

Q4 and FY 2012 Financial Results

Issued February 5, 2013

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Safe Harbor

All statements other than statements of historical facts contained in this presentation, including statements regarding our growth opportunities, 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.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described including those set forth in our filings with the Securities and Exchange Commission (“SEC”), including our most recent report on Form 10-Q for the period ended Sept. 29, 2012 and our Form 10-K for the fiscal year ended Dec. 31, 2011, filed with the SEC and available at <http://www.sec.gov>.

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

Solid Q4 2012 Execution

- ▶ \$91.4 million in revenue, up 12.5% sequentially, in line with guidance*
- ▶ Gross Margins in line with guidance*
- ▶ Operating expenses lower than guidance*
- ▶ EPS better than guidance due to strong op ex management*
- ▶ Completed Ericsson asset purchase
 - Added feature-rich, Tier1-tested OLT and ONTs to the Calix product portfolio
 - Strengthened workforce in Silicon Valley with 50 new employees in San Jose, CA
- ▶ Entered into global access reseller agreement with Ericsson
 - Calix is Ericsson's preferred global partner for broadband access applications
 - Expands Calix global customer footprint and marketing reach to large international Tier 1 customers
 - Complements Calix's existing international expansion activities which continues to focus on Tier 2 and Tier 3 customers

*Revenue, Operating Expenses and EPS guidance issued on Nov. 5, 2012

2012 vs. 2011 Results

- ▶ **\$330.2 million revenue**
 - Declined 4.2% vs. FY 2011
 - Slow down in Tier 3 spending due to regulatory reform uncertainty
- ▶ **44.4% gross margin***
 - Up from 43.7% in FY 2011
 - Increasing mix of higher margin E-series solutions
- ▶ **\$7.2 million net income***
 - Declined 61.6% vs. FY 2011
 - Lower revenue and higher operating expenses

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

Calix Growth Drivers

New opportunities, expanded geographies, adjacent markets



Near-term growth opportunities

- ▶ **Expanding** into legacy Qwest lines at CenturyLink
- ▶ **Penetrating** former Verizon properties at Frontier
- ▶ **Rebounding** investment by U.S. Tier 3 service providers
- ▶ **Growing** “organic” international Tier 2/3 pipeline
- ▶ **Burgeoning** Ericsson Global Reseller Agreement



Long-term growth opportunities

- ▶ **Leveraging** E-Series at global Tier 1s via position as Ericsson’s preferred broadband access solution
- ▶ **Expanding** into domestic Tier 1 service providers
- ▶ **Increasing** demand for fiber access solutions among telcos, MSOs, and non-traditional providers

Q4 2012 Financial Results vs. Guidance

\$s in millions, except EPS	Actual Results	Q4 2012 Guidance Issued on Nov 5	Comments
Revenue	\$91.4	\$91.0	In line with guidance; strong across the board demand offset lower than anticipated BLM 1500 sales
Gross Margin*	43.2%	43.0%	In line with guidance; down from prior quarter due to Professional Service Revenue on BBS projects and reserves on a trade-in program for old ADSL boards
Operating Expenses*	\$36.7	\$38.0	Lower than guidance provided; strong expense control and one-time \$0.5 accrual reversal
EPS*	\$0.06	\$0.02	Ahead of guidance
Cashflow			
Excluding asset purchase	\$1.6	Positive before asset purchase from Ericsson	In line with guidance made on Oct. 20
Including asset purchase	(\$10.4)		Consistent with purchase price announced on Nov 5

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

Income Statement Summary

Q4 2012 vs. Prior Quarter and Year

\$s in millions, except EPS	Actual Q4 2012	Actual Q3 2012	Actual Q4 2011	Chg Q4 12 vs. Q3 12	Chg Q4 12 vs. Q4 11
Revenue	\$91.4	\$81.3	\$91.6	\$10.1	-\$0.2
Domestic	\$83.6	\$76.4	\$85.8	\$7.2	-\$2.2
International	\$7.8	\$4.9	\$5.8	\$2.9	\$2.0
10% or greater customers	1	1	1	0	0
Gross Margins*	43.2%	44.2%	43.1%	-1.0%	0.1%
Operating Expenses*	\$36.7	\$34.1	\$35.7	\$2.6	\$1.0
Operating Income*	\$2.8	\$1.9	\$3.8	\$0.9	-\$1.0
EPS*	\$0.06	\$0.04	\$0.08	\$0.02	-\$0.02

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

Income Statement Summary

FY 2012 vs. 2011

\$s in millions, except EPS	Actual FY 2012	Actual FY 2011	Chg FY 12 vs. FY 11	% Chg FY 12 vs. FY 11
Revenue	\$330.2	\$344.7	-\$14.5	-4.2%
Domestic	\$306.0	\$323.3	-\$17.3	-5.4%
International	\$24.2	\$21.4	\$2.8	13.1%
10% or greater customers	1	1	0	
Gross Margins*	44.4%	43.7%	0.7%	
Operating Expenses*	\$139.0	\$131.4	\$7.6	5.8%
Operating Income*	\$7.6	\$19.1	-\$11.5	-60.2%
Net Income*	\$7.2	\$18.8	-\$11.6	-61.7%

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

Progress Toward Long Term Model Leverage and Product Mix Opportunities

\$s in millions	FY 2009	FY 2010	FY 2011	FY 2012	Long Term Model
Revenue	\$232.9	\$287.0	\$344.7	\$330.2	Double digit growth rate
Gross Margin*	35.5%	41.8%	43.7%	44.4%	Low 50% range
Operating Expenses*	37.2%	35.4%	38.1%	42.1%	Low 30% range
Operating Profit*	-1.7%	6.3%	5.5%	2.3%	High teens low 20% range

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

Selected Balance Sheet Metrics

\$s in millions	Actual Q4 2012	Actual Q3 2012	Actual Q4 2011	% Chg Q4 12 vs. Q3 12	% Chg Q4 12 vs. Q4 11	Comments
Cash*	\$47.0	\$57.4	\$39.7	-18.1%	18.4%	Q4 2012 includes a \$12.0 payment for the Ericsson asset acquisition
CF From Operating Activities	\$2.9	\$6.7	\$5.9	-56.7%	-50.8%	
DSOs	51 Days	58 Days	42 Days	-	-	Within target range of 50 to 55 days
Inventory Dollars	\$43.3	\$30.2	\$45.2	43.4%	-4.2%	Increase primarily due to Ericsson asset purchase
Turns	5.3 x	4.7 x	4.0 x			
Deferred Revenue	\$55.1	\$46.0	\$28.7	19.8%	92.0%	Increase driven primarily by Broadband Stimulus shipments

*Cash includes Cash, Cash Equivalents and Restricted Cash

Other Metrics

\$s in millions, on GAAP basis	Actual Q4 2012	Actual Q3 2012	Actual Q4 2011
Capital Ex	\$2.3	\$1.6	\$1.1
Depreciation	\$2.2	\$2.2	\$2.0
Stock base compensation			
COGS	\$0.3	\$0.3	\$0.4
R&D	\$1.1	\$1.0	\$1.1
S&M	\$1.3	\$1.3	\$1.2
G&A	\$1.7	\$1.7	\$1.7
Total	\$4.5	\$4.3	\$4.4
Amortization of Intangibles	\$4.6	\$4.6	\$4.6
Acquistion- related expenses	\$1.4	\$0.0	\$0.0

GAAP to Non-GAAP Reconciliation

The Company uses certain non-GAAP financial measures in this press release to supplement its consolidated financial statements, which are presented in accordance with GAAP. These non-GAAP measures include non-GAAP net income and non-GAAP basic and diluted net income per common share. These non-GAAP measures are provided to enhance the reader's understanding of the Company's operating performance as they primarily exclude certain non-cash charges for stock-based compensation and amortization of acquisition-related intangible assets, and non-recurring 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.

GAAP to Non-GAAP

Q4 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	\$ 91,424	\$ -	\$ -	\$ -	\$ -	\$ 91,424
Cost of revenue	51,962	-	-	344	2,088	54,394
Gross profit	39,462	-	-	(344)	(2,088)	37,030
Gross margin	43.2%	-	-	-0.4%	-2.3%	40.5%
Operating expenses	36,693	1,401	-	4,132	2,552	44,778
Operating income (loss)	2,769	(1,401)	-	(4,476)	(4,640)	(7,748)
Interest and other income (expense), net	23	-	1,029	-	-	1,052
Income (loss) before taxes	2,792	(1,401)	1,029	(4,476)	(4,640)	(6,696)
Benefit from income taxes	(122)	-	-	-	-	(122)
Net income (loss)	<u>\$ 2,914</u>	<u>\$ (1,401)</u>	<u>\$ 1,029</u>	<u>\$ (4,476)</u>	<u>\$ (4,640)</u>	<u>\$ (6,574)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share						<u>48,538</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,836</u>	<u>48,836</u>	<u>48,836</u>	<u>48,836</u>	<u>48,836</u>	
GAAP net loss per common share						<u>\$ (0.14)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	

GAAP to Non-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>	

GAAP to Non-GAAP

Q4 2011 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 91,585	\$ -	\$ -	\$ 91,585
Cost of revenue	52,127	362	2,042	54,531
Gross profit	39,458	(362)	(2,042)	37,054
Gross margin	43.1%	-0.4%	-2.2%	40.5%
Operating expenses	35,653	4,004	2,553	42,210
Operating income (loss)	3,805	(4,366)	4,595	(5,156)
Interest and other income (expense), net	(10)	-	-	(10)
Income (loss) before taxes	3,795	(4,366)	(4,595)	(5,166)
Provision for income taxes	48	-	-	48
Net income (loss)	\$ 3,747	\$ (4,366)	\$ (4,595)	\$ (5,214)
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>47,398</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>45,570</u>	<u>45,570</u>	<u>45,570</u>	
GAAP net loss per common share				<u>\$ (0.11)</u>
Non-GAAP net income (loss) per share	\$ 0.08	\$ (0.09)	\$ (0.10)	

GAAP to Non-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>	

GAAP to Non-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>	

GAAP to Non-GAAP FY 2010 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<u>Non-GAAP</u>	<u>Preferred Stock Dividends</u>	<u>Change in Fair Value of Preferred Stock Warrants</u>	<u>Acquisition Related Expenses</u>	<u>Stock-Based Compensation</u>	<u>Amortization of Intangible Assets</u>	<u>GAAP</u>
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	<u>\$ 17,317</u>	<u>\$ (900)</u>	<u>\$ (173)</u>	<u>\$ (3,942)</u>	<u>\$ (25,575)</u>	<u>\$ (6,180)</u>	<u>\$ (19,453)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share							<u>29,778</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	<u>38,502</u>	
GAAP net loss per common share							<u>\$ (0.65)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.45</u>	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>	<u>\$ (0.10)</u>	<u>\$ (0.66)</u>	<u>\$ (0.16)</u>	

GAAP to Non-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	\$ (7,102)	\$ (3,747)	\$ 37	\$ (9,196)	\$ (6,180)	\$ (26,188)
Weighted average basic and diluted shares used to compute GAAP net loss per common share						4,040
Weighted average diluted shares used to compute non-GAAP net income per common share (1)	28,991	28,991	28,991	28,991	28,991	
GAAP net loss per common share						\$ (6.48)
Non-GAAP net income (loss) per share	\$ (0.24)	\$ (0.13)	\$ 0.00	\$ (0.32)	\$ (0.21)	

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