FINAL TRANSCRIPT

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CALX - Q3 2011 Calix Inc Earnings Conference Call

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PRESENTATION

Operator

Greetings. Welcome to the Calix Third Quarter 2011 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation.

(Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host David Allen. Thank you, Mr. Allen. You may begin.

David Allen - *Calix - Treasurer, Director - IR*

Thank you, Operator. And good afternoon, everyone. I'm Dave Allen, Calix Director of Investor Relations and Treasurer. Before we begin the call, I'd like to remind you that this call contains forward-looking statements regarding future events, including the future business and financial performance of the Company, and our expectations of revenue, gross margins, earnings per share, merger-related expenses, stock-based compensation, and amortization of intangibles.

These forward-looking statements are based on management's 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. We encourage you to review the Company's various SEC reports, including our quarterly report on Form 10-Q for the fiscal quarter ended September 24, 2011 available at 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 results. We are providing non-GAAP estimates to enable interested parties to evaluate the Company's performance in the same manner which Calix evaluates its own operations.

These non-GAAP measures exclude certain charges and benefits, which we do not consider to be part of the Company's ongoing activities, or meaningful in evaluating the Company's financial performance, including merger-related expenses, stock-based compensation expense, and the amortization of acquisition-related intangible assets. To help you better understand these results, we have included a reconciliation of our GAAP and non-GAAP results in our earnings press release.

This conference call will be available for audio replay in the Investor Relations section of the Calix website at investor-relations.calix.com. In addition, our earnings press release has been posted to our website.

I'd like to now turn the call over to Calix President and CEO, Carl Russo. Carl?

Carl Russo - *Calix - 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, let me just say our third-quarter results were disappointing, and did not meet our original expectations. We have encountered headwinds that we believe will effect us for the next few quarters.

Michael will discuss this further. However, I do want to highlight that sales activities actually remain strong. Our international expansion is on plan, and our EXA based footprint continues to grow at a very strong pace. I believe in the opportunity ahead of us, and we intend to concentrate on executing well over the next few quarters, and I will add a few comments after Michael has finished.

With that, I would like to turn it over to Michael Ashby.

Michael Ashby - *Calix - EVP, CFO*

Thank you, Carl, and good afternoon, everyone. As you are aware, we issued a press release on September 27th, and announced that we were anticipating a shortfall in revenue and earnings for the third quarter. Since that time, we have conducted a more thorough review of the quarter.

I'm now going to take you through our unaudited Statement of Operations for the third fiscal quarter of 2011, and compare that to our guidance, and also to the results of the third quarter of 2010. After that, I'll discuss the balance sheet and give some guidance for the fourth quarter.

Let me start with the non-GAAP income statement.

Revenue for the third quarter was $83.7 million, an increase of 11% compared to the third quarter of 2010. As a reminder, we provided revised revenue guidance of $83 million to $85 million on September 27th, which was below the guidance of $104 million that I gave you on our second quarter earnings call.

During the third quarter we had one 10% customer. This compares to two 10% customers in the third quarter of 2010.

International revenues comprised 6% of total revenues in the third quarter versus 19% in the third quarter of 2010. It should be noted that our Q3 2010 results included revenue recognition of a large Caribbean order that accounted for over 10% of the Company's revenue in Q3 2010.

With regards specifically to Q3 2011, there were a number of factors that led to this revenue shortfall, including several we noted in our September 27th press release. In order of importance, we believe that the largest contributor to this shortfall, approximately half, was due to delays in broadband stimulus awards becoming orders. We underestimated the challenges that service providers in general, including a member of our awarded customers, were facing in navigating the bureaucratic hurdles of the program. These hurdles range from getting necessary environmental and local right-of-way approvals, to administrative bottlenecks within the agencies handling the broadband stimulus award program. As Calix has been the recipient of the majority of the publicly last-mile broadband stimulus awards announced to-date, these delays affected us disproportionately relative to our peers.

The second most important factor, which we estimate to account for about one-third of the shortfall in revenue, was the slowdown in traditional network spend at two of our large customers, as they concentrate their capital spending on their acquired properties. We expect to have opportunities to sell into these acquired properties, where we have not historically been a supplier, beginning in the first part of next year.

We believe other contributors to our revenue miss resulted from some of our customers not placing orders that we had anticipated, because of the competitive access equipment environment, concerns about the economic climate, and/or their inability to secure fiber due to continuing fiber shortages, caused by the tsunami in northern Japan earlier this year.

Non-GAAP gross margins for the third quarter was 41.8%, up from 40.9% in the third quarter of 2010, an increase in E&O reserves to cover end-of-life inventory parts, and the revenue shortfall impacted our Q3 margins.

While the gross margin percentage is less than we had anticipated, the standard margin before other costs of goods sold, was actually a little higher than we had anticipated. Because other costs of goods sold include non-variable expenses, it effectively reduced the reported gross margin in percentage terms.

Turning to operating expenses.

Non-GAAP operating expenses were $31.4 million, up from $25.1 million in the same period last year. Our Q3 operating expenses were below our expectations, and below the amount for Q2 2011. This sequential decline in OpEx was a result of two major factors. First, sales commissions were well below planned, since revenue was less than anticipated. And second, a decrease in accruals for year-end bonus payments under our compensation plan. The majority of those bonus accruals were reversed in Q3, because we do not expect those bonuses to be paid.

Non-GAAP R&D spending was $15.8 million for the third quarter of 2011, an increase from $12.5 million in the third quarter of 2010. This increase was primarily due to additional headcount and other development expense as a result of the Occam acquisition, the continued expense for OSMINE certification, and expansion of our China development center.

As you are aware, OSMINE line certification is a requirement for us to be able to compete in the former Qwest properties acquired by CenturyLink. We remain on track for our products to complete the OSMINE certification process, and subsequent first offers applications testing during the second quarter of 2012.

Non-GAAP sales and marketing spending was $11.5 million for the third quarter, an increase from $9.1 million compared to the same quarter of 2010. This increase was primarily due to the additional headcount from the Occam acquisition, and commissions on higher revenue in Q3 2011 versus Q3 of 2010.

Non-GAAP G&A spending was $4.1 million for the third quarter of 2011, an increase from $3.5 million in the third quarter of 2010. This increase was primarily driven by the acquisition of Occam.

Non-GAAP operating income for the third quarter of 2011 was $3.6 million, as compared to $5.8 million in the third quarter of 2010. With offsetting interest income and expense and a minimal tax revision, non-GAAP net income for the third quarter was

$3.6 million, or fully-diluted earnings of $0.07 per share, at the lower end of revised guidance of $0.07 to $0.09 that we provided on September 27th, and below our initial $0.20 per share Q3 guidance.

The shortfall versus our original guidance was a result of the revenue miss, partially offset by reductions in operating expense. Q3 2010 non-GAAP net income in comparison was $5.8 million or fully-diluted earnings of $0.15 per share.

Turning next to the merger-related and other expenses.

As I told you last quarter, we no longer have any merger-related expenses in cost of goods sold. In the category of operating expense, we booked $1.3 million of merger-related expense in the quarter, which was slightly less than forecasted. This reduction reflects actual numbers versus prior estimates, and also represents the final merger-related expenses booked following the acquisition of Occam.

Amortization of stock-based compensation amounted to $3.8 million. This was also a little less than we had anticipated. We expect this number to increase slightly to just over $4 million next quarter. Amortization of intangibles was $5.4 million in Q3, the same as we had estimated. We expect to amortize about $4.6 million in the fourth quarter. We do not anticipate beginning to amortize the in-process technology until the start of 2012.

Turning to the balance sheet.

Cash, marketable securities, and restricted cash increased to $33.3 million from $28.6 million at the end of the previous quarter, as we generated positive free cash flow despite the shortfall in revenue. Net accounts receivable was $47.9 million at the end of the quarter. Our average DSOs on accounts receivable was 52.

Net inventories ended the quarter at $44.2 million. Inventory turns were 3.6, the same as last quarter despite the revenue shortfall. While we had expected this metric to improve this quarter, we are pleased that our operations team was able to maintain the inventory turns at last quarter's level.

Deferred revenue was $31.7 million, down from $35.1 million at the end of the second quarter. This decrease reflects the delays service providers have faced in turning broadband stimulus awards into orders. We had expected this number to increase in the third quarter, but the delays in converting stimulus awards into orders pushed our shipments out.

Let me now move to our guidance for the fourth quarter on a non-GAAP basis. As I mentioned earlier on the call, we believe that the shortfall in third quarter revenue compared to our original expectations was, in order of importance, the continued delays in broadband stimulus awards under the American Recovery and Reinvestment Act of 2009 becoming shippable orders; a slowdown in the investment in the traditional networks at two of our major customers; the competitive environment and the slowdown in business related to changes in macroeconomic conditions, and fiber shortages in certain portions of the market. Unfortunately, despite corrective actions we have already implemented, we do not expect these factors to materially improve in the fourth quarter. In addition, while we have taken steps to keep our operating expenses under control, they will increase in the fourth quarter compared to the third quarter, because the third quarter had the benefit of the one-time bonus accrual reversal.

Accordingly, our guidance reflects a conservative outlook for the fourth quarter with revenue to be in the range of $88 million to $92 million, and EPS to be in the range of $0.05 to $0.09 per share. We also expect to be able to generate positive cash flow from operations in the fourth quarter.

One final point before I turn the call back over to Carl. We had been planning to hold an Analyst Day mid-November, but give the current situation, we concluded that it is more important for us to concentrate on the business for the next couple of quarters, and make sure we get back on track. Accordingly, we expect to reschedule the Analyst Day for some time towards the middle of next year.

With that, I'll turn the call back over to Carl.

Carl Russo - *Calix - President, CEO*

Thank you, Michael. The secular trends that are driving our industry remain unchanged. Content continues to move to the cloud, and IP-enabled devices continue to proliferate at an accelerating rate. This creates tremendous opportunities for communication service providers, who are providing broadband services to consumers and businesses worldwide.

Our customer relationships and our industry-leading technology continue to position us well to be a key beneficiary of this trend, marked by our crossing the 1,000 customer mark in the quarter. And we are confident in the long-term prospects of our business. However, the headwinds that we are encountering will be with us for longer than just this quarter, and therefore, we will keep our hands very close to the levers as we manage our business.

At this point I'd like to turn the call over for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, at this time we will be conducting a question and answer session.

(Operator Instructions)

Our first question comes from Blair King from Avondale Partners. Please proceed with your question.

Blair King - *Avondale Securities - Analyst*

Thank you for taking the call guys. Just a couple. The first has to do with the broadband stimulus program. Clearly, there's some talk out there right now about deadlines being extended into June of 2015. And I'm curious to know what percentage of the awardees within your customer base, and perhaps just in general, you think might be likely to go ahead and accept that language move to the June 2015 deadline, instead of the September 2013?

Carl Russo - *Calix - President, CEO*

So, Blair, this is Carl. I think your phrasing is exactly right. As you're aware, that language has been offered, and as near as we can determine, I don't know that there's any boundaries to who it's been offered to. And so your question is, okay, so I've been offered that language, do I go ahead and take it? And to your point, do I then run my project to that date, I think is your question.

Blair King - *Avondale Securities - Analyst*

Yes, I think that a good --

Carl Russo - *Calix - President, CEO*

And obviously, given what we've just been through, hopefully, you will appreciate my conservative answer. I'm concerned that many will, potentially, drag out to that date. And it could be a higher percentage than not. So, we're going to be very careful about this.

Blair King - *Avondale Securities - Analyst*

Okay. I appreciate that candor. And then, lastly, just on the fiber delay conversation and once -- your perspective, Carl, would be really interesting. Once these carriers experience their fiber delay and they run projects behind schedule, is there a general process in which they can catch up quickly? Or, is that delay just extended into perpetuity where you just can't catch up -- it's just a project delay that moves along the lines of whenever you get the fiber?

Carl Russo - *Calix - President, CEO*

So, the question, I think if I can phrase it, is it a day-for-day slip, or are there ways later on to recover?

Blair King - *Avondale Securities - Analyst*

Right.

Carl Russo - *Calix - President, CEO*

Typically, the answer is, it's going to be day-for-day, but I want to add a quick criteria to that, which is, if you and I are running a service provider, and we're in the northern part of the country, and the fiber delay pushes my fiber delivery from June to August or September, it is basically, moved it not to August or September, but frankly to next May.

Blair King - *Avondale Securities - Analyst*

Right.

Carl Russo - *Calix - President, CEO*

Because as you might imagine, I'm not going to try to drive up trench into frozen ground. So, once you get through that reset to a seasonally-adjusted delay, then after that, I believe you'll see the projects move along on a day-per-day slip.

Blair King - *Avondale Securities - Analyst*

Okay. All right, I appreciate that. Thank you very much.

Carl Russo - *Calix - President, CEO*

Thanks, Blair.

Operator

Our next question comes from George Notter from Jefferies. Please proceed with your question.

George Notter - *Jefferies & Co - Analyst*

Thanks very much, guys. I was wondering if you're seeing anything that's new or different in the competitive environment. And then, also, I wanted to ask about the situation at CenturyLink and Frontier. I assume those are the two outfits you were referencing talking about acquisitions and focusing on the acquired properties.

I guess, specifically, I get the sense that one of your competitors is seeing business trends in those places pretty robust right now. I guess I'm trying to understand why things might be soft on your end. Thanks.

Carl Russo - *Calix - President, CEO*

So, George, let me go down the competitive piece first, because that's your general question. And Michael highlighted the notion of some increased competitiveness, and I want -- he also had stack-ranked things on their effect. We are seeing a marginal increase in competitiveness, and I would almost say, it's on the margins.

And I think what drives it is, when you do an acquisition a set of competitors will look at that and say, maybe there's an opportunity to go take advantage of an acquisition and wedge in. So, we're seeing a little bit of that.

To your specific question about the two accounts that you mentioned, that goes back to -- one way to think about it is addressable market. Until we get through the OSS/BSS integration and can begin to compete, it's an unaddressed market for us. And I think if you parse the numbers, that will probably help you understand what's going on from a revenue per account setting.

Does that make sense?

George Notter - *Jefferies & Co - Analyst*

I guess I got the sense that even in, for example, in CenturyLink in their Heritage CenturyLink side of the organization that business trends are reasonably solid. Obviously, you guys aren't seeing that, I guess I was --. Am I misreading the idea that there's a dichotomy of outcomes here, or is there some sort of intuitive reason why you guys might be seeing something a little bit different?

Carl Russo - *Calix - President, CEO*

No, I think -- so, just a little more color. I think until we are either in the OSSs or the OSSs are unified, it's almost like they're two accounts.

Does that make sense?

George Notter - *Jefferies & Co - Analyst*

Yes. Fair enough. Maybe we can take this last one. I guess I was thinking specifically about again, the Heritage CenturyLink side, you're in the OSSs in that side of that account, your competitor is also. I think that's where you're referencing the slowness.

Carl Russo - *Calix - President, CEO*

No -- I'm sorry, I misunderstood your question. So, the answer to that is, yes, what we've seen in essence, a little more funding going into the legacy Qwest footprint, as an example, to get it sort of up to snuff. And, obviously, you take some of that away from your existing footprint.

Michael Ashby - *Calix - EVP, CFO*

And we don't compete in Qwest, obviously, because of the OSMINE certification process that we're going through. So, we are certainly seeing a bigger investment by CenturyLink in the new Qwest properties than in their Heritage properties and that benefits, obviously, our competitors not us.

George Notter - *Jefferies & Co - Analyst*

Got it. Fair enough. Thank you.

Carl Russo - *Calix - President, CEO*

Thanks, George.

Operator

Our next question comes from Simon Leopold from Morgan Keegan. Please proceed with your question.

Victor Chiu - *Morgan Keegan - Analyst*

Victor Chiu for Simon Leopold. Could you just comment, I guess in general, how your visibility is holding up. The shortfall (inaudible) seems like it occurred, I guess, rather suddenly. I mean, you seem like you've been pretty competent for a few quarters now. So can you just give a little more color around the environment, I guess, and how you're seeing that?

Carl Russo - *Calix - President, CEO*

Well, the environment hasn't really changed. Yes, I think our visibility is based on what we can see from the customer base. And for the last three quarters, obviously, we've been pretty successful. The third quarter is -- and I think I was saying this when I was out at the conferences in August -- is traditionally back-end loaded, more back-end loaded than any other quarter, and this third quarter was no exception.

So, we had a fairly -- fairly good month of July, a weak August, and expecting to catch up in September, and September tended to be slower than we had expected. That hasn't really changed our visibility going forward. But the -- in analyzing the quarter and coming up with the reasons why we missed, obviously, we are then applying those to the quarters going forward.

Victor Chiu - *Morgan Keegan - Analyst*

Right. I noticed your deferred revenue seems to be down slightly in this quarter. Is that mostly a reflection of the stimulus delays that you mentioned?

Carl Russo - *Calix - President, CEO*

Yes, it is. It's that we did ship some of the stimulus orders that we received earlier in the year in the quarter, and we had expected new orders to come in that we would ship against, not take revenue, which would have increased deferred revenue. And since those were delayed, that didn't happen. So, again, we expect deferred revenue over time as we receive the broadband stimulus orders, and can book and ship them, that will get back up again.

Victor Chiu - *Morgan Keegan - Analyst*

And just lastly. Actually, I'm sorry if I missed it, did you mention how your operating expenses might shake out next quarter. Are you anticipating any changes to the operating structure, I guess?

Carl Russo - *Calix - President, CEO*

No, the operating expenses -- we always have pretty well controlled. They were down an additional amount in Q3 because of the reversal of bonus accruals. Q4 will not have that benefit, obviously. Plus in Q4 we do have a user-group meeting, which is always planned in the quarter, which will increase the expenses slightly. So, we go back up a bit in Q4, although again, we are still going to be slightly less than what originally thought.

Victor Chiu - *Morgan Keegan - Analyst*

Thank you.

Operator

Our next question comes from Ehud Gelblum from Morgan Stanley. Please proceed with your question.

Ehud Gelblum - *Morgan Stanley - Analyst*

Hi, guys, thanks. I appreciate it. Since you were just talking about OpEx, Mike, could you just hit on that a little bit? Just understand -- should we be looking at Q2 as the baseline, and then add in the user conference, and get a little bit higher than Q2 in terms of OpEx? Or, should be looking at 30, 36 or so, or was Q2 --?

It obviously it had a higher bonus accrual in it, so maybe we start the baselines a little bit lower, just to get a sense as to where -- what our baseline OpEx number is going forward?

Michael Ashby - *Calix - EVP, CFO*

Sure. Q2 has a pretty good baseline, actually. But then we're going to be -- but then we are -- normally, I'd say take Q2 and then we add some more for Q4, but we are going to do a good job at controlling our expenses, so expect to come in close to where Q2 was.

Ehud Gelblum - *Morgan Stanley - Analyst*

And that includes the user conference.

Michael Ashby - *Calix - EVP, CFO*

That's correct.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. Helpful. As we look at gross margin there, obviously, we had a little bit of a change in the direction of where gross margin was kind of sitting there for a little while. How do we think about -- doing the math at the midpoint of your revenue and EPS guidance.

You sort of back into a gross margin that looks like it could be actually down again from where it was this quarter. Is that math right? Obviously, depending on where I go in the ranges in revenue and EPS, I could end up with a bunch of different gross margins, but I mean, is there a chance we could at gross margin down again? That's sort of what the midpoints would imply.

Michael Ashby - *Calix - EVP, CFO*

No, I don't think gross margin will be down in -- you're talking Q4.

Ehud Gelblum - *Morgan Stanley - Analyst*

Right.

Michael Ashby - *Calix - EVP, CFO*

I don't think gross margin will be down in Q4. The reason why it was down in Q3 was primarily because of the OCOGs expense which is not variable. So our standard margin was actually up, but OCOGs becomes a greater percentage when your revenue is down. So, that pulls down gross margin. With the revenue up slightly in Q4 over Q3, that OCOGs impact is lessened slightly. So, gross margin should be up slightly in Q4.

Ehud Gelblum - *Morgan Stanley - Analyst*

So, we could actually use a little bit of extrapolation off the last few quarters, assuming that OCOGs has been relatively constant.

Michael Ashby - *Calix - EVP, CFO*

Yes.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay --

Michael Ashby - *Calix - EVP, CFO*

That's correct.

Ehud Gelblum - *Morgan Stanley - Analyst*

That's very helpful. We kind of straddle the fact that [we're going] to be between Q3 and Q4 in Q2 in terms of numbers. And then, finally Carl, a little bit more on broader base to see -- can you hazard a guess as to at what point you think you'll be able to start getting material revenues from the acquired properties? It sounds like Frontier will be a little bit easier than Century and Qwest.

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If you can walk us through, obviously, the OSMINE certification and the provisioning systems on the Frontier side. But what are the -- what is the calendar you're looking at so your sales people can start turning to you and say we can start having deals? And so, what can we kind of follow along, and are we looking at Q2 of next year, or is it a little later, you think?

Carl Russo - *Calix - President, CEO*

I think the way I would characterize it, is you'll see it ramp up over the course of 2012.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. So, you actually think you'll have some revenues in Q1 as well, or not until Q2?

Carl Russo - *Calix - President, CEO*

I think the phrase I would use is ramp up in 2012. You used the word material, I'll use the word ramp. Look, we will see revenues in Q1, but will they be noticeable, whole different discussion. So, I think ramp over 2012 is the way I would encourage you to model it.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. Do you expect the margin structure in those properties to be similar to what you have in the rest of your business? Or, would those all be, maybe E-Series, and so may be even higher?

Carl Russo - *Calix - President, CEO*

I don't think you're going to see any material shift in the corporate average margins.

Ehud Gelblum - *Morgan Stanley - Analyst*

Okay. I appreciate it. Thank you.

Carl Russo - *Calix - President, CEO*

Thanks, Ehud.

Operator

Our next question comes from Mark McKechnie from ThinkEquity. Please proceed with your question.

Mark McKechnie - *ThinkEquity - Analyst*

Yes, sir. Thanks. So, just a question on broadband stimulus. With this extension, as I understand it, your carriers -- that the 2015 completion date, that's the end. Right? So, their three-year clock starts I would presume in 2012. Is that the right way to think about it?

Carl Russo - *Calix - President, CEO*

Actually, no, Mark. The clocks are starting depending upon when anybody starts. Merely what's happened is, there's been sort of a broader approach of allowing everyone to co-terminate at September of 2015 -- well, technically at the end of June, because the letter says 90 days before the end of September.

So, people will be starting all throughout, obviously, many have already started. But the backstop to this has now all been lined up at that June of 2015 date.

Mark McKechnie. Got you. Would you kind of care to estimate what kind of ballpark of recognizable revenue you'd see in 2012 from the broadband stimulus?

Carl Russo - *Calix - President, CEO*

Well, Mark, here's the way I would characterize my response. After what we've just been through, I wouldn't even throw a dart. But let me see if Michael's got an arrow in his quiver.

Michael?

Michael Ashby - *Calix - EVP, CFO*

And I'm not sure I can add anything to that, Carl.

Carl Russo - *Calix - President, CEO*

Mark, I appreciate your asking, but boy I'll tell you, no.

Mark McKechnie - *ThinkEquity - Analyst*

Okay.

Carl Russo - *Calix - President, CEO*

Nothing I would estimate right now.

Mark McKechnie - *ThinkEquity - Analyst*

Got you. So, really then -- I mean, I know you're not giving guidance into March, but would you expect March, a normal down seasonal 10% to 15%, in the first quarter type thing. What kind of seasonality would we look for beyond December? Or, are you kind of at bare-bones levels to where you might be able to put up a flatter March?

Carl Russo - *Calix - President, CEO*

I think, Mark, remember, we're not going to talk about the first quarter. So, I would just leave it at Q4. But on the -- just to go back on your broadband question, we have received a lot of awards, as you know. And only half of those awards have actually come in as orders.

So, we are still expecting that those awards will come in as orders, and we are still expecting that most of those customers will start their projects in 2012. So, we do believe that there will be certainly some impact. And even though the date is moved out June 2015, we certainly think that most of the people are going to try to get their projects started well before that, and completed well before that.

Mark McKechnie - *ThinkEquity - Analyst*

Got you. Okay. Then on -- you talked about Qwest and the OSMINE process, what about Verizon in terms of the Verizon lines at Frontier? Any update as to -- I'm sure you're knocking on the doors, but would you expect to get some business in those lines?

Carl Russo - *Calix - President, CEO*

Obviously, we're knocking on doors, and the good news is they're our customers, so we are actually able to get to the other side of the door. Having said that, on the integration side, they are certainly running as hard as they can to accelerate what they're doing.

They are basically through the first four states, and they've publicly stated that they're trying to get everything done by June of next year or sooner. And from everything that we can see, they will likely achieve that.

Just to render clear -- again, I know you know this, but just to state and say it again, we are not going to integrate our systems into what's called [Base], which is their internal Verizon legacy system. We will wait until they are onto Frontier's OSSs.

Mark McKechnie - *ThinkEquity - Analyst*

Got you. Any sense of when that's going to happen?

Carl Russo - *Calix - President, CEO*

That's what I'm talking about. So, they have four states off of that already.

Mark McKechnie - *ThinkEquity - Analyst*

Oh, I see. Okay. Okay, and they want to get all of them by 2012. So, you're shipping into those first four states then I'm assuming. Right?

Carl Russo - *Calix - President, CEO*

I would not make any assumptions, other than those first four states are just coming off of the Verizon systems. We have good relationships with Frontier, and I'll just leave it at that.

Michael Ashby - *Calix - EVP, CFO*

And they don't come off they systems (inaudible) it's not an overnight thing --

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Carl Russo - *Calix - President, CEO*

Happening right now.

Michael Ashby - *Calix - EVP, CFO*

It takes a while for them to transfer over their systems, Mark.

Mark McKechnie - *ThinkEquity - Analyst*

Okay. My last question -- this is a short one I promise. You said one 10% customer. How big is that one this quarter?

Michael Ashby - *Calix - EVP, CFO*

Just around 10%.

Mark McKechnie - *ThinkEquity - Analyst*

Okay. Great. Thanks, gents.

Operator

(Operator Instructions)

Our next question comes from Nikos Theodosopoulos. Please proceed with your question.

Jack Monti - *UBS Investment Research - Analyst*

Hi, this is Jack Monti in for Nikos. Just curious about the E-Series. The footprint's growing at a strong pace. Was that up quarter-over-quarter?

Carl Russo - *Calix - President, CEO*

So, the answer to your question is, it's continuing at a grow pace. So you can assume -- your statement is an assumption -- Jack, that would be an accurate assumption.

Jack Monti - *UBS Investment Research - Analyst*

Okay. So, that was up. And how about, if I dig down deeper into the gross margins, did that still help the gross margin profile on a quarter-over-quarter basis?

Carl Russo - *Calix - President, CEO*

I'll start this answer and I'll let Michael finish it, again. With the change in the expectations and the things that have gone on in this quarter, I'm not sure I can answer it in the way you're asking it.

Michael?

Michael Ashby - *Calix - EVP, CFO*

Well, in terms of product mix, as you know the E-Series products do have higher margins than the older products. And so, therefore, as that percentage increases it certainly helps the standard margin before other costs of goods sold.

And we saw that last quarter as standard margin, as I mentioned, was in fact higher than our plan, but gross margin was brought down by the other costs of goods sold on a lower revenue number.

Jack Monti - *UBS Investment Research - Analyst*

Okay. So, basically I guess, it seems like the gross margin decline then is more related to lower volume levels, the C-Series and other products versus the E-Series. Is that fair?

Michael Ashby - *Calix - EVP, CFO*

No, not all. Had nothing to do with that.

Jack Monti - *UBS Investment Research - Analyst*

Okay. So, the C-Series -- so it didn't have to do with volumes, it just had to do with lower revenues?

Michael Ashby - *Calix - EVP, CFO*

It had to do -- yes, strictly with the fact that OCOGs is not variable, and then when you've got lower revenue, that becomes a bigger percentage, and brings down the gross margin.

Jack Monti - *UBS Investment Research - Analyst*

Okay.

Michael Ashby - *Calix - EVP, CFO*

Standard margin, as I mentioned, was actually higher than we had targeted for the quarter.

Jack Monti - *UBS Investment Research - Analyst*

Okay. Okay. I guess if you could just maybe comment on the international traction, kind of what you're seeing in the market there, maybe from a competitive standpoint, and with customers, that would be great. Thank you very much.

Carl Russo - *Calix - President, CEO*

So, as I said in my prepared comments, international is actually executing according to plan, and so it basically looks as we expected it to look. There are clearly opportunities for us to go compete, and there are clearly competitors to compete with, but Andy's on plan doing his job.

Operator

There are no further questions in the queue. I'd like to turn the call back over to management for closing comments.

Carl Russo - *Calix - President, CEO*

We appreciate the attention. We'll look forward to chatting with you next quarter. Thanks, folks.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.