



**Second Quarter 2011**

**ARRIS Earnings Conference Call**

**July 27, 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 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; 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 March 31, 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.



# Second Quarter 2011 Highlights & Business Outlook

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



# Q2 2011 Results

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- **Revenue \$265.8M**
- **Gross Margin 40.2%**
- **Non-GAAP EPS \$0.24**
- **68% Domestic, 32% International**
- **Stock repurchase program expanded**



# Q2 2011 Results

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- **Broadband Communications Systems (BCS)**
  - C4 CMTS shipments ~79,000 downstream ports
  - 32D upgrade program momentum had positive effect on GM%ages
  - Substantial progress on Home Media Gateway product
    - Revenue from lead customers in Q2; accelerating in 2<sup>nd</sup> half
    - New customers will drive additional revenue in 2<sup>nd</sup> half
  - Introduction of new video MPEG-4 adaptive streaming platform
  - Solid QAM sales in the second quarter
  - Shipped ~1.3 million CPE units in quarter



# Q2 2011 Results

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- **Access, Transport and Supplies (ATS)**
  - ATS revenues up ~3% sequentially...expect trend to continue
  - ARRIS multi-wave optics key to node segmentation
  - MSO investment in Commercial Services
    - Cell Tower Backhaul
    - Metro Ethernet
    - Wi-Fi
  - Commitment from top European MSO for Ruckus Wi-Fi deployment
- **Media and Communications Systems (MCS)**
  - Revenues improved ~12.5% sequentially
  - Strong orders for Assurance products in Latin America
  - OnDemand product wins for Ad Insertion products in North America
  - Fixed Mobile Convergence (FMC) revenue with NA customer



# New Products Driving Revenue Growth

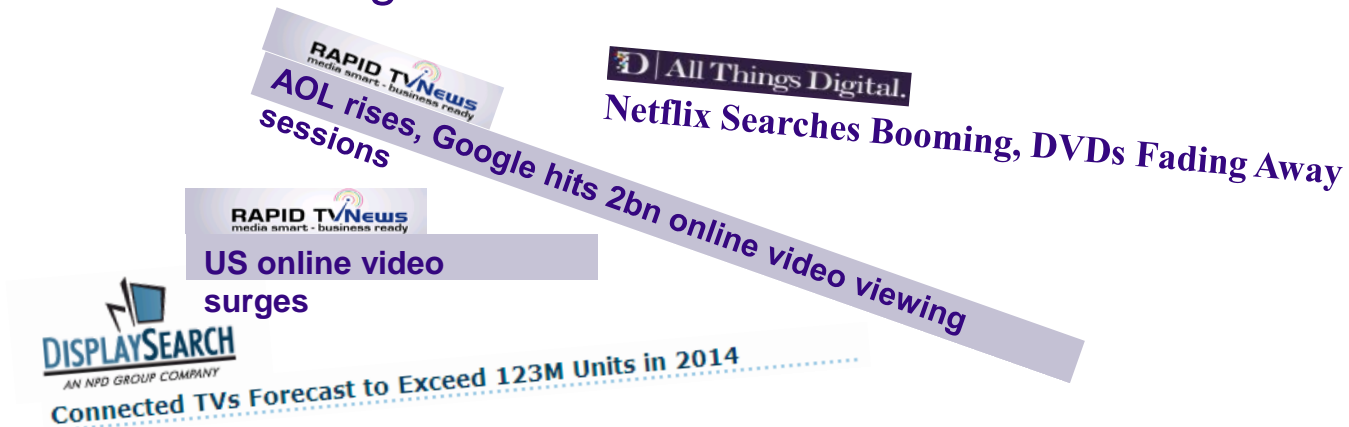
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- **Second Generation DOCSIS 3.0 C4 CMTS - 32D and 24U**
  - Doubles C4 density
- **Home Media Gateway**
  - Launches proceeding
  - New customers in the pipeline
- **Professional Services**
  - Telecom network design
  - Cell Tower Backhaul (CTBH)
  - Wi-Fi
- **Wide variety of new CPE devices**
- **Ethernet Passive Optical Network (EPON) and RF over Glass (RFOG)**
- **Fixed Mobile Convergence**
  
- **E6000™ Converged Edge Router on track for Q4 lab trials**



# Business Outlook

- **Outlook for 2011 and beyond is bright**
  - Total addressable market expanding
  - New products in pipeline gives optimism for the future
  - Technology disruptions creating new opportunities
- **External Trends continue to drive traffic growth**
  - Tremendous growth of video traffic



- Over The Top (OTT) - a threat or an opportunity for customers, but in either case, an opportunity for ARRIS





# **Second Quarter 2011 Financial Highlights**

**David Potts  
Chief Financial Officer**



# Financial Highlights Q2 and First Half 2011

(Preliminary and Unaudited)

	Q2 2011	Q2 2010	H/(L)	First Half 2011	First Half 2010	H/(L)
Sales - \$M	265.8	280.4	(14.6)	533.2	547.1	(13.9)
Gross Margin - \$M	106.9	113.3	(6.4)	203.8	225.8	(22.0)
Gross Margin - %	40.2%	40.4%	(0.2) pts	38.2%	41.3%	(3.1)
SG&A / R&D - \$M	72.5	70.0	2.5	145.4	139.5	5.9
Amortization of Intangibles / Restructuring - \$M	8.9	9.0	(0.1)	17.9	18.1	(0.2)
EPS - GAAP	0.13	0.15	(0.02)	0.23	0.30	(0.07)
Adjusted EPS - Non-GAAP (1)	0.24	0.24	0.00	0.40	0.48	(0.08)
Cash, and Short-term Marketable Securities - \$M	591.5	663.4	(71.9)	591.5	663.4	(71.9)
Cash Provided by Operating Activities - \$M	31.4	35.2	(3.8)	27.8	83.4	(55.6)
Shares Repurchases - \$M	57.6	20.6	37.0	57.6	23.7	33.9
Debt Retirement (face value) - \$M	0.0	5.0	(5.0)	0.0	5.0	(5.0)
Weighted average common shares - diluted - M	123.7	129.7	(6.0)	124.7	129.8	(5.1)
Backlog - \$M	154.2	174.1	(19.9)	154.2	174.1	(19.9)
Book-to-Bill	0.91	0.92	(0.01)	0.74	1.05	(0.3)

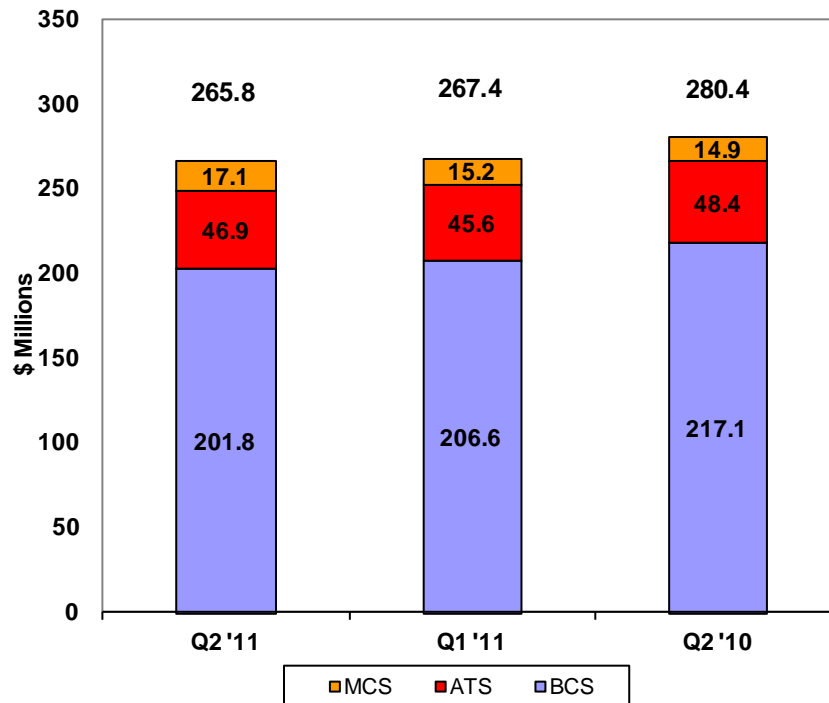
(1) See reconciliation of GAAP to Non-GAAP measures.



# Sales – Q2 2011

(Preliminary & Unaudited)

## Sales by Segment



## Domestic / International Sales

	Q2 '11	Q1 '11	Q2 '10
Domestic - \$M	181.5	189.8	187.8
- %	68.3%	71.0%	67.0%
International - \$M	84.3	77.6	92.6
- %	31.7%	29.0%	33.0%

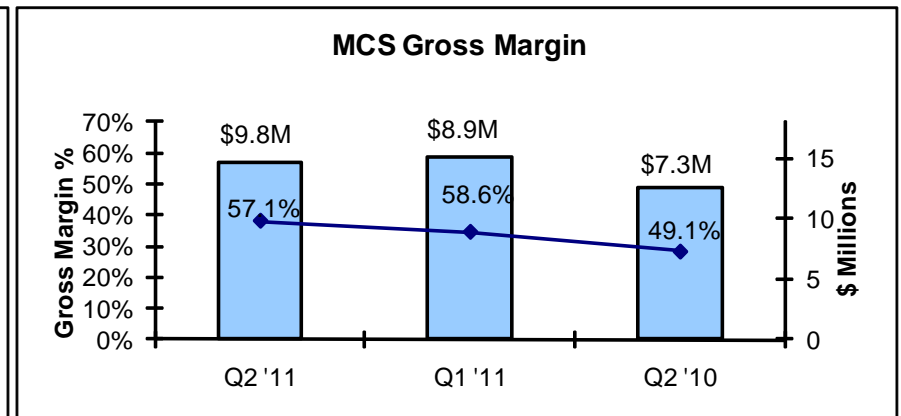
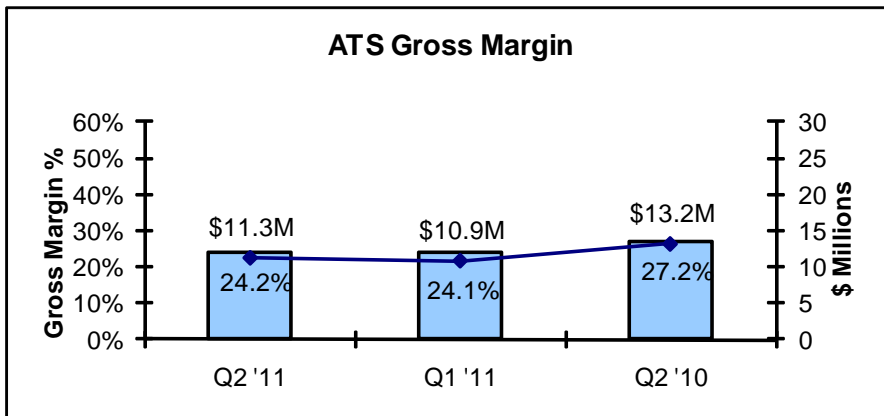
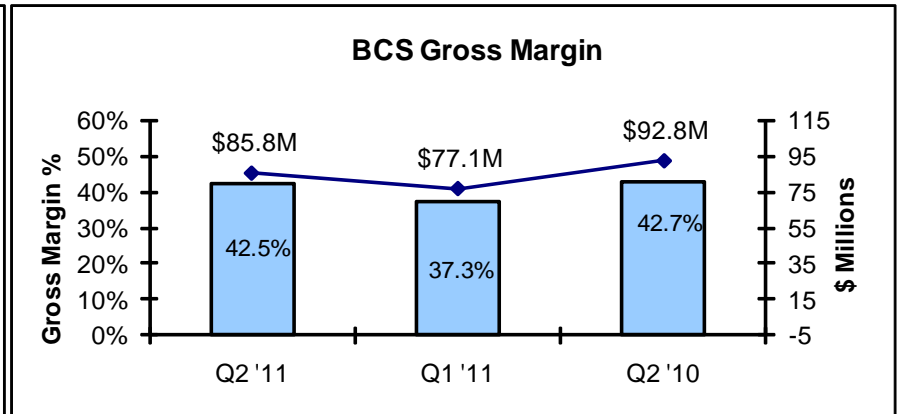
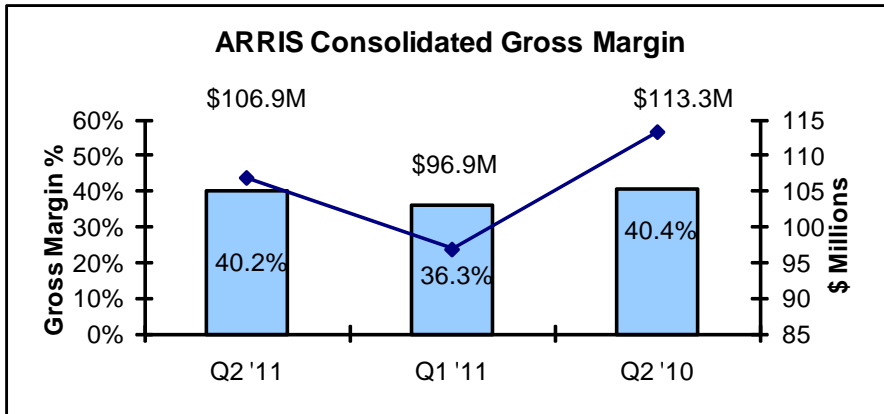
## 10% Customers

	Q2 '11	Q1 '11	Q2 '10
Time Warner Cable and Affiliates	27.6	42.7	52.9
Comcast and Affiliates	67.3	72.9	65.7



# Gross Margin– Q2 2011

(Preliminary & Unaudited)





# Operating Expenses

## Q2 and First Half 2011

(Preliminary & Unaudited)

		<u>Q2 2011</u>	<u>Q2 2010</u>	<u>H / (L)</u>
R&D	\$M	36.6	35.5	1.1
	% of Sales	13.8%	12.7%	1.1 pts
SG&A	\$M	35.9	34.5	1.4
	% of Sales	13.5%	12.3%	1.2 pts
Operating Expenses	\$M	72.5	70.0	2.5
	% of Sales	27.3%	25.0%	2.3 pts
Restructuring	\$M	0.0	0.0	-
	% of Sales	0.0%	0.0%	- pts
Amortization of Intangibles	\$M	8.9	9.0	(0.1)
	% of Sales	3.3%	3.2%	0.1 pts
Total	\$M	81.4	79.0	2.4
	% of Sales	30.6%	28.2%	2.4 pts

		<u>First Half 2011</u>	<u>First Half 2010</u>	<u>H(L)</u>
R&D	\$M	72.7	69.9	2.8
	% of Sales	13.6%	12.8%	0.8 pts
SG&A	\$M	72.7	69.6	3.1
	% of Sales	13.6%	12.7%	0.9 pts
Operating Expenses	\$M	145.4	139.5	5.9
	% of Sales	27.3%	25.5%	1.8 pts
Restructuring	\$M	0.0	0.1	(0.1)
	% of Sales	0.0%	0.0%	(0.0) pts
Amortization of Intangibles	\$M	17.9	18.0	(0.1)
	% of Sales	3.4%	3.3%	0.1 pts
Total	\$M	163.3	157.6	5.7
	% of Sales	30.6%	28.8%	1.8 pts



# Balance Sheet & Cash Flow Highlights – Q2 2011

(Preliminary & Unaudited)

	<u>Q2 11</u>	<u>Q1 11</u>	<u>Q4 10</u>	<u>Q3 10</u>	<u>Q2 10</u>	<u>Q1 10</u>
Cash & Short-term Investments - \$M	591.5	619.6	620.1	640.4	663.4	661.1
Cash provided by (used in) Operating Activities - \$M	31.4	(3.6)	22.6	12.5	35.2	48.2
Cash used to retire 2013 Convertible Debt - \$M	0.0	0.0	5.0	13.5	4.8	0.0
Cash used for Share Repurchases - \$M	57.6	0.0	30.0	15.6	20.6	3.1
Accounts Receivable, net - \$M	152.4	150.0	125.9	133.9	139.7	139.2
<i>DSOs</i>	52	47	45	46	45	48
Inventory, net - \$M	113.0	105.8	101.8	89.2	78.8	79.9
<i>Turns</i>	5.8	6.6	7.1	8.2	8.4	7.0
2013 Convertible Debt at Face Value- \$M	237.1	237.1	237.1	242.1	256.1	261.1
2013 Convertible Debt at Book Value- \$M	208.3	205.4	202.6	204.1	212.9	214.1



## Q3 2011 Guidance

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- Revenue \$270M - \$290M
- Adjusted (Non-GAAP) EPS \$0.19 - \$0.23<sup>(1)</sup>
- GAAP EPS \$0.09 - \$0.13
- ~30% tax rate assumed
- 122M diluted shares assumed

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



# EPS Guidance Reconciliation

## Q3 2011 EPS Guidance

Estimated GAAP EPS	\$0.09 - \$0.13
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>\$0.19 - \$ 0.23</u>

**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

## Q2 2011 (Preliminary & Unaudited)

(in thousands, except per share data)

	Q1 2011		Q2 2011		First Half 2011	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 11,564	\$ 0.09	\$ 16,690	\$ 0.13	\$ 28,254	\$ 0.23
Highlighted items:						
<i>Impacting gross margin:</i>						
Stock compensation expense	437	-	557	-	994	0.01
<i>Impacting operating expenses:</i>						
Amortization of intangible assets	8,944	0.07	8,944	0.07	17,888	0.14
Stock compensation expense	4,847	0.04	5,368	0.04	10,215	0.08
<i>Impacting other (income) / expense:</i>						
Non-cash interest expense	2,832	0.02	2,889	0.02	5,721	0.05
<i>Impacting income tax expense:</i>						
Adjustments of income tax valuation allowances, research & development credits and other	(3,583)	(0.03)	-	-	(3,583)	(0.03)
<i>Tax related to highlighted items above</i>	(5,024)	(0.04)	(4,915)	(0.04)	(9,939)	(0.08)
Total highlighted items	8,453	0.07	12,843	0.10	21,296	0.17
Net income excluding highlighted items	\$ 20,017	\$ 0.16	\$ 29,533	\$ 0.24	\$ 49,550	\$ 0.40
Weighted average common shares - diluted		125,732		123,711		124,720

	Q1 2010		Q2 2010		First Half 2010	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 18,991	\$ 0.15	\$ 19,774	\$ 0.15	\$ 38,765	\$ 0.30
Highlighted items:						
<i>Impacting gross margin:</i>						
Stock compensation expense	433	-	481	-	914	0.01
<i>Impacting operating expenses:</i>						
Acquisition costs, restructuring and other	52	-	21	-	73	-
Amortization of intangible assets	9,022	0.07	9,022	0.07	18,044	0.14
Stock compensation expense	4,088	0.03	5,272	0.04	9,360	0.08
<i>Impacting other (income) / expense:</i>						
Non-cash interest expense	2,883	0.02	2,884	0.02	5,767	0.05
Gain on retirement of debt	-	-	(115)	-	(115)	-
<i>Impacting income tax expense:</i>						
Adjustments of income tax valuation allowances, research & development credits and other	1,222	0.01	(351)	-	871	0.01
<i>Tax related to highlighted items above</i>	(5,505)	(0.04)	(6,170)	(0.05)	(11,675)	(0.09)
Total highlighted items	12,195	0.09	11,044	0.09	23,239	0.18
Net income excluding highlighted items	\$ 31,186	\$ 0.24	\$ 30,818	\$ 0.24	\$ 62,004	\$ 0.48
Weighted average common shares - diluted		129,975		129,717		129,848

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 the first quarter of 2011 and in the first and second quarters of 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)	Q2 2011	Q2 2010	First Half 2011	First Half 2010
Operating Income as reported	\$25,457	\$34,239	\$40,581	\$68,194
Operating Income as a % of sales	9.6%	12.2%	7.6%	12.5%
Highlighted Items:				
Stock compensation expense	5,925	5,753	11,209	10,274
Acquisition costs, restructuring and other	-	21	-	73
Amortization of intangible assets	8,944	9,022	17,888	18,044
Operating Income excluding highlighted items	40,326	49,035	69,678	96,585
Operating Income excluding highlighted items as a % of sales	15.2%	17.5%	13.1%	17.7%

**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