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Calix's Board of Directors Individually and Collectively.
c/o Corporate Secretary, Ms. Suzanne Tom, Calix
2777 Orchard Parkway,
San Jose, California 95134

Dear Mr. Christopher Bowick, Ms. Kathy Crusco, Mr. Kevin DeNuccio, Mr. Mike Everett, Mr. Don Listwin, Ms. Kira Makagon, Mr. Michael Matthews, Mr. Kevin Peters, Mr. J. Daniel Plants, and Mr. Carl Russo.

Dear Members of the Calix Board,

First let me offer my sympathies. You must be feeling at least a little embarrassed after being had so publicly and nakedly over a barrel.

Your CFO and EVP just forced you to cough up almost 3.5% of Calix's equity. Just to keep them showing up for work. Part of a team that has missed Board targets 3 years in a row.

It is obvious Mr. Sindelar and Mr. Weening's had the whip hand in this negotiation.

It is equally obvious the Board, on the receiving end of that whip hand, has lost effective control and authority.

Mr. Weening and Mr. Sindelar took advantage of *your* weakness. Created, ironically, by *their* failure to execute. They dictated their terms. With a gratuitous relocation bonus as the cherry on top. I don't blame them. They took what they could get. And they took a lot.

The Board was in no position to bargain.

We Just Got Held Up in Broad Daylight

The scale of that capitulation bears witness to the Board's current impotence. It is clear who was dictating terms to whom.

Options for 1,910 shares over 4 years. Almost 3.5% of the company. \$15 million at today's stock price. Probably \$25-\$30 million if Calix ever achieves its potential (or a takeover premium). *About 1/5 of current revenues.* Almost equal to Calix's *total* cash G&A spending.

Putting a bright line under the Board's loss of authority, you couldn't even hold Mr. Weening to a commitment made in writing in his 2016 employment agreement. Mr. Weening was supposed to initiate a move to San Jose in 2016. 3 years later, he's holding us up for a

gratuitous \$225k to (finally) deliver on that contracted commitment. He clearly has the whip hand.

“You agree that your relocation shall be initiated within the first twelve months of your [June 27, 2016] employment and completed within 24 months of your [June 27, 2016] employment.” Per a (public, May 20, 2016) copy of Mr. Weening's contract.

Over-Paying for Under-Performance. Evidence The Board Has Lost Control and Authority.

We just got rolled How else could one characterize handing over 3.5% of the company to an executive team that has consistently missed its targets?

Lacking bargaining power, you must have had no other choice.

How did Mr. Sindelar and Mr Weening back the Board into a corner like that? They leveraged their prior failures. The sum of those mistakes has left a precariously weak Calix unable to credibly threaten them with replacement. You were negotiating with no credible alternative option.

They knew (and you knew) they are currently irreplaceable.

- After Mr. Billings quit in September, Calix couldn't afford any more executive departures.
- Its hard to hire competent executives into *any* company with a wafer thin cash cushion and a history of missing targets.
- Hobby farms have particular trouble attracting talent. The problem of being run for one man's pride vs. everyone else's profit. Real professionals know that. They have their own pride. They want to be on a winning team.
- It has always been hard to find people willing to work with Carl - as you hopefully know. It is only getting harder. Carl's been plowing a wide furrow with a big personality in a small industry for a long time now. And his last real success was back in 2002.

The Compounding Costs of Continuing Incompetence

Why couldn't the Board at least avoid this negotiation? Delay to some time you were less helpless?

Likely because Mr. Weening and Sindelar forced the issue - leveraging their busted 2019 bonuses after missing their own targets.

Lacking a credible threat to replace Mr. Weening and Mr. Sindelar, the Board had no choice but to capitulate. Handing over this new, egregious retention package...

- ...because quitting was a credible threat for Mr. Weening and Mr. Sindelar. Mr. Billings had just quit. And they weren't getting a bonus because they'd missed their target for the 3rd year in a row.
- They missed targets because they didn't adequately buffer the botched execution of the

1Q19 manufacturing shift out of China. They also failed to land any new marquee customers in 2019.

- Partly because Calix was too strapped for cash to fund a more prudent manufacturing transition plan or inventory buffer; Or to fund adequate sales/marketing outreach (e.g. free demo systems).
- Cash got so tight the Employee Stock Purchase Plan became a material source of funding. Notably not included as a risk factor in your most recent 10Q filing. A sort of stealth equity raise for (now probably) over \$10m at \$5.661 a share (~40% dilutive as of yesterday).
- Cash was tight because Calix burned its cash reserves in the 2017 money bonfire of badly executed Services contracts (how really do you “achieve” a *negative* 30% Gross Margin!?!). With executive oversight so weak that it took *months* to understand how bad the damage was (much less avoid the botched execution in the first place)...
- ...because, just before that 2017 debacle, management's blithe over-confidence and detachment from the day-to-day had also led Calix to throw \$40m of precious cash into a spectacularly ill-timed buyback.

What Harvest Will Your Executive Team Reap for These Seeds of Disaster They Themselves Sowed?

3.5% of the company...

If they'd screwed up more, would the Board have given them 5%?

The Fig Leaf of Carl's Non-Participation Hides Nothing.

One might seek refuge in the argument that CEO Carl Russo isn't taking part in this insider bonanza. This overlooks the obvious. In relative terms, it cost Carl nearly nothing to forgo those option grants.

Carl is not at Calix for the money. Calix is Carl's hobby farm. He's in it for the status.

Presumably - like many men of a certain age and wealth and in the twilight of their careers - he is hanging on the reassurance of continued relevance. That is worth far more to Carl than a few million dollars.

By that same token, the Board's has no financial leverage over Carl. You know that. Your leverage lies in threatening his sense of status.

Yet that leverage remains un-exercised. Leaving Carl (and Calix) effectively un-governed. Compromised governance is at the core of any hobby farm.

One Accommodation Leads to Another. A Slippery Slope.

Mr. Weening and Mr. Sindelar *are* in it for the money. And they have just taken advantage of Calix's compromised governance with spectacular success. Extracting an egregious amount from us. Knowing we had no choice but to capitulate.

You must acknowledge that vulnerability stems directly from the Board's prior accommodation of the executive team's serially poor execution. If Calix was in less dire straits, you could and would have sent them packing.

Instead, you let yourself get backed into a corner. And they had you over a barrel.

What to Do? We Can't Let the Inmates Keep Running the Asylum.

Individual Board members should take action or exit. Don't go along to get along. When this rock gets turned over, you will own whatever comes crawling out from under it.

- Consider how the Board might re-assert its authority and take corrective action. Advocate to force that action.
- If you realize the Board can't (or won't) take action, then resign. Do yourself a favor.

The Board as a body needs to address its evident loss of authority;

- If the Board can see a path to effective action, then you must take it.
- If you cannot (or will not) re-assert control. Invite someone else to take control and take action in your stead.
 - Calix has great fundamental potential if managed capably with sufficient capital.
 - **It would be obvious negligence to leave that potential value un-realized.**
 - **If internal competence and capital aren't up to the task, you must look for them externally.** Someone with a deeper bench and more cash.

Potential Value is Worth Zero If Left to Rot.

Mr. Russo and potentially other Board Members will likely argue a change-of-control premium is worth less than Calix's potential value as a stand-alone company.

I wholly agree. A well-managed Calix is worth more stand-alone.

But Calix is not well managed. *Leaving the same team in place repeats the same experiment hoping for different results.* Their track record doesn't support that hope.

AXOS won't be market leading forever. Its value will fade.

A sale will realize more value than Calix flailing on as the poorly managed, weakly governed hobby farm the Board has let it become.

A change-of-control would actually be a re-establishment of control. A Board with proper control and authority does not over-pay for under-performance like this.

Sale or Flail. Any Other Ideas?

The only choices on offer to shareholders now appear to be;

1. A sale to someone with more competence and capital.
2. More of the same. Weak execution by the same team. Repeating the experiment hoping for different results.

If you see are other choices, we are all ears.

Drop some of us a call. It wouldn't take much time. There are precious few left to pick up the phone. Most of your holders are index and quant funds (for a reason).

Nokomis finally threw in the towel last quarter. Maybe call them too? Ask why...

Don't Be a Naked Emperors' Nobleman...

I'll leave you with the "*The Emperor's New Clothes.*" Ask yourself; "*Do I really want to keep playing the role of Carl's Nobleman here?*"

The noblemen who were to carry his train stooped low and reached for the floor as if they were picking up his mantle. Then they pretended to lift and hold it high. They didn't dare admit they had nothing to hold.

So off went the Emperor in procession under his splendid canopy. Everyone in the streets and the windows said, "Oh, how fine are the Emperor's new clothes! Don't they fit him to perfection? And see his long train!" Nobody would confess that he couldn't see anything, for that would prove him either unfit for his position, or a fool. No costume the Emperor had worn before was ever such a complete success.

"But he hasn't got anything on," a little child said.

"Did you ever hear such innocent prattle?" said its father. And one person whispered to another what the child had said, "He hasn't anything on. A child says he hasn't anything on."

"But he hasn't got anything on!" the whole town cried out at last.

The Emperor shivered, for he suspected they were right. But he thought, "This procession has got to go on." So he walked more proudly than ever, as his noblemen held high the train that wasn't there at all.

http://www.andersen.sdu.dk/vaerk/hersholt/TheEmperorsNewClothes_e.html

You can try to shush the little boy. Mr. Listwin tried that. He initially chose to suppress my April 24th letter addressed to the full Board. Forcing my follow-up letter on April 28th that he could not suppress. That sequence of decisions is itself evidence of the compromised governance that Calix's Board must address.

The obvious will, however, remain obvious. The next shareholder to call it out will likely be larger and even less pleasant to deal with. And they will see this letter.

Sincerely yours,

Steve Kamman