

Calix Q1 2014 Financial Results

ACCESS INNOVATION

April 29, 2014



Safe Harbor

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

This presentation includes forward-looking statements regarding future events, including but not limited to, our development of new products that will continue to help our customers transform their networks; the adoption of gigabit services; our growth drivers; the ongoing expansion of our total addressable market; the future business and financial performance of the Company; and our long-term model for revenue, gross margin, operating expenses and operating profit margin. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in our filings with the Securities and Exchange Commission (“SEC”), especially in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections of Calix’s Annual Report on Form 10-K filed with the SEC for fiscal year 2013, our current reports on Form 8-K and other SEC filings, including our Form 10-Qs.

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

Q1 2014: Business Highlights

- ◀ Expanded customer footprint
 - Added 20 new customers in Q1
 - Increasing customer interest in Calix E-Series, software and consulting solutions
 - Added 7 new Value Added Resellers, now over 50, to support growing international activity
- ◀ Integration of E-Series with BLM footprint
 - Allows Ericsson's installed base of global Tier 1 customers to "snap in" E-Series offerings
- ◀ Growing interest in Gigabit network deployments
 - Interest in Gigabit networks at an all time high
 - Over 2 dozen Calix powered networks in operation or announced
 - Gigabit networks offer high-performance broadband services to subscribers
 - Residential driven by entertainment, video and gaming, along with an increasing remote workforce
 - Enterprise driven by an acceleration of applications and content moving to the cloud
- ◀ Calix is well positioned
 - Explosion of connected devices and changing residential and business uses lead to a different access infrastructure
 - Focused software, system and service offerings well suited for changing customer needs

Q1 2014: Financial Highlights*

- ▶ \$85.8 million revenue
 - Down 5.2% and 8.7% from Q1 2013 and Q4 2013 revenue, respectively
 - Above guidance range of \$78 to \$84 million

- ▶ 45.9% GM**
 - Better than anticipated due to product mix
 - Down from 48.1% in Q1 2013 and up 45.2% from Q4 2013's level
 - Above guidance range of 45.0% to 45.5%

- ▶ \$40.7 million OpEx**
 - Strong OpEx management
 - Favorable to guidance range of \$41.0 to \$41.7 million

- ▶ 3 cent loss EPS**
 - Favorable to guidance range of 7 to 12 cent loss

- ▶ \$75.5 million total cash***
 - Up \$27.4 million from the Q1 2013 and down \$7.5 million from Q4 2013
 - Sequential declines as expected

*Guidance provided for Revenue, Operating Expenses and EPS guidance issued on February 11, 2014.

**Gross margin, Operating expenses and EPS are non-GAAP measures. Please see reconciliation in the appendix of this slide deck.

***Cash, Cash Equivalents and Restricted Cash.

2009-2013 Revenue CAGR 13.2%

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenue (\$M)	\$232.9	\$287.0	\$344.7	\$330.2	\$382.6
Yr/Yr Chg	(7.0)%	23.2%	20.1%	(4.2)%	15.9%
Gross Margin*	35.5%	41.8%	43.7%	44.4%	47.3%
Operating Expense/Revenue*	37.2%	35.4%	38.1%	42.1%	42.0%
Operating Profit Margin*	(1.7)%	6.3%	5.5%	2.3%	5.2%

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

Q1 2014 Financial Results vs. Guidance

	Actual Results	Q1 2014 Guidance Issued on Feb 11, 2014	Comments
Revenue (\$M)	\$85.8	\$78.0 - \$84.0	Stronger-than-anticipated Tier 3 and International sales
Gross Margin*	45.9%	45.0% - 45.5%	Favorable mix
Operating Expenses* (\$M)	\$40.7	\$41.0 - \$41.7	Strong OpEx management
EPS*	\$(0.03)	\$(0.12) - \$(0.07)	Revenue, GM and OpEX favorable to guidance
Cash Flow from Operations (\$M)	\$(5.2)	Negative	In line with expectations

*Non-GAAP metrics; see reconciliation in the appendix

Income Statement Summary

Q1 2014 vs. Prior Quarter and Year

	Actual			Change			
	Q1 2014	Q4 2013	Q1 2013	Q1 2014 vs Q4 2013	Q1 2014 vs Q4 2013	Q1 2014 vs Q1 2013	Q1 2014 vs Q1 2013
Revenue (\$M)	\$85.8	\$94.0	\$90.5	\$(8.2)	(8.7)%	\$(4.7)	(5.2)%
Domestic	\$75.2	\$80.4	\$77.8	\$(5.2)	(6.5)%	\$(2.6)	(3.3)%
International	\$10.6	\$13.6	\$12.7	\$(3.0)	(22.1)%	\$(2.1)	(16.5)%
10% or greater customers	1	1	1	0	NA	0	NA
Gross Margin*	45.9%	45.2%	48.1%	0.7%	NA	(2.2)%	NA
Operating Expenses* (\$M)	\$40.7	\$41.0	\$39.7	\$(0.3)	(0.7)%	\$1.0	2.5%
Operating Income* (\$M)	\$(1.4)	\$1.5	\$3.8	\$(2.9)	(193.3)%	\$(5.2)	(136.8)%
EPS*	\$(0.03)	\$0.03	\$0.06	\$(0.06)	(200.0)%	\$(0.09)	(150.0)%

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

Selected Metrics

Cash Flow and Balance Sheet

	Actual			Change			
	Q1 2014	Q4 2013	Q1 2013	Q1 2014 vs Q4 2013	Q1 2014 vs Q1 2013	Q1 2014 vs Q4 2013	Q1 2014 vs Q1 2013
Cash* (\$M)	\$75.5	\$83.0	\$48.1	\$(7.5)	(9.0)%	\$27.4	57.0%
Cash Flow From Operations (\$M)	\$(5.2)	\$4.0	\$2.4	\$(9.2)	(230.0)%	\$(7.6)	(316.7)%
Accounts Receivable (\$M)	\$44.1	\$43.5	\$70.7	\$0.6	NA	\$(26.6)	NA
Turns	8.5x	8.9x	6.5x	(0.4)x	NA	2.0x	NA
Inventory (\$M)	\$45.1	\$51.1	\$39.2	\$(6.0)	(11.7)%	\$5.9	15.1%
Turns	3.4x	4.1x	3.7x	(0.7)x	NA	(0.3)x	NA
Deferred Revenue (\$M)	\$47.5	\$53.3	\$65.5	\$(5.8)	(10.9)%	\$(18.0)	(27.5)%

*Cash includes Cash, Cash Equivalents and Restricted Cash.

Other Metrics

	Actual		
	Q1 2014	Q4 2013	Q1 2013
Capital Expenditures (\$M)	\$1.9	\$1.5	\$1.3
Depreciation and Amortization (\$M)	\$2.3	\$2.4	\$2.9
Stock Based Compensation (\$M)			
COGS	\$0.4	\$0.4	\$0.4
R&D	\$1.2	\$1.2	\$1.2
S&M	\$1.4	\$1.4	\$1.3
G&A	\$1.0	\$1.9	\$1.9
Total	\$3.9	\$4.9	\$4.7
Amortization of Intangibles (\$M)	\$4.6	\$4.6	\$4.6

Note: All numbers above are in accordance with GAAP.

Additional Information

- ▶ Upcoming investor conferences
 - May 7: 2014 Global Technology, Media and Telecom Conference in Miami
 - May 28: Cowen & Co. 42nd Annual Technology, Media & Telecom Conference in NYC
 - June 4: Stephens 2014 Spring Investment Conference in NYC
 - Webcasts available at <http://investor-relations.calix.com/>

- ▶ Additional information available at <http://investor-relations.calix.com/>
 - Growth Drivers/Opportunities
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- ▶ Non-GAAP to GAAP Reconciliation

Non-GAAP to 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 (loss) and non-GAAP basic and diluted income (loss) per 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 and other expenses, which the Company believes are not indicative of its core operating results. Management believes that the non-GAAP measures used in this press release provide 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. A reconciliation of the non-GAAP results to the most directly comparable GAAP results is provided in this press release. The non-GAAP financial measures used by the company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

Non-GAAP to GAAP

Q1 2014 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<u>Non-GAAP</u>	<u>Stock-Based Compensation</u>	<u>Amortization of Intangible Assets</u>	<u>GAAP</u>
Revenue	\$ 85,820	\$ —	\$ —	\$ 85,820
Cost of revenue	46,452	354	2,088	48,894
Gross profit	39,368	(354)	(2,088)	36,926
Gross margin	45.9%	-0.4%	-2.4%	43.0%
Operating expenses	40,723	3,548	2,552	46,823
Operating loss	(1,355)	(3,902)	(4,640)	(9,897)
Interest and other income (expense), net	(20)	—	—	(20)
Loss before taxes	(1,375)	(3,902)	(4,640)	(9,917)
Provision for income taxes	110	—	—	110
Net loss	<u>\$ (1,485)</u>	<u>\$ (3,902)</u>	<u>\$ (4,640)</u>	<u>\$ (10,027)</u>
Weighted average shares used to compute net loss per common share:				
Basic	<u>50,271</u>	<u>50,271</u>	<u>50,271</u>	<u>50,271</u>
Diluted	<u>50,271</u>	<u>50,271</u>	<u>50,271</u>	<u>50,271</u>
Net loss per common share:				
Basic	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.09)</u>	<u>\$ (0.20)</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.09)</u>	<u>\$ (0.20)</u>

Non-GAAP to GAAP

Q4 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Utilization of Inventory Credit	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 94,003	\$ -	\$ -	\$ -	\$ 94,003
Cost of revenue	51,490	-	378	2,088	53,956
Gross profit	42,513	-	(378)	(2,088)	40,047
Gross margin	45.2%	0.0%	-0.4%	-2.2%	42.6%
Operating expenses	40,973	-	4,578	2,552	48,103
Operating income (loss)	1,540	-	(4,956)	(4,640)	(8,056)
Interest and other income (expense), net	(69)	1,651	-	-	1,582
Income (loss) before benefit from income taxes	1,471	1,651	(4,956)	(4,640)	(6,474)
Benefit from income taxes	(21)	-	-	-	(21)
Net income (loss)	\$ 1,492	\$ 1,651	\$ (4,956)	\$ (4,640)	\$ (6,453)
Weighted average shares used to compute net income (loss) per common share:					
Basic	49,892	49,892	49,892	49,892	49,892
Diluted	51,068	51,068	51,068	51,068	49,892
Net income (loss) per common share:					
Basic	\$ 0.03	\$ 0.03	\$ (0.10)	\$ (0.09)	\$ (0.13)
Diluted	\$ 0.03	\$ 0.03	\$ (0.10)	\$ (0.09)	\$ (0.13)

Non-GAAP to GAAP

Q1 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Three Months Ended March 30, 2013			
	Non-GAAP	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 90,548	\$ -	\$ -	\$ 90,548
Cost of revenue	46,994	351	2,088	49,433
Gross profit	43,554	(351)	(2,088)	41,115
Gross margin	48.1%	-0.4%	-2.3%	45.4%
Operating expenses	39,735	4,368	2,552	46,655
Operating income (loss)	3,819	(4,719)	(4,640)	(5,540)
Interest and other income (expense), net	(306)	-	-	(306)
Income (loss) before taxes	3,513	(4,719)	(4,640)	(5,846)
Provision for income taxes	357	-	-	357
Net income (loss)	<u>\$ 3,156</u>	<u>\$ (4,719)</u>	<u>\$ (4,640)</u>	<u>\$ (6,203)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>48,911</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>49,422</u>	<u>49,422</u>	<u>49,422</u>	
GAAP net loss per common share				<u>\$ (0.13)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>	

Non-GAAP to GAAP

FY 2013 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Utilization of Inventory Credit	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 382,618	\$ -	\$ -	\$ -	\$ 382,618
Cost of revenue	201,723	-	1,468	8,353	211,544
Gross profit	180,895	-	(1,468)	(8,353)	171,074
Gross margin	47.3%	0.0%	-0.4%	-2.2%	44.7%
Operating expenses	160,866	-	18,453	10,208	189,527
Operating income (loss)	20,029	-	(19,921)	(18,561)	(18,453)
Interest and other income (expense), net	(477)	1,651	-	-	1,174
Income (loss) before provision for income taxes	19,552	1,651	(19,921)	(18,561)	(17,279)
Provision for income taxes	(14)	-	-	-	(14)
Net income (loss)	<u>\$ 19,566</u>	<u>\$ 1,651</u>	<u>\$ (19,921)</u>	<u>\$ (18,561)</u>	<u>\$ (17,265)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share					<u>49,419</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>50,437</u>	<u>50,437</u>	<u>50,437</u>	<u>50,437</u>	
GAAP net loss per common share					<u>\$ (0.35)</u>
Non-GAAP net income (loss) per diluted share	<u>\$ 0.39</u>	<u>\$ 0.03</u>	<u>\$ (0.39)</u>	<u>\$ (0.37)</u>	

Non-GAAP to GAAP

FY 2012 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Acquisition Related Expenses	Gain on Bargain Purchase	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 330,218	\$ -	\$ -	\$ -	\$ -	\$ 330,218
Cost of revenue	183,670	-	-	1,433	7,539	192,642
Gross profit	146,548	-	-	(1,433)	(7,539)	137,576
Gross margin	44.4%	-	-	-0.4%	-2.3%	41.7%
Operating expenses	138,987	1,401	-	16,004	10,208	166,600
Operating income (loss)	7,561	(1,401)	-	(17,437)	(17,747)	(29,024)
Interest and other income (expense), net	(173)	-	1,029	-	-	856
Income (loss) before taxes	7,388	(1,401)	1,029	(17,437)	(17,747)	(28,168)
Provision for income taxes	158	-	-	-	-	158
Net income (loss)	\$ 7,230	\$ (1,401)	\$ 1,029	\$ (17,437)	\$ (17,747)	\$ (28,326)
Weighted average basic and diluted shares used to compute GAAP net loss per common share						48,180
Weighted average diluted shares used to compute non-GAAP net income per common share	48,367	48,367	48,367	48,367	48,367	
GAAP net loss per common share						\$ (0.59)
Non-GAAP net income (loss) per share	\$ 0.15	\$ (0.03)	\$ 0.02	\$ (0.36)	\$ (0.37)	

Non-GAAP to GAAP

FY 2011 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Acquisition Related Expenses	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 344,669	\$ -	\$ -	\$ -	\$ 344,669
Cost of revenue	194,195	19,966	1,503	9,552	225,216
Gross profit	150,474	(19,966)	(1,503)	(9,552)	119,453
Gross margin	43.7%	-5.8%	-0.4%	-2.8%	34.7%
Operating expenses	131,412	11,693	20,100	8,569	171,774
Operating income (loss)	19,062	(31,659)	(21,603)	(18,121)	(52,321)
Interest and other income (expense), net	(5)	-	-	-	(5)
Income (loss) before taxes	19,057	(31,659)	(21,603)	(18,121)	(52,326)
Provision for income taxes	224	-	-	-	224
Net income (loss)	<u>\$ 18,833</u>	<u>\$ (31,659)</u>	<u>\$ (21,603)</u>	<u>\$ (18,121)</u>	<u>\$ (52,550)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share					<u>45,546</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>46,947</u>	<u>46,947</u>	<u>46,947</u>	<u>46,947</u>	
GAAP net loss per common share					<u>\$ (1.15)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.40</u>	<u>\$ (0.67)</u>	<u>\$ (0.46)</u>	<u>\$ (0.39)</u>	

Non-GAAP to GAAP

FY 2010 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Preferred Stock Dividends	Change in Fair Value of Preferred Stock Warrants	Acquisition Related Expenses	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 287,043	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 287,043
Cost of revenue	167,128	-	-	-	1,745	5,440	174,313
Gross profit	119,915	-	-	-	(1,745)	(5,440)	112,730
Gross margin	41.8%	-	-	-	-0.6%	-1.9%	39.3%
Operating expenses	101,701	-	-	3,942	23,830	740	130,213
Operating income (loss)	18,214	-	-	(3,942)	(25,575)	(6,180)	(17,483)
Interest and other income (expense), net	(816)	-	(173)	-	-	-	(989)
Income (loss) before taxes	17,398	-	(173)	(3,942)	(25,575)	(6,180)	(18,472)
Provision for income taxes	81	-	-	-	-	-	81
Net income (loss)	17,317	-	(173)	(3,942)	(25,575)	(6,180)	(18,553)
Preferred stock dividends	-	900	-	-	-	-	900
Net income (loss) attributable to common stock holders	\$ 17,317	\$ (900)	\$ (173)	\$ (3,942)	\$ (25,575)	\$ (6,180)	\$ (19,453)
Weighted average basic and diluted shares used to compute GAAP net loss per common share							29,778
Weighted average diluted shares used to compute non-GAAP net income per common share	38,502	38,502	38,502	38,502	38,502	38,502	
GAAP net loss per common share							\$ (0.65)
Non-GAAP net income (loss) per share	\$ 0.45	\$ (0.02)	\$ (0.00)	\$ (0.10)	\$ (0.66)	\$ (0.16)	

Non-GAAP to GAAP

FY 2009 Reconciliation

(Unaudited in thousands, except earnings per share data)

	Non-GAAP	Preferred Stock Dividends	Change in Fair Value of Preferred Stock Warrants	Stock-Based Compensation	Amortization of Intangible Assets	GAAP
Revenue	\$ 232,947	\$ -	\$ -	\$ -	\$ -	\$ 232,947
Cost of revenue	150,181	-	-	682	5,440	156,303
Gross profit	82,766	-	-	(682)	(5,440)	76,644
Gross margin	35.5%	-	-	-0.3%	-2.3%	32.9%
Operating expenses	86,717	-	-	8,514	740	95,971
Operating income (loss)	(3,951)	-	-	(9,196)	(6,180)	(19,327)
Interest and other income (expense), net	(3,503)	-	37	-	-	(3,466)
Income (loss) before taxes	(7,454)	-	37	(9,196)	(6,180)	(22,793)
Benefit from income taxes	(352)	-	-	-	-	(352)
Net income (loss)	(7,102)	-	37	(9,196)	(6,180)	(22,441)
Preferred stock dividends	-	3,747	-	-	-	3,747
Net income (loss) attributable to common stock holders	\$ (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	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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