



**Third Quarter 2011**

**ARRIS Earnings Conference Call**

**October 26, 2011**



# Safe Harbor

Statements in this presentation or made on this call, including those related to third quarter 2011 revenues and net income, gross margins, operating expenses, income taxes, outlook for full year 2011, expected sales levels, acceptance of certain ARRIS products, the general market outlook, the timing and impact of the acquisition of BigBand, and industry trends, are forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. Among other things, projected results are based on preliminary estimates, assumptions and projections that management believes to be reasonable at this time, but are beyond management's control; ARRIS is dependent upon customer decisions to purchase the Company's products -- these decisions can be deferred and customers also may select competitor's products; the BigBand acquisition is subject to various closing conditions and has the integration and other risks attendant to all acquisitions; and because the market in which ARRIS operates is volatile, actions taken and contemplated may not achieve the desired impact. Other factors that could cause results to differ from current expectations include: the uncertain current economic climate and financial markets, and their impact on our customers' plans and access to capital; the impact of rapidly changing technologies; the impact of competition on product development and pricing; the ability of ARRIS to react to changes in general industry and market conditions; rights to intellectual property and the current trend toward increasing patent litigation, market trends and the adoption of industry standards; possible acquisitions and dispositions; and consolidations within the telecommunications industry of both the customer and supplier base. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the Company's business. Additional information regarding these and other factors can be found in ARRIS' reports filed with the Securities and Exchange Commission, including its Form 10-Q for the quarter ended June 30, 2011. In providing forward-looking statements, the Company expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise.



# Third Quarter 2011 Highlights & Business Outlook

**Bob Stanzione**  
**CEO & Chairman**



# Q3 2011 Results & Highlights

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- **Revenue \$274.4M**
- **Gross Margin 36.5%**
- **Non-GAAP EPS \$0.21**
- **66% Domestic, 34% International**
- **Stock repurchase program continued**
- **BigBand**



# Q3 2011 Results

- **Broadband Communications Systems (BCS)**
  - Revenues flat quarter over quarter
  - Mix shift toward CPE, particularly Moxi<sup>®</sup> Gateways
    - Reduced % Gross Margin
    - Shipped ~1.4 million CPE units in quarter
    - 53% of CPE units DOCSIS 3.0
  - Continued progress on Moxi<sup>®</sup> Gateway product
    - Accelerating sales in Q3 and good outlook for Q4
    - In addition to two announced customers, in various stages of trials with six new customers
  - C4<sup>™</sup> CMTS shipments 73,686 downstream ports
    - Higher software license revenue in the mix
  - Solid QAM sales in the third quarter



# Q3 2011 Results

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- **Access, Transport and Supplies (ATS)**
  - ATS revenues up ~16% sequentially
  - Gross margin improvement
  - Strong Professional and Commercial Services
  - Growing interest in Metro Wi-Fi solutions worldwide
- **Media and Communications Systems (MCS)**
  - Revenues slightly down sequentially while GM percentage up 6% points
  - Continued new deployments of Assurance products
  - New VOD Wins at two North America Tier 2 MSOs



# New Products Drive Revenue Growth in 2012...

- **Second Generation DOCSIS 3.0 C4™ CMTS - 24U**
  - Doubles C4 upstream density
  - Now in commercial trials
- **E6000™ Converged Edge Router lab trials starting now**
- **Moxi® Gateway**
  - Robust Demand with Existing Customers
  - Sales to New customers in Q4
- **Professional Services**
  - Telecom network design
  - Cell Tower Backhaul (CTBH)
- **Wide variety of new CPE devices**
- **Ethernet Passive Optical Network (EPON) and RF over Glass (RFOG)**
  - International
- **BigBand®**



# BigBand Update

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- **Tender offer launched on October 21<sup>st</sup>**
- **Projected closing ~November 21<sup>st</sup>**
- **Integration planning going well**
- **Good customer feedback**
- **Will likely affect Q4 earnings by ~\$(0.01) to \$(0.03) per share (non-GAAP)**
- **Still lots of work to do**





# In Summary, Our Vision has Expanded and Future Business Outlook is Bright...

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- **Invest in High Growth Opportunities**
- **Expand and Diversify Our Portfolio to Achieve Long Term Growth**
  - Organic – Moxi®
  - Acquisition – BigBand®
- **Customer Diversification**
- **Focus on Execution**



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# Third Quarter 2011 Financial Highlights

**David Potts**  
**Chief Financial Officer**



# Financial Highlights

## Q3 and September 2011 YTD

(Preliminary and Unaudited)

	Q3 2011	Q3 2010	H/(L)	Sept YTD 2011	Sept YTD 2010	H/(L)
Sales - \$M	274.4	274.3	0.1	807.6	821.3	(13.7)
Gross Margin - \$M	100.1	102.0	(1.9)	304.0	327.8	(23.8)
Gross Margin - %	36.5%	37.2%	(0.7) pts	37.6%	39.9%	(2.3) pts
SG&A/ R&D - \$M	71.8	69.0	2.8	217.1	208.5	8.6
Amortization of Intangibles / Restructuring - \$M	9.9	9.0	0.9	27.8	27.1	0.7
EPS - GAAP	0.11	0.11	0.00	0.34	0.41	(0.07)
Adjusted EPS - Non-GAAP (1)	0.21	0.19	0.02	0.60	0.67	(0.07)
Cash, Short-term & Long-term Marketable Securities - \$M	590.6	640.4	(49.8)	590.6	640.4	(49.8)
Cash Provided by Operating Activities - \$M	24.5	12.5	12.0	52.3	95.9	(43.6)
Shares Repurchases - \$M	17.1	15.6	1.5	74.7	39.3	35.4
Debt Retirement (face value) - \$M	5.0	13.5	(8.5)	5.0	18.3	(13.3)
Weighted average common shares - diluted - M	121.2	127.6	(6.4)	123.5	129.1	(5.6)
Backlog - \$M	155.3	119.6	35.7	155.3	119.6	35.7
Book-to-Bill	1.00	0.80	0.20	0.83	0.97	(0.1)

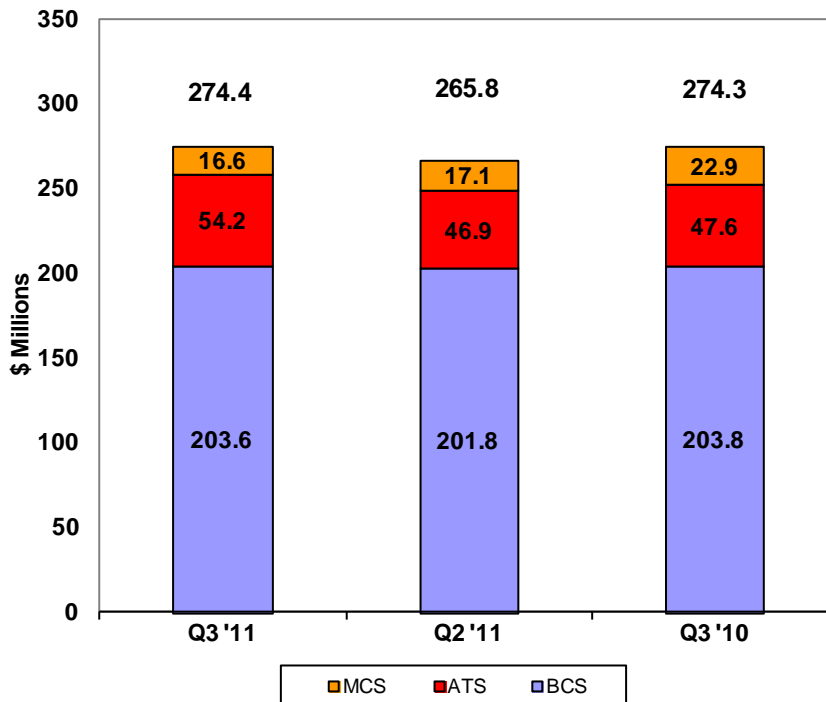
(1) See reconciliation of GAAP to Non-GAAP measures.



# Sales Q3 2011

(Preliminary & Unaudited)

## Sales by Segment



## Domestic / International Sales

	Q3 '11	Q2 '11	Q3 '10
Domestic - \$M	181.7	181.5	177.1
- %	66.2%	68.3%	64.6%
International - \$M	92.7	84.3	97.2
- %	33.8%	31.7%	35.4%

## Significant Customers

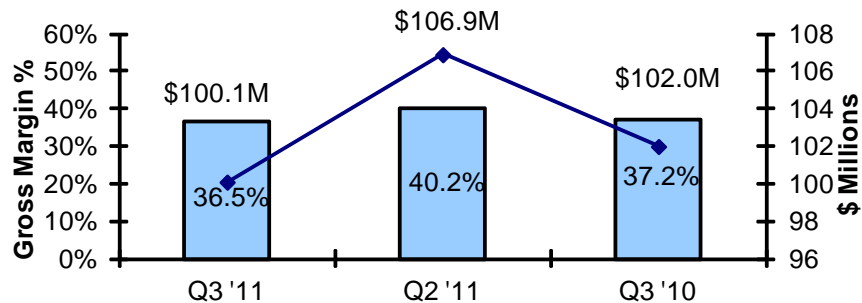
	Q3 '11	Q2 '11	Q3 '10
Time Warner Cable and Affiliates	33.9	27.6	35.1
Comcast and Affiliates	80.2	67.3	73.7



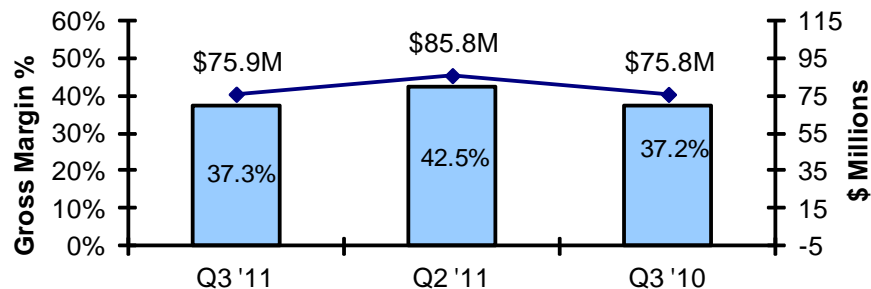
# Gross Margin Q3 2011

(Preliminary & Unaudited)

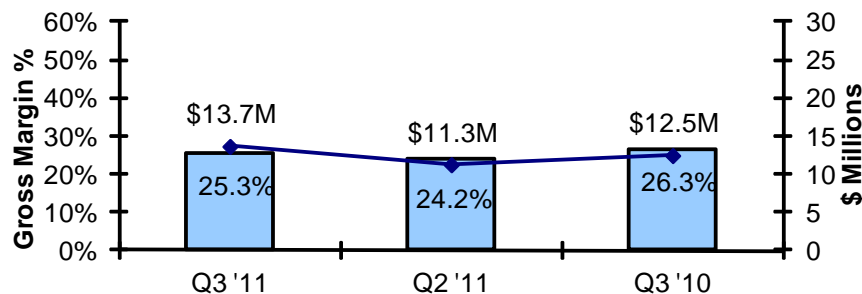
### ARRIS Consolidated Gross Margin



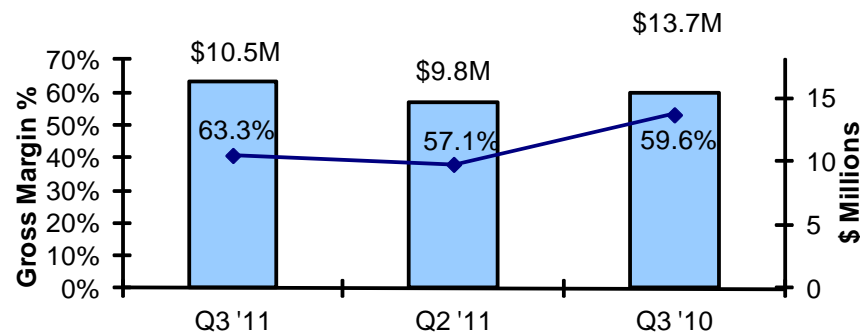
### BCS Gross Margin



### ATS Gross Margin



### MCS Gross Margin





# Operating Expenses

## Q3 and September 2011 YTD

(Preliminary & Unaudited)

		<u>Q3 2011</u>	<u>Q3 2010</u>	<u>H / (L)</u>
R&D	\$M	36.1	35.1	1.0
	% of Sales	13.2%	12.8%	0.4 pts
SG&A	\$M	35.7	33.9	1.8
	% of Sales	<u>13.0%</u>	<u>12.4%</u>	<u>0.7 pts</u>
Operating Expenses	\$M	71.8	69.0	2.8
	% of Sales	26.2%	25.2%	1.0 pts
Restructuring	\$M	1.0	0.0	1.0
	% of Sales	0.4%	0.0%	0.0 pts
Amortization of Intangibles	\$M	8.9	9.0	(0.1)
	% of Sales	<u>3.2%</u>	<u>3.3%</u>	<u>(0.0) pts</u>
Total	\$M	81.7	78.0	3.7
	% of Sales	29.8%	28.4%	1.3 pts

		<u>Sept YTD 2011</u>	<u>Sept YTD 2010</u>	<u>H(L)</u>
R&D	\$M	108.7	105.0	3.7
	% of Sales	13.5%	12.8%	0.7 pts
SG&A	\$M	108.4	103.5	4.9
	% of Sales	13.4%	12.6%	0.8 pts
Operating Expenses	\$M	<u>217.1</u>	<u>208.5</u>	<u>8.6</u>
	% of Sales	26.9%	25.4%	1.5 pts
Restructuring	\$M	1.0	0.1	0.9
	% of Sales	0.1%	0.0%	0.1 pts
Amortization of Intangibles	\$M	26.8	27.0	(0.2)
	% of Sales	3.3%	3.3%	0.0 pts
Total	\$M	<u>244.9</u>	<u>235.6</u>	<u>9.3</u>
	% of Sales	30.3%	28.7%	1.6 pts



# Balance Sheet & Cash Flow Highlights

## Q3 2011

(Preliminary & Unaudited)

	<u>Q3 11</u>	<u>Q2 11</u>	<u>Q1 11</u>	<u>Q4 10</u>	<u>Q3 10</u>
Cash & Short-term Investments - \$M	575.0	591.5	619.6	620.1	640.4
Long-term Marketable Securities - \$M	<u>15.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total - \$M	590.6	591.5	619.6	620.1	640.4
Cash provided by (used in) Operating Activities - \$M	24.5	31.4	(3.6)	22.6	12.5
Cash used to retire 2013 Convertible Debt - \$M	5.0	0.0	0.0	5.0	13.5
Cash used for Share Repurchases - \$M	17.1	57.6	0.0	30.0	15.6
Accounts Receivable, net - \$M	165.8	152.4	150.0	125.9	133.9
<i>DSOs</i>	53	52	47	45	46
Inventory, net - \$M	116.8	113.0	105.8	101.8	89.2
<i>Turns</i>	6.1	5.8	6.6	7.1	8.2
2013 Convertible Debt at Face Value- \$M	232.1	237.1	237.1	237.1	242.1
2013 Convertible Debt at Book Value- \$M	206.8	208.3	205.4	202.6	204.1



# Q4 2011 Guidance

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- Revenue \$270M - \$290M
- Adjusted (Non-GAAP) EPS \$0.18 - \$0.22<sup>(1)</sup>
- GAAP EPS \$0.08 - \$0.12
- Does not include impact of BigBand acquisition; anticipate ~\$(0.01) to \$(0.03) Non-GAAP EPS impact
- ~28% tax rate assumed
- 120.5M diluted shares assumed

(1) See reconciliation of GAAP to Non-GAAP measures





# EPS Guidance Reconciliation

Estimated GAAP EPS	\$0.08 - \$0.12
Reconciling Items	
Amortization of Intangibles (after tax)	\$0.05
Stock Compensation Expense (after tax)	\$0.03
Non-Cash Interest - Convertible Debt (after tax)	\$0.02
Subtotal	<u>\$0.10</u>
Estimated Adjusted (Non-GAAP) EPS	<u><u>\$0.18 - \$ 0.22 <sup>(1)</sup></u></u>

(1) Excludes impact of BigBand acquisition

**See the GAAP to Non-GAAP EPS reconciliation for a discussion regarding these adjustments and management's reasoning for providing this Non-GAAP financial measure.**



# GAAP EPS / Adjusted EPS Reconciliation

## Q3 2011

(Preliminary & Unaudited)

(in thousands, except per share data)

	Q1 2011		Q2 2011		Q3 2011		YTD 2011	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 11,564	\$ 0.09	\$ 16,690	\$ 0.13	\$ 13,713	\$ 0.11	\$ 41,967	\$ 0.34
Highlighted items:								
<i>Impacting gross margin:</i>								
Stock compensation expense	437	-	557	-	525	-	1,519	0.01
<i>Impacting operating expenses:</i>								
Acquisition costs, restructuring and other	-	-	-	-	1,444	0.01	1,444	0.01
Amortization of intangible assets	8,944	0.07	8,944	0.07	8,944	0.07	26,832	0.22
Stock compensation expense	4,847	0.04	5,368	0.04	5,213	0.04	15,428	0.12
<i>Impacting other (income) / expense:</i>								
Non-cash interest expense	2,832	0.02	2,889	0.02	2,883	0.02	8,604	0.07
Loss (gain) on retirement of debt	-	-	-	-	19	-	19	-
<i>Impacting income tax expense:</i>								
Adjustments of income tax valuation allowances, research & development credits and other	(3,583)	(0.03)	-	-	(2,335)	(0.02)	(5,918)	(0.05)
Tax related to highlighted items above	(5,024)	(0.04)	(4,915)	(0.04)	(5,265)	(0.04)	(15,204)	(0.12)
Total highlighted items	8,453	0.07	12,843	0.10	11,428	0.09	32,724	0.26
Net income excluding highlighted items	\$ 20,017	\$ 0.16	\$ 29,533	\$ 0.24	\$ 25,141	\$ 0.21	\$ 74,691	\$ 0.60
Weighted average common shares - diluted		125,732		123,711		121,237		123,549

	Q1 2010		Q2 2010		Q3 2010		YTD 2010	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 18,991	\$ 0.15	\$ 19,774	\$ 0.15	\$ 14,042	\$ 0.11	\$ 52,807	\$ 0.41
Highlighted items:								
<i>Impacting gross margin:</i>								
Stock compensation expense	433	-	481	-	491	-	1,405	0.01
<i>Impacting operating expenses:</i>								
Acquisition costs, restructuring and other	52	-	21	-	-	-	73	-
Amortization of intangible assets	9,022	0.07	9,021	0.07	8,970	0.07	27,013	0.21
Stock compensation expense	4,088	0.03	5,271	0.04	5,294	0.04	14,653	0.11
<i>Impacting other (income) / expense:</i>								
Non-cash interest expense	2,883	0.02	2,884	0.02	2,781	0.02	8,548	0.07
Loss (gain) on retirement of debt	-	-	(115)	-	(263)	-	(378)	-
<i>Impacting income tax expense:</i>								
Adjustments of income tax valuation allowances, research & development credits and other	1,222	0.01	(351)	-	(1,040)	(0.01)	(169)	-
Tax related to highlighted items above	(5,505)	(0.04)	(6,170)	(0.05)	(6,133)	(0.05)	(17,808)	(0.14)
Total highlighted items	12,195	0.09	11,044	0.09	10,100	0.08	33,337	0.26
Net income excluding highlighted items	\$ 31,186	\$ 0.24	\$ 30,818	\$ 0.24	\$ 24,142	\$ 0.19	\$ 86,144	\$ 0.67
Weighted average common shares - diluted		129,975		129,717		127,638		129,103

With respect to stock compensation expense, ARRIS records non-cash compensation expense related to grants of options and restricted stock. Depending upon the size, timing and the terms of the grants, this non-cash compensation expense may vary significantly. With respect to amortization of intangibles, the intangibles being amortized relate to our acquisitions. The acquisition costs, restructuring, and other reflect items that, although they or similar items might recur, are of a nature and magnitude that identifying them separately provides investors with a greater ability to project ARRIS' future performance. With respect to the convertible debt non-cash interest, ARRIS records non-cash interest expense related to the 2013 convertible debt. Disclosing the non-cash piece provides investors with the information regarding interest that will not be paid out in cash. In both 2011 and 2010, income tax expense adjustments were recorded for state valuation allowances and research and development tax credits.

In assessing operating performance and preparing budgets and forecasts, ARRIS' management considers performance after making these adjustments and believes that providing investors with the same information provides greater transparency and insight into management's analysis.



# GAAP Operating Income / Adjusted Operating Income Reconciliation

(Preliminary & Unaudited)

(in thousands)	Q3 2011	Q3 2010	Sept YTD 2011	Sept YTD 2010
Operating Income as reported	\$ 18,451	\$ 23,966	\$ 59,032	\$ 92,160
Operating Income as a % of sales	6.7%	8.7%	7.3%	11.2%
Highlighted Items:				
Stock compensation expense	5,738	5,785	16,947	16,059
Acquisition costs, restructuring and other	1,444	-	1,444	73
Amortization of intangible assets	8,944	8,969	26,832	27,013
Operating Income excluding highlighted items	34,577	38,720	104,255	135,305
Operating Income excluding highlighted items as a % of sales	12.6%	14.1%	12.9%	16.5%

**See the GAAP to Non-GAAP EPS reconciliation for a discussion regarding these adjustments and management's reasoning for providing this Non-GAAP financial measure.**



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# Questions