

Calix Q3 2013 Financial Results

Issued October 29, 2013



Safe Harbor

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

This presentation includes forward-looking statements regarding future events, including but not limited to, our development of new products that will continue to help our customers transform their networks; 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 2012, our current reports on Form 8-K and other SEC filings, including our Form 10-Qs.

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

Q3 2013: Strong Execution Continues

- ▶ \$103.6 million revenue *in line* with guidance*
 - Record revenue tops \$100-million mark for the first time, up 27% from Q3 2012
 - Deployments in more than 16 states and provinces the US and Canada, including CenturyLink, have announced gigabit residential services using Calix's *Unified Access* portfolio solutions
 - Solid progress penetrating into new domestic and international markets
- ▶ GM, OpEx and EPS *favorable* to guidance*
 - GM of 48.1% up from 44.2% in Q3 2012
 - Solid OpEx management and record revenue demonstrate model leverage potential
 - Non-GAAP EPS of \$0.20 up from \$0.04 from Q3 2012
 - First quarter of GAAP profitability as a public company
- ▶ Total cash *increased* by \$10.7 million from prior quarter to \$80.1 million**
 - Strong balance sheet management
 - Established new bank credit facility providing access to \$50 million

*Revenue, Operating Expenses and EPS guidance issued on July 30, 2013. Gross margin, Operating expenses and EPS are non-GAAP measures. Please see reconciliation in the appendix of this slide deck.

**Cash, Cash Equivalents and Restricted Cash.

A New Broadband Experience

A confluence of trends leading to an acceleration of gigabit services



The FCC has called for gigabit (Gb) services in all 50 states by 2015

Calix is leading the way in the US and Canada

- ▶ Deployments already announced in 16 states and provinces (★) ... and growing

Policy



Competition



Catalysts



Gig.U



Example Gb providers

▶ Tier 1s  CenturyLink™

▶ IOCs 

▶ CLECs 

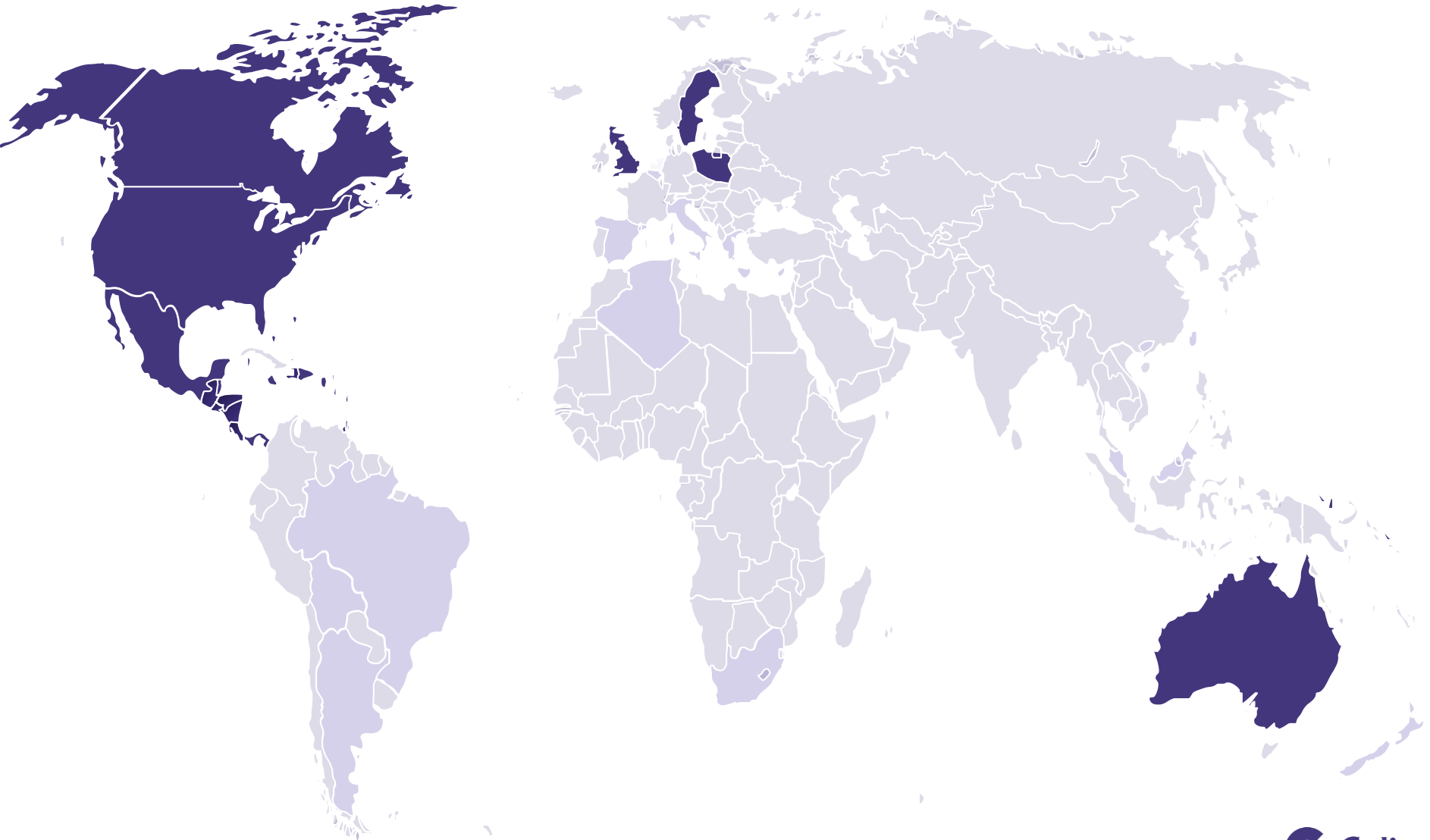
▶ Munis 

▶ Universities 

▶ Utilities 

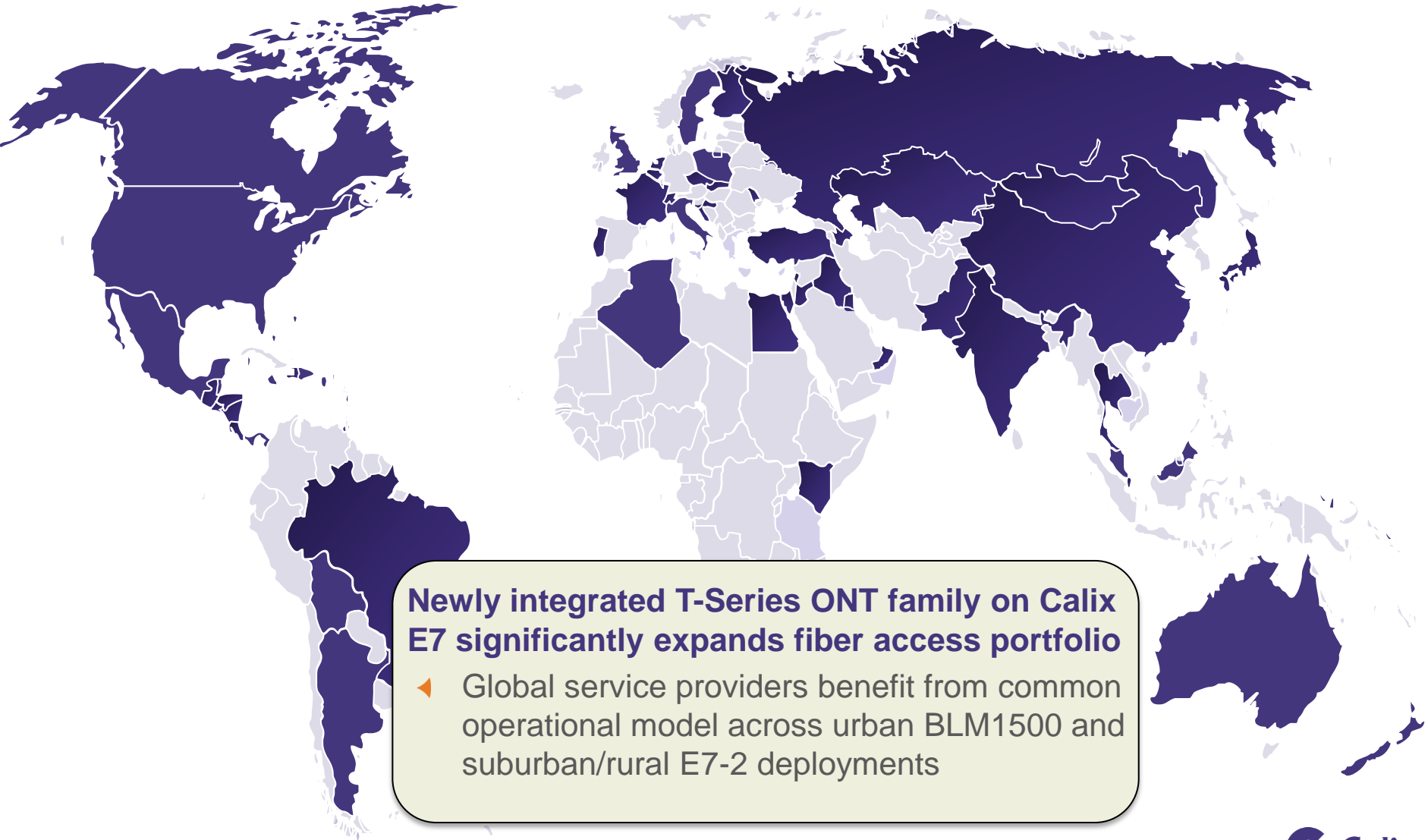
Calix Advantages – Resonating Globally

Global Footprint – September 2011



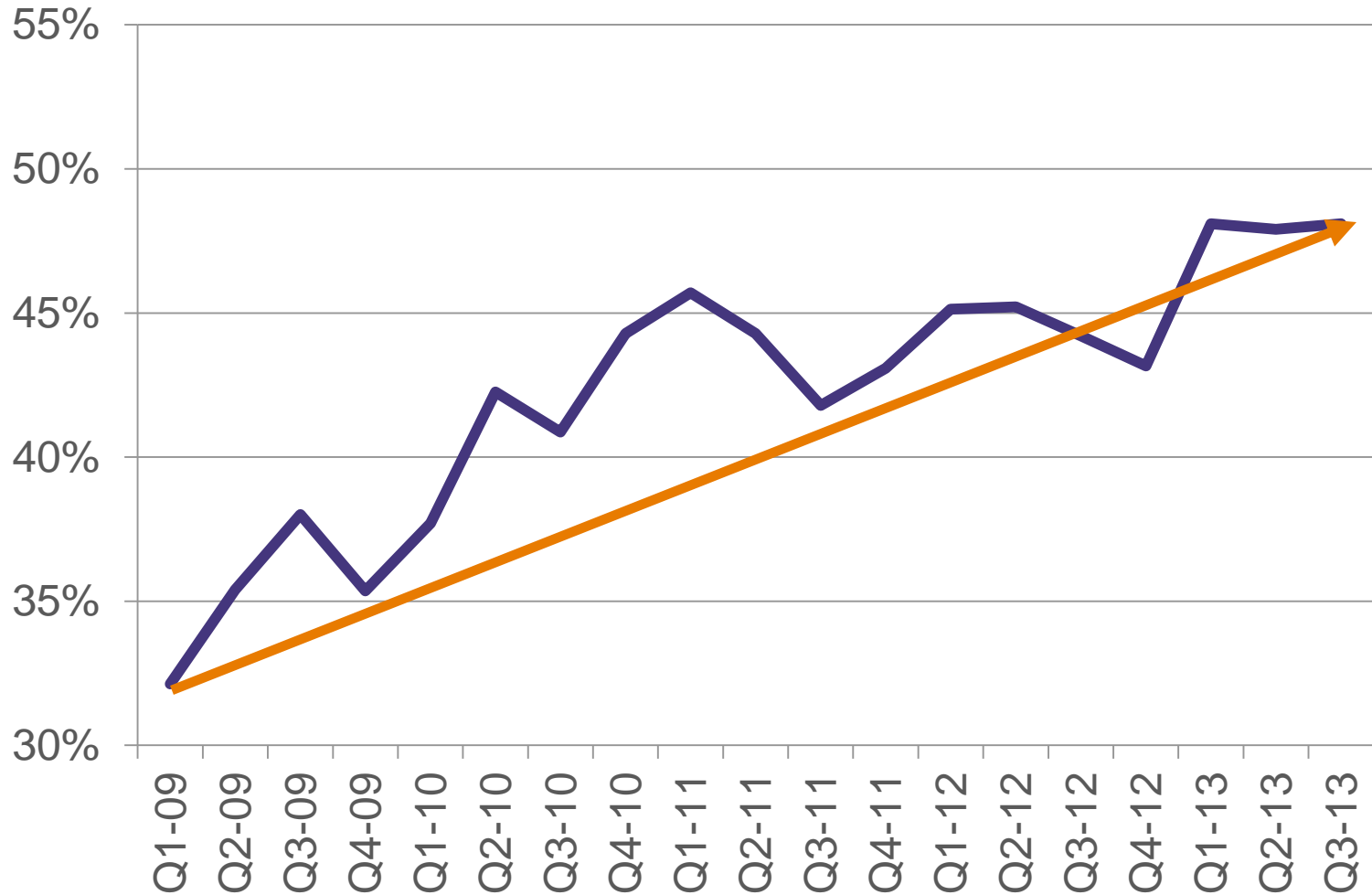
Calix Advantages – Resonating Globally

Global Footprint – October 2013



Unified Access Portfolio Valued by Customers

Networking innovations are driving Calix margin growth*



Progress Toward Long Term Model

Leverage and Product Mix Opportunities

\$s in millions	FY 2009	FY 2010	FY 2011	FY 2012	YTD FY 2013	Long Term Model
Revenue	\$232.9	\$287.0	\$344.7	\$330.2	\$288.6	Double digit growth rate
Yr/Yr Chg	-7.0%	23.2%	20.1%	-4.2%	20.9%	
Gross Margin*	35.5%	41.8%	43.7%	44.4%	47.9%	Low 50% range
Operating Expenses*	37.2%	35.4%	38.1%	42.1%	41.5%	Low 30% range
Operating Profit*	-1.7%	6.3%	5.5%	2.3%	6.4%	High teens low 20% range

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

Q3 2013 Financial Results vs. Guidance

\$s in millions, except EPS	Actual Results	Q3 2013 Guidance	Comments
Revenue	\$103.6	\$102 million to \$106 million	Record revenue; in line with guidance
Gross Margin*	48.1%	46% to 47%	Higher GM than guidance
Operating Expenses*	\$40.3	\$41 to \$42 million	Lower expenses than guidance
EPS*	\$0.20	\$0.11 and \$0.15 per share	Higher than guidance
Cashflow	Positive	Positive	In line with guidance; strong collection activity

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

Income Statement Summary

Q3 2013 vs. Prior Quarter and Year

\$s in millions, except EPS	Actual Q3 2013	Actual Q2 2013	Actual Q3 2012	% Chg Q3 13 vs. Q2 13	% Chg Q3 13 vs. Q3 12
Revenue	\$103.6	\$94.4	\$81.3	9.7%	27.4%
Domestic	\$92.9	\$82.3	\$76.4	12.9%	21.6%
International	\$10.7	\$12.1	\$4.9	-11.6%	118.4%
10% or greater customers	1	1	1		
Gross Margins*	48.1%	47.6%	44.2%	1.1%	8.8%
Operating Expenses*	\$40.3	\$39.9	\$34.1	1.0%	18.2%
Operating Income*	\$9.6	\$5.1	\$1.9	88.2%	405.3%
EPS*	\$0.20	\$0.10	\$0.04	100.0%	400.0%

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

Selected Balance Sheet Metrics

Show Improvements

\$s in millions	Actual Q3 2013	Actual Q2 2013	Actual Q3 2012	% Chg Q3 13 vs. Q2 13	% Chg Q3 13 vs. Q3 12
Cash*	\$80.1	\$69.4	\$57.4	15.4%	39.5%
CF From Operating Activities	\$13.6	\$20.8	\$6.7	-34.6%	103.0%
DSOs	46 Days	56 Days	58 Days		
Inventory					
Dollars	\$39.4	\$37.4	\$30.2	5.3%	30.5%
Turns	5.0 x	4.4 x	4.7 x		
Deferred Revenue	\$63.4	\$71.1	\$46.0	-10.8%	37.8%

*Cash includes Cash, Cash Equivalents and Restricted Cash

Other Metrics

\$s in millions, on GAAP basis	Actual Q3 2013	Actual Q2 2013	Actual Q3 2012
Capital Expenditures	\$2.2	\$1.9	\$1.6
Depreciation	\$2.4	\$2.5	\$2.2
Stock Based Compensation			
COGS	\$0.4	\$0.4	\$0.3
R&D	\$1.2	\$1.3	\$1.0
S&M	\$1.4	\$1.5	\$1.3
G&A	\$2.0	\$2.1	\$1.7
Total	\$5.0	\$5.3	\$4.3
Amortization of Intangibles	\$4.6	\$4.6	\$4.6

Non-GAAP to GAAP Reconciliation

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

Non-GAAP to GAAP

Q3 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 103,628	\$ -	\$ -	\$ 103,628
Cost of revenue	53,770	362	2,089	56,221
Gross profit	49,858	(362)	(2,089)	47,407
Gross margin	48.1%	-0.3%	-2.0%	45.7%
Operating expenses	40,258	4,609	2,552	47,419
Operating income (loss)	9,600	(4,971)	(4,641)	(12)
Interest and other income (expense), net	(18)	-	-	(18)
Income (loss) before benefit from income taxes	9,582	(4,971)	(4,641)	(30)
Benefit from income taxes	(574)	-	-	(574)
Net income (loss)	<u>\$ 10,156</u>	<u>\$ (4,971)</u>	<u>\$ (4,641)</u>	<u>\$ 544</u>
Weighted average shares used to compute net income (loss) per common share:				
Basic	<u>49,694</u>	<u>49,694</u>	<u>49,694</u>	<u>49,694</u>
Diluted	<u>51,142</u>	<u>51,142</u>	<u>51,142</u>	<u>51,142</u>
Net income (loss) per common share:				
Basic	<u>\$ 0.20</u>	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.20</u>	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>	<u>\$ 0.01</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
Gross margin	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)	<u>\$ 4,762</u>	<u>\$ (5,275)</u>	<u>\$ (4,640)</u>	<u>\$ (5,153)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>49,153</u>
Weighted average diluted shares used to compute non-GAAP net income (loss) per common share	<u>50,073</u>	<u>50,073</u>	<u>50,073</u>	
GAAP net loss per common share				<u>\$ (0.10)</u>
Non-GAAP net income (loss) per diluted share	<u>\$ 0.10</u>	<u>\$ (0.11)</u>	<u>\$ (0.09)</u>	

Non-GAAP to GAAP

Q3 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

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

Non-GAAP to GAAP YTD 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 288,615	\$ -	\$ -	\$ 288,615
Cost of revenue	150,233	1,090	6,265	157,588
Gross profit	138,382	(1,090)	(6,265)	131,027
Gross margin	47.9%	-0.4%	-2.2%	45.4%
Operating expenses	119,893	13,875	7,656	141,424
Operating income (loss)	18,489	(14,965)	(13,921)	(10,397)
Interest and other income (expense), net	(408)	-	-	(408)
Income (loss) before taxes	18,081	(14,965)	(13,921)	(10,805)
Provision for income taxes	7	-	-	7
Net income (loss)	<u>\$ 18,074</u>	<u>\$ (14,965)</u>	<u>\$ (13,921)</u>	<u>\$ (10,812)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>49,255</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>50,218</u>	<u>50,218</u>	<u>50,218</u>	
GAAP net loss per common share				<u>\$ (0.22)</u>
Non-GAAP net income (loss) per diluted share	<u>\$ 0.36</u>	<u>\$ (0.30)</u>	<u>\$ (0.28)</u>	

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
Gross margin	44.4%	-	-	-0.4%	-2.3%	41.7%
Operating expenses	138,987	1,401	-	16,004	10,208	166,600
Operating income (loss)	7,561	(1,401)	-	(17,437)	(17,747)	(29,024)
Interest and other income (expense), net	(173)	-	1,029	-	-	856
Income (loss) before taxes	7,388	(1,401)	1,029	(17,437)	(17,747)	(28,168)
Provision for income taxes	158	-	-	-	-	158
Net income (loss)	<u>\$ 7,230</u>	<u>\$ (1,401)</u>	<u>\$ 1,029</u>	<u>\$ (17,437)</u>	<u>\$ (17,747)</u>	<u>\$ (28,326)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share						<u>48,180</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,367</u>	<u>48,367</u>	<u>48,367</u>	<u>48,367</u>	<u>48,367</u>	
GAAP net loss per common share						<u>\$ (0.59)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.15</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.36)</u>	<u>\$ (0.37)</u>	

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
Gross margin	43.7%	-5.8%	-0.4%	-2.8%	34.7%
Operating expenses	131,412	11,693	20,100	8,569	171,774
Operating income (loss)	19,062	(31,659)	(21,603)	(18,121)	(52,321)
Interest and other income (expense), net	(5)	-	-	-	(5)
Income (loss) before taxes	19,057	(31,659)	(21,603)	(18,121)	(52,326)
Provision for income taxes	224	-	-	-	224
Net income (loss)	<u>\$ 18,833</u>	<u>\$ (31,659)</u>	<u>\$ (21,603)</u>	<u>\$ (18,121)</u>	<u>\$ (52,550)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share					<u>45,546</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>46,947</u>	<u>46,947</u>	<u>46,947</u>	<u>46,947</u>	
GAAP net loss per common share					<u>\$ (1.15)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.40</u>	<u>\$ (0.67)</u>	<u>\$ (0.46)</u>	<u>\$ (0.39)</u>	

Non-GAAP to GAAP FY 2010 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Preferred Stock Dividends	Change in Fair 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
Gross margin	41.8%	-	-	-	-0.6%	-1.9%	39.3%
Operating expenses	101,701	-	-	3,942	23,830	740	130,213
Operating income (loss)	18,214	-	-	(3,942)	(25,575)	(6,180)	(17,483)
Interest and other income (expense), net	(816)	-	(173)	-	-	-	(989)
Income (loss) before taxes	17,398	-	(173)	(3,942)	(25,575)	(6,180)	(18,472)
Provision for income taxes	81	-	-	-	-	-	81
Net income (loss)	17,317	-	(173)	(3,942)	(25,575)	(6,180)	(18,553)
Preferred stock dividends	-	900	-	-	-	-	900
Net income (loss) attributable to common stock holders	\$ 17,317	\$ (900)	\$ (173)	\$ (3,942)	\$ (25,575)	\$ (6,180)	\$ (19,453)
Weighted average basic and diluted shares used to compute GAAP net loss per common share							29,778
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	
GAAP net loss per common share							\$ (0.65)
Non-GAAP net income (loss) per share	\$ 0.45	\$ (0.02)	\$ (0.00)	\$ (0.10)	\$ (0.66)	\$ (0.16)	

Non-GAAP to GAAP FY 2009 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Preferred Stock Dividends	Change in Fair 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
Gross margin	35.5%	-	-	-0.3%	-2.3%	32.9%
Operating expenses	86,717	-	-	8,514	740	95,971
Operating income (loss)	(3,951)	-	-	(9,196)	(6,180)	(19,327)
Interest and other income (expense), net	(3,503)	-	37	-	-	(3,466)
Income (loss) before taxes	(7,454)	-	37	(9,196)	(6,180)	(22,793)
Benefit from income taxes	(352)	-	-	-	-	(352)
Net income (loss)	(7,102)	-	37	(9,196)	(6,180)	(22,441)
Preferred stock dividends	-	3,747	-	-	-	3,747
Net income (loss) attributable to common stock holders	<u>\$ (7,102)</u>	<u>\$ (3,747)</u>	<u>\$ 37</u>	<u>\$ (9,196)</u>	<u>\$ (6,180)</u>	<u>\$ (26,188)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share						<u>4,040</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>28,991</u>	<u>28,991</u>	<u>28,991</u>	<u>28,991</u>	<u>28,991</u>	
GAAP net loss per common share						<u>\$ (6.48)</u>
Non-GAAP net income (loss) per share	<u>\$ (0.24)</u>	<u>\$ (0.13)</u>	<u>\$ 0.00</u>	<u>\$ (0.32)</u>	<u>\$ (0.21)</u>	

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