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# EDITED TRANSCRIPT

CALX - Q3 2012 Calix, Inc. Earnings Conference Call

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

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**Jeremy David** *Morgan Stanley - Analyst*

**Amitabh Passi** *UBS - Analyst*

**Simon Leopold** *Raymond James - Analyst*

**Sanjiv Wadhvani** *Stifel Nicolaus - Analyst*

**Doug Clark** *Goldman Sachs - Analyst*

**Mark McKechnie** *Evercore Partners - Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to the Calix third quarter financial results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions).

It is now my pleasure to introduce your host, David Allen, Director of Investor Relations and Treasurer for Calix. Thank you, Mr. Allen. You may begin.

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### David Allen - Calix, Inc. - Treasurer & Director of IR

Thank you, Operator, and good afternoon, everyone. Before we begin the call, I want to remind you that this conference call contains forward-looking statements regarding future events, including, but not limited to, our pending acquisition of the fiber access assets from Ericsson and the global reseller agreement between the two companies, our development of new products that will continue to help our customers transform their networks, the ongoing expansion of the total addressable market, the future business and financial performance of the Company, and our expectations of revenue, gross margin, earnings per share, stock-based compensation and amortization of intangibles.

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

I would encourage you to review the Company's various SEC reports, including our annual report on Form 10K for the fiscal year ended December 31, 2011, and our quarterly reports on Form 10Q for the quarter ending March 31, 2012 and the quarter ended June 30, 2012, available on [www.sec.gov](http://www.sec.gov), in which we discuss these risk factors.

All forward-looking statements are made as of the date of this conference call, and, except as required by law, we do not intend to update this information.

Also on this conference call, we will be discussing GAAP and non-GAAP operating results. We are providing the non-GAAP estimates to enable interested parties to evaluate our performance in the same manner in which we evaluate our own operation. These non-GAAP measures exclude



certain charges and benefits which we do not consider to be part of our ongoing activities, or meaningful in evaluating our financial performance, including stock-based compensation expense and amortization of acquisition-related intangible assets.

To help you better understand those results, we have included a reconciliation of our GAAP and non-GAAP results in our earnings press release. All numbers that are discussed in today's conference call are non-GAAP unless otherwise noted. This conference call will be available for audio replay in the investor relations section of the Calix website at [www.calix.com](http://www.calix.com).

In addition, our press release has been posted to our website, along with supplemental financial data on Calix's investor relations website, which you may want to review in conjunction with our press release and conference call remarks.

I would now like to turn the call over to Calix's president and CEO, Carl Russo. Carl?

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

Thank you, Dave. Good afternoon, everyone. Joining me on the call today is Michael Ashby, our Executive Vice President and Chief Financial Officer. Before I turn the call over to Michael, I would like to give a brief review.

As you are aware from reports by other companies in our industry, the third quarter of 2012 was a challenging one. Macro-economic concerns have impacted capital projects in the Tier 1 service providers and at some of the Tier 1 service providers.

In the case of our Tier 3 customers, there were continued concerns over the USF/ICC reform, and the implementation of the Connect America fund.

Despite these issues, Calix had a solid quarter, and we believe that we are well-positioned to grow the business. On August 22nd, we announced the signing of a definitive agreement with Ericsson under which Calix will acquire certain fiber access elements from Ericsson and enter into a global reseller agreement under which Calix becomes Ericsson's preferred supplier for access products.

We expect this transaction to be finalized in the coming weeks, and we are pleased with the cooperation to-date. I will provide some forward-looking comments after Michael discusses our Q3 results in more detail. Michael?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Thank you, Carl, and good afternoon, everyone. If you've not already done so, I would encourage you to go to the investor portion of our website and download the financial slides that we posted concurrent with our press release earlier today. My prepared remarks will provide an overview of our financials and their related business trends.

I will close by providing guidance for the fourth quarter of 2012. As a reminder, the guidance we provided in July, the third quarter, called for revenue of \$79 million, gross margin of around 44%, operating expenses in the \$35 million range, and EPS of between \$0.01 and \$0.02 a share. We also expected to be slightly cashflow positive.

Actual revenue for the quarter was \$81.3 million. Gross margin was 44.2%, operating expenses came in at \$34.1 million, and EPS was \$0.04 per fully diluted share. We were cashflow positive for the quarter, generating \$4.3 million, and ending the quarter with \$57.4 million of cash on hand.

During our investor conferences and meetings following our second quarter, we talked about the fact that we believed revenue would not drop any further and that, at an \$80 million level, we could run the business profitably and generate cash.

The third quarter demonstrated that fact, and while revenues only grew slightly, at 3%, I think it is fair to say that the third quarter was, across the board, stronger than our second quarter.

We saw good momentum from our Tier 1 and Tier 2 customers, and while the turmoil in the US Tier 3 accounts continues, it is not worsening. Unlike in our second quarter, orders in this quarter returned to a more normal monthly pattern.

Macro-economic concerns remain, and, as we talked about last quarter, the regulatory changes to USF continue to be a source of concern to our Tier 3 US customers.

However, we believe the situation is going to slowly improve over the next three to four quarters, and we look forward to growing the business from a solid foundation.

Also, as we mentioned last quarter, we continued to make progress in expanding our total addressable market beyond the 15% of the global access equipment market we have historically addressed, with the growth areas we have previously highlighted.

Namely, the former Qwest properties at CenturyLink. The properties that Frontier acquired from Verizon and, in our expansion into international markets.

As Carl mentioned, we expect the previously announced transaction with Ericsson to close shortly, and, over time, we expect that will have a positive impact on our business.

Even though the transaction is going to close soon, I will not include the impact of the transaction in our guidance for the fourth quarter until the transaction is closed. At that time, we will hold a separate conference call to discuss our adjusted forecast.

Turning now to revenue, the third quarter was up 3% from the prior quarter at \$81.3 million. We also saw an increase in deferred revenue of \$6.9 million. Shipments against broadband stimulus orders were the primary factor leading to this increase.

Broad-band stimulus revenue came in at just under 10% in Q3. Once again, we had one 10% customer in the quarter. While our international revenue was down slightly from last quarter 7% to 6% of total revenue in Q3, we continue to grow our international customer footprint and funnel of new international opportunities.

Gross margin was 44.2%, down 1% from the prior quarter, and in line with our guidance. If you remember, we expected a decline of 1% due to an increase in the professional service revenue in the quarter which is primarily associated with broadband stimulus projects.

Operating expenses came in at \$34.1 million, approximately \$1 million lower than our guidance, due to tight control over operating expenses which we expect to continue.

This resulted in earnings of \$0.04 per share for the quarter, the same as in the second quarter, but above our guidance of \$0.01 to \$0.02 per share.

Looking at the balance sheet, solid working capital management, including our ongoing activities to reduce inventory levels, enabled us to generate \$4.3 million of cash, allowing us to end the quarter with total cash of \$57.4 million.

DSO was 58 days, up from 52 days in the previous quarter, slightly above our target range of 50 to 55 days. This increase was the result of the timing of shipments and the increase in deferred revenue from our US contracts.

Inventory levels continue to decline, and we ended the quarter with \$30.2 million of inventory on hand, inventory turns improved to 4.7.

Deferred revenue, as I mentioned previously, was \$46 million, up \$6.9 million from the prior quarter, driven primarily by broadband stimulus shipments.

Let me now move to our guidance for the fourth quarter. As we have already mentioned, the third quarter was a solid quarter across the board. Activity levels in our Tier 1 and Tier 2 accounts were, as we expected, we began to see signs of spending in a subset of our US Tier 3 accounts.



I think we have been quite clear that the macro-economic conditions remain a concern, and USF reform has impacted, and will continue to impact, the Tier 3 accounts for the next 3 to 4 quarters. Having said that, our fourth quarter is, seasonally, a little stronger than the third quarter, and therefore we expect Q4 revenue, without the benefit of the Ericsson transaction, to increase sequentially by about 7% to around \$87 million.

We expect gross margin to remain flat at around 44%, but operating expenses will increase to approximately \$36 million. The increase in expected operating expenses reflects an increase in sales commission on improving bookings and expenses related to our annual user group meeting that takes place next week.

As a result, we anticipate that our EPS will be \$0.05 per share. We expect DSOs to come down slightly, inventories to continue to slowly decline and, once again, we plan on being cash flow positive, excluding the Ericsson transaction. With that, I'll turn the call back over to Carl.

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

Thank you, Michael. I am pleased by what we accomplished during the quarter, particularly in light of the continuing macro-economic environment and uncertainty among our Tier 3 US customer base.

Our existing customer relationships are strong. Our competitive position continues to strengthen, and we have several market expansion opportunities now within our reach.

Over the past few quarters, we ran the business profitably, even under difficult circumstances, and I believe that we will see business slowly pick up over the next few quarters. We are investing in developing new products that will continue to help our customers transform their networks into the networks of the future, and, next week, we get to share some of those new products with our customers as we host our annual user-group conference that will, again, be attended by more customers than ever before, as they look to Calix to help them transform their networks.

At this point, I would like to turn the call over for questions. Operator?

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## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions). Our first question comes from the line of George Notter of Jefferies and Company. Please proceed with your question.

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**George Notter** - *Jefferies & Company - Analyst*

Alright, thanks very much, guys. I guess I wanted to ask about all the turmoil we've seen among your Tier 3 customers the last few quarters. As you dig in and talk to folks, what do you think the net impact is here of ICC reform and the move from USF to CAF? Are customers saying that they are better off net/net? Worse off net/net? What's the perspective there?

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

Michael, how about if I take that and you can add some color?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Yes, that's fine.



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

Okay. So, George, actually this morning, I was keynoting TelcoTV in Las Vegas and had a chance to chat with some of our customers directly, and it's the same. I mean, I think, net/net, right now, they view it as a net negative because they are transitioning their business models, but a number of the panelists that were up on stage, I mean, for example, [Derek Bullivo] from [BEK] was up there, and basically went through his transformational business model, and they are viewing this as an opportunity to, in his words, "win or die, and we're going to win."

So, it is really separating folks from an attitude standpoint. So, it depends on who you speak with. Many view it as a great opportunity to go expand the transformation of their business models over more and more subscribers, either through competitive footprint expansion or acquisition, and there are others that are viewing it as the end of their old model, and they are not quite sure what to do.

Did I answer your question?

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**George Notter** - *Jefferies & Company - Analyst*

I guess I was just looking for -- I mean, the anecdote of the TelcoTV example is certainly interesting. I would imagine that people would certainly put their best foot forward in terms of talking about the net effects of this, but I guess I'm just trying to think of more longer-term, when this thing finally shakes out, you get two, three, four quarters down the line even from here, I mean, do you think the funding for operators will be net/net the same, worse? Any perspective there? Are there certain buckets of customers that will come out ahead given the geographies that they serve versus other buckets of customers that will come out behind in terms of funding and -- I guess I'm just trying to get the next level of detail.

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

Okay, and I'm going to ask Michael to comment from a planning standpoint, but let me see if I can put it in different terms. Any time you shake up an industry like this, you get into different statistical sets.

So, in aggregate, we believe that the way to look at this is by subscriber, and the aggregate number of subscribers is not going to go down, so in total, the spending, to us, will look relatively flat, so maybe modestly up, but the worst is behind us.

Having said that, be clear that there are going to be winners and losers based on different business models, and one of the things that I believe you could state certainly is there are going to be less Tier 3 service providers than there are today because of consolidation, acquisitions, et cetera.

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**George Notter** - *Jefferies & Company - Analyst*

Okay, and then, just as a quick follow-up, the second wave of the Connect America fund, any perspective on how the rules are going to operate for funding access lines in this phase 2, and when do you think that the uncertainty around that will be finally behind us?

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

No perspective on it today from me. Jeff Gardner, who is the CEO of Windstream was on stage just before me this morning and said to a question, he said, "There's no way round one is going to be done before year-end." So, look, I think it's going to be much like the other programs that we have seen. I think it will take a little bit longer than everybody expects, but no perspective other than there is going to be, obviously, the next round. It will be interesting to see what the take rate is.

I would expect the take rate is going to be higher because, obviously, the rules and math is going to be rejiggered a bit, but I would not make comment beyond that, George. Mike, any comment from you?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

No. I think by the next round, Carl, you mean there will be another round of \$300 million that will go out there to be applied for.

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**George Notter** - *Jefferies & Company - Analyst*

Great. Thanks very much, guys.

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

Thanks, George.

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**Operator**

Thank you. Our next question comes from the line of Ehud Gelblum of Morgan Stanley. Please go ahead with your question.

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**Jeremy David** - *Morgan Stanley - Analyst*

Hi, good afternoon. It's actually Jeremy David calling in for Ehud. Guys, I was wondering if you could give us an update on pipeline for the broadband stimulus awards. I think you had mentioned \$180 million last quarter. Was wondering if that had changed. Obviously you recognized some revenue this quarter, about \$7 million, and some customers might have walked away from these funds. Would you have any update for us?

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

So, real quick, Michael, I'll let you add color, but there's no significant change from what we've seen and what we shared with you last quarter. As you know, there have been a few accounts that have walked away, and therefore, there's some shrinkage, but other than that, at this point in time, it's actually sort of rolling around at its own tempo. As to the effect on the numbers, Michael?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

There's no change in the numbers going forward. I think all of the broadband stimulus awards have been awarded, vendors chosen, and so -- anyone who turned it down turned it down some time ago, so, in the last quarter or so, there's no change.

We're at the stage now of implementing the broadband stimulus and actually installing broadband -- again, broadband stimulus orders, and that's going to continue for the next few quarters.

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**Jeremy David** - *Morgan Stanley - Analyst*

When do you expect the peak quarter for deployments? Is that next year at some point, or is that --

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

I think it continues to spread out. I don't think it gets much larger or much smaller. It continues over the next three or four quarters at about the same rate.



**Jeremy David** - Morgan Stanley - Analyst

Okay, great. And then AT&T recently made some comments that they would potentially upgrade their rural lines and increase broadband speeds. How do you think about that opportunity for Calix.

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

No comment. So, it's, as we've said, we are addressing, in recent times, Verizon and AT&T as accounts, but beyond that, we would make no comment.

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**Jeremy David** - Morgan Stanley - Analyst

Okay. And my last question is on the -- outside this quarter, it seemed it was broad-based. Any -- you still -- it was a nice beat on the topline. Anything in particular that helped you have good results, strong results, this quarter?

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

Nothing I would highlight. Michael?

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**Michael Ashby** - Calix, Inc. - EVP & CFO

No, I think it was, as we said, across the board a fairly strong quarter in each of our different areas of the business, and we saw some strength and we said in the Tier 3, we are starting to see some buying returning in some of the smaller Tier 3 accounts. So, across the board, it was a fairly stronger and even quarter.

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**Jeremy David** - Morgan Stanley - Analyst

Great. Thank you very much.

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

Thanks, Jeremy.

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**Operator**

Thank you. Our next question comes from the line of Amitabh Passi from UBS. Please proceed with your question.

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**Amitabh Passi** - UBS - Analyst

Hi, thank you. Can you hear me?

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**Michael Ashby** - Calix, Inc. - EVP & CFO

We can, Amitabh.

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**Amitabh Passi** - UBS - Analyst

Okay. Michael, just the first question for you. The 7% sequential guidance, can you give us any sense whether there is any additional revenues from Qwest and, if so, how should we expect Qwest to ramp for you as we move into 2013?

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**Michael Ashby** - Calix, Inc. - EVP & CFO

I think what we've always said is that we do expect to get some small revenues from Qwest in Q4. The -- we are continuing through the internal Qwest IT integration, the first products get through that internal Qwest certification actually in November, so next month, so we expect there to be some small revenue from Qwest in Q4, and we do expect, obviously, that that will continue to ramp as we go through 2013.

So, we think we're well-positioned in that account, we're pleased with the way that's going, there's no change in our timing and no change in our outlook there.

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**Amitabh Passi** - UBS - Analyst

And I think you recently talked about \$80 million being a potential floor. Are you comfortable with that floor as we move into the first calendar quarter, which tends to be seasonally down, excluding the Ericsson deal?

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**Michael Ashby** - Calix, Inc. - EVP & CFO

The answer is yes. I think, as we've talked about before, I don't see our revenue dropping below that \$80 million number, and I think, as we demonstrated this quarter, we can just grow it from there, and I don't see it going down at all.

We're seeing strength across Tier 1, Tier 2 and Tier 3 accounts, and we expect that to continue going through 2013.

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**Amitabh Passi** - UBS - Analyst

Alright, thank you, appreciate it.

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**Operator**

Thank you. Our next question comes from the line of Simon Leopold of Raymond James. Please proceed with your question.

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**Simon Leopold** - Raymond James - Analyst

Great, thank you. Just a quick clarification before I get into my question. On the third quarter, you had guided the gross margin being down by about 1 percentage point. Could you remind us of whether that's driven by product mix, customer mix, if there's some weighting to think about what were the influencing factors behind that?

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**Michael Ashby** - Calix, Inc. - EVP & CFO

No, that was actually driven by the professional services content of revenue. With a number of our broadband stimulus orders, we have -- they include professional services. We outsource a lot of that professional service, which means it has a lower margin, and so if the percentage of professional service increases in one quarter, that can have a negative impact on the gross margin, and that guidance in Q3 was strictly related to that.

As far as mix is concerned, mix is advantageous to us, particularly as we start to sell more of the e-series products going forward.

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**Simon Leopold** - *Raymond James - Analyst*

Okay, and then just following up on your prepared remarks on the Connect America fund status, I think -- just to paraphrase, to make sure I understand the situation, it sounds as if it's in a process of being resolved, but Tier 3 carriers are still somewhat hesitant to spend money at this point, but it's really a kind of slow release as opposed to a step function return to "normalcy?" Is that a fair way to paraphrase it?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Carl, do you want me to take that one?

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

Again, I'll give you -- I have to encourage everyone to think sort of across the statistical sample that is starting to shake out, meaning there are folks that are moving, there are folks that aren't, so, to the extent that you average that, which is a dangerous thing to do, the words that you just used, Simon, are words that makes sense, but it is definitely not that way for each company. It's that way as a segment. Michael?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Yeah, I think the way we sort of analyze it is that there's really sort of three segments. About a third of the Tier 3 accounts are just growing their business and doing well, and not really concerned about the reform and the regulatory changes. About a third are sort of in the middle, and then there's a third at the bottom who are very concerned, and who have certainly cut back on or put off and delayed their plans.

That will slowly right itself. The FCC are due to issue final regulations by December. It may not be finished by then, at which point they will come out with another round of incentives, but it is -- over the next three to four quarters, we think it will slowly correct itself, and, as Carl mentioned, there would be some consolidation among the bottom third of those service providers, and over the next -- by the middle of next summer, we expect to see that getting back to a more normal level and beginning to slowly start growing their business again.

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**Simon Leopold** - *Raymond James - Analyst*

Great, and then, the last thing I wanted to talk about was, there's an emerging trend on the industry on small sell-sites, and clearly those sell-sites need to connect back to networks which, I presume, presents an opportunity for your company, and I'd just like to see if you could comment on both timing and materiality of this opportunity, whether it's something worth pursuing as analysts to reflect in a model for Calix, or whether it's more in the noise.

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

Okay, so we agree it's an opportunity. I don't know that I would separate it out from a model perspective, Simon, that's a longer conversation about architecture, so I would have to get you to a whiteboard to help you understand why I don't think it separates out that way, but it is clearly an opportunity and, inexorably, as I spoke this morning at TelcoTV, the only way that you're going to deal with the wireless demand/supply inequity is to get the smaller and smaller antennae, i.e., less devices on a given antenna on smaller radius, so it is definitely an opportunity.

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**Simon Leopold** - *Raymond James - Analyst*

So, I guess, even though we can't maybe explicitly break it out, we can at least regard this as a positive driver for growth beyond consumer broadband?

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

No question.

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**Simon Leopold** - *Raymond James - Analyst*

Great, thank you very much.

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

Thanks, Simon.

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**Operator**

Thank you. Our next question comes from the line of Sanjiv Wadhvani of Stifel Nicolaus. Please proceed with your question.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Thanks. Just a clarification before the question. Michael, I wanted to clarify that you said, in relation to a question, that you expect broadband access revenues to kind of be pretty similar to where they are today for the next three or four quarters?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Yes, that's correct. No, that's correct.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Okay, so you kind of have bobbing around at around these levels, which looks like might have been slightly below \$8 million-ish for the quarter?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Yes. We think they will increase slightly and decrease slightly, but they're going to bob around that level for the next few quarters.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Okay, that's helpful. Carl, any updates on Frontier? I know you spoke a little bit about Qwest, but any updates on Frontier and what we should expect over the next few quarters there?

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

The only update would be continued with what we said last which is, we believe we have good relationships and are growing stronger, and that we are able to go compete in all the properties, and compete we will do, and so the business trends continue to, I think, look positive to us, but other than that, I don't know that I would make any other comments.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Got it. You haven't seen, necessarily, a slowdown in their spending, irrespective of your ability to penetrate more areas within that account.

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

Not that I would make comment on, Simon, no.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Okay, got it, and then last question, Carl. When you look at the Connect America fund, can you remind us, as far as phase 1 is concerned, what the take rate is, and you're expecting that to expand in phase 2 but just remind us what the take rate was in phase 1?

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

Yes, and, by the way, Sanjiv, I just called you Simon, because apparently I'm losing my mind.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

That's okay.

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

I don't know which of you should be flattered.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

I should be.

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

There you go. And apparently I'm just losing my mind. So, the answer -- I don't remember the exact numbers. Michael, you have them there, I think?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

It was -- \$115 million out of the \$300 million was taken up.

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

Right.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Got it, so, less than half, basically.

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Yes. So, we expect the second round might be -- it's possibly going to be another \$300 million, as Carl said, and we expect the take rate in that to be higher, and that's only for -- that relates to the Tier 1 and Tier 2 accounts.

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**Sanjiv Wadhvani** - *Stifel Nicolaus - Analyst*

Got it. That's helpful. Thanks, guys.

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

Thanks, Sanjiv.

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**Operator**

Thank you. Our next question comes from the line of Simona Jankowski of Goldman Sachs. Please proceed with your question.

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**Doug Clark** - *Goldman Sachs - Analyst*

Hi, thanks. This is actually Doug Clark for Simona. I just wanted to dig a little deeper on Qwest, longer-term opportunity. Do you continue to believe that you can gain kind of 30% to 40% footprint within that customer?

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

So, the answer is, we believe we will continue to slowly but surely deploy our model and gain share in the customer. I wouldn't quote any number.

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**Doug Clark** - *Goldman Sachs - Analyst*

Okay. Also, you mentioned Tier 1 good momentum at customers within the Tier 1 segment. Can you give any more detail on who you may be referring to, or perhaps if these are existing Ericsson customers, and related to that?

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

So, let me go back and understand -- when you say good momentum in Tier 1, to which are you referring?

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**Doug Clark** - *Goldman Sachs - Analyst*

Well, that's been a comment that you made kind of several times throughout the call, so I just wanted to get more clarity.

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

Okay, so that's -- just wanted to make sure that I understood what you were referring to. By the way, CenturyLink/Qwest is a Tier 1. Also, as we call on the Tier 1s in North America, we've been encouraged by the interest and the response and also, as we move towards a partnership with Ericsson on a global basis, we think that affords us those opportunities as well.

So, that's what we are speaking about when we say that.

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**Doug Clark** - *Goldman Sachs - Analyst*

Alright, great, thanks for the clarification.

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

I appreciate the question.

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**Operator**

Thank you. (Operator Instructions). Our next question comes from the line of Mark McKechnie of Evercore. Please proceed with your question.

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**Mark McKechnie** - *Evercore Partners - Analyst*

Alright, great. Thanks, and congrats on a good quarter in a tough environment here. Hey, three lines of questioning. First is, on the Ericsson deal, I know you're going to give us full, official guidance when you close it in a month or so, but any -- can you refresh of your guidance on any update on how things are going, how the customers are reacting to this merger?

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

So, the only comment I would make, Mark, is that -- because, obviously, we're going to come out with numbers and things of that nature. I will tell you, in my prepared remarks, I said that we are quite pleased with the cooperation to-date. What we didn't speak to is the feedback.

All the feedback from the market that we have received has been neutral to positive. I have heard no negative.

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**Mark McKechnie** - *Evercore Partners - Analyst*

Okay, good enough, and then a housekeeping question. I don't know if you all share this, but your mix, if you can, of copper versus fiber of your systems? Are you able to break that out?

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

I won't share it, and if Michael does, I'll be very surprised. Michael?

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

No comment.

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**Mark McKechnie** - *Evercore Partners - Analyst*

Crickets are chirping. So, last question is on the visibility for this \$87 million guide. That's a nice uptick. Sounds like some of the Qwest kicking in, but how much of that -- did you go over how much of that would be in broadband stimulus coming out of deferred revenue, and how much you feel like you've gotten backlog and what some of the variables are going to be in this environment for hitting those numbers?

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

So, here's what I would say at the front and then Michael, you can -- please add color. I will tell you, one item that we have focused on, and I am pleased with the progress on, has been our approach to, in essence, the forecasting and demand-funneling process. I think we have made great strides this quarter and continue to improve that process. So, I feel better about it, statistically, from that approach.

To the specifics, Michael, if you want to make comment, please do.

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**Michael Ashby** - *Calix, Inc. - EVP & CFO*

Yes, Mark. I think as we said, the business was pretty strong in the Tier 1, Tier 2 and Tier 3s in Q3. We expect that to continue in Q4 and then into 2013. So the answer is, we're not looking at growing revenues out of backlog or deferred revenue, it is just continued strength in the business, and our backlog and deferred revenue will continue to grow as we move forward.

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**Mark McKechnie** - *Evercore Partners - Analyst*

Okay, great. Thanks.

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

Thanks, Mark.

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**Operator**

Thank you. (Operator Instructions). One moment please while we hold for any further questions. It appears there are no further questions at this time. I would like to turn the floor back over to Mr. Allen for any closing remarks.

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**David Allen** - *Calix, Inc. - Treasurer & Director of IR*

Thank you, operator, and thank you, everyone, for joining us today. We hope you can join us at one of our upcoming investment conferences at which we're participating in this quarter, including the Goldman Sachs small-cap technology one-on-one summit in San Francisco on November 7th, the UBS Global Technology Conference in New York on November 14th, and the Credit Suisse Conference in Scottsdale, Arizona on November 28th.

Information about these events has been posted on the investor relations section of our website. Thank you again for joining us today. We remain focused on executing against the opportunities ahead of us, and we look forward to speaking to you on one of these forums. Goodbye for now.

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**Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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