

Calix Q2 2014 Financial Results

ACCESS INNOVATION

July 29, 2014



Safe Harbor

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

This presentation includes forward-looking statements regarding future events, including but not limited to, our development of new products that will continue to help our customers transform their networks; the adoption of gigabit services; our growth drivers; the ongoing expansion of our total addressable market; the future business and financial performance of the Company; and our long-term model for revenue, gross margin, operating expenses and operating profit margin. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in our filings with the Securities and Exchange Commission (“SEC”), especially in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections of Calix’s Annual Report on Form 10-K filed with the SEC for fiscal year 2013, our current reports on Form 8-K and other SEC filings, including our Form 10-Qs.

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

Q2 2014: Business Highlights

- ◀ Strong customer footprint
 - Largest Telecommunications Systems vendor focused solely on access
 - Market leader in installed fiber access ports in North America
 - Added 21 new customers in Q2, with 2/3 of those outside the U.S.
 - Added 11 new Value Added Resellers, now over 60, to support growing international activity
- ◀ Growing interest in Gigabit network deployments
 - Over 30 Calix-enabled Gigabit networks in operation or announced
 - Gigabit networks offer high-performance broadband services to residential and business subscribers
- ◀ Unified Access portfolio designed for all communications service providers
 - Completed development and announced deployment of Open Link Cable
 - Allows GPON provisioning for DOCSIS and positions Calix for early MSO opportunities in cable sector
- ◀ Calix is well positioned for growth with customer-friendly solutions
 - Focused software, system and service offerings well suited for changing customer needs
 - Feature-rich, flexible and cost-effective architecture

Q2 2014: Financial Highlights*

- ▶ **\$98.0 million revenue**
 - Strong demand across all regions
 - Up 14% and 4% from Q1 2014 and Q2 2013 revenue, respectively
 - Above guidance range of \$94 to \$97 million

- ▶ **47.7% Gross Margin****
 - Favorable customer and product mix considerations
 - Up from 45.9% and 47.6% in Q1 2014 and Q2 2013, respectively
 - Above guidance range of 45.0% to 45.5%

- ▶ **\$41.6 million Operating Expense****
 - Below guidance range of \$42.3 to \$42.9 million

- ▶ **10 cents EPS****
 - Higher revenue and GM and lower OpEx contributed to better than anticipated EPS
 - Above guidance range of 0 to 2 cents

- ▶ **Accounts Receivable Days of Sales Outstanding at 38 days**
 - Improved from 43 and 56 days in Q1 2014 and Q2 2013, respectively

- ▶ **\$79.3 million total cash*****
 - Up \$3.8 million and \$9.9 million from the Q1 2014 and Q2 2013, respectively

* Guidance provided for Revenue, Operating Expenses and EPS issued on April 29, 2014.

** Gross margin, Operating expense and EPS are non-GAAP measures. Please see reconciliation in the appendix to this slide deck.

*** Cash, Cash Equivalents, Marketable Securities and Restricted Cash.

2009-2013 Revenue CAGR 13.2%

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenue (\$M)	\$232.9	\$287.0	\$344.7	\$330.2	\$382.6
Yr/Yr Chg	(7.0)%	23.2%	20.1%	(4.2)%	15.9%
Gross Margin*	35.5%	41.8%	43.7%	44.4%	47.3%
Operating Expense/Revenue*	37.2%	35.4%	38.1%	42.1%	42.0%
Operating Profit Margin*	(1.7)%	6.3%	5.5%	2.3%	5.2%

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

Q2 2014 Financial Results vs. Guidance

	Actual Results	Q2 Guidance Issued on 4/29/14	Comments
Revenue (\$M)	\$98.0	\$94.0 - \$97.0	Strong demand across all geographies more than offset delays in closing out in Q2 certain BBS contracts
Gross Margin*	47.7%	45.0% - 45.5%	More favorable mix customer and product than anticipated in Q2
Operating Expenses* (\$M)	\$41.6	\$42.3 - \$42.9	Lower-than-expected OpEx in Q2 due primarily to timing associated with consulting services and facility expansions
EPS*	\$0.10	\$0.00 - \$0.02	
Cashflow from operations (\$M)	\$4.7	Cashflow positive	

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

Income Statement Summary

Q2 2014 vs. Prior Quarter and Year

	Actual			Change			
	Q2 2014	Q1 2014	Q2 2013	Q2 2014 vs Q1 2014	Q2 2014 vs Q2 2013		
Revenue (\$M)	\$98.0	\$85.8	\$94.4	\$12.2	14%	\$3.6	4%
Domestic	\$85.4	\$75.2	\$82.3	\$10.2	14%	\$3.1	4%
International	\$12.6	\$10.6	\$12.1	\$2.0	19%	\$0.5	4%
10% or greater customers	1	1	1	0	0%	0	0%
Gross Margin*	47.7%	45.9%	47.6%	1.8 pts	4%	0.1 pts	0%
Operating Expenses* (\$M)	\$41.6	\$40.7	\$39.9	\$0.9	2%	\$1.7	4%
Operating Income* (\$M)	\$5.2	(\$1.4)	\$5.1	\$6.5	NA	\$0.1	2%
EPS*	\$0.10	(\$0.03)	\$0.10	\$0.13	NA	\$0.00	0%

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

Selected Metrics

Cash Flow and Balance Sheet

	Actual			Change			
	Q2 2014	Q1 2014	Q2 2013	Q2 2014 vs Q1 2014	Q2 2014 vs Q2 2013		
Cash* (\$M)	\$79.3	\$75.5	\$69.4	\$3.8	5%	\$9.9	14%
Cash Flow From Operations (\$M)	\$4.7	(\$5.2)	\$20.8	\$9.9	NA	(\$16.1)	(77%)
Accounts Receivable (\$M)	\$47.3	\$44.1	\$62.7	\$3.2	7%	(\$15.4)	(10%)
Turns	9.6 x	8.5 x	6.5 x	1.1 x	NA	3.1 x	NA
Inventory (\$M)	\$45.9	\$45.1	\$37.4	\$0.8	2%	\$8.5	23%
Turns	3.9 x	3.4 x	4.4 x	0.5 x	NA	(0.5 x)	NA
Deferred Revenue (\$M)	\$45.0	\$47.5	\$71.1	(\$2.5)	(5%)	(\$26.1)	(37%)

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

Other Metrics

	Actual		
	Q2 2014	Q1 2014	Q2 2013
Capital Expenditures (\$M)	\$2.4	\$1.9	\$1.9
Depreciation (\$M)	\$2.3	\$2.3	\$2.5
Stock Based Compensation (\$M)			
COGS	\$0.4	\$0.4	\$0.4
R&D	\$1.3	\$1.2	\$1.3
S&M	\$1.5	\$1.4	\$1.5
G&A	\$1.3	\$1.0	\$2.1
Total	\$4.4	\$3.9	\$5.3
Amortization of Intangibles (\$M)	\$4.6	\$4.6	\$4.6

Note: All numbers above are in accordance with GAAP.

Additional Information

- ▶ Upcoming Q2 investor conference
 - August 27: Jefferies Semiconductors, Hardware & Communications Infrastructure Summit in Chicago

- ▶ Additional information available at <http://investor-relations.calix.com/>
 - Growth Drivers/Opportunities
 - Press Releases
 - Video Clips
 - Annual Reports
 - Quarterly Reports
 - SEC Filings
 - Historical Financials
 - Investor Events
 - Success Stories
 - Contact Us

- ▶ Non-GAAP to GAAP Reconciliation

Non-GAAP to GAAP Reconciliation

The Company uses certain non-GAAP financial measures in this press release to supplement its consolidated financial statements, which are presented in accordance with GAAP. These non-GAAP measures include non-GAAP net income (loss) and non-GAAP basic and diluted income (loss) per share. These non-GAAP measures are provided to enhance the reader's understanding of the Company's operating performance as they primarily exclude certain non-cash charges for stock-based compensation and amortization of acquisition-related intangible assets, and non-recurring acquisition-related and other expenses, which the Company believes are not indicative of its core operating results. Management believes that the non-GAAP measures used in this press release provide investors with important perspectives into the Company's ongoing business performance and management uses these non-GAAP measures to evaluate financial results and to establish operational goals. The presentation of these non-GAAP measures is not meant to be a substitute for results presented in accordance with GAAP, but rather should be evaluated in conjunction with those GAAP results. A reconciliation of the non-GAAP results to the most directly comparable GAAP results is provided in this press release. The non-GAAP financial measures used by the company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

Non-GAAP to GAAP

Q2 2014 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 98,005	\$ -	\$ -	\$ 98,005
Cost of revenue	51,221	354	2,088	53,663
Gross profit	46,784	(354)	(2,088)	44,342
<i>Gross margin</i>	47.7%	-	-	45.2%
Operating expenses	41,630	4,050	2,552	48,232
Operating income (loss)	5,154	(4,404)	(4,640)	(3,890)
Interest and other income (expense), net	42	-	-	42
Income (loss) before taxes	5,196	(4,404)	(4,640)	(3,848)
Provision for income taxes	103	-	-	103
Net income (loss)	<u>\$ 5,093</u>	<u>\$ (4,404)</u>	<u>\$ (4,640)</u>	<u>\$ (3,951)</u>
Weighted average diluted shares used to compute non-GAAP net income (loss) per common share	<u>50,961</u>	<u>50,961</u>	<u>50,961</u>	
Non-GAAP net income (loss) per diluted share	<u>\$ 0.10</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>50,573</u>
GAAP net loss per share				<u>\$ (0.08)</u>

Non-GAAP to GAAP

Q1 2014 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 85,820	\$ -	\$ -	\$ 85,820
Cost of revenue	46,452	354	2,088	48,894
Gross profit	39,368	(354)	(2,088)	36,926
<i>Gross margin</i>	45.9%	(0.4%)	(2.4%)	43.0%
Operating expenses	40,723	3,548	2,552	46,823
Operating loss	(1,355)	(3,902)	(4,640)	(9,897)
Interest and other income (expense), net	(20)	-	-	(20)
Loss before benefit from income taxes	(1,375)	(3,902)	(4,640)	(9,917)
Provision for income taxes	110	-	-	110
Net loss	<u>\$ (1,485)</u>	<u>\$ (3,902)</u>	<u>\$ (4,640)</u>	<u>\$ (10,027)</u>
Weighted average shares used to compute net loss per common share:				
Basic and Diluted	<u>50,271</u>	<u>50,271</u>	<u>50,271</u>	<u>50,271</u>
Net loss per common share:				
Basic and Diluted	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.09)</u>	<u>\$ (0.20)</u>

Non-GAAP to GAAP

Q2 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 94,439	\$ -	\$ -	\$ 94,439
Cost of revenue	49,469	377	2,088	51,934
Gross profit	44,970	(377)	(2,088)	42,505
<i>Gross margin</i>	47.6%	(0.4%)	(2.2%)	45.0%
Operating expenses	39,900	4,898	2,552	47,350
Operating income (loss)	5,070	(5,275)	(4,640)	(4,845)
Interest and other income (expense), net	(84)	-	-	(84)
Income (loss) before provision for income taxes	4,986	(5,275)	(4,640)	(4,929)
Provision for income taxes	224	-	-	224
Net income (loss)	\$ 4,762	\$ (5,275)	\$ (4,640)	\$ (5,153)
Weighted average diluted shares used to compute non-GAAP net income per common share	50,073	50,073	50,073	
Non-GAAP net income (loss) per diluted share	\$ 0.10	\$ (0.11)	\$ (0.09)	
Weighted average basic and diluted shares used to compute GAAP net loss per common share				49,153
GAAP net loss per common share				\$ (0.10)

Non-GAAP to GAAP

FY 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Utilization of Inventory Credit	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 382,618	\$ -	\$ -	\$ -	\$ 382,618
Cost of revenue	201,723	-	1,468	8,353	211,544
Gross profit	180,895	-	(1,468)	(8,353)	171,074
Gross margin	47.3%	-	(0.4%)	(2.2%)	44.7%
Operating expenses	160,866	-	18,453	10,208	189,527
Operating income (loss)	20,029	-	(19,921)	(18,561)	(18,453)
Interest and other income (expense), net	(477)	1,651	-	-	1,174
Income (loss) before provision for income taxes	19,552	1,651	(19,921)	(18,561)	(17,279)
Provision for income taxes	(14)	-	-	-	(14)
Net income (loss)	\$ 19,566	\$ 1,651	\$ (19,921)	\$ (18,561)	\$ (17,265)
Weighted average diluted shares used to compute non-GAAP net income per common share	50,437	50,437	50,437	50,437	
Non-GAAP net income (loss) per diluted share	\$ 0.39	\$ 0.03	\$ (0.39)	\$ (0.37)	
Weighted average basic and diluted shares used to compute GAAP net loss per common share					49,419
GAAP net loss per common share					\$ (0.35)

Non-GAAP to GAAP

FY 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

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

Non-GAAP to GAAP

FY 2011 Reconciliation

(Unaudited in thousands, except earnings per share data)

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

Non-GAAP to GAAP

FY 2010 Reconciliation

(Unaudited in thousands, except earnings per share data)

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

Non-GAAP to GAAP

FY 2009 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Preferred Stock Dividends	Value of Preferred Stock Warrants	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 232,947	\$ -	\$ -	\$ -	\$ -	\$ 232,947
Cost of revenue	150,181	-	-	682	5,440	156,303
Gross profit	82,766	-	-	(682)	(5,440)	76,644
<i>Gross margin</i>	35.5%	-	-	(0.3%)	(2.3%)	32.9%
Operating expenses	86,717	-	-	8,514	740	95,971
Operating income (loss)	(3,951)	-	-	(9,196)	(6,180)	(19,327)
Interest and other income (expense), net	(3,503)	-	37	-	-	(3,466)
Income (loss) before taxes	(7,454)	-	37	(9,196)	(6,180)	(22,793)
Benefit from income taxes	(352)	-	-	-	-	(352)
Net income (loss)	(7,102)	-	37	(9,196)	(6,180)	(22,441)
Preferred stock dividends	-	3,747	-	-	-	3,747
Net income (loss) attributable to common stock holders	<u>\$ (7,102)</u>	<u>\$ (3,747)</u>	<u>\$ 37</u>	<u>\$ (9,196)</u>	<u>\$ (6,180)</u>	<u>\$ (26,188)</u>
Weighted average shares used to compute net income (loss) per common share:						
Basic and Diluted	<u>4,040</u>	<u>4,040</u>	<u>4,040</u>	<u>4,040</u>	<u>4,040</u>	<u>4,040</u>
Net income (loss) per common share:						
Basic and Diluted	<u>\$ (1.76)</u>	<u>\$ (0.93)</u>	<u>\$ 0.01</u>	<u>\$ (2.28)</u>	<u>\$ (1.53)</u>	<u>\$ (6.48)</u>



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