. The application of the purchase method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. These assumptions and estimates include a market participant's use of the asset and the appropriate discount rates for a market participant. The Company's estimates are based on historical experience and information obtained from the management of the acquired companies. The Company's significant assumptions and estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates. The Company has finalized the fair values of the acquired assets and assumed liabilities and has completed the purchase price allocation as of June 25, 2011.

Revenue Recognition

In October 2009, the FASB amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

(i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

(ii) require an entity to allocate revenue in an arrangement using best estimate of selling prices ("BSP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"); and

(iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The Company adopted this accounting guidance at the beginning of its first quarter of fiscal 2010 on a prospective basis for applicable transactions originating or materially modified after December 31, 2009. This guidance does not change the units of accounting for the Company's revenue transactions. The Company's products and services qualify as separate units of accounting. Products are typically considered delivered upon shipment and are deemed to be non-contingent deliverables. The Company provides certain services at stated prices over a specified period of time and must meet specified performance conditions. As such, the Company has determined that its individual services are contingent deliverables. In addition, the Company provides specified packages of items considered a package arrangement which it also considers a contingent deliverable, and therefore the Company does not bill its customers until it has fully delivered the package. For multiple-element arrangements that include products and packages or services, the Company first excludes the contingent revenue items and then allocates the remaining consideration to the non-contingent product deliverables on the basis of their relative selling price, which is currently BSP. To the extent that the stated contractual prices fall within the Company's calculated range for BSP, it will allocate the consideration using the stated contractual prices. However, if the stated contractual price for any product deliverable is outside the range, the contractual prices will be adjusted using the midpoint price within its range in order to allocate arrangement consideration using the "relative selling price method." Since the individual products and services meet the criteria for separate units of accounting, the Company will recognize revenue upon delivery of each product and/or services. Post-sales software support revenue and extended warranty services revenue is deferred and recognized ratably over the period during which the services are to be performed. Installation and training service arrangements are recognized upon delivery or completion of performance. These service arrangements are typically short term in nature and are largely completed shortly after delivery of the product. Revenue from package arrangements is recognized upon full delivery of the package. In instances where substantive acceptance provisions are specified in the customer agreement, revenue is deferred until all acceptance criteria have been met. The Company's arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

The Company derives revenue primarily from the sales of its hardware products and related software. Shipping charges billed to customers are included in revenue and the related shipping costs are included in cost of revenue. In certain cases, the Company's products are sold along with services, which include installation, training, post-sales software support and/or extended warranty services. Post-sales software support consists of the Company's management software, including rights, on a when-and-if available basis, to receive unspecified software product upgrades to either embedded software or the Company's management software, maintenance releases and patches released during the term of the support period and product support, which includes telephone and Internet access to technical support personnel. Extended warranty services include the right to warranty coverage beyond the standard warranty period. From time to time, the Company offers customers sales incentives, which include volume rebates and discounts. These amounts are accrued on a quarterly basis and recorded net of revenue.

Payment terms to customers generally range from net 30 to net 90 days. The Company assesses the ability to collect from its customers based primarily on the creditworthiness and past payment history of the customer. Revenue arrangements that provide payment terms that extend beyond the Company's customary payment terms are considered extended payment terms. Occasionally, the Company offers extended payment terms in a revenue arrangement. Through the date of this filing, the Company has not experienced any significant accounts receivable write-offs related to revenue arrangements with extended payment terms. Customer arrangements with extended payment terms may also include substantive acceptance criteria within the arrangement which, in accordance with the Company's revenue recognition policy, would cause the revenue in the arrangement to be deferred until all the acceptance criteria have been met. Extended payment terms may also indicate that the customer is relying on a future event as a prerequisite for the payment, such as installation, a new software release or financing, which would indicate that the fees associated with the arrangement are not fixed or determinable. Due to the unusual nature and uncertainty associated with granting extended payment terms in customer arrangements, the Company defers revenue under these arrangements and recognizes the revenue upon payment from the customer, assuming all other revenue recognition criteria have been met.

The Company enters into arrangements with certain of its customers who receive government supported loans and grants from the U.S. Department of Agriculture's Rural Utility Service ("RUS") to finance capital spending. Under the terms of an RUS equipment contract that includes installation services, the customer does not take possession and control and title does not pass until formal acceptance is obtained from the customer. Under this type of arrangement, the Company does not recognize revenue until it has received formal acceptance from the customer. For RUS arrangements that do not involve installation services, the Company recognizes revenue in accordance with the revenue recognition policy described above.

The Company has established VSOE for its training, post-sales software support and extended warranty services. Training courses are based on a daily rate per person and will vary according to the type of training class offered. Post-sales software support is offered for a one year term and the price is based on the number of customer subscriber lines. Extended warranty pricing is based on the type of product and is sold in one or five year durations. In substantially all of the arrangements with multiple deliverables pertaining to arrangements with these services, the Company has used and intends to continue using VSOE to determine the selling price for each deliverable. The Company determines VSOE based on its normal pricing practices for these specific services when sold separately.

In most instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to the Company infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE cannot be established, the Company attempts to establish selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company's marketing strategy differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses BSP. The objective of BSP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. BSP is primarily used for all products and installation services where the Company has historically not been able to establish VSOE of selling price.

The Company determines BSP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, characteristics of targeted customers and pricing practices. The determination of BSP is made through consultation with and formal approval by the Company's management, taking into consideration the go-to-market strategy.

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The Company regularly reviews VSOE, TPE and BSP and maintains internal controls over the establishment and updates of these estimates. There were no material impacts during the three and six months ended June 25, 2011 nor does the Company expect a material impact in the near term from changes in VSOE, TPE or BSP.

Cost of Revenue

Cost of revenue consists primarily of finished goods inventory purchased from the Company's contract manufacturers, payroll and related expenses associated with managing the contract manufacturers' relationships, depreciation of manufacturing test equipment, warranty costs, excess and obsolete inventory costs, shipping charges, and amortization of certain intangible assets. For the three and six months ended June 25, 2011, cost of revenue also includes, merger-related expenses associated with the acquisition of Occam primarily related to a charge resulting from the required revaluation of Occam inventory to its estimated fair value and an associated write-down of acquired inventory determined as excess and obsolete.

Stock-Based Compensation

Under the provisions of ASC Topic 718, for share-based payment transactions, stock-based awards, including stock options, are recorded at fair value as of the grant date and recognized to expense over the employee's requisite service period (generally the vesting period), which the Company has elected to amortize on a straight-line basis. The Company adopted this guidance using the modified prospective transition method. Stock-based compensation expense has been reduced by the Company's estimated forfeitures on all unvested awards.

Goodwill and Intangible Assets

Goodwill and other purchased intangible assets have been recorded as a result of our acquisitions of Occam in February 2011 and Optical Solutions, Inc., or OSI, in February 2006. This goodwill is not deductible for tax purposes, and there have been no adjustments to goodwill since the acquisition dates.

Goodwill is not amortized but instead is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that they may be impaired. The Company evaluates goodwill on an annual basis as of the end of the second quarter of each fiscal year. The test for goodwill impairment is a two-step process. The first step compares the fair value of each reporting unit with its respective carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and, therefore, the second step of the impairment test is unnecessary. The second step, used to measure the amount of the impairment loss, compares the implied fair value of each reporting unit's goodwill with the respective carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. Management has determined that the Company operates as a single reporting unit and therefore evaluates goodwill impairment at the enterprise level. There were no impairment charges through June 25, 2011.

Intangible assets with definite useful lives are amortized over their estimated useful lives on a straight-line basis, generally six months to five years, and reviewed for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. The Company believes that no events or changes in circumstances have occurred that would require an impairment test for these assets. See Note 3, "Acquisition of Occam Networks" for more information related to goodwill and intangible assets recorded during the three and six months ended, June 25, 2011.

Supplier Concentration

The Company depends primarily on a small number of outside contract manufacturers for the bulk of its finished goods inventory. The Company generally purchases its product through purchase orders and typically has no supply agreements with its suppliers or contract manufacturers. While the Company seeks to maintain a sufficient reserve of its products, the Company's business and results of operations could be adversely affected by a stoppage or delay in receiving such products, the receipt of defective parts, an increase in price of such products or the Company's inability to obtain lower prices from its contract manufacturers and suppliers in response to competitive pressures.

In connection with the acquisition of Occam, under the terms of agreements with certain contract manufacturers, the Company has issued purchase orders for the production of its products. The Company is required to place orders in advance with its contract manufacturers to meet estimated sales demands. The agreement includes certain lead time and cancellation provisions. Future amounts payable to the contract manufacturer will vary based on the level of requirements.

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Cash, Cash Equivalents, and Marketable Securities

The Company has invested its excess cash primarily in money market funds and highly liquid debt instruments. The Company considers all investments with maturities of three months or less when purchased to be cash equivalents. Marketable securities represent highly liquid debt instruments with maturities greater than 90 days at date of purchase. Cash, cash equivalents and marketable securities are stated at amounts that approximate fair value based on quoted market prices.

The Company's investments have been classified and accounted for as available-for-sale. Such investments are recorded at fair value and unrealized holding gains and losses are reported as a separate component of comprehensive loss within stockholders' equity until realized. Should the Company determine that any unrealized losses on the investments are other-than-temporary, the amount of that impairment to be recognized in earnings will depend on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss. The Company, to date, has not determined that any of the unrealized losses on its investments are considered to be other-than-temporary. Realized gains and losses, which have been immaterial to date, are determined on the specific identification method and are reflected in results of operations.

Restricted Cash

Restricted cash consisted of $1.1 million as of June 25, 2011, most of which is related to performance bonds required for the Company's RUS-funded customer contracts, which the Company acquired through its acquisition of Occam.

Inventory

Inventory consisting of finished goods purchased from a contract manufacturer is stated at the lower of cost, determined by the first-in, first-out method, or market value. The Company regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based on the Company's estimate of demand for its products, potential obsolescence of technology, product life cycles, and whether pricing trends or forecasts indicate that the carrying value of inventory exceeds its estimated selling price. These factors are impacted by market and economic conditions, technology changes, and new product introductions and require estimates that may include elements that are uncertain. Actual demand may differ from forecasted demand and may have a material effect on gross margins. If inventory is written down, a new cost basis will be established that cannot be increased in future periods.

Deferred Cost of Revenue

When the Company's products have been delivered, but the product revenue associated with the arrangement has been deferred as a result of not meeting the criteria for immediate revenue recognition, the Company also defers the related inventory costs for the delivered items until all criteria are met for revenue recognition.

Warranty

The Company offers limited warranties for its hardware products for a period of one or five years, depending on the product type. The Company recognizes estimated costs related to warranty activities as a component of cost of revenue upon product shipment. The estimates are based on historical product failure rates and historical costs incurred in correcting product failures. The recorded amount is adjusted from time to time for specifically identified warranty exposure. Actual warranty expenses are charged against the Company's estimated warranty liability when incurred. Factors that affect the Company's warranty liability include the number of installed units and historical and anticipated rates of warranty claims and cost per claim.

Foreign Currency Translation

Assets and liabilities of the Company's wholly owned foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchanges rates prevailing during the day. Any material resulting translation adjustments are reflected as a separate component of stockholders' equity. Realized foreign currency transaction gains and losses were not material during the three and six months ended June 25, 2011 and June 26, 2010.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income" that improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from other comprehensive income ("OCI") to net income, in both net income and OCI. The standard does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, which amends U.S. GAAP to conform to the measurement and disclosure requirements in International Financial Reporting Standards ("IFRS"). The amendments in this Update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Those that clarify the Board's intent about the application of existing fair value measurement and disclosure requirements

2. Those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

In addition, to improve consistency in application across jurisdictions some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way (for example, using the word shall rather than should to describe the requirements in U.S. GAAP). The amendments in this Update are to be applied prospectively and are effective during interim and annual period beginning after December 15, 2011. The Company does not believe that the adoption of this update will have a material impact on its consolidated financial statements at this time.

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (ASC Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company does not believe that this updated disclosure requirement will have a material impact to the Company's 2011 annual report on Form 10-K.

3. Acquisition of Occam Networks

On February 22, 2011, the Company completed its acquisition of Occam in a stock and cash transaction valued at approximately $213.1 million which consisted of $94.4 million of cash consideration, which included $33.6 million of cash assumed in the acquisition and a value of $118.7 million of common stock and equity awards issued. In connection with the consummation of the acquisition, each outstanding share of common stock of Occam was converted, effective as of February 22, 2011, into the right to receive: (i) 0.2925 shares of Calix common stock and (ii) $3.8337 in cash. In addition, (a) each outstanding Occam stock option or restricted stock unit as of immediately prior to the effective time of the acquisition which was or became vested as of the effective time of the acquisition with a per share exercise price that was less than (i) $3.8337 plus (ii) 0.2925 multiplied by the average volume weighted average trading price of Calix common stock during the five consecutive trading days ending on the trading day that was one day before the effective time of the acquisition, such amount being referred to as the cash-out consideration and (b) Occam options or restricted stock units held by persons who were not Occam employees or consultants immediately prior to the effective time of the acquisition were automatically cancelled and extinguished and the vested portion thereof was automatically converted into the right to receive the cash-out consideration for the aggregate number of shares of Occam common stock that were issuable upon the exercise of such stock options or restricted stock units, less any applicable per share exercise price.

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Unvested portions of each outstanding Occam stock option or restricted stock unit held by Occam employees who continued to be employed by Calix or its subsidiaries after the effective time of the merger transaction that were not cashed out and cancelled as described above were, at the effective time, automatically converted into options or restricted stock units, as the case may be, for Calix common stock, subject to adjustments in accordance with the compensatory award exchange ratio, and subject to the terms and conditions of such award prior to the effective time, including vesting and exercisability. The fair value of Calix stock options and restricted stock units issued to employees of Occam was $5.8 million including those accelerated for Occam executives associated with their severance agreements which were executed subsequent to the acquisition date. The fair value of options was estimated using a Black-Scholes option pricing model.

The following table represents the weighted average assumptions used to estimate fair value of stock options:

Expected volatility	52%
Average expected life (years)	3.95 years
Expected dividend yield	—
Risk free interest rate	1.65%

The acquisition of Occam has been accounted for under the acquisition method of accounting which requires the total purchase price to be allocated to the acquired assets and assumed liabilities based on their estimated fair values. The fair values assigned to the acquired assets and assumed liabilities are based on valuations using management's best estimates and assumptions. The allocation of the purchase price as reflected in these condensed consolidated financial statements is based on the best information available to management at the time these condensed consolidated financial statements were issued. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date.

The following table summarizes the final allocation of the purchase price related to the acquisition of Occam based on the fair value of the acquired assets and assumed liabilities (in thousands):

	Final Purchase Price Allocation
Cash & cash equivalents	$ 33,631
Restricted cash	1,054
Accounts receivable	16,854
Inventory	29,229
Pre-paid expenses and other assets	854
Property and equipment	7,363
Intangible assets:	
Trade name (useful life of 6 months)	2,290
Customer relationships (useful life of 5 years)	51,040
Core developed technology (useful life of 5 years)	25,494
In-process technology	16,270
Acquired backlog (useful life of 10 months)	2,560
Total intangible assets	97,654
Goodwill	50,599
Current liabilities	(22,414)
Deferred revenue	(866)
Long-term liabilities	(890)
Total purchase price allocation	$ 213,068

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The Company has finalized the fair values of the acquired assets and assumed liabilities and has completed the purchase price allocation as of June 25, 2011.

Trade names represent acquired product names which are expected to have a useful life of six months. Customer relationships represent agreements with existing Occam customers and have estimated useful lives of five years.

Core developed technology represents technology that has reached technological feasibility and includes Occam's primary product line. The fair value of the core developed technology is determined using future discounted cash flows related to the projected income stream of the developed technology for a discrete projection period. Core developed technology will be amortized over its estimated useful life of five years.

In-process technology represents projects that have not reached technological feasibility at the time of the acquisition and they do not have a finite useful life. In-process technology will be impaired, if abandoned, or amortized in future periods, depending on the ability of the Company to use the research and development in future periods.

Acquired backlog represents goods and services that the Occam customers are contractually obligated to receive in the future and is expected to have a ten month life.

During the three and six months ended June 25, 2011, the Company incurred $9.7 million and $20.0 million of merger-related expenses, respectively, resulting from the required revaluation of inventory to its estimated fair value and an associated write-down of inventory determined as excess and obsolete. The Company also incurred $5.5 million and $11.5 million of merger-related expenses in the three and six months ended June 25, 2011, related to severance for terminated employees and salaries for transitional employees, expenses associated with consolidating facilities, transaction costs for financial advisory, legal and accounting services, and stock-based compensation expense primarily related to accelerated vesting for certain Occam executives who terminated subsequent to the acquisition date. The Company anticipates to record in the period incurred, further estimated merger-related expenses from planned consolidation of facilities, and severance and salaries of transitional employees of $2.4 million in the third quarter and $0.6 million in the fourth quarter of 2011, respectively.

Adjustments recorded during the measurement period primarily consisted of assets recorded for legal fees incurred by Occam prior to the acquisition that have subsequently been reimbursed or are expected to be reimbursed under pre-existing insurance policies.

The premium paid by the Company in this transaction is attributable to the strategic benefits of creating a more competitive and efficient company, more capable of competing against larger telecommunications equipment companies in more markets and the significant cost synergies that would be obtained by the combined organization. The combined organization is expected to provide communications service providers globally with an enhanced portfolio of advanced broadband access systems, and accelerate innovation across the expanded Calix Unified Access portfolio. The acquisition is expected to result in more access options over both fiber and copper for communications service providers to deploy, which could expedite the proliferation of advanced broadband services to both residential and business subscribers, including such services as high-speed Internet, Internet protocol television, or ("IPTV"), Voice over internet protocol or ("VOIP"), Ethernet business services, and other advanced broadband applications.

The results of operations of Occam are included in the Company's consolidated results of operations beginning on the February 22, 2011 acquisition date. The following pro forma information gives effect to the business combination that was completed during the quarter ended March 26, 2011 as if the business combination occurred at the beginning of the periods presented. The pro forma results are not necessarily indicative of what actually would have occurred had the business combinations been in effect for the periods presented (table in thousands):

	Three Months Ended	Six Months Ended	
	June 26, 2010	June 25, 2011	June 26, 2010
Revenue	$ 88,302	$ 177,879	$ 152,941
Net loss attributable to common stockholders	$ (15,279)	$ (48,410)	$ (37,870)

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4. Intangible Assets

Intangible assets are carried at cost, less accumulated amortization, as disclosed in the following table (in thousands):

	June 25, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Existing and core developed technologies	$ 52,694	$ (28,899)	$ 23,795	$ 27,200	$ (26,747)	$ 453
Customer relationships	54,740	(7,103)	47,637	3,700	(3,638)	62
Purchase order backlog	4,260	(2,724)	1,536	1,700	(1,700)	—
Trade name	2,290	(1,527)	763	—	—	—
Total amortizable intangible assets	113,984	(40,253)	73,731	32,600	(32,085)	515
In- process technology	16,270	—	16,270	—	—	—
Total intangible assets, excluding goodwill	$ 130,254	$ (40,253)	$ 90,001	$ 32,600	$ (32,085)	$ 515

The amortization expense was $6.0 million, and $1.6 million for the three months ended June 25, 2011 and June 26, 2010, respectively, and $8.2 million and $3.1 million for the six months ended June 25, 2011 and June 26, 2010, respectively. Expected future amortization for the fiscal years indicated is as follows (in thousands):

2011 (Remaining months)	$ 9,953
2012	15,307
2013	15,307
2014	15,307
2015	15,306
Thereafter	2,551
Total	$ 73,731

5. Goodwill

Goodwill is not amortized but instead is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it may be impaired. The Company evaluates goodwill on an annual basis as of the end of the second quarter of each year. There were no impairment charges through June 25, 2011.

The table below sets forth changes in carrying amount of goodwill (in thousands):

	Total
Beginning Balance	$ 65,576
Goodwill acquired	50,599
Balance as of June 25, 2011	$ 116,175

6. Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents and marketable securities consist of the following (in thousands):

	June 25, 2011	December 31, 2010
Cash and Cash equivalents:		
Cash	$ 10,873	$ 10,839
Money market funds	7,787	55,465
Total cash and cash equivalents	18,660	66,304
Marketable securities:		
Corporate debt securities	8,911	19,324
Commercial paper	—	12,696
Total marketable securities	8,911	32,020
Total cash, cash equivalents and marketable securities	$ 27,571	$ 98,324

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The following tables summarize the unrealized gains and losses related to the Company's investments in cash equivalents and marketable securities designated as available-for-sale as follows (in thousands):

As of June 25, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Corporate debt securities	$ 8,909	$ 3	$ (1)	$ 8,911
Total	$ 8,909	$ 3	$ (1)	$ 8,911

As of December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
Corporate debt securities	$ 19,302	$ 25	$ (3)	$ 19,324
Commercial paper	12,696	—	—	12,696
Total	$ 31,998	$ 25	$ (3)	$ 32,020

As of June 25, 2011 and December 31, 2010 gross unrealized gains and losses on the Company's investments were due to changes in market conditions that caused interest rates to fluctuate. The Company reviews investments held with unrealized losses to determine if the loss is other-than-temporary. The Company determined that it has the ability and intent to hold these investments for a period of time sufficient for a recovery of fair market value and does not consider the investments to be other-than-temporarily impaired for all periods presented. In addition, the Company did not experience any significant realized gains or losses on its investments through June 25, 2011. The Company's money market funds maintained a net asset value of $1.00 for all periods presented. Net unrealized gains/losses are recorded to other comprehensive income in the Company's condensed consolidated balance sheets.

7. Balance Sheet Details

Accounts receivable, net consisted of the following (in thousands):

	June 25, 2011	December 31, 2010
Accounts receivable	$ 59,414	$ 44,544
Allowance for doubtful accounts	(440)	(616)
Product return reserve	(1,034)	(551)
Accounts receivable, net	$ 57,940	$ 43,377

Property and equipment, net, consisted of the following (in thousands):

	June 25, 2011	December 31, 2010
Computer equipment and purchased software	$ 27,550	$ 24,061
Test equipment	27,860	26,476
Furnitures and fixtures	2,774	1,560
Leasehold improvements	6,323	2,882
Total	64,507	54,979
Accumulated depreciation	(46,301)	(43,164)
Property and equipment, net	$ 18,206	$ 11,815

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Accrued liabilities consisted of the following (in thousands):

	June 25, 2011	December 31, 2010
Accrued compensation and related benefits	$ 14,400	$ 13,376
Accrued warranty	13,133	3,789
Accrued excess and obsolete inventory at contract manufacturer	3,854	1,022
Accrued professional and consulting fees	1,898	1,613
Sales and use tax payable	1,280	1,066
Accrued customer rebates	92	1,880
Accrued Other	4,972	3,241
Total accrued liabilities	$ 39,629	$ 25,987

As of June 25, 2011, accrued compensation and related benefits, accrued warranty, accrued excess and obsolete inventory and accrued other, include accruals related to the acquisition of Occam. For more information regarding the acquisition, see Note 3 "Acquisition of Occam Networks" in the notes to these condensed consolidated financial statements.

8. Commitments and Contingencies

The Company leases office space under non-cancelable operating leases. Certain of the Company's operating leases contain renewal options and rent acceleration clauses. Future minimum payments under the non-cancelable operating leases consisted of the following as of June 25, 2011 (in thousands):

Remaining 2011	$ 2,149
2012	3,438
2013	3,543
2014	1,103
2015	466
Thereafter	27
Total	$ 10,726

The Company leases its primary office space in Petaluma, California under a lease agreement that extends through February 2014. The Company received a lease incentive consisting of $1.2 million in leasehold improvements provided by the lessor. The Company has capitalized the full amount of the lease incentive and is amortizing the cost of the improvements over the lease term. The value of the incentive is being amortized through rent expense over the lease term. Payments under the Company's operating leases that escalate over the term of the lease are recognized as rent expense on a straight-line basis. The above table also includes future minimum lease payments for our facilities in Minneapolis, Minnesota, Acton, Massachusetts, Nanjing, China, Richardson, Texas, Fremont, Santa Barbara, and Simi Valley, California, which expire at various dates through 2016, and for certain equipment under non-cancelable operating lease agreements, obtained through our acquisition of Occam, which expire at various dates through 2015.

Rent expense was $0.4 million and $0.5 million, for the three months ended June 25, 2011, and June 26, 2010, respectively, and $1.1 million and $1.0 million for the six months ended June 25, 2011, and June 26, 2010, respectively.

Purchase Commitments

In connection with its acquisition of Occam, the Company assumed purchase commitment obligations with certain contract manufacturer for the production of the company's products. In order to reduce manufacturing lead times and ensure adequate component supply, the Company's primary contract manufacturer places orders for component inventory in advance based upon the Company's build forecasts. The components are used by the contract manufacturer to build the products included in the build forecasts. The Company does not take ownership of the components and any outstanding orders do not represent firm purchase commitments pursuant to the Company's agreement with the contract manufacturer. The Company incurs a liability when the manufacturer has converted the component inventory to a finished product and takes ownership of the inventory when transferred to the designated shipping warehouse. However, historically, the Company has reimbursed its primary contract manufacturer for inventory purchases when this inventory has been rendered obsolete, for example due to manufacturing and engineering change orders resulting from design changes, manufacturing discontinuation of parts by its suppliers, or in cases where inventory levels greatly exceed projected demand. The estimated excess and obsolete inventory liabilities related to such manufacturing and engineering change orders, which are included in accrued liabilities in the accompanying balance sheets, were $3.9 million and $1.0 million as of June 25, 2011 and December 31, 2010, respectively. The Company records these amounts in cost of products and services in its statement of operations.

In connection with the acquisition of Occam, under the terms of agreements with certain contract manufacturers, the Company has issued purchase orders for the production of its products. Future amounts payable to the contract manufacturers will vary based on the level of requirements. As of June 25, 2011, the Company had firm purchase commitments of $7.1 million.

Accrued Warranty

The Company provides a warranty for its hardware products. Hardware generally has a five-year warranty from the date of shipment. The Company accrues for potential warranty claims based on the Company's historical claims experience. The adequacy of the accrual is reviewed on a periodic basis and adjusted, if necessary, based on additional information as it becomes available.

Activity related to the product warranty is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Balance at beginning of period	$ 12,766	$ 4,585	$ 3,789	$ 4,213
Accrued warranty from the Occam acquisition	—	—	8,500	—
Warranty charged to cost of revenue	1,878	1,187	3,219	2,540
Utilization of warranty	(1,511)	(1,281)	(2,375)	(2,262)
Total accrued warranty	$ 13,133	$ 4,491	$ 13,133	$ 4,491

The Company recorded $8.5 million of accrued warranty related to the liabilities assumed with the acquisition of Occam on February 22, 2011. For more information regarding the acquisition, see Note 3 "Acquisition of Occam Networks" in the notes to these condensed consolidated financial statements.

Litigation

From time to time, the Company is involved in various legal proceedings arising from the normal course of business activities. For example, on December 28, 2009, Calix filed a lawsuit against Wi-LAN Inc., or Wi-LAN, of Ontario, Canada, in the federal court in the Northern District of California, seeking declaratory relief that Calix does not infringe certain U.S. Patents held by Wi-LAN. On May 27, 2011 Calix and Wi-LAN entered into a settlement and release agreement, and this lawsuit was dismissed with prejudice on June 7, 2011.

On September 16, 2010, the Company, Occam Networks, Inc., a Delaware corporation ("Occam"), Ocean Sub I, Inc., a Delaware corporation and a direct, former wholly-owned subsidiary of Calix, and Ocean Sub II, LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of Calix, entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"). In response to the announcement of the Merger Agreement, on September 17, 2010, September 20, 2010 and September 21, 2010, three purported class action complaints were filed by three purported stockholders of Occam in the California Superior Court for Santa Barbara County: Kardosh v. Occam Networks, Inc., et al. (Case No. 1371748), or the Kardosh complaint; Kennedy v. Occam Networks, Inc., et al. (Case No. 1371762), or the Kennedy complaint; and Moghaddam v. Occam Networks, Inc., et al. (Case No. 1371802), or the Moghaddam complaint, respectively. The Kardosh, Kennedy and Moghaddam complaints, which are referred to collectively as the California class action complaints, are substantially similar. Each of the California class action complaints names Occam, the pre-acquisition members of the Occam board of directors and us as defendants. The Kennedy complaint also names each of Ocean Sub I and Ocean Sub II, as defendants.

The California class action complaints generally allege that the members of the Occam board breached their fiduciary duties in connection with the acquisition of Occam by Calix, by, among other things, engaging in an allegedly unfair process and agreeing to an allegedly unfair price for the proposed merger transaction. The California class action complaints further allege that Occam and the other entity defendants aided and abetted the alleged breaches of fiduciary duty. The plaintiffs in the California class action complaints seek injunctive relief rescinding the merger transaction and awarding damages in an unspecified amount, as well as plaintiffs' costs, attorney's fees, and other relief. On November 2, 2010, the three California class action complaints were consolidated into a single action, with the Kardosh action becoming the lead action, and on November 19, 2010, the California Superior Court issued an order staying the California class actions in favor of a substantively identical stockholder class action pending in the Delaware Court of Chancery (see below). The California class actions remain stayed under that order.

On October 6, 2010, a purported class action complaint was filed by purported stockholders of Occam in the Delaware Court of Chancery: Steinhardt v. Howard-Anderson, et al. (Case No. 5878-VCL). On November 24, 2010, these purported stockholders filed an amended complaint, or the amended Steinhardt complaint. The amended Steinhardt complaint names Occam and the members of the Occam board of directors as defendants. The amended Steinhardt complaint does not name Calix as a defendant.

Like the California class action complaints, the amended Steinhardt complaint generally alleges that the members of the Occam board breached their fiduciary duties in connection with the acquisition of Occam by Calix, by, among other things, engaging in an allegedly unfair process and agreeing to an allegedly unfair price for the merger transaction. The amended Steinhardt complaint also alleges that Occam and the members of the Occam board breached their fiduciary duties by failing to disclose certain allegedly material facts about the merger transaction in the preliminary proxy statement and prospectus included in the Registration Statement on Form S-4 that Calix filed with the SEC on November 2, 2010. The amended Steinhardt complaint sought injunctive relief enjoining or rescinding the proposed merger and award of damages in an unspecified amount in the event the merger transaction closes, as well as plaintiffs' costs, attorney's fees, and other relief.

The merger transaction was completed on February 22, 2011. The Delaware plaintiffs continue to seek an award of damages in an unspecified amount.

The Company believes that the allegations in the California actions and the Delaware action are without merit and intends to continue to vigorously contest the actions. However, there can be no assurance that the Company, will be successful in defending these ongoing actions. In addition, the Company has obligations, under certain circumstances, to hold harmless and indemnify each of the defendant former Occam directors against judgments, fines, settlements and expenses related to claims against such directors and otherwise to the fullest extent permitted under Delaware law and Occam's bylaws and certificate of incorporation. Such obligations may apply to these lawsuits.

The Company is not presently a party to any other legal proceedings which, if determined adversely to the Company, would individually or in the aggregate have a material adverse effect on the Company's business, operating results or financial condition.

9. Fair Value Measurements

In accordance with ASC Topic 820, the Company measures its cash, cash equivalents and marketable securities at fair value. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC Topic 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Unobservable inputs to the valuation derived from fair valuation techniques in which one or more significant inputs or significant value drivers are unobservable. The fair value hierarchy also requires the Company to maximize the use of observable inputs, when available, and to minimize the use of unobservable inputs when determining inputs and determining fair value.

As of June 25, 2011 and December 31, 2010, the fair values of certain of the Company's financial assets were determined using the following inputs (in thousands):

As of June 25, 2011	Level 1	Level 2	Total
Money market funds	$ 7,787	$ —	$ 7,787
Marketable securities	—	8,911	8,911
Total	$ 7,787	$ 8,911	$ 16,698
As of December 31, 2010			
Money market funds	$ 55,465	$ —	$ 55,465
Marketable securities	—	32,020	32,020
Total	$ 55,465	$ 32,020	$ 87,485

The Company's valuation techniques used to measure the fair values of money market funds were derived from quoted market prices as active markets for these instruments exist. Investments in marketable securities are held by a custodian who obtains investment prices from a third-party pricing provider that uses standard inputs derived from or corroborated by observable market data, to models which vary by asset class.

10. Net Loss per Share

Basic net loss per common share is calculated by dividing net loss by the weighted average number of vested common shares outstanding during the reporting period. Diluted net loss per common share is calculated by giving effect to all potential dilutive common shares, including options, warrants, common stock subject to repurchase and convertible preferred stock.

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Numerator:				
Net loss applicable to common stockholders	$ (17,646)	$ (3,202)	$ (40,402)	$ (13,364)
Denominator:				
Weighted-average common shares outstanding	46,050	37,212	43,697	21,305
Basic and diluted net loss per share	$ (0.38)	$ (0.09)	$ (0.92)	$ (0.63)

As the Company incurred net losses in the periods presented, the following table displays the Company's other outstanding common stock equivalents that were excluded from the computation of diluted net loss per share, as the effect of including them would have been anti-dilutive (in thousands):

	Six Months Ended	
	June 25, 2011	June 26, 2010
Stock options	1,572	762
Restricted stock units	1,654	4,575
Common stock warrants	61	69
Convertible preferred stock	—	14,057

11. Stockholders' Equity

Capital Structure

The Company maintains three equity incentive plans the 2000 Stock Plan, the 2002 Stock Plan and 2010 Equity Incentive Plan (together, the "Plans"). These plans were approved by the stockholders and are described in the Company's Form 10-K filed with the SEC on February 24, 2011. In connection with the acquisition of Occam, the Company issued 6.4 million shares of the Company's common stock, a value of $117.2 million. For more information regarding the acquisition, of Occam see Note 3 "Acquisition of Occam Networks" in the notes to these condensed consolidated financial statements. In connection with the Company's Employee Stock Purchase Plan or the ESPP, 176,665 shares were issued on May 31, 2011.

Preferred Stock

The board of directors has the authority, without action by its stockholders with the exception of stockholders who hold board positions, to designate and issue up to 5 million shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of the Company's preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company or other corporate action. Subsequent to the Company's initial public offering and the conversion of all preferred stock outstanding at that date, the board of directors has not designated any rights, preference or powers of any preferred stock and no shares of preferred stock have been issued.

Stock Based Compensation

Stock-based compensation expense associated with stock options, restricted stock units ("RSUs") and ESPP is measured at the grant date, based on the fair value of the award, and is recognized as expense over the remaining requisite service period. During the three and six months ended June 25, 2011, the Company recorded stock-based compensation expense of $5.3 million and $13.4 million, respectively and for the three and six months ended, June 26, 2010, the Company recorded stock-based compensation expense of $7.2 million and $10.0 million, respectively.

On February 22, 2011, in connection with the acquisition of Occam (see Note 3 "Acquisition of Occam Networks" in the notes to these condensed consolidated financial statements), the Company issued 536,190 stock options and 42,654 RSUs to certain Occam employees. The grants were in exchange for certain options and RSUs that were held by Occam employees prior to the acquisition which retained the original vesting schedule of the initial Occam grants, except for certain equity awards held by Occam executives that were accelerated in association with their severance agreements. The Company estimated the fair value of $5.8 million of the options and RSUs in accordance with ASC Topic 718. In accordance with ASC Topic 805 the Company allocated the value of $1.4 million of certain options and RSUs to consideration in the business combination with the remaining value of $4.4 million allocated to post-combination expense to be recognized over the remaining service period of the grants.

Stock Options

The Company estimates the fair value of stock options in accordance with ASC Topic 718. The fair value of each option grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Expected volatility	52%	50%	52%	50%
Expected life (years)	6.25	6.25	6.25	6.25
Expected dividend yield	—	—	—	—
Risk free interest rate	2.24%	2.70%	2.37%	2.71%

The Company's computation of expected volatility for the three and six months ended June 25, 2011 and June 26, 2010 is based on the Company's peer-group of similar companies. The Company's computation of expected term in the three and six months ended June 25, 2011 and June 26, 2010 utilizes the simplified method in accordance with SAB 110. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant with maturities equal to the grant's expected life. In addition, ASC Topic 718 requires the Company to estimate the number of options that are expected to vest. Thus, the Company applies an estimated forfeiture rate based on actual forfeiture experience. The Company recognizes stock-based compensation expense for the fair values of these awards on a straight-line basis over the requisite service period of each of these awards.

As of June 25, 2011, unrecognized stock-based compensation expense related to stock options of $9.9 million was expected to be recognized over a weighted-average period of 3.2 years.

Restricted Stock Units

In September 2009, the Company began to grant RSUs to eligible employees, executives and outside directors. Each RSU represents a right to receive one share of the Company's common stock (subject to adjustment for certain specified changes in the capital structure of the Company) upon the completion of a specific period of continued service.

Upon vesting of RSUs during the period ended June 25, 2011, certain RSUs were net share-settled to cover the required withholding tax and the remaining amount was converted into an equivalent number of shares of common stock. The Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were approximately 418,000, which was based on the value of the RSUs on their vesting date as determined by the Company's closing stock price. Total payments for the employees' tax obligations to the taxing authorities were approximately $8.9 million, and these are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise have been issued as a result of the vesting and did not represent an expense to the Company.

The Company values the RSUs at fair value or the market price of the Company's common stock on the date of grant. The Company recognizes non-cash compensation expense for the fair values of these RSUs on a straight-line basis over the requisite service period of these awards.

The weighted-average grant date fair value of RSUs granted during the six months ended June 25, 2011 was $18.44 per share. As of June 25, 2011, unrecognized stock-based compensation expense related to RSUs of $12.2 million was expected to be recognized over a weighted-average period of 2.7 years.

Employee Stock Purchase Plan

The Company's 2010 Employee Stock Purchase Plan, as amended, (the "Employee Stock Purchase Plan") allows employees to purchase shares of the Company's common stock through payroll deductions of up to 15 percent of their annual compensation subject to certain Internal Revenue Code limitations. The price of common stock purchased under the plan is equal to 85 percent of the lower of the fair market value of the common stock on the commencement date and exercise date of each six month offering period.

The Employee Stock Purchase Plan provides for the issuance of a maximum of 1.0 million shares of common stock of which 0.8 million shares were available for issuance as of June 25, 2011. For the three and six months ended June 25, 2011, stock-based compensation expense was $0.3 million and $0.6 million respectively.

As of June 25, 2011, unrecognized stock-based compensation expense related to employee stock purchase plan of $0.6 million was expected to be recognized over a remaining service period of 5 months.

12. Income Taxes

Since inception, the Company has incurred operating losses and, accordingly, has recorded a nominal provision for income taxes for periods presented which primarily relates to state taxes not based on income and federal and state alternative minimum taxes.

ASC Topic 740, *Accounting for Income Taxes* provides for the recognition of deferred tax assets if realization of such assets is more likely than not. The Company has established and continues to maintain a full valuation allowance against the Company's deferred tax assets as the Company does not believe that realization of those assets is more likely than not.

In connection with the Company's acquisition of Occam on February 22, 2011, the Company added U.S. federal net operating and state net operating losses of approximately $110.2 million and $75.4 million, respectively.

13. Credit Facility

The Company has a revolving credit facility of $30.0 million based upon a percentage of eligible accounts receivable. Included in the revolving line are amounts available under letters of credit and cash management services. The Company had outstanding letters of credit totaling $2.4 million as of June 25, 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities and Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statement of the plans and objectives of management for future operations, any statements concerning proposed new products or licensing, any statements regarding product development, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue" or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the Risk Factors set forth under Part II, Item 1A below, and for the reasons described elsewhere in this report. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

Overview

We are a leading provider in North America of broadband communications access systems and software for fiber- and copper-based network architectures that enable communications service providers, or CSPs, to connect to their residential and business subscribers. We enable CSPs to provide a wide range of revenue-generating services, from basic voice and data to advanced broadband services, over legacy and next-generation access networks. We focus solely on CSP access networks, the portion of the network which governs available bandwidth and determines the range and quality of services that can be offered to subscribers. We develop and sell carrier-class hardware and software products, which is referred to as the Unified Access portfolio that are designed to enhance and transform CSP access networks to meet the changing demands of subscribers rapidly and cost-effectively.

Our revenue has increased to $98.0 million and $169.4 million for the three and six months ended June 25, 2011, respectively, from $71.7 million and $119.9 million for the three and six months ended June 26, 2010, respectively. Continued revenue growth will depend on our ability to continue to sell our access systems and software to existing customers and to attract new customers, including in particular, those customers in the large CSP and international markets. Since our inception we have incurred significant losses, and as of June 25, 2011, we had an accumulated deficit of $452.0 million. Our net loss was $17.6 million and $40.4 million for the three and six months ended June 25, 2011, respectively. Our net loss was $3.2 million and $12.5 million for the three and six months ended June 26, 2010, respectively.

Basis of Presentation

Acquisition of Occam Networks

On February 22, 2011, we completed our acquisition of Occam Networks, Inc. ("Occam"), a provider of innovative broadband access products designed to enable telecom service providers to offer bundled voice, video and high speed internet, or Triple Play, services over both fiber optic and copper networks in a stock and cash transaction valued at approximately $213.1 million which consisted of $94.4 million of cash consideration, which included $33.6 million of cash assumed in the acquisition and a value of $118.7 million of common stock and equity awards issued. Through this acquisition, we expect to achieve the strategic benefits of creating a more competitive and efficient company, more capable of competing against larger telecommunications equipment companies in more markets and significant cost synergies due to the combined company. The combined organization is expected to provide communications service providers globally with an enhanced portfolio of advanced broadband access systems, and accelerate innovation across the expanded Calix Unified Access portfolio. The acquisition is also expected to result in more access options over both fiber and copper for communications service providers to deploy, which could expedite the proliferation of advanced broadband services to both residential and business subscribers, including such services as high-speed Internet, IPTV, VOIP, Ethernet business services, and other advanced broadband applications.

As a result of this acquisition, we recorded $50.6 million in goodwill and $97.7 million in other intangible assets. We are amortizing the definite-lived intangible assets over their useful lives. See "Critical Accounting Policies and Use of Estimates — Goodwill and Intangible Assets" below for information relating to these items and our test for impairment. Under purchase accounting rules, we revalued the acquired Occam assets and liabilities acquired at the time of the acquisition, based on their fair value. See Note 3 "Acquisition of Occam Networks" in the Notes to Condensed Consolidated Financial Statements included in this report for additional information related to this acquisition.

Revenue

We derive our revenue primarily from sales of our hardware products and related software. We generally recognize revenue after products have been delivered and accepted, and title has been transferred to the customer. In certain cases, our products are sold along with services, which include installation, training, post-sales software support and/or extended warranty services. To date, service revenue has comprised an insignificant portion of our revenue, and we have not reported service revenue separately from product revenue in our financial statements. As of June 25, 2011, our revenue deferrals, related to partially delivered arrangements that were entered into prior to January 1, 2010, and contracts with customers who receive government supported loans and grants from the U.S. Department of Agriculture's Rural Utility Service ("RUS") that include installation services, special customer arrangements and ratably recognized services totaled $35.1 million. Where substantive acceptance provisions are specified in an arrangement or extended return rights exist, revenue is deferred until all acceptance criteria have been met or the extended return rights expire. The timing of deferred revenue recognition may cause significant fluctuations in our revenue and operating results from period to period.

Cost of Revenue

Our cost of revenue is comprised of the following:

- ***Products and services revenue*** — Cost of products revenue includes the inventory costs of our products that have shipped, accrued warranty costs for our standard warranty program, outbound freight costs to deliver products to our customers, overhead from our manufacturing operations cost centers, including stock-based compensation, and other manufacturing related costs associated with manufacturing our products and managing our inventory. We outsource our manufacturing to third-party manufacturers. Inventory costs are estimated using standard costs which reflect the cost of historical direct labor, direct overhead and materials used to build our inventory. Cost of services revenue includes direct installation material costs, direct costs from third-party installers, professional service costs, repair fees charged by our outsourced repair contractors to refurbish product returns under an extended warranty or per incident repair agreement, and other miscellaneous costs to support our services.
- ***Merger-related expenses*** — Inventory acquired from Occam was revalued to its estimated fair value and is amortized to cost of revenue as the inventory is sold. We amortized $14.2 million related to the revaluation of inventory during the six months ended June 25, 2011. Additionally, acquired inventories determined as excess and obsolete resulted in a write-down of $5.6 million in six months ended June 25, 2011.
- ***Amortization of acquired intangible assets*** — Amortized acquired intangible assets are comprised of core developed technologies, purchase order backlog and trade name obtained in the Occam and OSI acquisitions. The remaining balance of existing and core developed technologies resulting from our acquisition of OSI was fully amortized during the three months ended March 26, 2011.

Gross Profit

Our gross profit and gross margin have been, and will likely be, impacted by several factors, including new product introduction or upgrades to existing products, changes in customer mix, changes in the mix of products demanded and sold, shipment volumes, changes in our product costs, changes in pricing and the extent of customer rebates and incentive programs. We believe our gross margin could increase due to favorable changes in these factors, for example, increases in sales of newly introduced products such as our E7 Ethernet service access platform, which was introduced in the fourth quarter of 2009, upgrades to our existing C7 platform, new introductions of our P-Series optical network terminal and reductions in the impact of rebate or similar programs. We believe our gross margin could decrease due to unfavorable changes in factors such as increased product costs, pricing decreases due to competitive pressure and an unfavorable customer or product mix. Changes in these factors could have a material impact on our future average selling prices and unit costs. Also, the timing of deferred revenue recognition and related deferred costs can have a material impact on our gross profit and gross margin results. The timing of recognition and the relative size of these arrangements could cause large fluctuations in our gross profit from period to period. Additionally, to date we have incurred merger-related expenses related to inventory acquired from Occam of $14.2 million resulting from the required revaluation of the inventory to its estimated fair value, in addition to an associated write-down of inventory determined as excess and obsolete of $5.6 million, and the amortization of existing and core developed technologies, purchase order backlog and trade name, totaling $4.7 million. We do not anticipate any further merger-related expenses relating to inventory acquired from Occam for the remainder of 2011 or thereafter related to our acquisition of Occam. Existing and core developed technologies, purchase order backlog and trade name acquired from Occam will amortize over a period of 5 years.

Operating Expenses

Operating expenses consist primarily of research and development, sales and marketing, general and administrative expenses and merger-related and other expenses are recognized as incurred. Personnel-related costs, which include stock-based compensation expense, are the most significant component of each of these expense categories. We expect to continue to hire new employees in order to support our anticipated growth and status as a public company. In any particular period, the timing of additional hires could materially affect our operating expenses, both in absolute dollars and as a percentage of revenue. We anticipate that our operating expenses will increase in absolute dollar amounts but will decline as a percentage of revenue over time.

- ***Research and Development*** — Research and development expenses represent the largest component of our operating expenses and include personnel costs, consulting services, depreciation on lab equipment, costs of prototypes and overhead allocations. We expense research and development costs as incurred. Since the costs of software development that we incur after a product has reached technological feasibility are not material, we have not capitalized any such costs to date. We intend to continue making significant investments in developing new products and enhancing the functionality of our existing products.
- ***Sales and Marketing*** — Sales and marketing expenses consist of personnel costs, employee sales commissions and marketing programs. We expect sales and marketing expenses to increase as we hire additional personnel both in North America and internationally to promote our anticipated revenue growth.
- ***General and Administrative*** — General and administrative expenses consist primarily of personnel costs and costs for facilities related to our executive, finance, human resource, information technology and legal organizations and fees for professional services. Professional services consist of outside legal, tax and audit costs. We expect to incur significant additional expenses as a result of operating as a public company, including costs to comply with the Sarbanes-Oxley Act and the rules and regulations applicable to companies listed on the New York Stock Exchange.
- ***Merger-related and other expenses***—Merger-related expenses primarily include legal and professional expenses, severance and integration-related expenses associated with our acquisition of Occam and a charge related to a litigation settlement.
- ***Amortization of acquired Intangible assets*** — Amortized acquired intangible assets are comprised of customer relationships obtained in the Occam and OSI acquisitions. The amortization of acquired intangible assets from our acquisition of OSI ended during three months ended March 26, 2011.

Other Income (Expense), Net

Other income (expense), net primarily includes interest expense on our outstanding loans and interest income on our cash and investment balances. In addition, other income (expense), net includes adjustments to record our convertible preferred stock warrants at fair value. These convertible preferred stock warrants were converted into common stock warrants upon the closing of our initial public offering, or IPO, on March 26, 2010. Although an adjustment was recorded in the three months ended March 27, 2010, no such adjustment was made during the six months ended June 25, 2011 and no further adjustments will be made in future periods. Further, on May 4, 2010, we paid in its entirety our outstanding term loan of $20.0 million including outstanding accrued interest and prepayment penalties of $0.4 million.

Critical Accounting Policies and the Use of Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Management bases its estimates, assumptions and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. To the extent there are material differences between these estimates and actual results, our financial statements will be affected. Our management evaluates its estimates, assumptions and judgments on an ongoing basis.

On January 1, 2010, we adopted the new accounting standard for multiple deliverable revenue arrangements (ASC Topic 605-25), on a prospective basis, related to allocating revenue in a multiple deliverable arrangement as described in the significant accounting policies in our Form 10-K filed with the SEC on February 24, 2011. Other than the adoption of ASC Topic 605-25, there have been no significant changes in our significant accounting policies during the six months ended June 25, 2011 as compared to the significant accounting policies described in our Form 10-K filed with the SEC on February 24, 2011.

The items in our condensed consolidated financial statements requiring significant estimates and judgments are as follows:

Business Combination

During the last fiscal quarter, we completed our acquisition of Occam Networks for a purchase price of $213.1 million which consisted of $94.4 million of cash consideration, which included $33.6 million of cash assumed in the acquisition and a value of $118.7 million of common stock and equity awards issued. See Note 3 "Acquisition of Occam Networks" in the Notes to Condensed Consolidated Financial Statements.

We accounted for the acquisition of Occam under ASC Topic 805, "Business Combinations". The excess of the purchase price over the estimated fair values of the net tangible and net intangible assets acquired is recorded as goodwill. The fair values assigned to the acquired assets and assumed liabilities are based on valuations using management's best estimates and assumptions at the time these condensed consolidated financial statements were issued. During the measurement period (which is not to exceed one year from the acquisition date), we are required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. The application of the purchase method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. These assumptions and estimates include a market participant's use of the asset and the appropriate discount rates for a market participant. Our estimates are based on historical experience and information obtained from the management of the acquired companies. Our significant assumptions and estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates. We have finalized the fair values of the acquired assets and assumed liabilities and have completed the purchase price allocation as of June 25, 2011.

Revenue Recognition

In October 2009, the Financial Accounting Standards Board, or FASB, amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

(i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

(ii) require an entity to allocate revenue in an arrangement using best estimate of selling prices, or BSP, of deliverables if a vendor does not have vendor-specific objective evidence of selling price, or VSOE, or third-party evidence of selling price, or TPE; and

(iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We adopted this accounting guidance at the beginning of our first quarter of fiscal 2010 on a prospective basis for applicable transactions originating or materially modified after December 31, 2009. This guidance does not change the units of accounting for our revenue transactions. Our products and services qualify as separate units of accounting. Products are typically considered delivered upon shipment and are deemed to be non-contingent deliverables. We provide certain services at stated prices over a specified period of time and must meet specified performance conditions. As such, we have determined that our individual services are contingent deliverables. In addition, we provide specified packages of items considered a package arrangement which we also consider a contingent deliverable, and therefore we do not bill our customers until we have fully delivered the package. For multiple-element arrangements that include products and packages or services, we will first exclude the contingent revenue items and then allocate the remaining consideration to the non-contingent product deliverables on the basis of their relative selling price, which is currently BSP. To the extent that the stated contractual prices fall within our calculated range for BSP, we will allocate the consideration using the stated contractual prices. However, if the stated contractual price for any product deliverable is outside the range, the contractual prices will be adjusted using the midpoint price within its range in order to allocate arrangement consideration using the "relative selling price method." Since the individual products and services meet the criteria for separate units of accounting, we will recognize revenue upon delivery of each product and/or services. Post-sales software support revenue and extended warranty services revenue is deferred and recognized ratably over the period during which the services are to be performed. Installation and training service arrangements are recognized upon delivery or completion of performance. These service arrangements are typically short term in nature and are largely completed shortly after delivery of the product. Revenue from package arrangements is recognized upon full delivery of the package. In instances where substantive acceptance provisions are specified in the customer agreement, revenue is deferred until all acceptance criteria have been met. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

We derive revenue primarily from the sale of hardware products and related software. Shipping charges billed to customers are included in revenue and the related shipping costs are included in cost of revenue. In certain cases, our products are sold along with services, which include installation, training, post-sales software support and/or extended warranty services. Post-sales software support consists of our management software, including rights, on a when-and-if available basis, to receive unspecified software product upgrades to either embedded software or our management software, maintenance releases and patches released during the term of the support period and product support, which includes telephone and Internet access to technical support personnel. Extended warranty services include the right to warranty coverage beyond the standard warranty period. From time to time, we offer customers sales incentives, which include volume rebates and discounts. These amounts are accrued on a quarterly basis and recorded net of revenue.

Payment terms to customers generally range from net 30 to net 90 days. We assess the ability to collect from our customers based primarily on the creditworthiness and past payment history of the customer. Revenue arrangements that provide payment terms that extend beyond our customary payment terms are considered extended payment terms. Occasionally, we offer extended payment terms in a revenue arrangement. Through the date of this filing, we have not experienced any significant accounts receivable write-offs related to revenue arrangements with extended payment terms. Customer arrangements with extended payment terms may also include substantive acceptance criteria within the arrangement which, in accordance with our revenue recognition policy, would cause the revenue in the arrangement to be deferred until all the acceptance criteria have been met. Extended payment terms may also indicate that the customer is relying on a future event as a prerequisite for the payment, such as installation, a new software release or financing, which would indicate that the fees associated with the arrangement are not fixed or determinable. Due to the unusual nature and uncertainty associated with granting extended payment terms in customer arrangements, we defer revenue under these arrangements and recognize the revenue upon payment from the customer, assuming all other revenue recognition criteria have been met.

We enter into arrangements with certain of our customers who receive government supported loans and grants from RUSs, to finance capital spending. Under the terms of an RUS equipment contract that includes installation services, the customer does not take possession and control and title does not pass until formal acceptance is obtained from the customer. Under this type of arrangement, we do not recognize revenue until we have received formal acceptance from the customer. For RUS arrangements that do not involve installation services, we recognize revenue in accordance with the revenue recognition policy described above.

We have established VSOE for our training, post-sales software support and extended warranty services. Training courses are based on a daily rate per person and will vary according to the type of training class offered. Post-sales software support is offered for a one year term and the price is based on the number of customer subscriber lines. Extended warranty pricing is based on the type of product and is sold in one or five year durations. In substantially all of the arrangements with multiple deliverables pertaining to arrangements with these services, we have used and intend to continue using VSOE to allocate the selling price to each deliverable. We determine VSOE based on our normal pricing practices for these specific services when sold separately.

In most instances, we are not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE cannot be established, we attempt to establish selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our marketing strategy differs from that of our peers and our offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, we are typically not able to determine TPE.

When we are unable to establish selling price using VSOE or TPE, we use BSP. The objective of BSP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. BSP is primarily used for all products and installation services where we historically have not been able to establish VSOE of selling price.

We determine BSP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, characteristics of targeted customers and pricing practices. The determination of BSP is made through consultation with and formal approval by management, taking into consideration the go-to-market strategy.

We regularly review VSOE, TPE and BSP and maintain internal controls over the establishment and updates of these estimates. There were no material impacts during the second quarter and the first six months ended June 25, 2011 nor do we expect a material impact in the near term from changes in VSOE, TPE or BSP.

Stock-Based Compensation

Under the provisions of ASC Topic 718, for share-based payment transactions , stock-based awards, including stock options, are recorded at fair value as of the grant date and recognized to expense over the employee's requisite service period (generally the vesting period), which we have elected to amortize on a straight-line basis. We adopted this guidance using the modified prospective transition method. Stock-based compensation amounts have been reduced by our estimated forfeitures on all unvested awards. Under the provisions of this guidance, we estimate the fair value of stock options using the Black-Scholes option-pricing model. This model requires various highly judgmental assumptions, including volatility, expected forfeiture rates and expected option life, which have a significant impact on the fair value estimates. Because we are a newly public company, we derive our expected volatility based on our peer group of publicly-traded companies in the industry in which we do business. The expected life of an option award is calculated using the "simplified" method provided in the SEC's Staff Accounting Bulletin 110, and takes into consideration the grant's contractual life and vesting periods. We apply an estimated forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the adequacy of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior and other factors. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

The fair values of the common stock underlying stock options granted during 2008 and 2009 were estimated by our board of directors, which intended all options granted to be exercisable at a price per share not less than the per share fair market value of our common stock underlying those options on the date of grant. Given the absence of a public trading market in the periods prior to our IPO, our board of directors considered numerous objective and subjective factors to determine the best estimate of the fair market value of our common stock at each meeting at which stock option grants were approved. These factors included, but were not limited to, the following: contemporaneous valuations of our common stock, the rights and preferences of our convertible preferred stock relative to our common stock, the lack of marketability of our common stock, developments in our business, recent issuances of our convertible preferred stock and the likelihood of achieving a liquidity event, such as a IPO, or sale of our company, given prevailing market conditions. If we had made different assumptions and estimates, the amount of our recognized and to be recognized stock-based compensation expense could have been materially different. We believe that we have used reasonable methodologies, approaches and assumptions in determining the fair value of our common stock.

During the three months ended June 25, 2011 and June 26, 2010, we recorded stock-based compensation of $5.3 million and $7.2 million, respectively. During the six months ended June 25, 2011 and June 26, 2010, we recorded stock-based compensation expense of $13.4 million and $10.0 million, respectively. At June 25, 2011, we had $9.9 million of total unrecognized compensation cost related to unvested stock options, net of estimated forfeitures. This cost is expected to be recognized over a weighted average service period of approximately 3.2 years. At June 25, 2011, we had $12.2 million of total unrecognized compensation cost related to restricted stock units, or RSUs, net of estimated forfeitures. This cost is expected to be recognized over a weighted average service period of approximately 2.7 years. To the extent that the actual forfeiture rate is different than what we have anticipated, stock-based compensation related to these awards will be adjusted in future periods.

Goodwill and Intangible Assets

Goodwill and other purchased intangible assets have been recorded as a result of our acquisition of Occam in February 2011 and OSI, in February 2006. This goodwill is not deductible for tax purposes, and there have been no adjustments to goodwill since the applicable acquisition date.

Goodwill is not amortized but instead is subject to an impairment test annually or more frequently if events or changes in circumstances indicate that they may be impaired. We evaluate goodwill on an annual basis as of the end of the second quarter of each fiscal year. The test for goodwill impairment is a two-step process. The first step compares the fair value of each reporting unit with its respective carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and, therefore, the second step of the impairment test is unnecessary. The second step, used to measure the amount of the impairment loss, compares the implied fair value of each reporting unit's goodwill with the respective carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. Management has determined that it operates as a single reporting unit and therefore evaluates goodwill impairment at the enterprise level. There were no impairment charges through June 25, 2011.

Intangible assets with definite useful lives are amortized over their estimated useful lives, generally six months to five years, and reviewed for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable. We believe that no events or changes in circumstances have occurred that would require an impairment test for these assets. See Note 3, "Acquisition of Occam Networks" for more information related to goodwill and intangible assets recorded as of the acquisition date.

Supplier Concentration

We depend primarily on a small number of outside contract manufacturers for the bulk of our finished goods inventory. We generally purchase our product through purchase orders and typically have no supply agreements with our suppliers or our contract manufacturers. While we seek to maintain a sufficient reserve of our products, our business and results of operations could be adversely affected by a stoppage or delay in receiving such products, the receipt of defective parts, an increase in price of such products or our inability to obtain lower prices from our contract manufacturers and suppliers in response to competitive pressures.

In connection with the acquisition of Occam, under the terms of the agreement with certain contract manufacturers, we have issued purchase orders for the production of our products. We are required to place orders in advance with our contract manufacturers to meet estimated sales demands. Future amounts payable to the contract manufacturer will vary based on the level of requirements.

Results of Operations

Our results of operations for the second quarter and the first six months ended June 25, 2011 include the operations of Occam beginning on February 22, 2011, the effective date of our acquisition of Occam.

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful and you should not rely on our past results as an indication of our future performance. In addition, a significant portion of our quarterly sales typically occur during the last month of the quarter, which we believe reflects customer buying patterns of products similar to ours and other products in the technology industry generally. As a result, our quarterly operating results are difficult to predict even in the near term.

Revenue fluctuations result from many factors, including but not limited to: increases or decreases in customer orders for our products and services, large customer purchase agreements with special revenue considerations, varying budget cycles for our customers and seasonal buying patterns of our customers. More specifically, our customers tend to spend less in the first fiscal quarter as they are finalizing their annual budgets. Customers then typically decide to purchase our products during our second fiscal quarter. In our third fiscal quarter, customers are in the process of deploying such products and as a result there is less spending. In addition, difficulties related to deploying products during the winter also tend to limit spending in the third quarter. Finally, in our fourth fiscal quarter, customer purchases increase as customers are attempting to spend the remainder of their budget for the year.

Cost of revenue is strongly correlated to revenue and will tend to fluctuate from all the aforementioned factors that could impact revenue. Our cost of revenue for the three and six months ended June 25, 2011 includes merger-related expenses and amortization of intangible assets from our acquisition of Occam as discussed in more detail below. Other additional factors that impact cost of revenue include changes in the mix of products delivered to our customers and changes in the cost of our inventory. Cost of revenue includes fixed expenses related to our internal operations department which could impact our cost of revenue as a percentage of revenue, if there are large sequential fluctuations to revenue.

Our operating expenses have fluctuated based on the following factors: timing of variable sales compensation expenses due to fluctuations in order volumes, timing of salary increases which have historically occurred in the second quarter, timing of research and development expenses including prototype builds and intermittent outsourced development projects and increases in stock-based compensation expenses resulting from modifications to outstanding stock options. Additionally, operating expenses for the three and six months ended June 25, 2011 includes merger-related expenses and amortization of intangible assets from our acquisition of Occam as discussed in more detail below. As a result of the acquisition, we have also incurred increased compensation costs from additional headcount.

As a result of the fluctuations described above and a number of other factors, many of which are outside our control, our quarterly operating results fluctuate from period to period. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

Comparison of Three and Six Months Ended June 25, 2011 and June 26, 2010

Revenue

The following table sets forth our revenue:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands)							
Revenue	$ 97,959	$ 71,653	$ 26,306	37%	169,429	$ 119,856	$ 49,573	41%

Our revenue is principally derived in the United States. During the three months ended June 25, 2011 and June 26, 2010, revenue generated in the United States represented approximately 94% and 92% of revenue, respectively. During the six months ended June 25, 2011 and June 26, 2010, revenue generated in the United States represented approximately 94% and 91% of revenue, respectively. Revenue increased during the second quarter and first six months of fiscal 2011 compared with the corresponding periods of fiscal 2010, primarily due to an increase in shipment volume due to continued demand across our customer base, in addition to increased shipment activity as a result of the Occam acquisition.

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Cost of Revenue and Gross Profit

The following table sets forth our costs of revenue:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
				(in thousands, except percentages)				
Cost of revenue:								
Products and services	$ 54,899	$ 41,855	$ 13,044	31%	$ 94,207	$ 72,026	$ 22,181	31%
Merger related expenses	9,709	—	9,709	N/A	19,966	—	19,966	N/A
Amortization of intangible assets	3,188	1,360	1,828	134%	4,704	2,720	1,984	73%
Total cost of revenue	67,796	43,215	24,581	57%	118,877	74,746	44,131	59%
Gross profit	$ 30,163	$ 28,438	$ 1,725	6%	$ 50,552	$ 45,110	$ 5,442	12%
Gross margin	30.8%	39.7%			29.8%	37.6%		

Cost of revenues increased during the second quarter and first six months of fiscal 2011 compared with the corresponding periods of fiscal 2010, primarily due to an increase in revenues recognized during this period and merger-related expenses in connection with our acquisition of Occam.

Gross margin decreased during the second quarter and first six months of fiscal 2011, primarily the result of the merger-related expenses related to the revaluation of inventory acquired in our acquisition of Occam. In addition, we recorded significant reserves for excess and obsolete inventory acquired from Occam during the six months ended 2011. Gross margin increased during the second quarter and first six months of fiscal 2011 to 40.7% and 41.6%, respectively when excluding these merger-related expenses due to cost reductions, productmix, and within product mix the introduction of many new products in the last twelve months. We do not anticipate recording further merger-related expenses relating to inventory acquired from Occam, to cost of revenue.

In connection with the acquisition of Occam, $30.3 million of the total purchase price was allocated to amortizable intangible assets which included core developed technologies, purchase order backlog and trade name and is being amortized to cost of revenue. In connection with the acquisition of OSI, $28.9 million of the total purchase price was allocated to amortizable intangible assets which also included existing and core developed technologies, and purchase order backlog. For the three months ended June 25, 2011 and June 26, 2010, we recorded amortization expense of $3.2 million and $1.4 million, respectively. For the six months ended June 25, 2011 and June 26, 2010, we recorded amortization expense of $4.7 million and $2.7 million, respectively. The amortization of intangible assets related to our acquisition of OSI was completed during the three months ended March 26, 2011. The intangible assets related to Occam will amortize over their estimated useful lives.

Operating Expenses

Research and Development Expenses

The following table sets forth our research and development expenses:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands, except percentages)							
Research and development	$ 18,584	$ 13,086	$ 5,498	42%	$ 33,623	$ 24,933	$ 8,690	35%
Percent of total revenue	19.0%	18.3%			19.8%	20.8%		

Research and development expenses increased during the second quarter and first six months of fiscal 2011 compared with the corresponding periods in fiscal 2010, primarily due to an increase in compensation and related costs from an increase in headcount resulting from our acquisition of Occam, increase in prototype expenses related to new product development and increased facilities and insurance expense allocations.

Sales and Marketing Expenses

The following table sets forth our sales and marketing expenses:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands, except percentages)							
Sales and marketing	$ 14,172	$ 10,184	$ 3,988	39%	$ 26,238	$ 18,606	$ 7,632	41%
Percent of total revenue	14.5%	14.2%			15.5%	15.5%		

Sales and marketing expenses increased during the second quarter and first six months of fiscal 2011 compared with the corresponding periods in fiscal 2010, primarily due to an increase in compensation and related costs from an increase in headcount resulting from our acquisition of Occam and increased commission costs related to higher sales order volumes combined with the increased headcount, as well as increased travel-related costs. We also experienced increases in consulting services and facilities and insurance expense allocations.

General and Administrative Expenses

The following table sets forth our general and administrative expenses:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands, except percentages)							
General and administrative	$ 6,667	$ 7,423	$ (756)	(10)%	$ 15,975	$ 12,171	$ 3,804	31%
Percent of total revenue	6.8%	10.4%			9.4%	10.2%		

General and administrative expenses decreased during the second quarter of fiscal 2011 and increased in the first six months of fiscal 2011 compared with the corresponding periods in fiscal 2010. The decrease in the second quarter was primarily due to a decrease in stock-based compensation expense resulting from RSUs granted in the stock option exchange program which began amortizing at the date of our IPO on March 24, 2010 and were fully vested and amortized in April 2011. This decrease was partially offset by an increase in compensation and related costs from increased headcount and an increase in facilities and insurance expenses primarily resulting from the Occam acquisition. General and administrative expenses increased during the six months ended June 25, 2011 as a result of compensation and related costs from increased headcount and an increase in facilities and insurance expenses. In addition, we experienced an increase in stock-based compensation resulting from the RSUs granted in the exchange program that amortized for four months during the first six months of 2011, compared to only three months during the first six months of 2010.

Merger-related and other expenses

The following table sets forth our merger-related and other expenses:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands, except percentages)							
Merger related and other expenses	$ 5,482	$ —	$ 5,482	N/A	$ 11,523	$ —	$ 11,523	N/A

In connection with our acquisition of Occam, we have incurred operating merger-related and other expenses of $5.4 million and $11.5 million in the second quarter and the first six months of fiscal 2011. The merger-related and other expenses primarily consists of legal and professional expenses, severance for terminated Occam employees, salaries paid to transitional Occam employees, and to a lesser extent a litigation settlement charge. In addition, we incurred expenses associated with consolidating facilities and stock-based compensation expense primarily related to accelerated vesting for certain Occam executives that terminated subsequent to the acquisition date. There were no merger-related and other expenses in the corresponding periods in fiscal 2010. We anticipate further estimated merger-related and other expenses from planned consolidation of facilities and severance and salaries of transitional employees of $2.4 million in the third quarter and $0.6 million in the fourth quarter of 2011, respectively. We do not anticipate any further merger-related and other expenses from the acquisition of Occam in 2012. For more information regarding the Occam acquisition, see Note 3 "Acquisition of Occam Networks" in the Notes to Condensed Consolidated Financial Statements included in this report.

Amortization of Intangible Assets

The following table sets forth our amortization of intangible asset expenses:

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands, except percentages)							
Amortization of intangible assets	$ 2,795	$ 185	$ 2,610	1411%	$ 3,464	$ 370	$ 3,094	836%

In connection with the acquisition of Occam, $51.0 million of the total purchase price was allocated to the amortizable intangible asset, customer relationships, which is being amortized to operating expenses. In connection with the acquisition of OSI, $3.7 million of the total purchase price was allocated to customer relationships. For the three months ended June 25, 2011 and June 26, 2010, we recorded amortization expense of $2.8 million and $0.2 million, respectively. For the six months ended June 25, 2011 and June 26, 2010, we recorded amortization expense of $3.5 million and $0.4 million, respectively. The amortization of intangible assets related to our acquisition of OSI was completed during the three months ended March 26, 2011. The intangible assets related to Occam will amortize over their estimated useful lives.

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Other Income (Expense)

The following table sets forth our other income (expense):

	Three Months Ended				Six Months Ended			
	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent	June 25, 2011	June 26, 2010	Variance in Dollars	Variance in Percent
	(in thousands, except percentages)							
Interest income	$ 26	$ 103	$ (77)	(75)%	$ 69	$ 177	$ (108)	(61)%
Interest expense	(45)	(620)	575	(93)%	(91)	(1,093)	1,002	(92)%
Change in fair value of preferred stock warrants	—	—	—	—	—	(173)	173	(100)%
Other income (expense)	24	(2)	26	1300%	29	9	20	222%
Total other income (expense)	$ 5	$ (519)			$ 7	$ (1,080)		

The decrease in other expense in the three and the first six months ended June 25, 2011 compared with the corresponding periods of fiscal 2010 was primarily due to a reduction in interest expense from the repayment of our outstanding loan of $20.0 million on May 4, 2010 including outstanding accrued interest and prepayment penalties of $0.4 million.

Liquidity and Capital Resources

	Six Months Ended	
	June 25, 2011	June 26, 2010
	(in thousands)	
Net cash provided by (used in) operating activities	$ 926	$ (200)
Net cash used in investing activities	(42,412)	(44,265)
Net cash (used in) provided by financing activities	(6,192)	37,365

At June 25, 2011, we had cash, cash equivalents and marketable securities of $27.6 million, which primarily consisted of money market mutual funds and highly liquid debt instruments held at major financial institutions. We have a revolving credit facility of $30.0 million based upon a percentage of eligible accounts receivable. Included in the revolving line are amounts available under letters of credit and cash management services. Since inception, we financed our operations primarily through private sales of equity and from borrowings under credit facilities. In our IPO we raised net proceeds of approximately $57.3 million. On May 4, 2010, we paid down our outstanding term loan of $20.0 million with Silicon Valley Bank, or SVB, in its entirety including outstanding accrued interest and prepayment penalties of $0.4 million. On February 22, 2011, we completed our acquisition of Occam in a stock and cash transaction valued at approximately $213.1 million. We paid $94.4 million in cash as part of the acquisition cost which was partially funded by cash assumed from Occam of $33.6 million. See Note 3 "Acquisition of Occam Networks" in the Notes to Condensed Consolidated Financial Statements included in this report for more information regarding our acquisition of Occam.

Operating Activities

Our operating activities provided cash of $0.9 million in the six months ended June 25, 2011. This resulted primarily from non-cash charges of $27.2 million (the majority of which consist of stock-based compensation expense and depreciation and amortization expense) and positive net changes in operating assets and liabilities, largely offset by our net loss of $40.4 million. Cash inflows from changes in operating assets and liabilities included $15.3 million related to the sell through of inventory acquired from Occam, an increase in deferred revenue of $9.1 million from deferral of certain RUS- funded contracts and an increase in accrued liabilities of $3.0 million. These inflows were partially offset by cash outflows from accounts payable of $11.1 million resulting primarily from payments of accounts payable assumed from Occam and an increase in deferred cost of revenue of $3.1 million, primarily related to the deferral of revenue of certain RUS- funded contracts.

In the six months ended June 26, 2010, we used $0.2 million in cash from operating activities, which consisted of our net loss of $12.5 million, offset by non-cash charges of $16.1 million. Cash outflows from changes in operating assets and liabilities included a decrease in accounts payables and accrued liabilities of $12.3 million primarily due to the timing of payments to suppliers, and an increase in inventory of $6.4 million as we build our inventories in anticipation of higher shipment volumes in future periods, offset by a decrease in accounts receivable of $11.5 million from lower shipments in the second quarter of 2010 compared to the fourth quarter of 2009.

Investing Activities

Our cash used in investing activities in the six months ended June 25, 2011 primarily consisted of our acquisition of Occam for $60.8 million, net of $33.6 million of Occam cash assumed in the transaction, and capital expenditures of $4.5 million, partially offset by maturities of marketable securities of $22.9 million.

Our cash used in investing activities in the six months ended June 26, 2010 consisted of capital expenditures of $2.9 million, the purchase of marketable securities of $56.6 million, which primarily included highly liquid debt instruments and certificates of deposit, offset by sales and maturities of marketable securities of $15.2 million.

Financing Activities

Our cash used in financing activities of $6.2 million in the six months ended June 25, 2011, primarily consisted of payment of payroll taxes for the vesting of restricted stock units of $8.9 million, offset by proceeds of $2.1 million from the issuance of common stock under the employee stock purchase plan ("ESPP") and proceeds of $0.7 million from the exercise of stock options.

Our financing activities provided cash of $37.4 million in the six months ended June 26, 2010, which primarily consisted of net proceeds of $57.3 million from our IPO offset by the repayment of a term loan of $20.0 million. On May 4, 2010, we paid the outstanding loan payable to Silicon Valley Bank of $20.0 million in its entirety including outstanding accrued interest and prepayment penalties of $0.4 million.

Working Capital and Capital Expenditure Needs

We currently have no material cash commitments, except for normal recurring trade payables, expense accruals, operating leases and firm purchase commitments. In addition, we do not currently anticipate significant investment in property, plant and equipment, and we believe that our outsourced approach to manufacturing provides us significant flexibility in both managing inventory levels and financing our inventory. We may be required to issue performance bonds to satisfy requirements under our RUS-funded contracts. We issue letters of credit under our existing credit facility to support these performance bonds. In the event we do not have sufficient capacity under our credit facility to support these bonds, we will have to purchase certificates of deposit, which could materially impact our working capital or limit our ability to satisfy such contract requirements. At June 25, 2011, we have cash of $1.1 million restricted for issuance of surety performance bonds we acquired through our acquisition of Occam. There were no restrictions on our cash at December 31, 2010. In the event that our revenue plan does not meet our expectations, we may eliminate or curtail expenditures to mitigate the impact on our working capital.

We believe based on our current operating plan, our existing cash, cash equivalents and marketable securities and existing amounts available under our revolving line will be sufficient to meet our anticipated cash needs for at least the next twelve months. Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the acquisition of new capabilities or technologies, the continued market acceptance of our products and the cost of integration of our recent acquisition of Occam. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be harmed.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at June 25, 2011 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 years
Operating lease obligations	$ 10,726	$ 2,149	$ 6,981	$ 1,569	$ 27
Firm purchase commitments(1)	7,092	7,092	—	—	—
Total	$ 17,818	$ 9,241	$ 6,981	$ 1,569	$ 27

(1) In connection with our acquisition of Occam, under the terms of the agreement with certain contract manufacturer, we have issued purchase orders for the production of our products. We are required to place orders in advance with our contract manufacturers to meet estimated sales demands. Future amounts payable to the contract manufacturer will vary based on the level of requirements.

Future minimum lease payments under our lease for our primary office space in Petaluma, California and in Minneapolis, Minnesota, Acton, Massachusetts, Richardson, Texas and Nanjing, China, are disclosed in the table above. The above table also includes future minimum lease payments for our facilities in Fremont, Santa Barbara, and Simi Valley, California, and for certain equipment under non-cancelable operating lease agreements, related to our acquisition of Occam, which expire at various dates through 2015.

In February 2009, we entered into a new lease agreement for our primary office in Petaluma that expires in February 2014. We received a lease incentive consisting of $1.2 million in leasehold improvements provided by our lessor. We have capitalized the full amount of the lease incentive and are amortizing the cost of the improvements over the lease term. Our lease in Minneapolis expires in March 2014, our lease in Acton expires in June 2016, our lease in Richardson expires in October 2014 and our lease in Nanjing expires in February 2016.

Off-Balance Sheet Arrangements

As of June 25, 2011 and December 31, 2010, we did not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income" that improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from other comprehensive income ("OCI") to net income, in both net income and OCI. The standard does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04 which amends U.S. GAAP to conform to the measurement and disclosure requirements in International Financial Reporting Standards ("IFRS"). The amendments in this Update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Those that clarify the Board's intent about the application of existing fair value measurement and disclosure requirements

2. Those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

In addition, to improve consistency in application across jurisdictions some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way (for example, using the word shall rather than should to describe the requirements in U.S. GAAP). The amendments in this Update are to be applied prospectively and are effective during interim and annual period beginning after December 15, 2011. We will evaluate the requirements and do not believe that the adoption of this update will have a material impact on our consolidated financial statements at this time.

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (ASC Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We do not believe that the adoption of this updated disclosure requirement will have a material impact to our 2011 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The primary objectives of our investment activity are to preserve principal, provide liquidity and maximize income without significantly increasing risk. By policy, we do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to interest rate risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we invest in a variety of securities, which primarily consists of money market funds, U.S. government bonds, commercial paper and other debt securities of domestic corporations. Due to the nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

Our exposure to interest rates also relates to the increase or decrease in the amount of interest we must pay on our outstanding debt instruments. Any outstanding borrowings under our term loan and line of credit bear a variable rate of interest based upon the applicable LIBOR or prime rate and is adjusted monthly based upon changes in the Federal Reserve's prime rate. On May 4, 2010, we paid down our outstanding term loan of $20.0 million, which bore interest at LIBOR (not less than 1.25%) plus 6.50%, in its entirety including outstanding accrued interest and prepayment penalties of $0.4 million. As of June 25, 2011, we had no term loans outstanding. As of June 25, 2011, there were no outstanding borrowings under the revolving credit facility.

Foreign Currency Risk

Our sales contracts and vendor payables are primarily denominated in U.S. dollars and, therefore, the majority of our revenues and operating expenses are not subject to foreign currency risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their evaluation as of June 25, 2011, our Chief Executive Officer and Chief Financial Officer, with the participation of our management, have concluded that our disclosure controls and procedures (as defined in Rules 13a–15(e) and 15d–15(e) of the Securities Exchange Act of 1934) were effective at the reasonable assurance level.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures provide our Chief Executive Officer and Chief Financial Officer reasonable assurances that our disclosure controls and procedures will achieve their objectives. However, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting can or will prevent all human error. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are internal resource constraints, and the benefit of controls must be weighed relative to their corresponding costs. Because of the limitations in all control systems, no evaluation of controls can provide complete assurance that all control issues and instances of error, if any, within our company are detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to human error or mistake. Additionally, controls, no matter how well designed, could be circumvented by the individual acts of specific persons within the organization. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future conditions.

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Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. For example, on December 28, 2009, we filed a lawsuit against Wi-LAN Inc., or Wi-LAN, of Ontario, Canada, in the federal court in the Northern District of California, seeking declaratory relief that we do not infringe certain U.S. Patents held by Wi-LAN. On May 27, 2011 Calix and Wi-LAN entered into a settlement and release agreement, and this lawsuit was dismissed with prejudice on June 7, 2011.

On September 16, 2010, the Company, Occam, Ocean Sub I, Inc., a Delaware corporation and a direct, former wholly-owned subsidiary of Calix, and Ocean Sub II, LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of Calix, entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"). In response to the announcement of the Merger Agreement, on September 17, 2010, September 20, 2010 and September 21, 2010, three purported class action complaints were filed by three purported stockholders of Occam in the California Superior Court for Santa Barbara County: Kardosh v. Occam Networks, Inc., et al. (Case No. 1371748), or the Kardosh complaint; Kennedy v. Occam Networks, Inc., et al. (Case No. 1371762), or the Kennedy complaint; and Moghaddam v. Occam Networks, Inc., et al. (Case No. 1371802), or the Moghaddam complaint, respectively. The Kardosh, Kennedy and Moghaddam complaints, which are referred to collectively as the California class action complaints, are substantially similar. Each of the California class action complaints names Occam, the pre-acquisition members of the Occam board of directors and us as defendants. The Kennedy complaint also names each of Ocean Sub I and Ocean Sub II, as defendants.

The California class action complaints generally allege that the former members of the Occam board breached their fiduciary duties in connection with the acquisition of Occam by us, by, among other things, engaging in an allegedly unfair process and agreeing to an allegedly unfair price for the proposed merger transaction. The California class action complaints further allege that Occam and the other entity defendants aided and abetted the alleged breaches of fiduciary duty. The plaintiffs in the California class action complaints seek injunctive relief rescinding the merger transaction and awarding damages in an unspecified amount, as well as plaintiffs' costs, attorney's fees, and other relief. On November 2, 2010, the three California class action complaints were consolidated into a single action, with the Kardosh action becoming the lead action, and on November 19, 2010, the California Superior Court issued an order staying the California class actions in favor of a substantively identical stockholder class action pending in the Delaware Court of Chancery (see below). The California class actions remain stayed under that order.

On October 6, 2010, a purported class action complaint was filed by purported stockholders of Occam in the Delaware Court of Chancery: Steinhardt v. Howard-Anderson, et al. (Case No. 5878-VCL). On November 24, 2010, these purported stockholders filed an amended complaint, or the amended Steinhardt complaint. The amended Steinhardt complaint names Occam and the former members of the Occam board of directors as defendants. The amended Steinhardt complaint does not name Calix as a defendant.

Like the California class action complaints, the amended Steinhardt complaint generally alleges that the former members of the Occam board breached their fiduciary duties in connection with the acquisition of Occam by us, by, among other things, engaging in an allegedly unfair process and agreeing to an allegedly unfair price for the merger transaction. The amended Steinhardt complaint also alleges that Occam and the former members of the Occam board breached their fiduciary duties by failing to disclose certain allegedly material facts about the merger transaction in the preliminary proxy statement and prospectus included in the Registration Statement on Form S-4 that we filed with the SEC on November 2, 2010. The amended Steinhardt complaint sought injunctive relief rescinding the merger transaction, and an award of damages in an unspecified amount, as well as plaintiffs' costs, attorney's fees, and other relief.

The merger transaction was completed, on February 22, 2011. The Delaware plaintiffs continue to seek an award of damages in an unspecified amount.

We believe that the allegations in the California actions and the Delaware action are without merit and intend to continue to vigorously contest the actions. However, there can be no assurance that we will be successful in defending these ongoing actions. In addition, we have obligations, under certain circumstances, to hold harmless and indemnify each of the defendant former Occam directors against judgments, fines, settlements and expenses related to claims against such directors and otherwise to the fullest extent permitted under Delaware law and Occam's bylaws and certificate of incorporation. Such obligations may apply to these lawsuits.

We are not presently a party to any other legal proceedings which, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, operating results or financial condition.

Item 1A. Risk Factors

We have identified the following additional risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Investors should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from the risks described under "Risk Factors" included in our annual report filed on Form 10-K with the Securities and Exchange Commission on February 24, 2011.

Risks Related to Our Merger Transaction with Occam

The failure to successfully combine the businesses of Calix and Occam in the expected timeframe may adversely affect our future results, which may adversely affect the value of our common stock.

The success of our post merger transaction will depend, in part, on the ability of a post-merger Calix to realize the anticipated benefits from combining the businesses of Calix and Occam, including integrating Occam into our business. To realize these anticipated benefits, our business and Occam's business must be successfully combined. If we are unsuccessful in combining our business and Occam's business in the expected timeframe, the anticipated benefits of the merger transaction may not be realized fully or at all or may take longer to realize than expected. In addition, the ongoing integration may result in additional and unforeseen expenses, which could reduce the anticipated benefits of the merger transaction.

We and Occam, including our respective subsidiaries, operated independently prior to the closing of the merger transaction. It is possible that the ongoing integration process could result in the loss of key employees, as well as the disruption of our ongoing combined business or inconsistencies in standards, controls, procedures and policies. Any or all of those occurrences could adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger transaction. Ongoing integration efforts will also divert management attention and resources. These ongoing integration matters could have an adverse effect on us.

Future results of the combined organization may differ materially from the unaudited pro forma combined financial statements presented in the proxy statement/prospectus filed on December 15, 2010, as amended from time to time, and the financial forecasts provided to our and Occam's financial advisors in connection with discussions concerning the merger transaction and the potential benefits of the merger transaction may not be realized. *

The future results of the combined organization may be materially different from those shown in the unaudited pro forma combined financial statements presented in the proxy statement/prospectus filed on December 15, 2010, as amended from time to time, which show only a combination of our and Occam's historical results and the financial forecasts provided to our and Occam's financial advisors in connection with discussions concerning the merger transaction. We have incurred, and expect to incur in the future, significant costs associated with the completion of the merger transaction and combining the operations of the two companies. In addition, these costs may decrease the capital that the combined organization could use for revenue-generating investments in the future. Furthermore, potential growth, expected financial results, perceived synergies and anticipated opportunities may not be realized through the ongoing integration of our and Occam's businesses.

The post merger transaction could cause disruptions and materially adversely affect the future business and operations of the combined organization.

In connection with the post merger transaction, it is possible that some customers, suppliers and other persons with whom we or Occam have had a business relationship may delay or defer certain business decisions, or determine to purchase a competitor's products. In particular, customers could be reluctant to purchase our or Occam's products due to uncertainty about the direction of their respective technology and products, and uncertainty regarding the willingness of the combined organization to support and service existing products after the merger transaction. If our or Occam's customers, suppliers or other persons, delay or defer business decisions, or purchase a competitor's products, it could negatively impact revenues, earnings and cash flows of the combined organization, as well as the market prices of our common shares.

Similarly, employees from Occam may experience uncertainty about their future roles with the combined organization. These potential distractions of the merger transaction may adversely affect our ability to motivate and retain executives and key employees and keep them focused on the strategies and goals of the combined organization. Any failure by us to retain and motivate executives and key employees during the ongoing integration period could seriously harm the business of the combined organization.

Four purported class action lawsuits are pending against Occam and its former directors challenging the acquisition of Occam by us, and an unfavorable judgment or ruling in these lawsuits could result in substantial costs.*

In response to the announcement of the Merger Agreement, four separate purported class action complaints were filed by purported stockholders of Occam against Occam and the former members of its board of directors (and in some cases Calix and its wholly-owned subsidiaries party to the Merger Agreement), including three complaints in the California Superior Court for Santa Barbara County and one complaint in the Delaware Court of Chancery. Each complaint generally alleged that the former members of the Occam board breached their fiduciary duties in connection with the acquisition of Occam by Calix, by, among other things, engaging in an allegedly unfair process and agreeing to an allegedly unfair price for the merger transaction, and each complaint sought rescission of the merger transaction as well as other remedies including unspecified damages and costs and fees. The California Superior Court has issued an order staying the three California class actions in favor of the Delaware class action, which remains pending. In addition, a complaint was filed by two purported stockholders of Occam against Occam, the former members of its board of directors, Calix and its wholly-owned subsidiaries party to the Merger Agreement in the U.S. District Court for the Central District of California, generally alleging that the defendants violated sections 14(a) and 20(a) of the Securities Exchange Act of 1934 by, among other things, making material misstatements and omissions about the merger transaction in the preliminary Form S-4 Registration Statement filed by Calix in connection with the acquisition, and such complaint sought rescission of the merger transaction as well as other remedies including costs and fees. The plaintiffs have since voluntarily dismissed the complaint without prejudice.

We believe that the allegations in each of the pending actions as well as the Federal complaint that was dismissed without prejudice are without merit and intends to vigorously contest the actions. However, there can be no assurance that we and the other defendants will be successful in our defense. In addition, pursuant to the Merger Agreement and Delaware law, we have obligations, under certain circumstances, to hold harmless and indemnify each of the defendant former directors of Occam against judgments, fines, settlements and expenses related to claims against such directors and otherwise to the fullest extent permitted under Delaware law and Occam's bylaws and certificate of incorporation. Such obligations may apply to these lawsuits, and therefore an unfavorable outcome in these lawsuits could result in substantial costs for us, even where we are not named defendants.

Risks Related to Our Business and Industry

Our markets are rapidly changing and we have a limited operating history, which make it difficult to predict our future revenue and plan our expenses appropriately.

We were incorporated in August 1999 and shipped our first product in December 2001. We have a limited operating history and compete in markets characterized by rapid technological change, changing needs of communications service providers, or CSPs, evolving industry standards and frequent introductions of new products and services. We have limited historical data and have had a relatively limited time period in which to implement and evaluate our business strategies as compared to companies with longer operating histories. In addition, we likely will be required to reposition our product and service offerings and introduce new products and services as we encounter rapidly changing CSP requirements and increasing competitive pressures. We may not be successful in doing so in a timely and responsive manner, or at all. As a result, it is difficult to forecast our future revenues and plan our operating expenses appropriately, which also makes it difficult to predict our future operating results.

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We have a history of losses and negative cash flow, and we may not be able to generate positive operating income and cash flows in the future.

We have experienced net losses in each year of our existence. For the six months ended June 25, 2011 and June 26, 2010, we incurred net losses of $40.2 million and $12.5 million, respectively. As of June 25, 2011, we had an accumulated deficit of $452.0 million.

We expect to continue to incur significant expenses for research and development, sales and marketing, customer support and general and administrative functions as we expand our operations. Given our rapid growth rate and the intense competitive pressures we face, we may be unable to control our operating costs.

We cannot guarantee that we will achieve profitability in the future. Our revenue growth trends in prior periods may not be sustainable. In addition, we will have to generate and sustain significantly increased revenue, while continuing to control our expenses, in order to achieve and then maintain profitability. We may also incur significant losses in the future for a number of reasons, including the risks discussed in this "Risk Factors" section and factors that we cannot anticipate. If we are unable to generate positive operating income and cash flow from operations, our liquidity, results of operations and financial condition will be adversely affected.

Fluctuations in our quarterly and annual operating results may make it difficult to predict our future performance, which could cause our operating results to fall below investor or analyst expectations, which could adversely affect the trading price of our stock.

A number of factors, many of which are outside of our control, may cause or contribute to significant fluctuations in our quarterly and annual operating results. These fluctuations may make financial planning and forecasting difficult. Comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. If our revenue or operating results fall below the expectations of investors or securities analysts, or below any guidance we may provide to the market, the price of our common stock would likely decline. Moreover, we may experience delays in recognizing revenue under applicable revenue recognition rules, particularly from government-funded contracts, such as those funded by RUS. The extent of these delays and their impact on our revenues can fluctuate over a given time period depending on the number and size of purchase orders under these contracts during such time period. In addition, unanticipated decreases in our available liquidity due to fluctuating operating results could limit our growth and delay implementation of our expansion plans.

In addition to the other risk factors listed in this "Risk Factors" section, factors that may contribute to the variability of our operating results include:

- our ability to predict our revenue and plan our expenses appropriately;
- the capital spending patterns of CSPs and any decrease or delay in capital spending by CSPs due to economic, regulatory or other reasons;
- the impact of government-sponsored programs on our customers;
- intense competition;
- our ability to develop new products or enhancements that support technological advances and meet changing CSP requirements;
- our ability to achieve market acceptance of our products and CSPs' willingness to deploy our new products;
- the concentration of our customer base;
- the length and unpredictability of our sales cycles;
- our focus on CSPs with limited revenue potential;
- our lack of long-term, committed-volume purchase contracts with our customers;
- our ability to increase our sales to larger North American as well as international CSPs;
- our exposure to the credit risks of our customers;
- fluctuations in our gross margin;
- the interoperability of our products with CSP networks;
- our dependence on sole and limited source suppliers;
- our ability to manage our relationships with our contract manufacturers;

- our ability to forecast our manufacturing requirements and manage our inventory;
- our products' compliance with industry standards;
- our ability to expand our international operations;
- our ability to protect our intellectual property and the cost of doing so;
- the quality of our products, including any undetected hardware errors or bugs in our software;
- our ability to estimate future warranty obligations due to product failure rates;
- our ability to obtain necessary third-party technology licenses;
- any obligation to issue performance bonds to satisfy requirements under RUS contracts;
- the attraction and retention of qualified employees and key personnel; and
- our ability to maintain proper and effective internal controls.

Our business is dependent on the capital spending patterns of CSPs, and any decrease or delay in capital spending by CSPs, in response to recent economic conditions or otherwise, would reduce our revenues and harm our business.

Demand for our products depends on the magnitude and timing of capital spending by CSPs as they construct, expand and upgrade their access networks. For the six months ended June 25, 2011, CenturyLink, Inc., or CenturyLink, purchased a significant amount of our access systems and software. However, we cannot anticipate the level of CenturyLink's purchases in the future. On April 1, 2011, CenturyLink completed their merger with Qwest Communications. This merger could create uncertainty for us as to whether we will continue to be chosen as a preferred network equipment vendor for the combined organization. In addition, the recent economic downturn has contributed to a slowdown in telecommunications industry spending, including in the specific geographies and markets in which we operate. In response to reduced consumer spending, challenging capital markets or declining liquidity trends, capital spending for network infrastructure projects of CSPs could be delayed or cancelled. In addition, capital spending is cyclical in our industry and sporadic among individual CSPs, and can change on short notice. As a result, we may not have visibility into changes in spending behavior until nearly the end of a given quarter. CSP spending on network construction, maintenance, expansion and upgrades is also affected by seasonality in their purchasing cycles, reductions in their budgets and delays in their purchasing cycles. Many factors affecting our results of operations are beyond our control, particularly in the case of large CSP orders and network infrastructure deployments involving multiple vendors and technologies where the achievement of certain thresholds for acceptance is subject to the readiness and performance of the customer or other providers, and changes in customer requirements or installation plans. Further, CSPs may not pursue infrastructure upgrades that require our access systems and software. Infrastructure improvements may be delayed or prevented by a variety of factors including cost, regulatory obstacles, mergers, lack of consumer demand for advanced communications services and alternative approaches to service delivery. Reductions in capital expenditures by CSPs may slow our rate of revenue growth. As a consequence, our results for a particular quarter may be difficult to predict, and our prior results are not necessarily indicative of results likely in future periods.

Government-sponsored programs could impact the timing and buying patterns of CSPs, which may cause fluctuations in our operating results.

Many of our customers are Independent Operating Companies, or IOCs, which have revenues that are particularly dependent upon interstate and intrastate access charges, and federal and state subsidies. The Federal Communications Commission, or FCC, and some states are considering changes to such payments and subsidies, and these changes could reduce IOC revenues. Furthermore, many IOCs use or expect to use, government-supported loan programs or grants, such as RUS loans and grants and the Broadband Stimulus programs under the American Recovery and Reinvestment Act of 2009, or ARRA, to finance capital spending. Changes to these programs could reduce the ability of IOCs to access capital and reduce our revenue opportunities.

We believe that uncertainties related to Broadband Stimulus programs may be delaying investment decisions by IOCs. In addition, to the extent that our customers do receive grants or loans under these stimulus programs, our customers may be encouraged to accelerate their network development plans and purchase substantial quantities of products, from us or other suppliers, while the programs and funding are in place. Customers may thereafter substantially curtail future purchases of products as ARRA funding winds down or because all purchases have been completed. Award grants under the Broadband Stimulus programs have been issued between December 2009 and September 2010. Funded projects must be two-thirds complete within two years of the award and complete within three years of the award.

Therefore, all funds that are awarded are expected to be allocated by September 2013. The revenue recognition guidelines related to the sales of our access systems to CSPs who have received Broadband Stimulus funds may create uncertainties around the timing of our revenue, which could harm our financial results. In addition, any decision by CSPs to reduce capital expenditures caused by changes in government regulations and subsidies would have an adverse effect on our operating results and financial condition.

We face intense competition that could reduce our revenue and adversely affect our financial results.

The market for our products is highly competitive, and we expect competition from both established and new companies to increase. Our competitors include companies such as ADTRAN, Inc., Alcatel- Lucent S.A., Enablence Technologies Inc., Huawei Technologies Co., Ltd., LM Ericsson Telephone Company, or Ericsson, Motorola, Inc., Tellabs, Inc. and Zhone Technologies, Inc.

Our ability to compete successfully depends on a number of factors, including:

- the successful development of new products;
- our ability to anticipate CSP and market requirements and changes in technology and industry standards;
- our ability to differentiate our products from our competitors' offerings based on performance, cost-effectiveness or other factors;
- our ability to gain customer acceptance of our products; and
- our ability to market and sell our products.

The market for broadband access equipment is dominated primarily by large, established vendors. In addition, some of our competitors have merged, made acquisitions or entered into partnerships or other strategic relationships with one another to offer more comprehensive solutions than they individually had offered. Examples include the merger of, Ericsson's acquisitions of Redback Networks Inc. in January 2007 and Entrisphere Inc. in February 2007, Ciena Corporation's acquisition of World Wide Packets, Inc. in 2008 and Nortel's Metro Ethernet Networks business in March 2010, Enablence Technologies, Inc.'s acquisition of Teledata Networks, Ltd. in June 2010 and our own acquisition of Occam in February 2011. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry. Many of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do and are better positioned to acquire and offer complementary products and services technologies. Many of our competitors have broader product lines and can offer bundled solutions, which may appeal to certain customers. Our competitors may invest additional resources in developing more compelling product offerings. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier, regardless of product performance or features, because the products that we and our competitors offer require a substantial investment of time and funds to install. In addition, as a result of these transition costs, competition to secure contracts with potential customers is particularly intense. Some of our competitors may offer substantial discounts or rebates to win new customers. If we are forced to reduce prices in order to secure customers, we may be unable to sustain gross margins at desired levels or achieve profitability. Competitive pressures could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which could reduce our revenue and adversely affect our financial results.

Product development is costly and if we fail to develop new products or enhancements that meet changing CSP requirements, we could experience lower sales.

Our market is characterized by rapid technological advances, frequent new product introductions, evolving industry standards and unanticipated changes in subscriber requirements. Our future success will depend significantly on our ability to anticipate and adapt to such changes, and to offer, on a timely and cost-effective basis, products and features that meet changing CSP demands and industry standards.

We intend to continue making significant investments in developing new products and enhancing the functionality of our existing products. Developing our products is expensive, complex and involves uncertainties. We may not have sufficient resources to successfully manage lengthy product development cycles. For the six months ended June 25, 2011 and June 26, 2010, our research and development expenses were $33.6 million, or 19.8% of our revenue, and $24.9 million, or 20.8% of our revenue, respectively. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. These investments may take several years to generate positive returns, if ever. In addition, we may experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products and enhancements. If we fail to meet our development targets, demand for our products will decline.

In addition, the introduction of new or enhanced products also requires that we manage the transition from older products to these new or enhanced products in order to minimize disruption in customer ordering patterns, fulfill ongoing customer commitments and ensure that adequate supplies of new products are available for delivery to meet anticipated customer demand. If we fail to maintain compatibility with other software or equipment found in our customers' existing and planned networks, we may face substantially reduced demand for our products, which would reduce our revenue opportunities and market share. Moreover, as customers complete infrastructure deployments, they may require greater levels of service and support than we have provided in the past. We may not be able to provide products, services and support to compete effectively for these market opportunities. If we are unable to anticipate and develop new products or enhancements to our existing products on a timely and cost-effective basis, we could experience lower sales which would harm our business.

Our new products are early in their life cycles and are subject to uncertain market demand. If our customers are unwilling to install our products or deploy new services or we are unable to achieve market acceptance of our new products, our business and financial results will be harmed.

Our new products are early in their life cycles and are subject to uncertain market demand. They also may face obstacles in manufacturing, deployment and competitive response. Potential customers may choose not to invest the additional capital required for initial system deployment. In addition, demand for our products is dependent on the success of our customers in deploying and selling services to their subscribers. Our products support a variety of advanced broadband services, such as high-speed Internet, Internet protocol television, mobile broadband, high-definition video and online gaming, and basic voice and data services. If subscriber demand for such services does not grow as expected or declines, or if our customers are unable or unwilling to deploy and market these services, demand for our products may decrease or fail to grow at rates we anticipate.

Our customer base is concentrated, and there are a limited number of potential customers for our products. The loss of any of our key customers, a decrease in purchases by our key customers or our inability to grow our customer base would adversely impact our revenues.

Historically, a large portion of our sales have been to a limited number of customers. For example, for the years ended December 31, 2010 and 2009, CenturyLink accounted for 29% of our revenue and 38% of our revenue, respectively. In 2008, CenturyLink and one other customer accounted for 25% and 11% of our revenue, respectively.

We anticipate that a large portion of our revenues will continue to depend on sales to a limited number of customers. In addition, some larger customers may demand discounts and rebates or desire to purchase their access systems and software from multiple providers. As a result of these factors, our future revenue opportunities may be limited and our margins could be reduced, and our profitability may be adversely impacted. The loss of, or reduction in, orders from any key customer would significantly reduce our revenues and harm our business.

Furthermore, in recent years, the CSP market has undergone substantial consolidation. Industry consolidation generally has negative implications for equipment suppliers, including a reduction in the number of potential customers, a decrease in aggregate capital spending, and greater pricing leverage on the part of CSPs over equipment suppliers. Continued consolidation of the CSP industry, including the recently completed merger between CenturyLink and Qwest Communications, and among the Incumbent Local Exchange Carrier, or ILEC, and IOC customers, who represent a large part of our business, could make it more difficult for us to grow our customer base, increase sales of our products and maintain adequate gross margins.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, our sales are difficult to predict and may vary substantially from quarter to quarter, which may cause our operating results to fluctuate significantly.

The timing of our revenues is difficult to predict. Our sales efforts often involve educating CSPs about the use and benefits of our products. CSPs typically undertake a significant evaluation process, which frequently involves not only our products but also those of our competitors and results in a lengthy sales cycle. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative, processing and other delays. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all we may not achieve our revenue forecasts and our business could be harmed.

Our focus on CSPs with relatively small networks limits our revenues from sales to any one customer and makes our future operating results difficult to predict.

We currently focus a large portion of our sales efforts on IOCs, cable multiple system operators and selected international CSPs. In general, our current and potential customers generally operate small networks with limited capital expenditure budgets. Accordingly, we believe the potential revenues from the sale of our products to any one of these customers is limited. As a result, we must identify and sell products to new customers each quarter to continue to increase our sales. In addition, the spending patterns of many of our customers are characterized by small and sporadic purchases. As a consequence, we have limited backlog and will likely continue to have limited visibility into future operating results.

We do not have long-term, committed-volume purchase contracts with our customers, and therefore have no guarantee of future revenue from any customer.

Our sales are made predominantly pursuant to purchase orders, and typically we have not entered into long-term, committed-volume purchase contracts with our customers, including our key customers which account for a material portion of our revenues. As a result, any of our customers may cease to purchase our products at any time. In addition, our customers may attempt to renegotiate the terms of our agreements, including price and quantity. If any of our key customers stop purchasing our access systems and software for any reason, our business and results of operations would be harmed.

Our efforts to increase our sales to larger North American as well as international CSPs, including MSOs, may be unsuccessful.

Our sales and marketing efforts have been focused on CSPs, including MSOs, in North America. A part of our long-term strategy is to increase sales to larger North American as well as international CSPs., including MSOs. We will be required to devote substantial technical, marketing and sales resources to the pursuit of these CSPs, who have lengthy equipment qualification and sales cycles, without any assurance of generating sales. In particular, sales to these CSPs may require us to upgrade our products to meet more stringent performance criteria, develop new customer-specific features or adapt our product to meet international standards. If we are unable to successfully increase our sales to larger CSPs, our operating results and long-term growth may be negatively impacted.

Our exposure to the credit risks of our customers may make it difficult to collect accounts receivable and could adversely affect our operating results and financial condition.

In the course of our sales to customers, we may encounter difficulty collecting accounts receivable and could be exposed to risks associated with uncollectible accounts receivable. In addition, we are limited in our ability to evaluate the creditworthiness of customers who decline to provide us with accurate financial information. The recent challenging economic conditions have impacted some of our customers' ability to pay their accounts payable. While we attempt to monitor these situations carefully and attempt to take appropriate measures to collect accounts receivable balances, we have written down accounts receivable and written off doubtful accounts in prior periods and may be unable to avoid accounts receivable write-downs or write-offs of doubtful accounts in the future. Such write-downs or write-offs could negatively affect our operating results for the period in which they occur, and could harm our operating results.

Our gross margin may fluctuate over time and our current level of product gross margins may not be sustainable.

Our current level of product gross margins may not be sustainable and may be adversely affected by numerous factors, including:

- changes in customer, geographic or product mix, including the mix of configurations within each product group;
- increased price competition, including the impact of customer discounts and rebates;
- our ability to reduce and control product costs;
- loss of cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- introduction of new products;
- changes in shipment volume;
- changes in distribution channels;
- increased warranty costs;

- excess and obsolete inventory and inventory holding charges;
- expediting costs incurred to meet customer delivery requirements; and
- liquidated damages relating to customer contractual terms.

Our products must interoperate with many software applications and hardware products found in our customers' networks. If we are unable to ensure that our products interoperate properly, our business would be harmed.

Our products must interoperate with our customers' existing and planned networks, which often have varied and complex specifications, utilize multiple protocol standards, software applications and products from multiple vendors and contain multiple generations of products that have been added over time. As a result, we must continually ensure that our products interoperate properly with these existing and planned networks. To meet these requirements, we must undertake development efforts that require substantial capital investment and employee resources. We may not accomplish these development efforts quickly or cost-effectively, if at all. If we fail to maintain compatibility with other software or equipment found in our customers' existing and planned networks, we may face substantially reduced demand for our products, which would reduce our revenue opportunities and market share.

We have entered into interoperability arrangements with a number of equipment and software vendors for the use or integration of their technology with our products. These arrangements give us access to, and enable interoperability with, various products that we do not otherwise offer. If these relationships fail, we may have to devote substantially more resources to the development of alternative products and processes, and our efforts may not be as effective as the combined solutions under our current arrangements. In some cases, these other vendors are either companies that we compete with directly, or companies that have extensive relationships with our existing and potential customers and may have influence over the purchasing decisions of those customers. Some of our competitors have stronger relationships with some of our existing and potential other vendors and, as a result, our ability to have successful interoperability arrangements with these companies may be harmed. Our failure to establish or maintain key relationships with third-party equipment and software vendors may harm our ability to successfully sell and market our products.

As we do not have manufacturing capabilities, we depend upon a small number of outside contract manufacturers and we do not have supply contracts with these manufacturers. Our operations could be disrupted if we encounter problems with these contract manufacturers.

We do not have internal manufacturing capabilities, and rely upon a small number of contract manufacturers to build our products. In particular, we rely on Flextronics International Ltd., or Flextronics, for the manufacture of most of our products, and AsteelFlash Group (formerly Flash Electronics) for the manufacture of our B6 ESAN products we obtained through our acquisition of Occam. Our reliance on a small number of contract manufacturers makes us vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields and costs. We do not have supply contracts with Flextronics or our other manufacturers. Consequently, these manufacturers are not obligated to supply products to us for any specific period, in any specific quantity or at any certain price. In addition, we have limited control over our contract manufacturers' quality systems and controls, and therefore may not be able to ensure levels of quality manufacture suitable for our customers.

The revenues that Flextronics generates from our orders represent a relatively small percentage of Flextronics' overall revenues. As a result, fulfilling our orders may not be considered a priority in the event Flextronics is constrained in its ability to fulfill all of its customer obligations in a timely manner. In addition, a substantial part of our manufacturing is done in Flextronics facilities which are located outside of the United States. We believe that the location of these facilities outside of the United States increases supply risk, including the risk of supply interruptions or reductions in manufacturing quality or controls. If Flextronics or any of our other contract manufacturers were unable or unwilling to continue manufacturing our products in required volumes and at high quality levels, we would have to identify, qualify and select acceptable alternative contract manufacturers. An alternative contract manufacturer may not be available to us when needed or may not be in a position to satisfy our production requirements at commercially reasonable prices and quality. Any significant interruption in manufacturing would require us to reduce our supply of products to our customers, which in turn would reduce our revenues and harm our relationships with our customers.

We depend on sole source and limited source suppliers for key components and products. If we are unable to source these components on a timely basis, we will not be able to deliver our products to our customers.

We depend on sole source and limited source suppliers for key components of our products. For example, certain of our application-specific integrated circuits processors and resistor networks are purchased from sole source suppliers. We may from time to time enter into original equipment manufacturer, or OEM, or original design manufacturer, or ODM, agreements to manufacture and/or design certain products in order to enable us to offer products into key markets on an accelerated basis. For example, a third party assisted in the design of and manufactures our E5-100 platform family. Any of the sole source and limited source suppliers, OEMs and ODMs upon whom we rely could stop producing our components or products, cease operations or be acquired by, or enter into exclusive arrangements with, our competitors. We generally do not have long-term supply agreements with our suppliers, and our purchase volumes are currently too low for us to be considered a priority customer by most of our suppliers. As a result, most of these suppliers could stop selling to us at commercially reasonable prices, or at all. Any such interruption or delay may force us to seek similar components or products from alternative sources, which may not be available. Switching suppliers, OEMs or ODMs may require that we redesign our products to accommodate new components, and may potentially require us to re-qualify our products with our customers, which would be costly and time-consuming. Any interruption in the supply of sole source or limited source components for our products would adversely affect our ability to meet scheduled product deliveries to our customers, could result in lost revenue or higher expenses and would harm our business.

Although we do not have manufacturing facilities in Japan, a small number of Japanese factories produce some of the components we use in our products. A few of these manufacturers have reported disruptions in to their production because of damage to their facilities as a result of recent natural disasters in Japan Although most of these factories are already back on line, such interruptions or delays may force us to seek similar components from alternative sources, which may not be available. Interruptions in supply resulting from such unforeseen natural disasters could result in lost revenue or higher expenses and would harm our business.

If we fail to forecast our manufacturing requirements accurately and manage our inventory with our contract manufacturers, we could incur additional costs, experience manufacturing delays and lose revenue.

We bear inventory risk under our contract manufacturing arrangements. Lead times for the materials and components that we order through our contract manufacturers vary significantly and depend on numerous factors, including the specific supplier, contract terms and market demand for a component at a given time. Lead times for certain key materials and components incorporated into our products are currently lengthy, requiring us or our contract manufacturers to order materials and components several months in advance of manufacture. If we overestimate our production requirements, our contract manufacturers may purchase excess components and build excess inventory. If our contract manufacturers, at our request, purchase excess components that are unique to our products or build excess products, we could be required to pay for these excess parts or products and recognize related inventory write-down costs. Historically, we have reimbursed our primary contract manufacturer for inventory purchases when our inventory has been rendered obsolete, for example due to manufacturing and engineering change orders resulting from design changes manufacturing discontinuation of parts by our suppliers, or in cases where inventory levels greatly exceed projected demand. If we experience excess inventory write-downs associated with excess or obsolete inventory, this would have an adverse effect on our gross margins, financial condition and results of operations. We have experienced unanticipated increases in demand from customers which resulted in delayed shipments and variable shipping patterns. If we underestimate our product requirements, our contract manufacturers may have inadequate component inventory, which could interrupt manufacturing of our products and result in delays or cancellation of sales.

If we fail to comply with evolving industry standards, sales of our existing and future products would be adversely affected.

The markets for our products are characterized by a significant number of standards, both domestic and international, which are evolving as new technologies are deployed. Our products must comply with these standards in order to be widely marketable. In some cases, we are compelled to obtain certifications or authorizations before our products can be introduced, marketed or sold. In addition, our ability to expand our international operations and create international market demand for our products may be limited by regulations or standards adopted by other countries that may require us to redesign our existing products or develop new products suitable for sale in those countries. Although we believe our products are currently in compliance with domestic and international standards and regulations in countries in which we currently sell, we may not be able to design our products to comply with evolving standards and regulations in the future. Accordingly, this ongoing evolution of standards may directly affect our ability to market or sell our products. Further, the cost of complying with the evolving standards and regulations, or the failure to obtain timely domestic or foreign regulatory approvals or certification such that we may not be able to sell our products where these standards or regulations apply, would result in lower revenues and lost market share.

We may be unable to successfully expand our international operations. In addition, our international expansion plans, if implemented, will subject us to a variety of risks that may harm our business.

We currently generate most of our sales from customers in North America and the Caribbean, and have limited experience marketing, selling and supporting our products and services outside North America and the Caribbean or managing the administrative aspects of a worldwide operation. While we are in the process of expanding our international operations, we may not be able to create or maintain international market demand for our products. In addition, as we expand our operations internationally, our support organization will face additional challenges including those associated with delivering support, training and documentation in languages other than English. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business, financial condition and results of operations will suffer.

In the course of expanding our international operations and operating overseas, we will be subject to a variety of risks, including:

- differing regulatory requirements, including tax laws, trade laws, labor regulations, tariffs, export quotas, custom duties or other trade restrictions;
- greater difficulty supporting and localizing our products;
- different or unique competitive pressures as a result of, among other things, the presence of local equipment suppliers;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, compensation and benefits and compliance programs;
- limited or unfavorable intellectual property protection;
- risk of change in international political or economic conditions; and
- restrictions on the repatriation of earnings.

We may have difficulty managing our growth, which could limit our ability to increase sales.

We have experienced significant growth in sales and operations in recent years. We expect to continue to expand our research and development, sales, marketing and support activities. Our historical growth has placed, and planned future growth is expected to continue to place, significant demands on our management, as well as our financial and operational resources, to:

- manage a larger organization;
- expand our manufacturing and distribution capacity;
- increase our sales and marketing efforts;
- broaden our customer support capabilities;
- implement appropriate operational and financial systems; and
- maintain effective financial disclosure controls and procedures.

If we cannot grow, or fail to manage our growth effectively, we may not be able to execute our business strategies and our business, financial condition and results of operations would be adversely affected.

We may not be able to protect our intellectual property, which could impair our ability to compete effectively.

We depend on certain proprietary technology for our success and ability to compete. As of June 25, 2011, we held 60 U.S. patents and had 36 pending U.S. patent applications. Two of the U.S. patents are also covered by granted international patents, one in five countries and the other in three countries. We currently have no pending international patent applications. We rely on intellectual property laws, as well as nondisclosure agreements, licensing arrangements and confidentiality provisions, to establish and protect our proprietary rights. U.S. patent, copyright and trade secret laws afford us only limited protection, and the laws of some foreign countries do not protect proprietary rights to the same extent. Our pending patent applications may not result in issued patents, and our issued patents may not be enforceable. Any infringement of our proprietary rights could result in significant litigation costs. Further, any failure by us to adequately protect our proprietary rights could result in our competitors offering similar products, resulting in the loss of our competitive advantage and decreased sales.

Despite our efforts to protect our proprietary rights, attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may be unable to protect our proprietary rights against unauthorized third-party copying or use. Furthermore, policing the unauthorized use of our intellectual property would be difficult for us. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could harm our business.

We could become subject to litigation regarding intellectual property rights that could harm our business.

We may be subject to intellectual property infringement claims that are costly to defend and could limit our ability to use some technologies in the future. Third parties may assert patent, copyright, trademark or other intellectual property rights to technologies or rights that are important to our business. Such claims may involve patent holding companies or other adverse patent owners who have no relevant product revenue, and therefore our own issued and pending patents may provide little or no deterrence. We have received in the past and expect that in the future we may receive, particularly as a public company, communications from competitors and other companies alleging that we may be infringing their patents, trade secrets or other intellectual property rights and/or offering licenses to such intellectual property or threatening litigation. In addition, we have agreed, and may in the future agree, to indemnify our customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. Any claims asserting that our products infringe, or may infringe on, the proprietary rights of third parties, with or without merit, could be time-consuming, resulting in costly litigation and diverting the efforts of our engineering teams and management. These claims could also result in product shipment delays or require us to modify our products or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available to us on acceptable terms, if at all.

The quality of our support and services offerings is important to our customers, and if we fail to continue to offer high quality support and services we could lose customers which would harm our business.

Once our products are deployed within our customers' networks, they depend on our support organization to resolve any issues relating to those products. A high level of support is critical for the successful marketing and sale of our products. If we do not effectively assist our customers in deploying our products, succeed in helping them quickly resolve post-deployment issues or provide effective ongoing support, it could adversely affect our ability to sell our products to existing customers and harm our reputation with potential new customers. As a result, our failure to maintain high quality support and services could result in the loss of customers which would harm our business.

Our products are highly technical and may contain undetected hardware errors or software bugs, which could harm our reputation and adversely affect our business.

Our products are highly technical and, when deployed, are critical to the operation of many networks. Our products have contained and may contain undetected errors, bugs or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by customers, and may in some cases only be detected under certain circumstances or after extended use. Any errors, bugs, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customer goodwill and customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

Our estimates regarding future warranty obligations may change due to product failure rates, shipment volumes, field service obligations and rework costs incurred in correcting product failures. If our estimates change, the liability for warranty obligations may be increased, impacting future cost of revenue.

Our products are highly complex, and our product development, manufacturing and integration testing may not be adequate to detect all defects, errors, failures and quality issues. Quality or performance problems for products covered under warranty could adversely impact our reputation and negatively affect our operating results and financial position. The development and production of new products with high complexity often involves problems with software, components and manufacturing methods. If significant warranty obligations arise due to reliability or quality issues arising from defects in software, faulty components or manufacturing methods, our operating results and financial position could be negatively impacted by:

- cost associated with fixing software or hardware defects;
- high service and warranty expenses;
- high inventory obsolescence expense;
- delays in collecting accounts receivable;
- payment of liquidated damages for performance failures; and
- declining sales to existing customers.

Our use of open source software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products. Although we closely monitor our use of open source software, the terms of many open source software licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to sell our products. In such event, we could be required to make our proprietary software generally available to third parties, including competitors, at no cost, to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could adversely affect our revenues and operating expenses.

If we are unable to obtain necessary third-party technology licenses, our ability to develop new products or product enhancements may be impaired.

While our current licenses of third-party technology relate to commercially available off-the-shelf technology, we may in the future be required to license additional technology from third parties to develop new products or product enhancements. These third-party licenses may be unavailable to us on commercially reasonable terms, if at all. Our inability to obtain necessary third-party licenses may force us to obtain substitute technology of lower quality or performance standards or at greater cost, any of which could harm the competitiveness of our products and result in lost revenues.

We may pursue acquisitions, which involve a number of risks. If we are unable to address and resolve these risks successfully, such acquisitions could disrupt our business.

On February 22, 2011, we acquired Occam, which is discussed further in Note 3 "Acquisition of Occam Networks" in the Notes to Condensed Consolidated Financial Statements included in this report. We may in the future acquire other businesses, products or technologies to expand our product offerings and capabilities, customer base and business. We have evaluated, and expect to continue to evaluate, a wide array of potential strategic transactions. We have limited experience making such acquisitions. Any of these transactions could be material to our financial condition and results of operations. The anticipated benefit of acquisitions may never materialize. In addition, the process of integrating acquired businesses, products or technologies may create unforeseen operating difficulties and expenditures. Some of the areas where we may face acquisition-related risks include:

- diversion of management time and potential business disruptions;
- expenses, distractions and potential claims resulting from acquisitions, whether or not they are completed;
- retaining and integrating employees from any businesses we may acquire;
- issuance of dilutive equity securities or incurrence of debt;
- integrating various accounting, management, information, human resource and other systems to permit effective management;
- incurring possible write-offs, impairment charges, contingent liabilities, amortization expense or write-offs of goodwill;
- difficulties integrating and supporting acquired products or technologies;
- unexpected capital expenditure requirements;
- insufficient revenues to offset increased expenses associated with the acquisition;
- opportunity costs associated with committing capital to such acquisitions; and
- acquisition-related litigation.

Foreign acquisitions would involve risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. We may not be able to address these risks successfully, or at all, without incurring significant costs, delays or other operating problems. Our inability to address successfully such risks could disrupt our business.

Our obligation to issue performance bonds to satisfy requirements under RUS and ARRA-related contracts may negatively impact our working capital and financial condition.

We are sometimes required to issue performance bonds to satisfy requirements under our RUS contracts, and expect that we may also be required to issue such bonds under the terms of contracts required by Broadband Stimulus programs under the American Recovery and Reinvestment Act of 2009, or ARRA. The performance bonds generally cover the full amount of the RUS contract, and may be the same for ARRA contracts. Upon our performance under the contract and acceptance by the customer, the performance bond is released. The time period between issuing the performance bond and its release can be lengthy. We issue letters of credit under our existing credit facility to support these performance bonds. In the event we do not have sufficient capacity under our credit facility to support these bonds, we will have to issue certificates of deposit, which could materially impact our working capital or limit our ability to satisfy such contract requirements. In the event that we are unable to issue such bonds, we may lose business and customers who purchase under RUS and ARRA contracts. In addition, if we exhaust our credit facility or working capital reserves in issuing such bonds, we may be required to eliminate or curtail expenditures to mitigate the impact on our working capital or financial condition.

Our use of and reliance upon development resources in China may expose us to unanticipated costs or liabilities.

We operate a wholly foreign owned enterprise, in Nanjing, China, where a dedicated team of engineers performs quality assurance, cost reduction and other engineering work. We also outsource a portion of our software development to a team of software engineers based in Shenyang, China. Our reliance upon development resources in China may not enable us to achieve meaningful product cost reductions or greater resource efficiency. Further, our development efforts and other operations in China involve significant risks, including:

- difficulty hiring and retaining appropriate engineering resources due to intense competition for such resources and resulting wage inflation;
- the knowledge transfer related to our technology and exposure to misappropriation of intellectual property or confidential information, including information that is proprietary to us, our customers and third parties;
- heightened exposure to changes in the economic, security and political conditions of China;
- fluctuation in currency exchange rates and tax risks associated with international operations; and
- development efforts that do not meet our requirements because of language, cultural or other differences associated with international operations, resulting in errors or delays.

Difficulties resulting from the factors above and other risks related to our operations in China could expose us to increased expense, impair our development efforts, harm our competitive position and damage our reputation.

Our customers are subject to government regulation, and changes in current or future laws or regulations that negatively impact our customers could harm our business.

The FCC has jurisdiction over all of our U.S. customers. FCC regulatory policies that create disincentives for investment in access network infrastructure or impact the competitive environment in which our customers operate may harm our business. For example, future FCC regulation affecting providers of broadband Internet access services could impede the penetration of our customers into certain markets or affect the prices they may charge in such markets. Furthermore, many of our customers are subject to FCC rate regulation of interstate telecommunications services, and are recipients of federal universal service fund payments, which are intended to subsidize telecommunications services in areas that are expensive to serve. In addition, many of our customers are subject to state regulation of intrastate telecommunications services, including rates for such services, and may also receive funding from state universal service funds. Changes in rate regulations or universal service funding rules, either at the federal or state level, could adversely affect our customers' revenues and capital spending plans. In addition, various international regulatory bodies have jurisdiction over certain of our non-U.S. customers. Changes in these domestic and international standards, laws and regulations, or judgments in favor of plaintiffs in lawsuits against CSPs based on changed standards, laws and regulations could adversely affect the development of broadband networks and services. This, in turn, could directly or indirectly adversely impact the communications industry in which our customers operate. To the extent our customers are adversely affected by laws or regulations regarding their business, products or service offerings, our business, financial condition and results of operations would suffer.

We rely on resellers to promote, sell, install and support our products to some small customers in North America, and internationally. Their failure to do so or our inability to recruit or retain resellers may reduce our sales and thus harm our business.*

We use value added resellers, or VARs, who provide sales and support services. We compete with other telecommunications systems providers for our VARs' business as our VARs generally market competing products. If a VAR promotes a competitor's products to the detriment of our products or otherwise fails to market our products and services effectively, we could lose market share. In addition, the loss of a key VAR or the failure of VARs to provide adequate customer service could have a negative effect on customer satisfaction and could cause harm to our business. If we do not properly train our VARs to sell, install and service our products, our business, financial condition and results of operations may suffer.

If we were to experience payment problems with VARs, it could have an adverse impact on our business, operating results, or financial condition.*

VARs account for a portion of our revenue in each quarter. Some of these VARs are not well capitalized, making collection of receivables from them uncertain. In addition, we are limited in our ability to evaluate the creditworthiness of the VAR customers who are the ultimate purchasers of our products and services. If such VAR customers fail to pay invoices for our products or services sold, or are slow in paying such invoices, we may not be able to collect amounts due to us from those VARs in a timely fashion, or at all. Any material collection issues we may experience with these VARs could have an adverse impact on our business, operating results, or financial condition and could result in increases in bad debt expense or collection costs, inventory impairments, or adjustments to our reported revenues or deferred revenues. Any of these could result in a decline in our stock price.

We may be subject to governmental export and import controls that could subject us to liability or impair our ability to compete in additional international markets.

Our products may be or become subject to U.S. export controls that will restrict our ability to export them outside of the free-trade zones covered by the North American Free Trade Agreement, Central American Free Trade Agreement and other treaties and laws. Therefore, future international shipments of our products may require export licenses or export license exceptions. In addition, the import laws of other countries may limit our ability to distribute our products, or our customers' ability to buy and use our products, in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could negatively impact our ability to sell our products to existing or potential international customers.

If we lose any of our key personnel, or are unable to attract, train and retain qualified personnel, our ability to manage our business and continue our growth would be negatively impacted.

Our success depends, in large part, on the continued contributions of our key management, engineering, sales and marketing personnel, many of whom are highly skilled and would be difficult to replace. None of our senior management or key technical or sales personnel is bound by a written employment contract to remain with us for a specified period. In addition, we do not currently maintain key man life insurance covering our key personnel. If we lose the services of any key personnel, our business, financial condition and results of operations may suffer.

Competition for skilled personnel, particularly those specializing in engineering and sales, is intense. We cannot be certain that we will be successful in attracting and retaining qualified personnel, or that newly hired personnel will function effectively, both individually and as a group. In particular, we must continue to expand our direct sales force, including hiring additional sales managers, to grow our customer base and increase sales. In addition, if we offer employment to personnel employed by competitors, we may become subject to claims of unfair hiring practices, and incur substantial costs in defending ourselves against these claims, regardless of their merits. If we are unable to effectively recruit, hire and utilize new employees, execution of our business strategy and our ability to react to changing market conditions may be impeded, and our business, financial condition and results of operations may suffer.

Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key personnel. Our executive officers and employees have become vested in a substantial amount of shares of common stock or stock options. Employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we are unable to retain our employees, our business, operating results and financial condition will be harmed.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired, which would adversely affect our operating results, our ability to operate our business and our stock price.

Ensuring that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have in the past discovered, and may in the future discover, areas of our internal financial and accounting controls and procedures that need improvement.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our management does not expect that our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

We are required to comply with Section 404 of the Sarbanes-Oxley Act in connection with our annual report on Form 10-K for the year ending December 31, 2011. We are expending significant resources in developing the necessary documentation and testing procedures required by Section 404. We cannot be certain that the actions we are taking to improve our internal controls over financial reporting will be sufficient, or that we will be able to implement our planned processes and procedures in a timely manner. In addition, if we are unable to produce accurate financial statements on a timely basis, investors could lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline and make it more difficult for us to finance our operations and growth.

We incur significant increased costs as a result of operating as a public company, which may adversely affect our operating results and financial condition.

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company, including costs associated with our public company reporting requirements. We also anticipate that we will continue to incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules implemented by the Securities Exchange Commission, or SEC, and the New York Stock Exchange, or NYSE. Furthermore, these laws and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act and rules adopted by the SEC and the NYSE, would likely result in increased costs to us as we respond to their requirements. We are investing resources to comply with evolving laws and regulations, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue generating activities to compliance activities.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile, and the value of an investment in our common stock may decline.

An active and liquid public market for our shares may not continue to develop or be sustained. Shares of our common stock were sold in our IPO in March 2010 at a price of $13.00 per share, and our common stock has subsequently traded as high as $22.97 and as low as $9.57. The trading price of our common stock has been, and is likely to continue to be, volatile, which means that it could decline substantially within a short period of time and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this "Risk Factors" section of Form 10-Q and others such as:

- quarterly variations in our results of operations or those of our competitors;
- changes in earnings estimates or recommendations by securities analysts;
- announcements by us or our competitors of new products, significant contracts, commercial relationships, acquisitions or capital commitments;
- developments with respect to intellectual property rights;
- our ability to develop and market new and enhanced products on a timely basis;
- our commencement of, or involvement in, litigation;
- changes in governmental regulations or in the status of our regulatory approvals; and
- a slowdown in the communications industry or the general economy.

In recent years, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

If securities or industry analysts do not publish research or reports about our business or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our directors, executive officers and principal stockholders and their respective affiliates will continue to have substantial influence over us and could delay or prevent a change in corporate control.

As of June 25, 2011 our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, beneficially own, in the aggregate, approximately 44% of our outstanding common stock. As a result, these stockholders, acting together, could have significant influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, could have significant influence over the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Future sales of shares by existing stockholders could cause our stock price to decline.

Of the 46,702,890 shares of our common stock outstanding as of June 25, 2011, approximately 26.2 million shares were held by non-affiliates of Calix and 20.5 million shares were held by Calix directors and officers and their affiliates, which may be sold by these existing stockholders from time to time. In addition, (i) the 1.7 million shares subject to RSUs, (ii) the 1.6 million shares subject to outstanding options under our 1997 Long-Term Incentive and Stock Option Plan, 2000 Stock Plan and 2002 Stock Plan and 2010 Equity Incentive Award Plan and (iii) the 6.7 million shares reserved for future issuance under our 2010 Equity Incentive Award Plan and Employee Stock Purchase Plan as of June 25, 2011 may become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If these shares are sold, or if it is perceived that they will be sold, in the public market, the price of our common stock could decline substantially.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable and may lead to entrenchment of management.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. For a description of our capital stock, see the section of our prospectus filed on December 15, 2010, as amended from time to time, titled "Description of Capital Stock."

We may be unable to raise additional capital to fund our future operations, and any future financings or acquisitions could result in substantial dilution to existing stockholders.

We may need to raise additional capital to fund operations in the future. There is no guarantee that we will be able to raise additional equity or debt funding when or if it is required. The terms of any financing, if available, could be unfavorable to us and our stockholders and could result in substantial dilution to the equity and voting interests of our stockholders. Any failure to obtain financing when and as required could force us to curtail our operations which would harm our business.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Additionally, the terms of our credit facility restrict our ability to pay dividends. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Unregistered Sales of Equity Securities

There were no unregistered sales, or purchases made by or on behalf of us or by any affiliated purchaser, of our equity securities during the three months ended June 25, 2011.

Use of Proceeds

On March 23, 2010, our registration statement on Form S-1 (File No. 333-163252) was declared effective for our IPO, pursuant to which we registered the offering and sale of 4,166,666 shares of common stock by us and the associated sale of 2,162,266 shares of common stock by selling stockholders and the additional sale pursuant to the underwriters' over-allotment option for an additional 949,339 shares of common stock by us, at a public offering price of $13.00 per share. On March 26, 2010, we sold 4,166,666 shares of common stock, for an aggregate offering price of $54.2 million, and the selling stockholders sold 2,162,266 shares of common stock for an aggregate offering price of $28.1 million. As a result of the offering, we raised net proceeds from the offering of $45.8 million after deducting the underwriter's discount and offering expenses payable by us.

The underwriters' subsequently exercised their option to purchase additional shares and on April 8, 2010 we sold 949,339 shares of common stock, for an aggregate offering price of $12.3 million and the offering has terminated. As a result of the underwriters' exercise of their over-allotment option, we raised an additional $11.5 million in net proceeds after deducting the underwriter's discount and offering expenses payable by us. The lead joint book runners were Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated and the joint book runners were Jefferies & Company, Inc. and UBS Securities LLC. None of such payments were direct or indirect payments to any of our directors or officers or their associates or to persons owning 10 percent or more of our common stock or direct or indirect payments to others. There has been no material change in the planned use of proceeds from our IPO as described in our prospectus filed pursuant to Rule 424(b) under the Securities Act with the SEC on March 24, 2010.

On May 4, 2010, we used the net proceeds from the IPO to pay down our outstanding term loan of $20.0 million with Silicon Valley Bank in its entirety including outstanding accrued interest and prepayment penalties of $0.4 million.

On September 16, 2010, we entered into a definitive agreement to acquire Occam, which is discussed further in our report on Form 8-K filed on September 16, 2010. On February 22, 2011, we completed our merger transaction with Occam, in a stock and cash transaction valued at $213.1 million which consisted of $94.4 million of cash consideration, which included $33.6 million of cash assumed in the acquisition and a value of $118.7 million of common stock and equity awards issued. See Note 3, Acquisition of Occam Networks, in the Notes to Condensed Consolidated Financial Statements of this report.

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit Number	Description
31.1	Rule 13a-14(a) Certifications as filed by the Chief Executive Officer pursuant to SEC release No. 33-8212 and 34-47551.
31.2	Rule 13a-14(a) Certifications as filed by the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.
32.1	Section 1350 Certifications as furnished by the Chief Executive Officer and the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.
101	The following materials from Calix Quarterly Report on Form 10-Q for the quarter ended June 25, 2011, formatted in XBRL (Extensible Business Reporting Language (XBRL)): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, and (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements**
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

** In accordance with Rule 406T of Regulation S-T, the XBRL information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CALIX, INC. (Registrant)	
Dated: July 21, 2011	By:	/s/ Carl Russo
		Carl Russo **Chief Executive Officer** **(Principal Executive Officer)**
Dated: July 21, 2011	By:	/s/ Michael Ashby
		Michael Ashby **Chief Financial Officer** **(Principal Financial Officer)**

Exhibit 31.1

Certification of Chief Executive Officer

I, Carl Russo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calix, Inc. for the quarter ended June 25, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2011

/s/ Carl Russo
Carl Russo
Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

I, Michael Ashby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calix, Inc. for the quarter ended June 25, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 21, 2011

/s/ Michael Ashby
Michael Ashby
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. SECTION 1350

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Carl Russo, Chief Executive Officer of Calix, Inc. (the "Company"), and Michael Ashby, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the period ended June 25, 2011, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

(2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 21st, day of July, 2011.

/s/ Carl Russo

Carl Russo
Chief Executive Officer

/s/ Michael Ashby

Michael Ashby
Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Calix, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.