



# Second Quarter 2012 ARRIS Earnings Conference Call

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July 25, 2012



# Safe Harbor

Statements in this presentation or made on this call, including those related to third quarter 2012 revenues and net income, gross margins, operating expenses, income taxes, outlook for full year 2012, 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, 2012. 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 2012 Highlights & Business Outlook

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Bob Stanzione  
CEO & Chairman

# Q2 2012 Results & Highlights

- Revenue \$349.3M
  - Another record quarter
  - Up 15% vs. Q1 2012, 31% vs. Q2 2011
  - All segments, all regions up sequentially
- Gross Margin 33.9%
- Non-GAAP EPS \$0.25\*
- 74% Domestic, 26% International
- Excellent working capital management
- Stock repurchase program continued

**Great First Half!**

\* See reconciliation of GAAP to Non-GAAP measures.

# Q2 2012 Results

## ▪ **Broadband Communications Systems (BCS)**

- Revenue up 15% vs. Q1 2012, 39% vs. Q2 2011
- Gross Margin of 34.3% with increased CPE mix
- CMTS mix shift
  - 75,662 C4™ downstreams
  - Sharp increase in upstream channel shipments
- Edge Media Processing (aka BigBand)
  - Successful MSP QAM deployments
- E6000 Cable Edge Router
  - On track for second half trials
- CPE shipments of 1.962 million units in the quarter
  - Up 22% vs. Q1 2012
  - >82% of CPE units were DOCSIS 3.0
  - Increased demand across a broad customer base
  - D3.0 and embedded WiFi driving ASP increase
  - Video Gateway
    - Moxi® shipments lighter than expected
    - Good progress on New Gateway Platforms w/3<sup>rd</sup> party software

# Q2 2012 Results

- **Access, Transport and Supplies (ATS)**
  - Q2 Revenue up 19% over Q1
  - Node split activity continues
  - Increasing shipments of Metro WiFi equipment
  
- **Media and Communications Systems (MCS)**
  - Q2 revenue up 15% over Q1
  - Several small International wins

# Q3 2012 Guidance

## ▪ Q3 Guidance

- Center of revenue guidance represents 30% growth vs. Q3 2011
- Mix favors CPE and CMTS hardware
- Increase in operating expense for new product introductions
- Entering quarter with strong backlog
- Supply chain responding well

## Broadband Access Investments Driving Growth



# Second Quarter 2012 Financial Highlights

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David Potts  
Chief Financial Officer



# Financial Highlights – Q2 and First Half 2012 (Preliminary & Unaudited)

|  | Q2 2011 | Q1 2012 | Q2 2012 | First Half<br>2011 | First Half<br>2012 | H/(L)     |
|--|---------|---------|---------|--------------------|--------------------|-----------|
| Sales - \$M <sup>(1) (2)</sup>                           | 265.8   | 302.9   | 349.3   | 533.2              | 652.2              | 119.0     |
| Gross Margin - \$M                                       | 106.9   | 108.9   | 118.5   | 203.8              | 227.4              | 23.6      |
| Gross Margin - %   | 40.2%   | 36.0%   | 33.9%   | 38.2%              | 34.9%              | (3.3) pts |
| EPS - GAAP   | 0.13    | 0.05    | 0.13    | 0.23               | 0.18               | (0.05)    |
| Adjusted EPS - Non-GAAP <sup>(1)</sup>                   | 0.24    | 0.19    | 0.25    | 0.40               | 0.44               | 0.04      |
| EBITDA - % of Sales GAAP <sup>(1)</sup>                  | 15.4%   | 8.9%    | 11.6%   | 13.2%              | 10.4%              | (2.8) pts |
| Adjusted EBITDA - % of Sales Non GAAP <sup>(1)</sup>     | 17.6%   | 13.4%   | 14.5%   | 15.3%              | 14.1%              | (1.2) pts |
| Cash, Short-term & Long-term Marketable Securities - \$M | 591.5   | 567.2   | 576.3   | 591.5              | 567.2              | (24.3)    |
| Cash Provided by Operating Activities - \$M              | 31.4    | 35.3    | 30.6    | 27.8               | 65.9               | 38.1      |
| Shares Repurchases - \$M                                 | 57.6    | 26.3    | 15.2    | 57.6               | 41.5               | (16.1)    |
| Weighted average common shares - diluted - M             | 123.7   | 117.6   | 115.1   | 124.7              | 116.4              | (8.3)     |
| Backlog - \$M  | 154.2   | 277.7   | 251.9   | 154.2              | 251.9              | 97.7      |
| Book-to-Bill   | 0.91    | 1.43    | 0.93    | 0.74               | 1.16               | 0.42      |

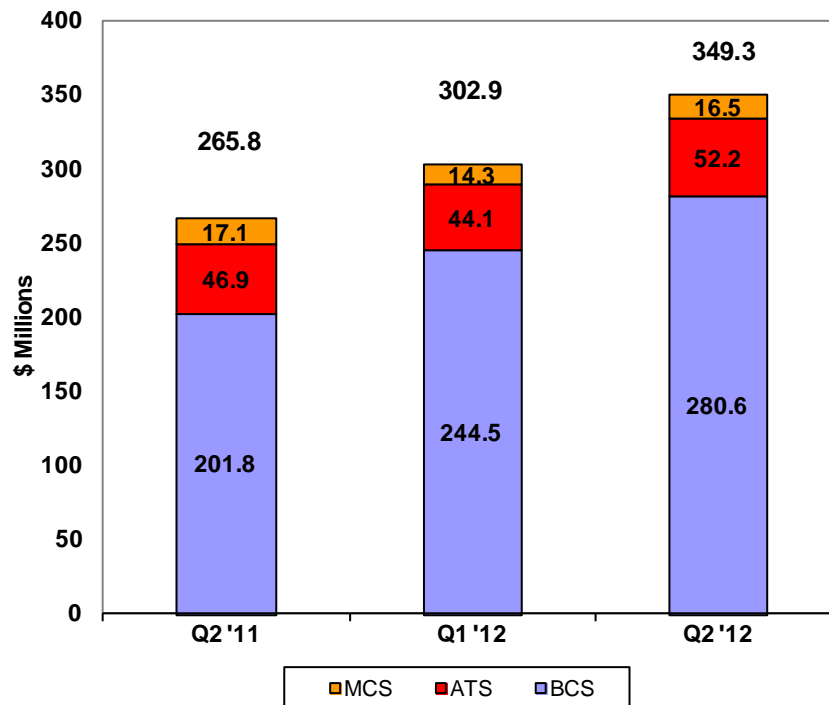
(1) See reconciliation of GAAP to Non-GAAP measures.

(2) Excludes \$1.8M in Q1 2012 and \$0.7M in Q2 2012 of Non-GAAP BBND Sales

# Sales – Q2 2012

(Preliminary & Unaudited)

## Sales by Segment



## Domestic / International Sales (\$M)

|                     | Q2 '11 | Q1 '12 | Q2 '12 |
|---------------------|--------|--------|--------|
| Domestic - \$M      | 181.5  | 227.5  | 257.8  |
| - %                 | 68.3%  | 75.1%  | 73.8%  |
| International - \$M | 84.3   | 75.4   | 91.6   |
| - %                 | 31.7%  | 24.9%  | 26.2%  |

## Significant Customers (\$M)

|                                  | Q2 '11 | Q1 '12 | Q2 '12 |
|----------------------------------|--------|--------|--------|
| Time Warner Cable and Affiliates | 33.3   | 47.1   | 75.3   |
| Comcast and Affiliates           | 67.3   | 81.8   | 96.2   |

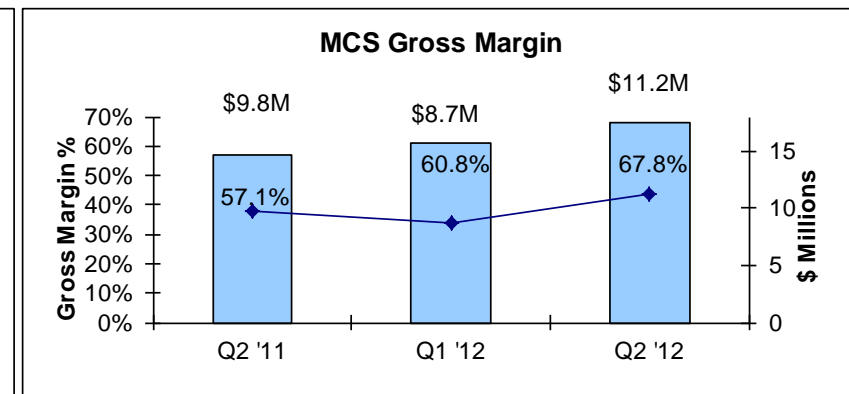
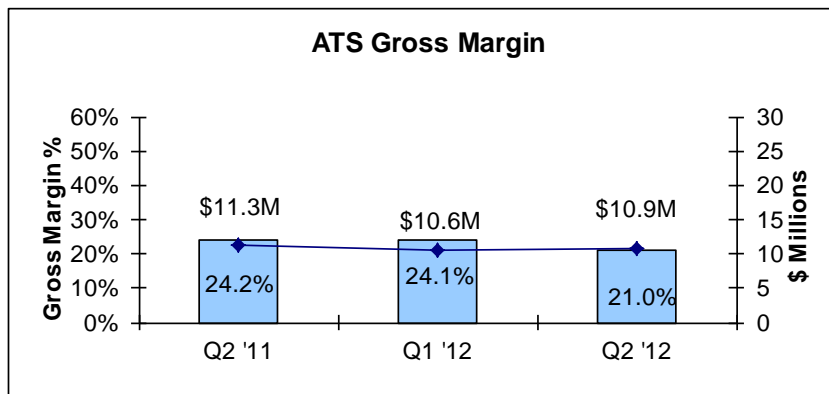
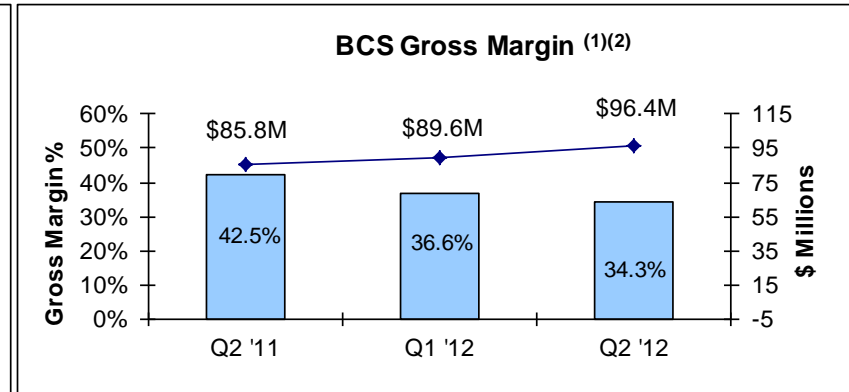
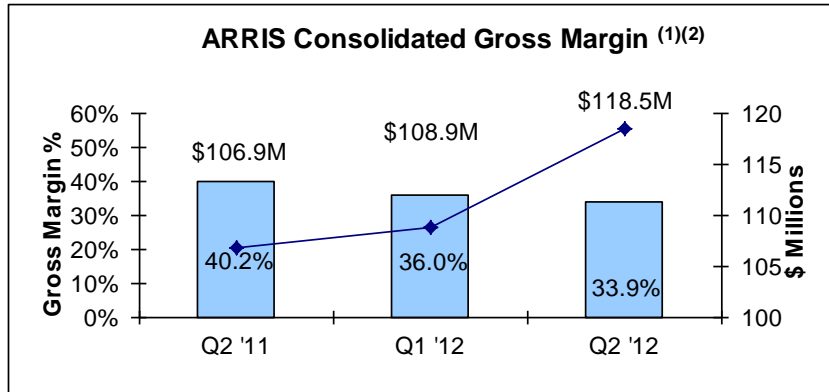
## Non GAAP BigBand Sales and Gross Margin Adjustments <sup>(1) & (2)</sup>

|                    | Q1 '12 | Q2 '12 |
|--------------------|--------|--------|
| Sales - \$M        | 1.8    | 0.7    |
| Gross Margin - \$M | 1.3    | 0.7    |

- (1) Revenue and gross margin impact of "fair valuing" BigBand deferred revenue that BigBand would have recorded but ARRIS cannot as a result of purchase accounting
- (2) See reconciliation of GAAP to Non-GAAP measures

# Gross Margin – Q2 2012

(Preliminary & Unaudited)



(1) Excludes gross margin impact of "fair valuing" BigBand deferred revenue at close that BigBand would have recorded but ARRIS cannot as a result of purchase accounting

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

# Operating Expenses – Q2 and YTD 2012

(Preliminary & Unaudited)

|                             |                   | <u>Q2 2011</u> | <u>Q1 2012</u> | <u>Q2 2012</u> |                             |                   | <u>First Half<br/>2011</u> | <u>First Half<br/>2012</u> | <u>H(L)</u>      |
|-----------------------------|-------------------|----------------|----------------|----------------|-----------------------------|-------------------|----------------------------|----------------------------|------------------|
| R&D                         | \$M               | 36.6           | 44.1           | 42.9           | R&D                         | \$M               | 72.7                       | 87.0                       | 14.3             |
|                             | % of Sales        | 13.8%          | 14.6%          | 12.3%          |                             | % of Sales        | 13.6%                      | 13.3%                      | (0.2) pts        |
| SG&A                        | \$M               | 35.9           | 39.6           | 40.2           | SG&A                        | \$M               | 72.7                       | 79.8                       | 7.1              |
|                             | % of Sales        | 13.5%          | 13.1%          | 11.5%          |                             | % of Sales        | 13.6%                      | 12.2%                      | (1.4) pts        |
| <b>Operating Expenses</b>   | <b>\$M</b>        | <b>72.5</b>    | <b>83.7</b>    | <b>83.1</b>    | <b>Operating Expenses</b>   | <b>\$M</b>        | <b>145.4</b>               | <b>166.8</b>               | <b>21.4</b>      |
|                             | <b>% of Sales</b> | <b>27.3%</b>   | <b>27.6%</b>   | <b>23.8%</b>   |                             | <b>% of Sales</b> | <b>27.3%</b>               | <b>25.6%</b>               | <b>(1.7) pts</b> |
| Restructuring               | \$M               | -              | 5.2            | 1.0            | Restructuring               | \$M               | -                          | 6.2                        | 6.2              |
|                             | % of Sales        | 0.0%           | 1.7%           | 0.3%           |                             | % of Sales        | 0.0%                       | 1.0%                       | 1.0 pts          |
| Acquisition Costs & Other   | \$M               | -              | 0.9            | 0.1            | Integration Cost            | \$M               | -                          | 1.0                        | -                |
|                             | % of Sales        | 0.0%           | 0.3%           | 0.0%           |                             | % of Sales        | 0.0%                       | 0.2%                       | 0.2 pts          |
| Amortization of Intangibles | \$M               | 8.9            | 7.4            | 7.4            | Amortization of Intangibles | \$M               | 17.9                       | 14.8                       | (3.1)            |
|                             | % of Sales        | 3.3%           | 2.4%           | 2.1%           |                             | % of Sales        | 3.4%                       | 2.3%                       | (1.0) pts        |
| <b>Total</b>                | <b>\$M</b>        | <b>81.4</b>    | <b>97.2</b>    | <b>91.6</b>    | <b>Total</b>                | <b>\$M</b>        | <b>163.3</b>               | <b>188.8</b>               | <b>25.5</b>      |
|                             | <b>% of Sales</b> | <b>30.6%</b>   | <b>32.1%</b>   | <b>26.2%</b>   |                             | <b>% of Sales</b> | <b>30.6%</b>               | <b>28.9%</b>               | <b>(1.7) pts</b> |

# Balance Sheet & Cash Flow Highlights – Q2 2012

(Preliminary & Unaudited)

|   | <u>Q2 11</u> | <u>Q3 11</u> | <u>Q4 11</u> | <u>Q1 12</u> | <u>Q2 12</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| Cash & short-term investments - \$M                 | 591.5        | 575.0        | 518.8        | 514.3        | 539.6        |
| Long-term marketable securities - \$M               | <u>0.0</u>   | <u>15.6</u>  | <u>42.3</u>  | <u>52.9</u>  | <u>36.7</u>  |
| Total - \$M   | 591.5        | 590.6        | 561.1        | 567.2        | 576.3        |
| <br>  |              |              |              |              |              |
| Cash provided by operating activities - \$M         | 31.4         | 24.5         | 60.9         | 35.3         | 30.6         |
| <br>  |              |              |              |              |              |
| Cash used for BigBand acquisition - \$M             | -            | -            | 162.4        | -            | -            |
| BigBand Cash / marketable securities acquired - \$M | <u>-</u>     | <u>-</u>     | <u>109.3</u> | <u>-</u>     | <u>-</u>     |
| Net cash used for BigBand acquisition - \$M         | -            | -            | 53.1         | -            | -            |
| <br>  |              |              |              |              |              |
| Cash used to retire 2013 convertible debt - \$M     | -            | 5.0          | -            | -            | -            |
| <br>  |              |              |              |              |              |
| Cash used for share repurchases - \$M               | 57.6         | 17.1         | 34.4         | 26.3         | 15.2         |
| <br>  |              |              |              |              |              |
| Accounts receivable, net - \$M                      | 152.4        | 165.8        | 152.4        | 183.4        | 179.4        |
| <i>DSOs</i>   | 52           | 53           | 52           | 51           | 47           |
| <br>  |              |              |              |              |              |
| Inventory, net - \$M                                | 113.0        | 116.8        | 115.9        | 105.1        | 102.4        |
| <i>Turns</i>  | 5.8          | 6.1          | 6.0          | 7.0          | 8.9          |
| <br>  |              |              |              |              |              |
| 2013 convertible debt at face value- \$M            | 237.1        | 232.1        | 232.1        | 232.1        | 232.1        |
| 2013 convertible debt at book value- \$M            | 208.3        | 206.8        | 209.8        | 212.8        | 215.8        |

## Q3 2012 Guidance

- **Revenue \$348M - \$368M**
- **Adjusted (Non-GAAP) EPS \$0.19 - \$0.23<sup>(1)</sup>**
- **GAAP EPS \$0.09 - \$0.13**
- **~ 33.5% tax rate assumed**
- **116.5M diluted shares assumed**

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

# GAAP to Adjusted Non-GAAP EPS Guidance Reconciliation

|  | Q3 2012 EPS<br>Guidance        |
|--|--------------------------------|
| Estimated GAAP EPS                               | \$0.09 - \$0.13                |
| Reconciling Items:                               |                                |
| Amortization of Intangibles (after tax)          | \$0.04                         |
| Stock Compensation Expense (after tax)           | \$0.04                         |
| Non-Cash Interest - Convertible Debt (after tax) | \$0.02                         |
| Subtotal   | <u>\$0.10</u>                  |
| Estimated Adjusted (Non-GAAP) EPS                | <u><u>\$0.19 - \$ 0.23</u></u> |

See the Notes to GAAP / Adjusted Non-GAAP Financial Measures slide

# GAAP EPS/Adjusted EPS Reconciliation Q2 2012

(Preliminary & Unaudited)

(in thousands, except per share data)

|   | Q2 2012           |                   | YTD 2012          |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Amount            | Per Diluted Share | Amount            | Per Diluted Share |
| Sales   | \$ 349,327        |                   | \$ 652,228        |                   |
| Highlighted items:                              |                   |                   |                   |                   |
| Purchase accounting impacts of deferred revenue | 663               | 0.01              | 1,921             | 0.02              |
| Sales excluding highlighted items               | <u>\$ 349,990</u> |                   | <u>\$ 654,149</u> |                   |

|  | Q2 2012          |                   | Q2 2011          |                   | YTD 2012         |                   | YTD 2011         |                   |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
|  | Amount           | Per Diluted Share | Amount           | Per Diluted Share | Amount           | Per Diluted Share | Amount           | Per Diluted Share |
| Net income   | \$ 15,001        | \$ 0.13           | \$ 16,690        | \$ 0.13           | \$ 20,800        | \$ 0.18           | \$ 28,254        | \$ 0.23           |
| Highlighted items:                                       |                  |                   |                  |                   |                  |                   |                  |                   |
| <i>Impacting gross margin:</i>                           |                  |                   |                  |                   |                  |                   |                  |                   |
| Purchase accounting impacts of deferred revenue          | 663              | 0.01              | -                | -                 | 1,921            | 0.02              | -                | -                 |
| Stock compensation expense                               | 809              | 0.01              | 557              | -                 | 1,559            | 0.01              | 994              | 0.01              |
| <i>Impacting operating expenses:</i>                     |                  |                   |                  |                   |                  |                   |                  |                   |
| Acquisition costs  | 102              | -                 | -                | -                 | 709              | 0.01              | -                | -                 |
| Restructuring  | 1,039            | -                 | -                | -                 | 6,242            | 0.05              | -                | -                 |
| Amortization of intangible assets                        | 7,444            | 0.06              | 8,944            | 0.07              | 14,823           | 0.13              | 17,888           | 0.14              |
| Loss of sale of product line                             | -                | -                 | -                | -                 | 337              | -                 | -                | -                 |
| Stock compensation expense                               | 7,058            | 0.06              | 5,368            | 0.04              | 12,957           | 0.11              | 10,215           | 0.08              |
| <i>Impacting other (income) / expense:</i>               |                  |                   |                  |                   |                  |                   |                  |                   |
| Non-cash interest expense                                | 3,058            | 0.03              | 2,889            | 0.02              | 6,057            | 0.05              | 5,721            | 0.05              |
| Impairment of investment                                 | 466              | -                 | -                | -                 | 466              | -                 | -                | -                 |
| <i>Impacting income tax expense:</i>                     |                  |                   |                  |                   |                  |                   |                  |                   |
| Adjustments of income tax valuation allowances and other | -                | -                 | -                | -                 | -                | -                 | (3,583)          | (0.03)            |
| <i>Tax related to highlighted items above</i>            | (6,749)          | (0.06)            | (4,915)          | (0.04)            | (14,870)         | (0.13)            | (9,939)          | (0.08)            |
| Total highlighted items                                  | 13,890           | 0.12              | 12,843           | 0.10              | 30,201           | 0.26              | 21,296           | 0.17              |
| Net income excluding highlighted items                   | <u>\$ 28,891</u> | <u>\$ 0.25</u>    | <u>\$ 29,533</u> | <u>\$ 0.24</u>    | <u>\$ 51,001</u> | <u>\$ 0.44</u>    | <u>\$ 49,550</u> | <u>\$ 0.40</u>    |
| Weighted average common shares - diluted                 |                  | 115,111           |                  | 123,711           |                  | 116,352           |                  | 124,720           |

See the Notes to GAAP / Adjusted Non-GAAP Financial Measures slide



# Notes to GAAP/Adjusted Non-GAAP Financial Measures

(Preliminary & Unaudited)

The Company reports its financial results in accordance with accounting principles generally accepted in the United States ("GAAP" or referred to herein as "reported"). However, management believes that certain non-GAAP financial measures provide management and other users with additional meaningful financial information that should be considered when assessing our ongoing performance. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the factors management uses in planning for and forecasting future periods. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures reflect adjustments based on the following items, as well as the related income tax effects:

**Purchase Accounting Impacts Related to Deferred Revenue:** In connection with our acquisition of BigBand, business combination rules require us to account for the fair values of arrangements for which acceptance has not been obtained, and post contract support in our purchase accounting. The non-GAAP adjustment to our sales and cost of sales is intended to include the full amounts of such revenues. We believe the adjustment to these revenues is useful as a measure of the ongoing performance of our business. We have historically experienced high renewal rates related to our support agreements and our objective is to increase the renewal rates on acquired post contract support agreements; however, we cannot be certain that our customers will renew our contracts.

**Stock-Based Compensation Expense:** We have excluded the effect of stock-based compensation expenses in calculating our non-GAAP operating expenses and net income measures. Although stock-based compensation is a key incentive offered to our employees, we continue to evaluate our business performance excluding stock-based compensation expenses. We record non-cash compensation expense related to grants of options and restricted stock. Depending upon the size, timing and the terms of the grants, the non-cash compensation expense may vary significantly but will recur in future periods.

**Acquisition Costs:** We have excluded the effect of acquisition related and other expenses and the effect of restructuring expenses in calculating our non-GAAP operating expenses and net income measures. We incurred significant expenses in connection with our recent acquisition of BigBand, which we generally would not have otherwise incurred in the periods presented as part of our continuing operations. Acquisition related expenses consist of transaction costs, costs for transitional employees, other acquired employee related costs, and integration related outside services. We believe it is useful to understand the effects of these items on our total operating expenses.

**Restructuring Costs:** We have excluded the effect of restructuring charges in calculating our non-GAAP operating expenses and net income measures. Restructuring expenses consist of employee severance, abandoned facilities, and other exit costs. We believe it is useful to understand the effects of these items on our total operating expenses.

**Loss on Sale of Product Line:** We have excluded the effect of a loss on the sale of a product line in calculating our non-GAAP operating expenses and net income measures. We believe it is useful to understand the effects of these items on our total operating expenses.

**Amortization of Intangible Assets:** We have excluded the effect of amortization of intangible assets in calculating our non-GAAP operating expenses and net income measures. Amortization of intangible assets is non-cash, and is inconsistent in amount and frequency and is significantly affected by the timing and size of our acquisitions. Investors should note that the use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

**Non-Cash Interest on Convertible Debt:** We have excluded the effect of non-cash interest in calculating our non-GAAP operating expenses and net income measures. We record the accretion of the debt discount related to the equity component non-cash interest expense. We believe it is useful to understand the component of interest expense that will not be paid out in cash.

**Impairment of Investment:** We have excluded the effect of an other-than-temporary impairment of a cost method investment in calculating our non-GAAP financial measures. We believe it is useful to understand the effect of this non-cash item in our other expense (income).

**Income Tax Expense:** We have excluded the tax effect of the non-GAAP items mentioned above. Additionally, we have excluded the effects of certain tax adjustments related to state valuation allowances, research and development tax credits and provision to return differences.

# GAAP EBITDA/Adjusted EBITDA Reconciliation

(Preliminary & Unaudited)

(in thousands)

|   | <u>Q2 2012</u> | <u>Q2 2011</u> | <u>YTD 2012</u> | <u>YTD 2011</u> |
|---|----------------|----------------|-----------------|-----------------|
| Earnings before tax                                     | 22,562         | 22,837         | 31,248          | 34,162          |
| Depreciation  | 6,982          | 5,813          | 14,177          | 11,668          |
| Amortization of intangibles                             | 7,444          | 8,944          | 14,823          | 17,888          |
| Interest expense  | 4,422          | 4,180          | 8,772           | 8,405           |
| Interest income   | (729)          | (886)          | (1,484)         | (1,664)         |
| <b>GAAP EBITDA</b>                                      | <b>40,681</b>  | <b>40,888</b>  | <b>67,536</b>   | <b>70,459</b>   |
| GAAP EBITDA - % of Sales                                | 11.6%          | 15.4%          | 10.4%           | 13.2%           |
| Highlighted items:                                      |                |                |                 |                 |
| Purchase accounting impact of def revenue               | 663            | -              | 1,921           | -               |
| Stock compensation expense                              | 7,867          | 5,925          | 14,516          | 11,209          |
| Acquisition costs                                       | 102            | -              | 709             | -               |
| Restructuring   | 1,039          | -              | 6,242           | -               |
| Impairment on investments                               | 466            | -              | 466             | -               |
| Loss of sale of product line                            | -              | -              | 337             | -               |
| <b>Total highlighted items</b>                          | <b>10,137</b>  | <b>5,925</b>   | <b>24,191</b>   | <b>11,209</b>   |
| <b>Adjusted Non-GAAP EBITDA</b>                         | <b>50,818</b>  | <b>46,813</b>  | <b>91,727</b>   | <b>81,668</b>   |
| Adjusted Non GAAP EBITDA - % of Adjusted Non GAAP Sales | 14.5%          | 17.6%          | 14.1%           | 15.3%           |

**See the Notes to GAAP / Adjusted Non-GAAP Financial Measures slide**

