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# EDITED TRANSCRIPT

## CALX - Q4 2011 CALIX, INC. EARNINGS CONFERENCE CALL

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## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Donna Jaegers** *D.A. Davidson - Analyst*

**Mark McKechnie** *ThinkEquity - Analyst*

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

**Blair King** *Avondale Partners - Analyst*

**Nikos Theodosopoulos** *UBS - Analyst*

**Simona Jankowski** *Goldman Sachs - Analyst*

**Stan Gobler** *Morgan Stanley Smith Barney - Analyst*

**Simon Leopold** *Morgan Keegan - Analyst*

## PRESENTATION

### Operator

-- and welcome to the Calix fourth quarter 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 H. Allen, Director of Investor Relations and Treasurer for Calix. Thank you, Mr. Allen. You may begin.

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

Thank you, operator. And good afternoon, everyone. Before we begin the call, I would 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, stock-based compensation, and the amortization of intangibles.

These forward-looking statements are based on management's expectations, estimates and judgments and the 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 quarterly report on Form 10-Q for the fiscal quarter ended September 24, 2011 available at [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 results. We will be providing non-GAAP estimates to enable interested parties to evaluate the Company's performance in the same manner in 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 stock-based compensation expense and the 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 made available for audio replay in the Investor Relations section of the Calix website at [investor-relations.calix.com](http://investor-relations.calix.com). In addition, our press release has been posted to our website along with supplemental financial data, 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*

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. 2011 was a year of significant achievement for Calix. We surpassed 1,000 customers with major new wins in every market. We closed the acquisition and completed the integration of Occam Networks. And we delivered multiple new products across our entire family of systems. With that, I would like to turn the call over to Michael Ashby.

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

Thank you, Carl. And good afternoon, everyone. If you have not already done so, I would encourage you to download from the investor portion of our website the financial slides that we've posted concurrent with our press release earlier today. My prepared remarks will provide a financial overview and the related business trends, and I'll provide guidance for the first quarter of 2012.

Revenue for the full year was a record \$344.7 million, up 20.1% from the \$287.0 million reported in 2010. Non-GAAP net income for 2011 was \$18.8 million or \$0.40 per diluted share compared to full year net income of \$17.3 million or \$0.45 per diluted share in 2010. During the year, we took several important steps to position Calix for continued long-term growth.

Our acquisition of Occam in Q1 2011 added important Ethernet expertise, expanded both our product portfolio with the B-Series offerings, and increased our customer footprint by nearly a third to over 1,000th service provider. Our investments in R&D continued to be focused on enabling our customers to transform their business levels and embrace the opportunities that IP offers with our EXA or Ethernet eXtensible Architecture and industry-leading E-Series access products.

As I discussed in the last quarter's conference call, we also began implementing internal process changes that we believe will commit the Company to succeed in its next phase of growth. Finally, during 2011, we strengthened our management team with two additions to support our growth plan.

Looking back at the fourth quarter, our results came in at the high end of our guidance range. As a reminder, the non-GAAP guidance we provided in October for the fourth quarter included revenue of \$88 million to \$92 million, gross margin to be up slightly from our Q3 level of 41.8%, operating expenses to be around our second quarter level of \$35.5 million, with EPS of \$0.05 to \$0.09 per share. We also expected another quarter of positive cash flow from operations.

Q4 revenue was \$91.6 million, at the high end of our range and a sequential increase of 9.5%. Fourth quarter gross margin was 43.1%. Q4 earnings per diluted share was \$0.08 a share and we ended the quarter with \$39.7 million in cash, up \$6.4 million from Q3. Although we did book some BBS orders during the quarter, revenue from BBS was well under 10% in Q4. We did have one 10% customer in the quarter.

Gross margin for the quarter improved to 43.1% from 41.8% in the third quarter. This reflects product mix and other cost of goods sold being spread over a higher revenue number. For the year as a whole, gross margin was 43.6%, up from 41.8% in 2010 despite a disappointing Q3.

Total operating expenses increased \$12.3 million sequentially to \$35.7 million. The increase in operating expenses was driven primarily by an extra week in the quarter, higher sales commissions associated with increased revenue, marketing expenses related to our user group event that had nearly 1,400 attendees, and costs related to our international expansion.

Turning to the balance sheet, we generated cash flow from operations as expected and positive net cash flow, ending the quarter with \$39.7 million in cash, up \$6.4 million from the end of September. We continued to have no debt. Fourth quarter DSO was 43 days, an improvement from 52 days in Q3. Q4 inventory turns were four times, up from 3.6 turns in Q3.

Deferred revenue was \$30.1 million, down from \$31.7 million at the end of the third quarter. This decrease was primarily due to the recognition of several RUS contracts that exceeded current deferral activity in Q4.

Let me now move to our guidance for the first quarter on a non-GAAP basis. As you are aware, the first quarter is always a seasonally weak quarter for us. In fact, if one excludes any exceptional items, the first quarter has been down 20% on average from the fourth quarter over the last couple of years. We do not expect it to be down quite as much this year.

Our guidance for the first quarter is revenue to be in the range of \$80 million to \$82 million, down a little over 10% from the fourth quarter. We expect gross margin to increase slightly and operating expenses will be a little under the fourth quarter total, leaving us with approximately breakeven net income. Despite being a seasonally down quarter, we expect cash flow to be slightly positive for the quarter. With that, I'll turn the call back over to Carl.

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

Thank you, Michael. The secular trends that are driving our industry remain unchanged, and we are well positioned to grow our market share and our revenues. We are excited about the opportunities ahead. However, we remain mindful of the economic climate. At this point, I'd like to turn the call over for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now be conducting a question-and-answer session.

(Operator Instructions)

Our first question comes from the line of Mark McKechnie from ThinkEquity. Please proceed with your question.

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**Mark McKechnie** - *ThinkEquity - Analyst*

Great. Thanks. And congratulations on a good solid quarter there. I wanted to ask -- you said one top customer -- or one 10% customer, I'm guessing obviously CenturyLink. But can you give us a sense of the size and then also let us know what's going on there at CenturyLink, CenturyTel, in terms of your certifications of some their acquired properties? Thanks.

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

Mark, thank you. It's CenturyLink/Qwest, by the way, and before you ask the next question, Frontier and Verizon, as we've spoken about both our acquired incumbent lines. In CenturyLink's case, Qwest; and in Frontier's case, the Verizon lines. As we've discussed, I'll take the Frontier piece first. The Verizon lines were on a back office system that Frontier is rotating off of, and as states have come off of that system, we have found ourselves to be able to compete with customers that are interested in what we have to offer in those different regions. So it is progressing actually pretty much according to plan.



At CenturyLink/Qwest, as you know, it's an OSMINE back office system, which is not going away, and as such, we are qualifying our products and going through that process of getting through testing and first office applications etc. To be specific, as you know, on the last call, we've gotten through our first tranche of products through and are about to bring our second through. And they are currently going through the lab trials and then first office applications. So, actually going right down the path. Both of these things, as I think Michael has indicated, are really going to become meaningful in the second half of the year. And then, Michael, feel free to comment on the last piece. I would just say it's on the 10% customer, I think the [pay] comes out and that's where we will cover that. Michael, your --?

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

Yes, that's right. I mean, we won't give out any numbers for that -- on that, Mark.

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**Mark McKechnie** - *ThinkEquity - Analyst*

Okay, great. And if I can have one quick follow-up, I'm sure people will ask about this. But on the broadband stimulus side, it sounds like less than 10%, but nice contributor. How do we look at the trajectory of that throughout calendar '12? Do you think up in March or -- and then every quarter, or how should we think about it? I saw you had an announcement yesterday as well that you brought your total up to \$1.6 billion of grants that you are shipping into. So, some color there would be great. Thanks.

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

So, look, as you've noted, we continue to win broadband stimulus awards. And I think we do very well in that -- we almost call that area of the market. But as we've discussed before, when the finish-by date moved from 2012 to 2015, whatever the shape of that curve-of likely stayed the same. It just got stretched out three more years. And so what we're seeing is something that's very consistent with that, which is a slow steady rise, but nothing peaky or with a steep ramp. Michael, do you want add any color to that?

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

No, Mark. The story hasn't really changed. We are beginning -- we're winning deals and beginning to get some bookings, as you know, that there's about a six-month lag between bookings and revenue. And so, just as we've said before, we expect to see that start to ramp up as we go through 2012.

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

And keep in mind that in this quarter we sort of bunched some of the award winners together, because frankly if we keep announcing them as they come in, it gets a little bit noisy. So I think that's an approach that we're going to continue going forward.

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**Mark McKechnie** - *ThinkEquity - Analyst*

Okay. Thank you very much.

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

Thanks, Mark.



**Operator**

Our next question comes from the line of George Notter from Jefferies & Company. Please proceed with your question.

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

Hi, guys, thanks very much. This is a follow-on to that. I wanted to ask about the deferred revenue and the translation of broadband stimulus awards in the deferred revenue. So I'm inferring from what you said that -- obviously deferred revenue was down sequentially a touch here. It doesn't seem to yet be converting into deferred. Is it -- what do you expect for deferred revenue exiting Q1 and then exiting Q2? Should we see the real ramp there? How much could that be and how much do you think you could get in terms of revenue from broadband stimulus through this year? Thanks.

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

You're right, George, that the deferred revenue only changed in Q4 really related to RUS contracts, not specifically BBS. As I said, while we have bookings in BBS orders, we haven't really begun shipping against them as yet. I think we will start to see some shipments begin during the first quarter and then ramp up as we go through the year. So -- and that will go into deferred revenue because of the six-month lag between the shipment and -- approximately six months between shipment and revenue. So I'd expect to see deferred revenues start to increase but only slightly in Q1 and then ramp up a little bit more in Q2 and Q3 as we ship against that BBS backlog.

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

I think the story that hasn't really changed. We expected that would be -- we expect to be able to get close to \$100 million of revenue perhaps out of BBS in 2012 and that's still our target.

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

Great. Okay. And then I also wanted to ask about the DSO calculation this quarter. It seemed to drop quite a bit, 52 days down to 43 I think sequentially. I think you were targeting, if I remember, of 50 to 55 days. What drove that linearity -- was that linearity? Was it something about the mix of your customer shipments? Any sights there would be great. Thanks.

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

It is actually all of the above. It was linearity. It was also the mix of customer shipments, and we had some large orders that shipped in December that we got paid on. So we came down more than we had expected. It doesn't change our ongoing guidance, which is to be in the [50 to 55] range. So it was just a lucky through the circumstances that got us better. There's no change in our receivables or collection procedures.

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

George, I think Michael is being very modest. Clearly in a direct shipping systems business, 42 days indicates ecstatic customer satisfaction. Wouldn't you agree?

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

Great. Thank you very much, guys.

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**Operator**

Our next question comes from the line of Blair King from Avondale Partners. Please proceed with your question.

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**Blair King** - *Avondale Partners - Analyst*

Yes, thanks. Thanks for taking the question. Carl, could you talk to us broadly about the state of the fiber shortage and any change in scene going into Q1 relative to Q4?

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

I think lead times are coming back in, Blair. And I think it's one of those things where perceptions are still trailing a little bit. But the perceptions on the part of our customers are getting better as well expect for some corner cases. So I think clearly, as we indicated this time last year that when we saw it, we thought it would take until this time this year for it to start to shorten up, and that's precisely what's occurring. But it is not -- don't take my comments to mean that it is back to normal.

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**Blair King** - *Avondale Partners - Analyst*

Right.

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

It is not.

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**Blair King** - *Avondale Partners - Analyst*

Okay. But definitely you're starting to see some improvement in that and that it's fair to assume that that improvement would continue through the second and third quarter I'm sure as well.

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

Yes, I mean -- look, we normally see a winter slowdown. I think, frankly, with some of the weather we've had that people have known it was going to be this warm, we probably wouldn't have slowed down. People would still be trying to put stuff in the ground but -- I mean, everybody plans the winter down.

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**Blair King** - *Avondale Partners - Analyst*

Right.

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

So this is not an unusual circumstance.

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**Blair King** - Avondale Partners - Analyst

All right. The last follow-up to that is sort of to your point is, the (inaudible) was down about 9% quarter-over-quarter, I think, in 4Q. Your business was up pretty nicely in the fourth quarter. So if you could just talk broadly about what's going on outside of the stimulus spend that's driving some of the sequential strength and what trends you see there that might be transpiring through the first half of this year, that would also be helpful.

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

So -- I mean, we've seen strength in various sets of our customers in the Tier 2s and in areas in the Tier 3s. So, as you know, it varies from quarter to quarter. But I was sort of kidding George a little bit about happy customers, but I think on par, we have a great constituent of over 1,000 customers that are pretty darn happy. And I think in the fourth quarter, we saw some good spending out of some of our Tier 2 customers as well.

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**Blair King** - Avondale Partners - Analyst

Okay. All right. Thank you very much.

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

Thanks, Blair.

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**Operator**

Our next question comes from the line of Nikos Theodosopoulos from UBS. Please proceed with your question.

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**Nikos Theodosopoulos** - UBS - Analyst

Yes. Thank you. Can you give us in 2011 what your BBS revenues were?

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

Not specifically, Nikos, but what we've said before was that we -- that we expected revenues in BBS for 2011 to be between \$30 million and \$50 million and that's where they ended up. So --

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**Nikos Theodosopoulos** - UBS - Analyst

Okay. So they ended up somewhere in that \$30 million to \$50 million range for this --?

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

\$30 million to \$50 million, yes.

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**Nikos Theodosopoulos** - UBS - Analyst

For calendar 2011? OK. All right. Great. And for 2012, do you think it could be as high as \$100 million?

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

I mean, we're targeting \$100 million. It's going to be -- I think we'll get close to that. So -- I mean, if you want a range, it's more like \$80 million to \$100 million, but we're targeting trying to get towards the \$100 million. It depends on how quickly the orders can come in and then how quickly revenue recognition takes place. So if it is in the \$100 million, it's only simply a timing difference.

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**Nikos Theodosopoulos** - *UBS - Analyst*

OK. OK. I guess what I was coming with that is, if I look at fiscal '11, you did about \$345 million and the Street consensus for 2012 is a little shy of \$400 million. So, do you see -- so if I look at the change just in broadband stimulus, that could make up virtually all the growth. Do you think that's reasonable or do you think that all else being equal, you can grow your core business as well or do you see the core business being flat and all the incremental growth in 2012 being from broadband stimulus?

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

I think, Nikos, what we have said over the last quarter -- or in fact, I guess over the last year, is that we -- our target is grow the business 20% a year. And we believe that we can grow the business over the next two years at 20% a year, and that's what we're headed for. So if you take 20% a year, that means that some of the core business grows as well as BBS in 2012.

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**Nikos Theodosopoulos** - *UBS - Analyst*

Got it. Okay. All right. Great. And then just a separate question. Carl, back on the OSMINE efforts, is it fair to say based on your commentary that nothing has changed, either accelerating or decelerating? Do you feel that that's on track and should be completed by the second quarter and we should see the benefit -- you should see the benefits of that starting in the third quarter?

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

Well, I want to be careful about completed, because as we've discussed, and I know you know, you're never completed in this process. Right? So you're continuing to take products through and new releases through it. But I think your question is more along the lines of seeing the first effects of the first thing that we took through OSMINE.

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**Nikos Theodosopoulos** - *UBS - Analyst*

Right.

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

And I think, as Michael had signaled and I think I have as well, we believe that this is going to be a second half phenomena and everything right now is tracking along the same plan it's been on.

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**Nikos Theodosopoulos** - *UBS - Analyst*

Okay, okay. And just two other quick ones. You guided gross margin up sequentially on a lower revenue. Can you explain that?

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

Yes. I mean, we target trying to increase gross margin in each quarter, Nikos, and part of that is through cost reductions, part of it is the mix of products as the E-Series products become a greater percentage so that improve some margins. So we target every quarter to be able to see an increase in that gross margin number and this quarter is no different.

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**Nikos Theodosopoulos** - *UBS - Analyst*

Okay. Maybe just elaborating that, in the third quarter, and I know there was some inventory adjustment and obsolescence charge, and maybe that's why gross margin --

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

That is the difference in the third quarters because of that inventory and obsolescence charges that we took here.

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**Nikos Theodosopoulos** - *UBS - Analyst*

Okay. All right. Fair enough. And then the last question is headcount, if you've said it, I missed it. Do you have a headcount number and do you anticipate that going up in the first quarter or staying the same or comment on that?

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

Yes. The headcount is I think approximately 625 at the end of the year. And we do expect that to increase slightly in the first quarter.

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**Nikos Theodosopoulos** - *UBS - Analyst*

Okay. Thank you.

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**Operator**

(Operator Instructions)

Our next question comes from the line of Ehud Gelblum from Morgan Stanley Smith Barney. Please proceed with your question.

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

Hey, Ehud.

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**Operator**

It seems you have left the queue, sir. Our next question comes from the line of Simona Jankowski from Goldman Sachs. Please proceed with your question.

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Hi, thanks so much. Just wanted to ask a follow-up question on gross margins. In the past, sometimes you've had a couple of points of impact to margins overall when you've had a particularly large customer win or a particularly large footprint expansion. Would that be something that we should expect in the second half of the year as you've expanded Qwest and Frontier, or is there a reason why you think it might be different this time?

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

Simona, I don't think there's going to be any real change in the second half of the year. Our margins with some of the larger customers, as we've said, are, generally speaking, a little bit lower than the average margin. So if anything, that would have downward pressure, not upward pressure. But I think in general, we do expect to see the gross margin continue to improve slightly each quarter as we go through the year without any major ups or downs.

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Okay. So you don't expect those deals to be particularly more price competitive, just potentially given their larger size or anything like that?

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

No, we don't anticipate any particularly change in the competitive environment there or any particular pressure on prices.

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

Incrementally in the mix, Simona. Not like what you saw -- I believe you're referring back to 4Q of 2009?

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Correct. Yes.

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

No, nothing of that nature that we see.

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Sure, sure. Okay, that's helpful. And then just another follow-up on Frontier where you talked about things kind of progressing as planned as each one of those states has now come off of the back office system and you have an opportunity to win some of that business. Are there any particular states that you have won so far, or if maybe not having the order in hand, but kind of how would you handicap how many of those start (inaudible) if you think you will ultimately be able to get some business in?

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

Well, obviously -- let me sidestep the first question by saying there's nothing that we would choose or announce at this time. But to your second question, we believe we'll be able to compete successfully in all 14 states. I think we are a very good vendor to Frontier and I think there is a great



deal of excitement about our ability to start to offer our products into that footprint on both our part and theirs. So I fully expect that we'd be able to compete in all 13 states and win business.

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Sure, sure. Okay. And then just last question, which is a follow-up to Nikos' question about -- obviously if you just step up the BBS revenue, this serves an increment of about, call it, \$50 million or \$60 million. But if there is an area where kind of the base business from BBS recipients would have spent out of their normal CapEx budget last year that that business -- that that spend is for them now down this year since they are spending out of the BBS funds. And if that's the case, is there a way that you can kind of train for us how much of your revenue last year was contributed from BBS recipients? You know, not out of the BBS per se, but just out of their normal CapEx budget so we get a sense for how much of that might potentially be a headwind if you think about it that way this year?

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

First of all, to the question of trying to assess some BBS winners, what their total spend was, I don't have it in front of me nor if I did what I choose to break it out obviously. I think what you're trying to get a general heading of is, what percentage discount can you take off of the BBS specifically is for deferred CapEx because they won BBS. Is that right?

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Yes, exactly. Just -- it's not going to be a kind of -- just what the net benefit is basically? Because it sounds like you probably don't get the entire amount as the net benefit.

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

And we've talked about this before. And from my perspective, you are still in a small fraction that ends up being the discount. And don't take that to be 1% or 2%, but it's by no means a third or a half.

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Okay. Okay --

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

-- a fraction, I'm sure.

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**Simona Jankowski** - *Goldman Sachs - Analyst*

Very helpful. Thank you.

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

Thank you, Simona.

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**Operator**

Our next question comes from the line of Ehud Gelblum from Morgan Stanley Smith Barney. Please proceed with your question.

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**Stan Gobler** - *Morgan Stanley Smith Barney - Analyst*

Hi. Thanks for putting me back. It's actually [Stan Gobler] in for Ehud. I just wanted to ask you about maybe chasing market opportunities or if you're seeing some potential opportunities as we head into investments by carriers for wireless backhaul is a driver for you in certain markets. And then I have a follow-up.

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

It's clearly a driver for some of our markets. And obviously with the degree of leadership that we have in specifically fiber products, that's where we see it.

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**Stan Gobler** - *Morgan Stanley Smith Barney - Analyst*

Is there anything you could elaborate, maybe some customer deployments on the horizon or what portion that could potentially be as a percentage of revenue next year or down the line, if you could quantify that for us maybe?

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

Yes. We don't break it out that way because we don't -- I mean, we just don't think about the applications in that sense, number one. Number two, we have -- I mean, from time to time, we guide and put press releases out on certain specific mobile backhaul wins. And I would direct you towards the PR section on the investor page for those.

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**Stan Gobler** - *Morgan Stanley Smith Barney - Analyst*

Thanks. The follow-up is just in terms of competition specifically at some of the larger vendors, particularly CenturyLink, as you think about the qualification process, what are the trends like in the core business there? Competition potentially heating up -- notice that some of your competitors are actually seeing improved trends at CenturyLink as well. Do you think that's just a walk to go around or do you think that you're taking share of that customer?

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

Look, I think -- I think we are very comfortable with our competitive position in all of our incumbent accounts. But again, I would caution you that in the Qwest footprint, where we've had a back office system barrier-to-entry and in the Frontier footprint where we've had the Verizon base system, we've not been able to compete in that footprint, so therefore we're share zero and have been share zero.

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**Stan Gobler** - *Morgan Stanley Smith Barney - Analyst*

Fair enough. Thank you.

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**Operator**

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

**Simon Leopold** - Morgan Keegan - Analyst

Thank you. Couple things I wanted to touch on, one of which is considering the muted seasonal pattern you had in your December quarter in your forecast for muted seasonality in the March quarter basically being down by a lower percentage than you've experienced in the past, how do you see the pattern essentially going through the year? Not explicitly forecasting, but do you get back to your historical pattern or are we establishing a new seasonality for Calix?

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

No, I think, Simon, the answer is we get back to a normal seasonality. I mean, one of the reasons why this quarter is not going to be down quite as much as it has in the prior couple of years is partially because we are rebuilding in Q4 and while we had a good quarter, it was still less than our original expectation. So, had we met our original expectation, we would have been probably down the same amount. So I think we're just going to continue with more or less the same seasonality.

What is a little different when you look out this year is that we have been telling you the growth opportunities that we have predominantly in the second half of the year. So therefore we do expect the second half to be a little stronger than it has been traditionally as we can start sign into the Qwest properties perhaps much later in the year and the Verizon properties a little bit before that and as international starts to come in. So those are all heavily weighted towards the second half of the year.

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**Simon Leopold** - Morgan Keegan - Analyst

Okay. And you talked about the E-Series. It sounds like it's gaining some traction. I guess I'm trying to get a sense of, is that product over 10% of revenue at this point or still shy of that milestone?

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

No, it's not just getting some traction regionally. Obviously, as you remember -- you may remember way back when, Simon, we actually used to do 50 customer milestones and then we just simply stopped doing it. So the E-Series, specifically the E-7 has, frankly, penetrated to a broad number of our customers. And I guess I'm looking for that word. What's the word, is it meaningful, significant? What's the word that means 10% or more?

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**Simon Leopold** - Morgan Keegan - Analyst

I'll leave that to you.

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

Meaningful -- is that meaningful, Simon? Let's use meaningful.

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**Simon Leopold** - Morgan Keegan - Analyst

Okay. Okay. I'll take that. Now, just the last thing and I think we've touched on this a little bit. But it seems as if you had some issues at your top customer where you've lost a little bit of market share. And I think it sounds like it's predominantly due to the integration with the network management systems. I guess I just want to confirm that that assumption is it's correct or if there are other aspects to the shifting share with that one big customer. Thanks.

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

Yes. So, great question, Simon. I mean, again, the way we look at it is if we can't sell to it, we don't count it as addressable and so we can sell to it. So we actually don't see any issues inside of the account. Now, once we're able to sell into, the OSMINE properties, then it's going to be a different discussion, and who knows? But we certainly feel very comfortable with our position with our major customers. But until we can go deploy inside of back office systems that we are qualified for, as I said earlier, you're share zero until stated otherwise.

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**Simon Leopold** - *Morgan Keegan - Analyst*

And in terms of the OSMINE progress, it's a normal schedule with Telcordia kind of in terms of their two releases a year?

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

Yes. I know you know in detail the history here. So, to your point, yes, it is the normal process.

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**Simon Leopold** - *Morgan Keegan - Analyst*

Okay. Thank you. That's helpful.

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

And hopefully you understand what I meant earlier by saying it never ends.

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**Simon Leopold** - *Morgan Keegan - Analyst*

Absolutely.

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

We'll continue to take new products through it, new features through it, et cetera, but clearly we are as anxious as all of you are for those first deployments. But as Michael has indicated prior, these things are all going to be, we believe, meaningful in the second half, not in the first.

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**Simon Leopold** - *Morgan Keegan - Analyst*

Thanks.

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

Thanks, Simon.

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**Operator**

(Operator Instructions)

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

**Mark McKechnie** - *ThinkEquity - Analyst*

Yes. Just a follow-up. I wanted to ask -- so you talked about broadband stimulus revenue of about \$50 million or so in calendar '11. Michael, was that kind of front-end loaded? I mean, if it's less than 10% here for December, obviously you had more in the first half of the year and -- or the first part of the year. And then second is, again for March, would you expect that BBS number to be up or down sequential. Thanks.

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

Mark, I actually said between \$30 million and \$50 million for 2011 as a range. And -- but yet clearly we'd have -- we had a little bit more earlier in the year and less in the second half of the year. And then what I don't have is I'm not sure how much was actually recognized by Occam in this year prior to our acquisition. So that's one reason why there's bit of a range there.

As far as this year is concerned, we are receiving -- as you know, we've won a lot of awards. We're beginning to receive orders against those awards. I don't expect that there's going to be very much in the first quarter at all, because while we might start some shipping, I don't think we're going to recognize much if any revenue in the first quarter. Most of that revenue again is going to be in the second half of the year because there's a six-month lag between shipment and revenue recognition.

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**Mark McKechnie** - *ThinkEquity - Analyst*

Okay, great. That's helpful. And then, Carl, maybe you can help us on your international efforts. I guess it grew nicely sequential here. Any update as to what countries or regions we are finding some traction and when do you expect some of those results to accelerate for you?

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

Yes. I think as a result -- move from -- that's the word, material. From meaningful to material -- I was trying to remember that word. We'll start to speak more to the details of it, but right now, Mark, Andy is leading that team and they are off banging away. And it is roughly on plan. So we'll let him go about doing what he is doing. And as it moves from meaningful to material, perhaps we'll come back and give you a little more color.

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**Mark McKechnie** - *ThinkEquity - Analyst*

Okay. Thank you very much.

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

You're welcome, Mark.

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**Operator**

Our next question comes from the line of George Notter from Jefferies & Company. Please proceed with your question.

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

Really [only one]. Can you remind me what the gross margin guidance was for Q1? I missed that.

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

Yes. Gross margin was -- gross margin to be up slightly from the fourth quarter, George.

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

Got it. Okay. And then you guys won 100 new customers this year, just setting aside the Occam piece that you brought on earlier. Can you talk about where those customers came from? I assume they are not greenfield. They are competitive wins by and large. But whom would you be taking market share from? What's the profile of those accounts? And did that add up to a meaningful amount of revenue? Thanks.

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

Well, as you know, George, in order to win 100 accounts, they are going to be spread all over the map on size. But obviously, the majority of them are going to be in the Tier 3s. There have been a number of incumbent vendors that have continued to maybe withdraw or disappear from the market that opens up opportunities for us to give a hand to a customer to move on to a next generation platform.

A number of them are under that particular type of heading. And then there is also obviously competitive wins or competitive win-backs, all sorts of stuff like that. But the win-backs, we don't count as new customers. The wins, obviously the new competitive wins we do, and a lot of it is just older incumbent base, without naming vendors. Is that fair?

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

Got it. Great. Thank you.

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**Operator**

There are no more questions at this time. I would now like to turn the call back over to David Allen for closing comments.

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

Thank you, operator. We hope you can join us at one of the upcoming investment conferences we are participating in this month, including the following three that would be webcast. Stifel Nicolaus Annual Technology and Telecom Conference in Dana Point, California on February 9th; Goldman Sachs Technology and Internet Conference in San Francisco on February 14th; and the Morgan Stanley 2012 Technology, Media and Telecom Conference also in San Francisco on this 27th.

Thank you for joining us today. We look forward to speaking with you at one of these forums. Good bye for now.

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**Operator**

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

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