

Q2 Financial Results

Issued July 31, 2012

Simplicity. Connected. Everywhere.



Q2 2012 Highlights

◀ Revenue of \$78.9 million

- Flat sequentially compared to first quarter; declined 19.4% year-over-year
- Slowdown in domestic customer spending across multiple markets
- BBS shipments up vs. Q1, supporting a sequential increase in deferred revenue
- Strong bookings in the month of June, but not enough to reach internal goals
- Growing interest for Calix E-Series products

◀ Execution in weak demand market

- Non-GAAP Gross Margin performance in line with original guidance
- Non-GAAP Operating Expenses lower than original guidance
- Non-GAAP EPS below original guidance, but in line with preliminary estimates
- Positive cash flow
- Continued progress on inventory reduction

◀ TAM expansion opportunities

- Progress in penetrating former Verizon properties at Frontier
- Certification process proceeding at former Qwest properties at CenturyLink
- International update
 - Increasing international pipeline in Europe, Australia, Asia, and South America
 - Added ten new international customers; expanding footprint to over 40 countries
 - Conducted first channel partner conference; attended by participants from 21 countries

Q2 2012 Financial Results vs. Guidance

\$s in millions, except EPS	Actual Results	Original Q2 Guidance**	Preliminary Results***	Comments
Revenue	\$78.9	\$93 to \$97	Approx. \$79.0	In line with preliminary results, but significantly below original guidance; softness in demand from domestic customers
Gross Margin*	45.2%	Around 45%	n/a	Achieved original guidance
Operating Expenses*	\$33.5	Just over \$38	n/a	Lower variable compensation expenses benefited by reversal of accruals
EPS*	4 cents	7 to 11 cents	4 cents	In line with preliminary results, but significantly below original guidance
Cash Flow	\$3.5	Cash flow positive	n/a	Reduction in inventories contributed to positive cash flow

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

**Guidance issued on May 1, 2012.

***Preliminary guidance issued on July 11, 2012.

Income Statement Summary

Q2 12 / Q1 12 / Q2 11

\$s in millions, except EPS	Actual Q2 2012	Actual Q1 2012	Actual Q2 2011	Chg Q2 12 vs. Q1 12	Chg Q2 12 vs. Q2 11
Revenue	\$78.9	\$78.6	\$98.0	\$0.4	-\$19.0
Domestic	\$73.1	\$72.9	\$91.7	\$0.9	-\$17.9
International	\$5.8	\$5.7	\$6.3	\$0.5	-\$1.1
10% or greater customers	1	1	2	0	-1
Gross Margins*	45.2%	45.1%	44.3%	0.1%	0.9%
Operating Expenses*	\$33.5	\$34.7	\$35.5	-\$1.1	-\$2.0
Operating Income*	\$2.1	\$0.8	\$7.9	\$1.4	-\$5.7
EPS*	\$0.04	\$0.01	\$0.16	\$0.03	-\$0.12

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

Selected Balance Sheet Metrics

\$s in millions	Actual Q2 2012	Actual Q1 2012	Actual Q2 2011	% Chg Q2 12 vs. Q1 12	% Chg Q2 12 vs. Q2 11	Comments
Cash*	\$53.1	\$49.6	\$28.6	7.1%	85.6%	Strong working capital management activities continue; cash up significantly from Q2 2011
Cash Flow From Operating Activities	\$4.5	\$13.5	-\$1.8	-66.0%	359.6%	Continued focus on cash generation activities
DSOs	52 Days	49 Days	47 Days	-	-	Within target range of 50 to 55 days
Inventory Dollars	\$33.2	\$37.2	\$38.5	-10.5%	-13.6%	Achieved a \$3.9 million reduction in inventory levels; remain focused on making further progress on improving inventory metrics
Turns	4.4 x	3.6 x	3.6 x			
Deferred Revenue	\$39.1	\$34.3	\$35.1	14.1%	11.5%	Increase due to shipments for BBS projects and in line with original Q2 guidance

*Cash includes Cash, Cash Equivalents, Marketable Securities and Restricted Cash

Other Metrics

\$s in millions, on GAAP basis	Actual Q2 2012	Actual Q1 2012	Actual Q2 2011
Capital Ex	\$3.3	\$3.0	\$2.8
Depreciation	\$2.2	\$2.0	\$2.2
Stock base compensation			
COGS	\$0.4	\$0.4	\$0.3
R&D	\$1.1	\$1.0	\$1.2
S&M	\$1.3	\$1.2	\$0.8
G&A	\$1.5	\$1.7	\$1.9
Merger Related	\$0.0	\$0.0	\$1.1

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.

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

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

GAAP to Non-GAAP Reconciliation

The Company uses certain non-GAAP financial measures in this press release to supplement its consolidated financial statements, which are presented in accordance with GAAP. These non-GAAP measures include non-GAAP net income and non-GAAP basic and diluted net income per common share. These non-GAAP measures are provided to enhance the reader's understanding of the Company's operating performance as they primarily exclude certain non-cash charges for stock-based compensation and amortization of acquisition-related intangible assets, and non-recurring merger-related and other expenses, which the Company believes are not indicative of its core operating results. Merger-related and other expenses largely include the charge resulting from the required revaluation of Occam inventory to its estimated fair value, legal and professional expenses, and severance and integration-related expenses and inventory-related charges associated with our merger with Occam. Management believes that the use of non-GAAP measures provides investors with important perspectives into the Company's ongoing business performance and management uses these non-GAAP measures to evaluate financial results and to establish operational goals. The presentation of these non-GAAP measures is not meant to be a substitute for results presented in accordance with GAAP, but rather should be evaluated in conjunction with those GAAP results. A reconciliation of the non-GAAP results to the most directly comparable GAAP results is provided in the financial schedules portion of 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.

GAAP to Non-GAAP

Q2 2012 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	\$ 78,928	\$ -	\$ -	\$ 78,928
Cost of revenue	43,238	381	2,088	45,707
Gross profit	35,690	(381)	(2,088)	33,221
Gross margin	45.2%	-0.5%	-2.6%	42.1%
Operating expenses	33,541	3,958	2,552	40,051
Operating income (loss)	2,149	(4,339)	(4,640)	(6,830)
Interest and other income (expense), net	(120)	-	-	(120)
Income (loss) before taxes	2,029	(4,339)	(4,640)	(6,950)
Provision for income taxes	141	-	-	141
Net income (loss)	<u>\$ 1,888</u>	<u>\$ (4,339)</u>	<u>\$ (4,640)</u>	<u>\$ (7,091)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>47,972</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,113</u>	<u>48,113</u>	<u>48,113</u>	
GAAP net loss per common share				<u>\$ (0.15)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>	

GAAP to Non-GAAP

Q1 2012 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	\$ 78,565	\$ -	\$ -	\$ 78,565
Cost of revenue	43,108	363	1,275	44,746
Gross profit	<u>35,457</u>	<u>(363)</u>	<u>(1,275)</u>	<u>33,819</u>
Gross margin	45.1%	-0.5%	-1.6%	43.0%
Operating expenses	<u>34,684</u>	<u>3,952</u>	<u>2,552</u>	<u>41,188</u>
Operating income (loss)	773	(4,315)	(3,827)	(7,369)
Other income (expense), net	<u>(57)</u>	<u>-</u>	<u>-</u>	<u>(57)</u>
Income (loss) before taxes	716	(4,315)	(3,827)	(7,426)
Provision for income taxes	95	-	-	95
Net income (loss)	<u>\$ 621</u>	<u>\$ (4,315)</u>	<u>\$ (3,827)</u>	<u>\$ (7,521)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share				<u>47,850</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,039</u>	<u>48,039</u>	<u>48,039</u>	
GAAP net loss per common share				<u>\$ (0.16)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.09)</u>	<u>\$ (0.08)</u>	

GAAP to Non-GAAP Q2 2011 Reconciliation

(Unaudited in thousands, except earnings per share data)

	<u>Non-GAAP</u>	<u>Merger Related and Other Expenses</u>	<u>Stock-Based Compensation</u>	<u>Amortization of Intangible Assets</u>	<u>GAAP</u>
Revenue	\$ 97,959	\$ -	\$ -	\$ -	\$ 97,959
Cost of revenue	54,568	9,709	331	3,188	67,796
Gross profit	43,391	(9,709)	(331)	(3,188)	30,163
Gross margin	44.3%	-9.9%	-0.3%	-3.3%	30.8%
Operating expense	35,504	4,408	4,993	2,795	47,700
Operating income (loss)	7,887	(14,117)	(5,324)	(5,983)	(17,537)
Other income/(expense), net	5	-	-	-	5
Income (loss) before taxes	7,892	(14,117)	(5,324)	(5,983)	(17,532)
Provision for income taxes	114	-	-	-	114
Net income (loss)	<u>\$ 7,778</u>	<u>\$ (14,117)</u>	<u>\$ (5,324)</u>	<u>\$ (5,983)</u>	<u>\$ (17,646)</u>
Weighted average basic and diluted shares used to compute GAAP net loss per common share					<u>46,050</u>
Weighted average diluted shares used to compute non-GAAP net income per common share	<u>48,139</u>	<u>48,139</u>	<u>48,139</u>	<u>48,139</u>	
GAAP net loss per common share					<u>\$ (0.38)</u>
Non-GAAP net income (loss) per share	<u>\$ 0.16</u>	<u>\$ (0.29)</u>	<u>\$ (0.11)</u>	<u>\$ (0.12)</u>	

Additional Information

Visit <http://investor-relations.calix.com/>

- [Press Releases](#)
- [Video Clips](#)
- [Annual Reports](#)
- [Quarterly Reports](#)
- [SEC Filings](#)
- [Historical Financials](#)
- [Investor Events](#)
- [Customer Solutions brochure](#)
- [Success Stories](#)
- [Contact Us](#)



Calix

ACCESS INNOVATION