Fellow Calix Stockholders:

We are very pleased that 2016 was our fourth consecutive year of revenue growth, with 2016 revenues increasing 13% over 2015. Service providers increasingly deployed transformative solutions from our systems, platforms and software portfolio. We ended the year with over 1,300 customers, with over 400 of them utilizing the power of our cloud-based software, Calix Cloud, to grow their ARPU, lower their churn and lower their costs. Our AXOS operating system continues to lead the transformation of our industry and we now have over 100 customers deploying AXOS in their networks to deliver next generation services based on Software Defined Access.

Business with our largest customers continued to grow and we ended 2016 with two greater than 10% customers: CenturyLink and Windstream. Our investment in innovation accelerated as well and we increased research and development investment to over $100 million, thereby leading to broader opportunities with both existing as well as prospective customers.

In 2016, we encountered some business challenges as we invested in new service offerings, leading to higher than expected costs and lower overall profitability in the turnkey network improvement projects that we have taken on for our customers. However, we enter 2017 with a new services leader who is well on his way to transforming our services business into a set of strategically aligned offerings that complement our products and empower our customers' continuing transformation of their infrastructure and business models.

We ended 2016 with a solid, debt-free balance sheet with over $78 million in cash and marketable securities, equivalent to $1.59 per share. During the year, we generated $24.4 million in operating cash flow, invested $9.8 million in capital expenditures to support future growth and completed our previously announced $40 million stock repurchase plan, having repurchased $12.8 million of Calix shares at an average price of $7.16 per share.

Here are some notable examples of the innovation and disruption that we have brought to our industry in the past year:

- CenturyLink leveraged the Calix AXOS G.fast solution to bring gigabit capability to subscribers living in Multiple Dwelling Units in Platteville, Wisconsin using existing, in-building twisted pair and coaxial infrastructure. This is the largest G.fast deployment in North America.
- We launched the AXOS E3-2 Intelligent PON Node, a revolutionary system designed to collapse access and service edge functions into a distributed network architecture. The AXOS E3-2 disrupts the economics of building fiber deep architectures and dramatically reduces service provider operational costs.
- We launched the AXOS E9-2 Intelligent Edge System. The disruptive architecture of the AXOS E9-2 delivers a dramatic reduction in service providers' total cost of ownership by collapsing access, aggregation, and service edge functions - including routing and subscriber management - into a single system. The AXOS E9-2 was selected by Verizon for lab testing in their Innovation Lab in Waltham, MA. In an NGPON2 environment, the AXOS E9-2 allows service providers to converge mobile, business, and residential services networks into a single, cost-effective Software Defined Access network.
- We introduced Calix Cloud, our second-generation family of subscription services for network data analytics and subscriber experience assurance. Calix Cloud applies Calix's real-world experience in network and subscriber data analytics and transforms it into a family of role-based subscription services that enable service providers to discover new insights, simplify processes, and elevate their business and subscriber experience.
- Our AXOS initiatives included AXOS Sandbox, a virtual environment launched in January 2017 that dramatically improves the economics for our customers of new services introduction via eliminating the need for physical systems in their labs. By deploying virtual instances of Calix AXOS systems, service providers can speed up service delivery by reducing the time needed for lab testing, BSS and OSS integration work, and software certification.

In recognition of our innovation, in May 2016, Light Reading, a leading publication in our sector, selected Calix's Software Defined Access framework and AXOS operating system for its *"Most Innovative SDN Product Strategy (Vendor)"* award. And, in March 2017, the AXOS E9-2 was recognized by the 2017 Lightwave Innovation Reviews with a score of 4.5 out of 5 possible points as determined by a distinguished panel of third-party judges.

In March 2016, we hosted our first Investor Day since our 2010 IPO. The event included presentations to investors by key members of the Calix executive team and provided our broader leadership with an opportunity to interact with our stockholders. We look forward to hosting similar days in the future as we execute on our strategy.

We added two new members to our management team in 2016: Michael Weening, our Executive Vice President of Sales and Marketing and Gregory Billings, our Senior Vice President of Services. Michael joined us from Salesforce.com and Greg joined us from Zebra Technologies.

As always, I want to thank you – our customers, suppliers, employees, and fellow Calix stockholders – for your continued support. We have made significant investments in people, systems and platforms over the past several years. These have resulted in a number of industry-leading platform, systems and software introductions in 2016 and into 2017. We remain focused on serving our existing customer base as well as striving to win share in previously underserved large, global customers. As the power of AXOS and Calix Cloud drives greater adoption of Software Defined Access in the marketplace, we are laying the groundwork for continued strong growth.

Sincerely,

Carl Russo
President and CEO
Calix, Inc.