



Dear Fellow Calix Stockholders,

2011, our first full year as a public company, was frankly a mixed one. We began the year with high expectations, enjoying strong momentum during the first half of the year. Unfortunately, our progress was interrupted by unanticipated “headwinds” that became evident in the third quarter. We ended 2011, however, on a positive note, taking actions to prepare for growth in 2012 and beyond.

2011 Highlights

- Successfully completed the acquisition and integration of Occam Networks which added strong engineering and sales resources to our organization, expanded our customer base and strengthened our Unified Access product portfolio;
- Introduced a variety of new access innovations across our industry-leading Unified Access portfolio that will enable our customers to meet the increasing service requirements of their broadband consumers;
- Surpassed the 1000-customer mark; and
- Improved a number of key financial metrics:
 - Revenue increased to \$345 million — our second year in a row of 20% plus growth;
 - Non-GAAP gross margin expanded for the fourth year in a row to 43.7%, up from 34.0% in 2008;
 - Non-GAAP EBITDA increased 17% over 2010; and
 - Non-GAAP net income increased 9% over 2010.

While we are proud of these gains, we had higher aspirations for 2011. Bureaucratic delays in the Broadband Stimulus program, a fiber shortage stemming from the March 2011 tsunami in Japan, and the fact that two of our largest customers had acquired properties that we were not able to sell into during 2011, all contributed to lower revenue growth and profitability than we had anticipated. As we enter 2012, we believe that many of the 2011 headwinds have begun to subside, and are now poised to become growth opportunities.

Preparing for Continued Growth

We took several important steps in 2011 to enhance long-term growth opportunities. To extend our technology leadership and accelerate our access innovation, we invested in R&D and people, increasing our Non-GAAP R&D investments by 27% and total headcount by 34% in 2011 compared to the prior year. These investments continued to show results across our Unified Access portfolio, with strong adoption of our award winning E-series products and the introduction of advanced new features and functionality across our B-Series, C-Series, E-Series, and P-Series products and CMS and Compass software.

During 2011 we also laid the foundations to significantly expand our addressable markets in two promising areas – International markets and North American Tier 1 service providers. Starting with the hiring of the leader of our international business, Andy Lockhart, in April 2011, we began recruiting a seasoned team of professionals and have now established a sales presence across five continents. This team has already started to win reference customers and build a global channel partner network. We also began cultivating new North American Tier 1 customer relationships in 2011. While we are encouraged by the early results of these activities, we expect that these expansion opportunities will take several years to become significant contributors to our business.

Connecting the World through Access Innovation

As we look to 2012 and beyond, our communications service provider customers stand at the intersection of two accelerating trends – the proliferation of IP-enabled devices at the edge of the network, and the rise of the cloud at the network core. Our customers are increasingly looking to the Calix Unified Access portfolio to connect these devices to the cloud, while at the same time transforming their networks and their businesses to be the broadband service providers of choice in the future. This creates a variety of exciting opportunities, and Calix remains committed to connecting the world through access innovation – providing our customers with the industry’s premier portfolio of systems, software, services, and solutions needed to address these transformations.

We thank you – our customers, suppliers, employees and fellow Calix stockholders – for your support as we continue our journey in building a great broadband communications access systems and software company.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carl Russo'.

Carl Russo
President and CEO
Calix, Inc.