



**First Quarter 2011**

**ARRIS Earnings Conference Call**

**April 27, 2011**

# Safe Harbor

Statements in this presentation or made on this call, including those related to second 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; 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-K for the year ended December 31, 2010. 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.



# **First Quarter 2011 Highlights & Business Outlook**

**Bob Stanzione  
CEO & Chairman**

# Q1 2011 Results

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- Q1 within guidance
- Revenue \$267.4M and Non-GAAP EPS \$0.16
- Margin 36.3% (Expect improvement in Q2)
- Order backlog of \$177.5M up from \$140.4M in Q410
- Book-to-bill ratio of 1.14 up from 1.08 in Q410
- 71% Domestic, 29% International

# Q1 2011 Results

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- **Broadband Communications Systems**
  - ◆ Record C4 CMTS shipments of 62,764 downstreams
  - ◆ Adjusted pricing in anticipation of double-density upgrades (32D)
  - ◆ 32D-CAM gaining momentum, will have positive effect on GM%ages
  - ◆ Substantial progress on Residential Video Gateway with Q2 revenue
  - ◆ Introduction of new video MPEG4 adaptive streaming platform
  - ◆ DOCSIS CPE business solid with 1.4M units shipped
  - ◆ Record level multi-line terminals for small business

# Q1 2011 Results

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- **Access, Transport and Supplies (ATS)**
  - ◆ ATS revenues up 8.0% yr/yr and up 6.4% sequentially
  - ◆ Professional Services – CTBH, Metro-E, Network Design
  - ◆ ARRIS multi-wave optics key to node segmentation
  - ◆ MSO investment in Commercial Services, CTBH, HSD and Wi-Fi
  - ◆ Signed Ruckus Wireless resale agreement
- **Media and Communications Systems (MCS)**
  - ◆ Improved revenues and margins
  - ◆ Strong bookings for Assurance products
  - ◆ OnDemand product wins for Ad Insertion and VOD products
  - ◆ Announced new high density server platform (XMS-Flex)

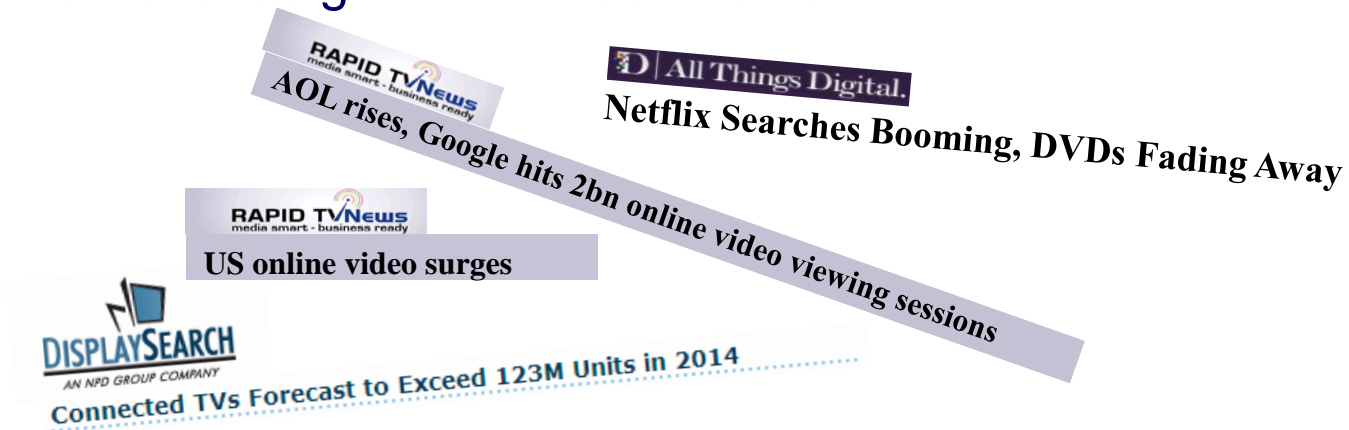
# Pipeline of New Products for 2011 and Beyond

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- **Second Generation DOCSIS 3.0 C4 line cards - 32D and 24U**
  - Doubles C4 density
  - More than a dozen 32D lab trials now...
- **Home Video Gateway**
  - Multiple trials, initial bookings
  - Commercial launch 2nd quarter
- **Professional Services**
  - Telecom network design
  - Cell Tower Backhaul (CTBH)
- **Wide variety of CPE devices**
  - Cost reductions
  - Wireless business terminals
- **Fixed Mobile Convergence**
- **On-demand and real time encoding, storage and streaming to multiple screens**
- **New outage management software tool**
- **Ethernet Passive Optical Network (EPON)**
- **Next generation full spectrum optics**
- **E6000™ Converged Edge Router development on track**

# Business Outlook for 2011

- **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



# Analyst Conference

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**ARRIS 2011 Analyst Conference**

**June 10, 2011**

**NASDAQ MarketSite**

**43rd and Broadway**

**New York City**

**(Details to Follow)**



# **First Quarter 2011 Financial Highlights**

**David Potts  
Chief Financial Officer**



# Financial Highlights

## Q1 2011

(Preliminary and Unaudited)

	<u>Q1 2011</u>	<u>Q1 2010</u>	<u>H/(L)</u>
Sales - \$M	267.4	266.7	0.7
Gross Margin - \$M	96.9	112.5	(15.6)
Gross Margin - %	36.3%	42.2%	(5.9) pts
SG&A / R&D - \$M	72.9	69.5	3.4
Amortization of Intangibles / Restructuring - \$M	8.9	9.1	(0.2)
EPS - GAAP	0.09	0.15	(0.06)
Adjusted EPS - Non-GAAP (1)	0.16	0.24	(0.08)
Cash, and Short-term Marketable Securities - \$M	619.6	661.1	(41.5)
Cash Provided by (Used In) Operating Activities - \$M	(3.6)	48.2	(51.8)
Weighted average common shares - diluted - M	125.7	130.0	(4.3)
Backlog - \$M	177.5	195.1	(17.6)
Book-to-Bill	1.14	1.19	(0.05)

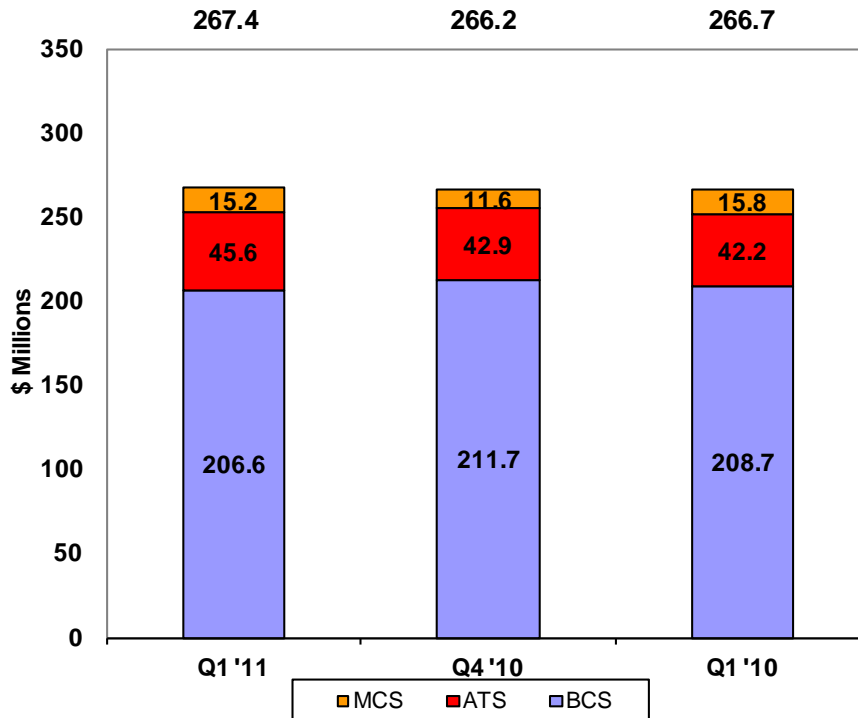
(1) See reconciliation of GAAP to Non-GAAP measures.



# Sales

## Q1 2011

(Preliminary & Unaudited)



	Q1 '11	Q4 '10	Q1 '10
Domestic - \$M	189.9	182.5	157.9
- %	71.0%	68.6%	59.2%
International - \$M	77.6	83.7	108.8
- %	29.0%	31.4%	40.8%
Time Warner Cable and Affiliates	42.7	45.4	41.1
Comcast and Affiliates	72.9	83.2	45.6



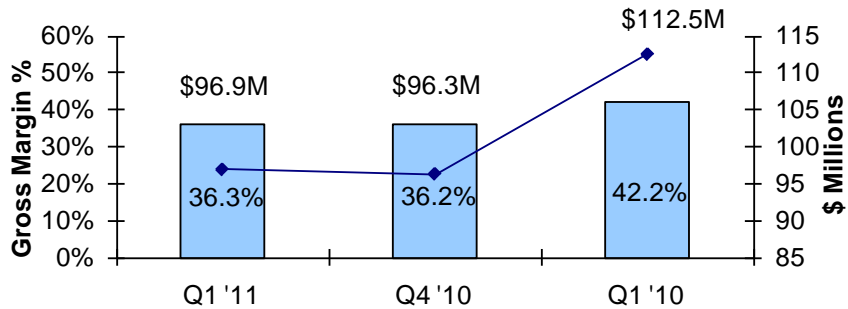


# Gross Margin

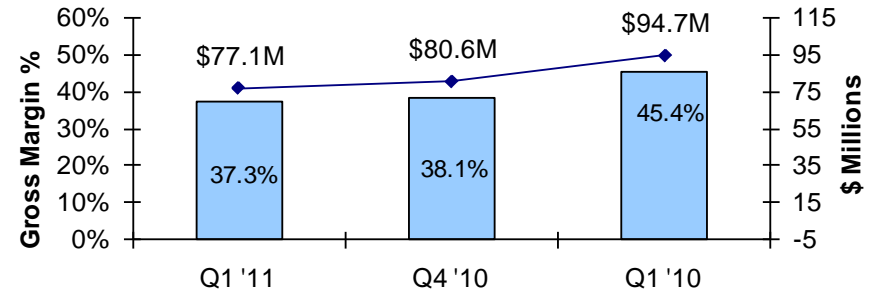
## Q1 2011

(Preliminary & Unaudited)

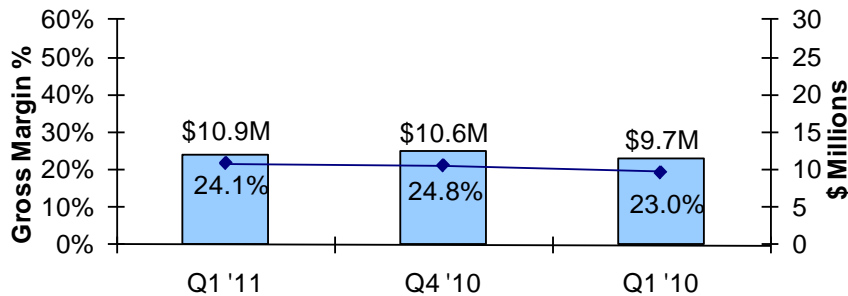
**ARRIS Consolidated Gross Margin**



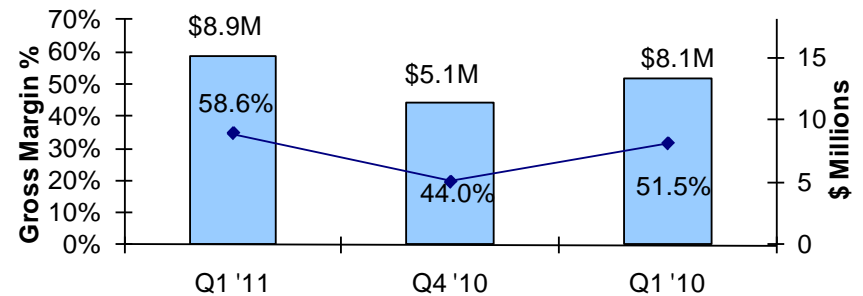
**BCS Gross Margin**



**ATS Gross Margin**



**MCS Gross Margin**





# Operating Expenses

## Q1 2011

(Preliminary & Unaudited)

		<u>Q1 2011</u>	<u>Q4 2010</u>	<u>Q1 2010</u>	<u>Q4 2010</u> H/ (L)	<u>Q1 2010</u> H/ (L)
R&D	\$M	36.1	35.4	34.4	0.7	1.7
	% of Sales	13.5%	13.3%	12.9%	0.3 pts	0.6 pts
SG&A	\$M	36.8	34.2	35.1	2.6	1.7
	% of Sales	13.8%	12.8%	13.2%	0.9 pts	0.6 pts
Operating Expenses	\$M	72.9	69.6	69.5	3.3	3.4
	% of Sales	27.3%	26.1%	26.1%	1.2 pts	1.2 pts
Restructuring	\$M	0.0	0.1	0.1	(0.1)	(0.1)
	% of Sales	0.0%	0.0%	0.0%	(0.0) pts	(0.0) pts
Amortization of Intangibles	\$M	8.9	8.9	9.0	0.0	(0.1)
	% of Sales	3.3%	3.3%	3.4%	(0.0) pts	(0.0) pts
Total	\$M	81.8	78.6	78.6	3.2	3.2
	% of Sales	30.6%	29.5%	29.5%	1.1 pts	1.1 pts



# Balance Sheet & Cash Flow Highlights

## Q1 2011

(Preliminary & Unaudited)

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



# Q2 2011 Guidance

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- Revenue \$260M - \$280M
- Adjusted (Non-GAAP) EPS \$0.16 - \$0.20<sup>(1)</sup>
- GAAP EPS \$0.06 - \$0.10
- 30% tax rate assumed
- 126.5M diluted shares assumed

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





# EPS Guidance Reconciliation

## Q2 2011 EPS Guidance

Estimated GAAP EPS	\$0.06 - \$0.10
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>\$0.16 - \$ 0.20</u></u>



# GAAP EPS / Adjusted EPS Reconciliation

## Q1 2011

(Preliminary & Unaudited)

	Q1 2011		Q1 2010	
	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 11,901	\$ 0.09	\$ 18,991	\$ 0.15
Highlighted items:				
<i>Impacting gross margin:</i>				
Stock compensation expense	437	-	433	-
<i>Impacting operating expenses:</i>				
Acquisition costs, restructuring and other	-	-	52	-
Amortization of intangible assets	8,944	0.07	9,022	0.07
Stock compensation expense	4,847	0.04	4,088	0.03
<i>Impacting other (income) / expense:</i>				
Non-cash interest expense	2,832	0.02	2,883	0.02
Loss (gain) on retirement of debt	-	-	-	-
<i>Impacting income tax expense:</i>				
Adjustments of income tax valuation allowances, research & development credits and other	(3,583)	(0.03)	1,222	0.01
<i>Tax related to highlighted items above</i>	(5,024)	(0.04)	(5,505)	(0.04)
Total highlighted items	8,453	0.07	12,195	0.09
Net income excluding highlighted items	\$ 20,354	\$ 0.16	\$ 31,186	\$ 0.24
Weighted average common shares - diluted		125,732		129,975

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 quarters of 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)

	<u>Q1 2011</u>	<u>Q1 2010</u>
Operating Income as reported	\$ 15,124	\$ 33,955
Operating Income as a % of sales	5.7%	12.7%
Highlighted Items:		
Stock compensation expense	5,284	4,521
Acquisition costs, restructuring and other	-	52
Amortization of intangible assets	8,944	9,022
Operating Income excluding highlighted items	<u>29,352</u>	<u>47,550</u>
Operating Income excluding highlighted items as a % of sales	11.0%	17.8%

**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.**