



## ARRIS Group Inc.

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September 11, 2012

David Potts,

Executive Vice President, CFO

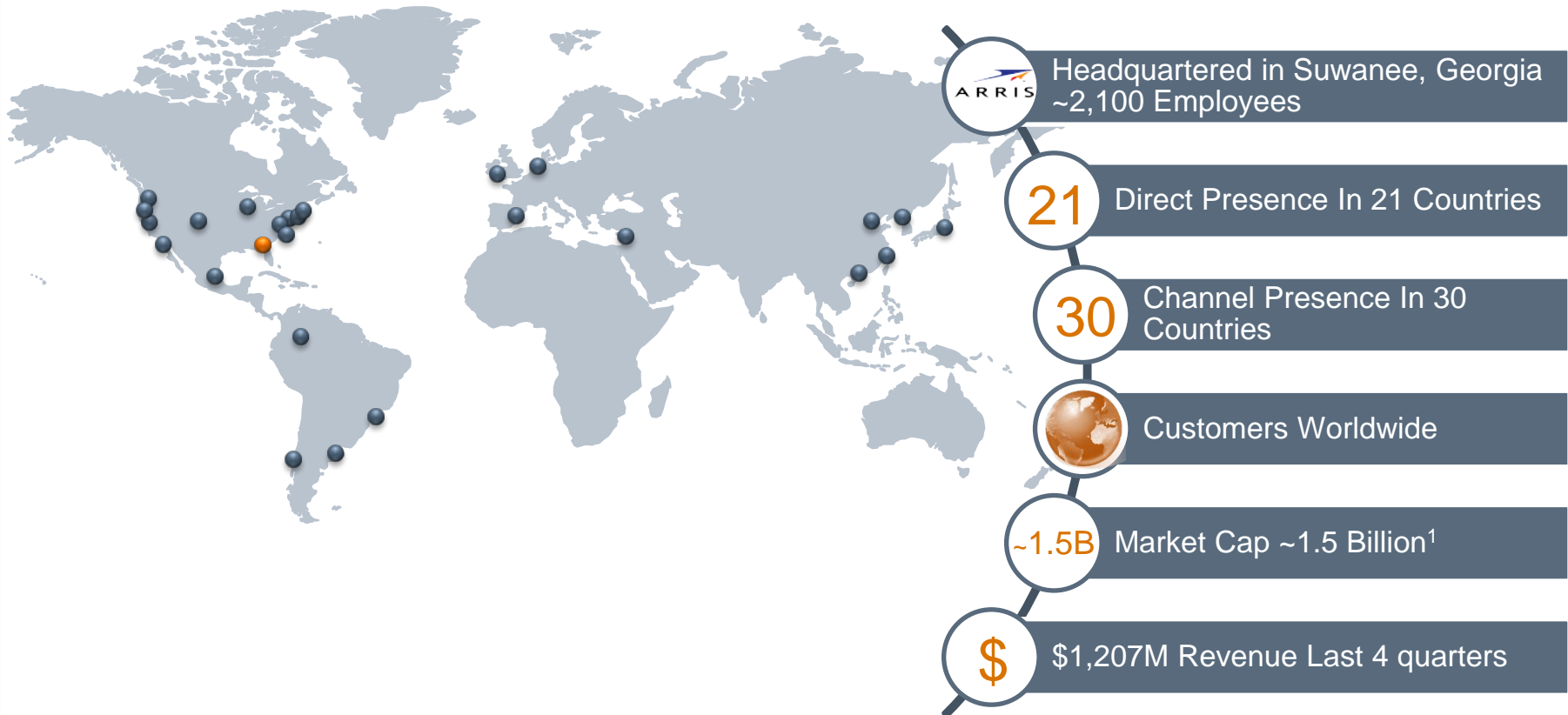


# Safe Harbor

Statements in this presentation or made in this meeting, including those related to the outlook of 2012 and beyond, expected revenues and net income, gross margins, operating expenses, income taxes, 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 June 30, 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.

# ARRIS Company Overview

High tech, pure play provider of voice, high-speed data, and video solutions to the global broadband industry



Note:

1. Based on closing share price of \$13.63 on 8/31/2012

# ARRIS Company Highlights

- IP Convergence is the dominant theme behind our sales growth and investment strategy
  - Next generation access and routing platforms
  - Triple play customer premise equipment
  - Cloud-based services and support systems
- Profitable business with solid cash generation
  - Excellent Operational Performance
- Expanded International Presence
- Significant organic investment with focused M&A
  - Increased R&D ~59% since late 2008
  - Acquired Digeo, BigBand Networks, others
- Market leadership in key product categories
  - #1 Worldwide Market Share<sup>1</sup> of Voice over IP high speed modems
  - #2 Worldwide Market Share<sup>2</sup> of Cable Edge Routers (CMTS)

(1) Source: Infonetics 1Q'12

(2) Source: Infonetics 2Q'12

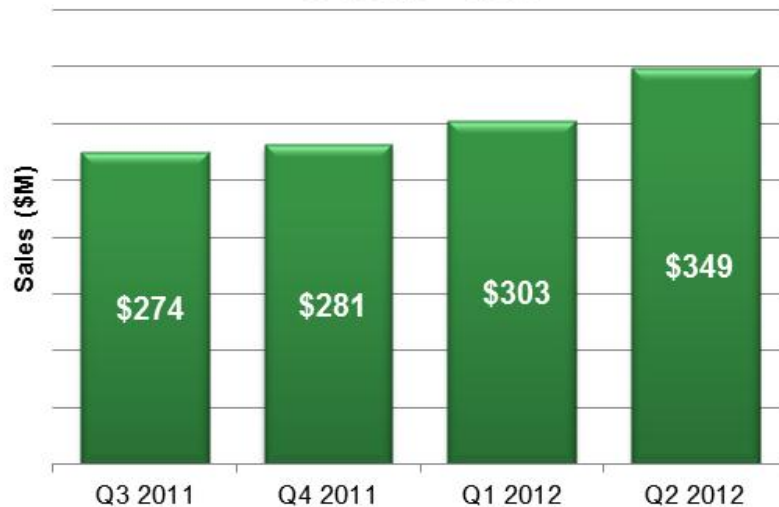
# Strong Performance 1H 2012

	1H 2011	1H 2012	B/(W)
Revenue - \$M	\$533.2	\$652.2	22%
Gross Profit - \$M	\$203.8	\$227.4	12%
EPS GAAP	\$0.23	\$0.18	(21)%
EPS Non-GAAP <sup>(1)</sup>	\$0.40	\$0.44	10%
Cash from Operating Activities – \$M	\$27.8	\$65.9	137%

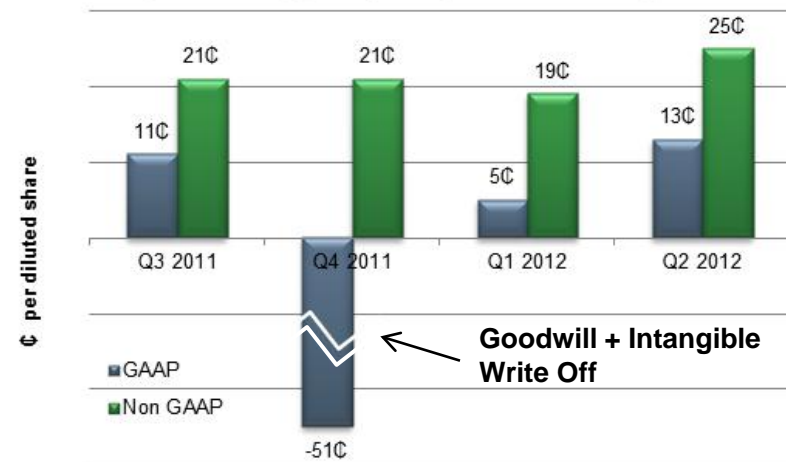
(1) See reconciliation of GAAP to Non GAAP measures

# Good Progress Over the Last 4 Quarters

## Sales - \$M



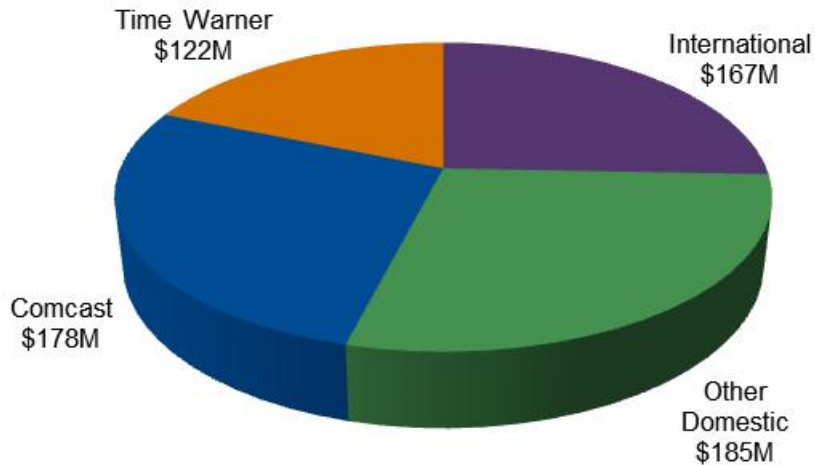
## GAAP & Non GAAP EPS\*



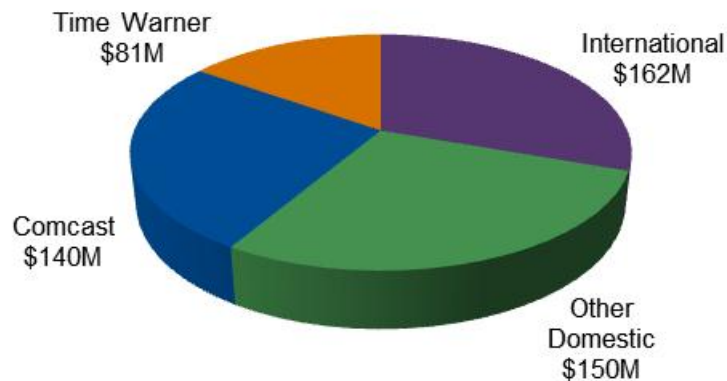
- On track to exceed our 10%+ annual sales growth goal set last year
- Solidly profitable
- Strong cash generation, ~\$151M of cash from operating activities over the past 12 months
- Repurchased 8.6M shares for \$93M over last 4 quarters
- Bought BigBand Networks

# Strategic Supplier to the Global Cable Industry

## 1H 2012 Sales of \$652M



## 1H 2011 Sales of \$533M



### Comcast

- Key supplier of CMTS routers, CPE, and HFC equipment
  - 50%+ CMTS installed base
  - 75%+ E-MTA installed base
- Collaborative development programs for next-gen converged CMTS and CPE

### Time Warner

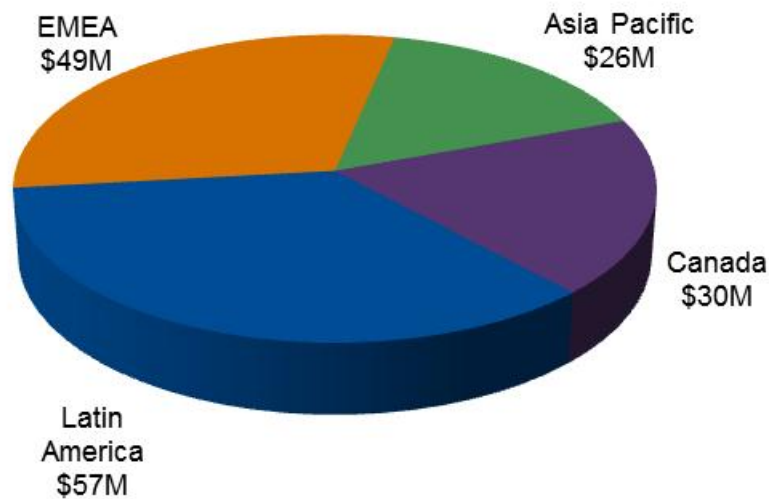
- Extensive deployment of all ARRIS products
  - Major provider of CMTS, SDV/VOD, CPE
  - Active engagement on deployment of Metro Wi-Fi
  - 90%+ share of Workforce Management and Linear Advertising

### International

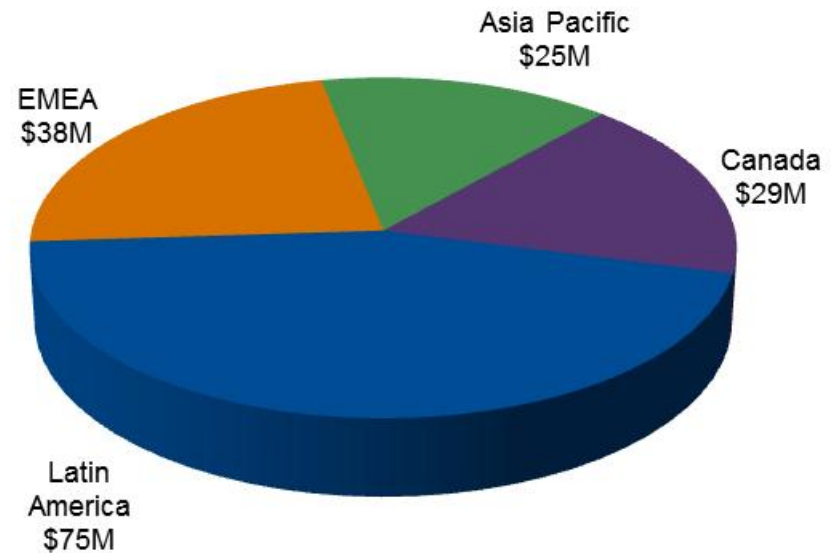
- Latin America Growth

# International Sales by Region

1H 2011 International Sales by Region  
\$162M



1H 2012 International Sales by Region  
\$167M

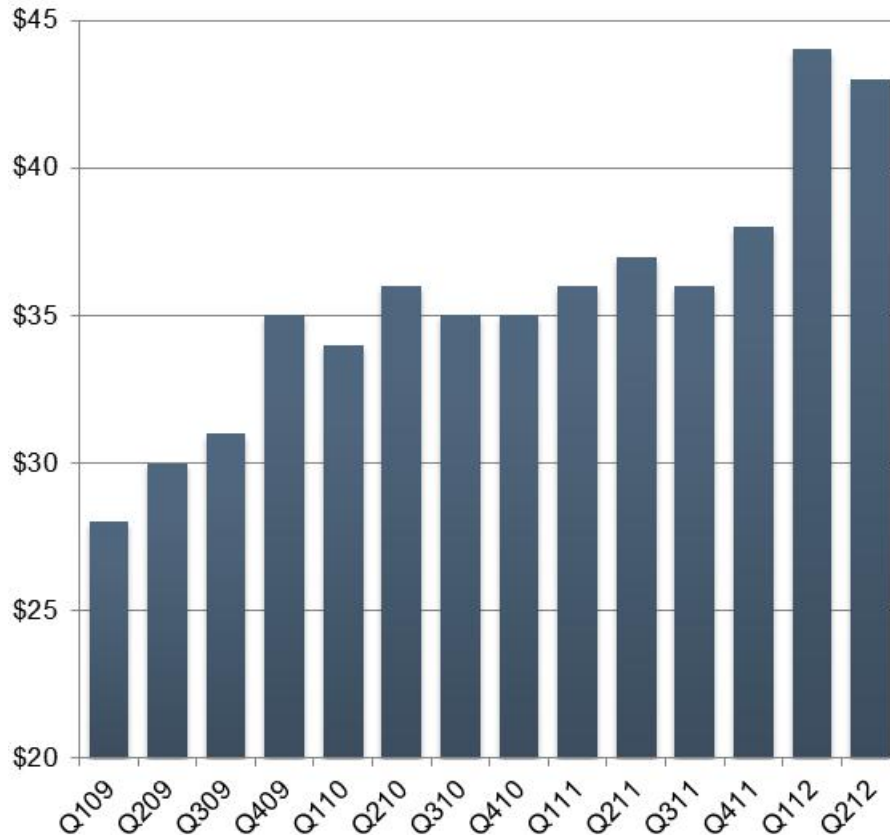


Latin America – Solid Growth



# ARRIS Innovation Enables Revenue Growth...

## Product R&D (\$M)



## Product Highlights

- Entirely refreshed C4 CMTS product line
- Completely revamped and expanded CPE product line
- Multiple Video Gateway Solutions
- E6000 Converged Edge Router
- Media Services Platform (MSP)

Product Pipeline Paying Off

# ...While Growing a Valuable Patent Portfolio

	US	Foreign	Total
Patents Granted	451	167	618
Applications Pending	263	99	362
<b>TOTAL</b>	<b>714</b>	<b>266</b>	<b>980</b>

	2010	2011	2012 YTD
Patents Granted	28	36	27
Applications Filed	81	92	37

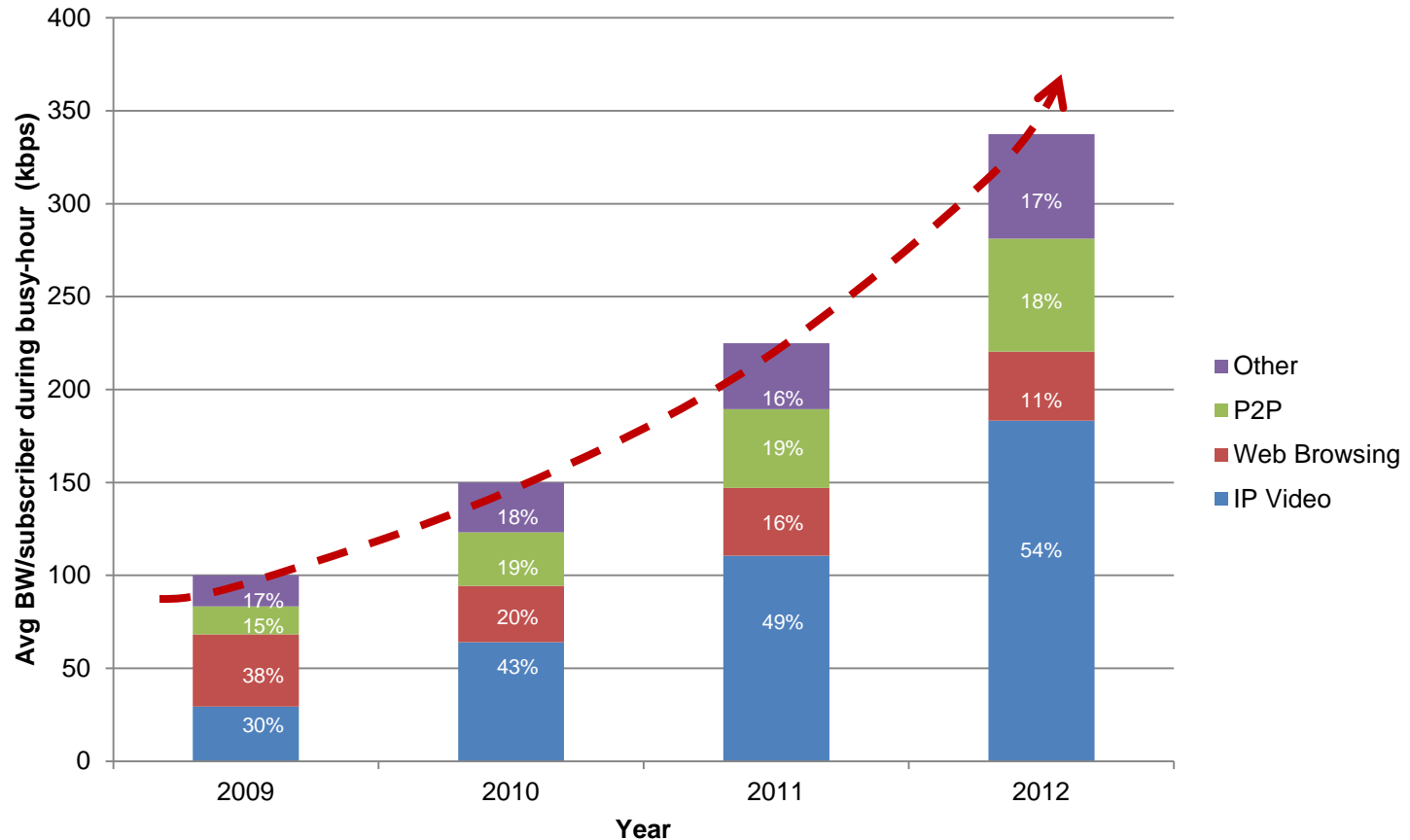


# Growth Drivers

- High-Speed Data Bandwidth Demand is Booming... Driving a Service Provider Need for ALL ARRIS Products
  - Cable Modem Termination System (CMTS)
  - Customer Premises Equipment (CPE)
  - Edge QAM (EQAM)
  - Access Equipment
  - Video Processing
  - Advertising
  - Assurance
  
- All IP Platform Migration creating a wave of Service Provider spending

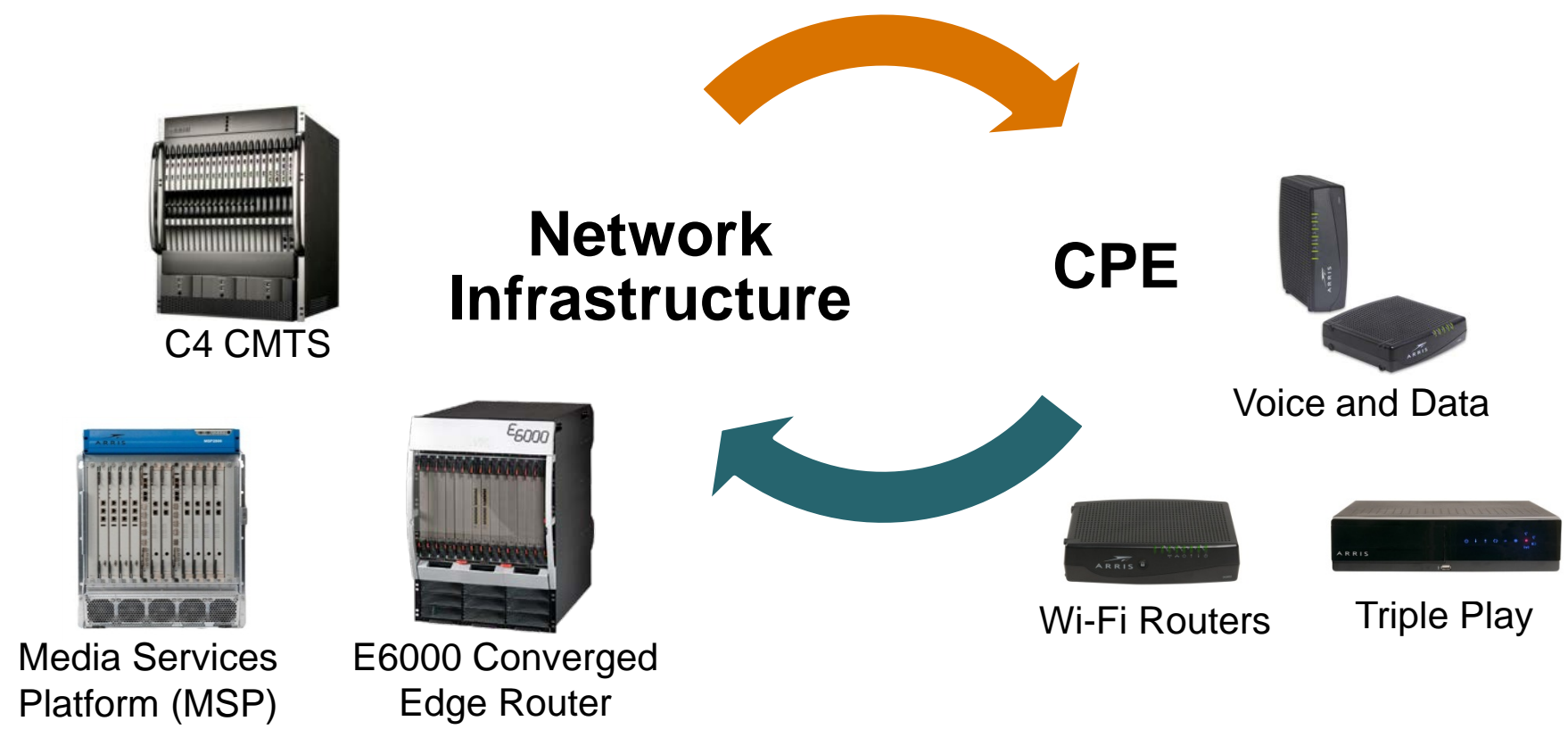
# Insatiable Bandwidth Demand

## Bandwidth Mixes vs. Year (Calculated from MSO Data & Sandvine Statistics)



IP Video (Streaming Media) is Driving The Growing Bandwidth Trends!

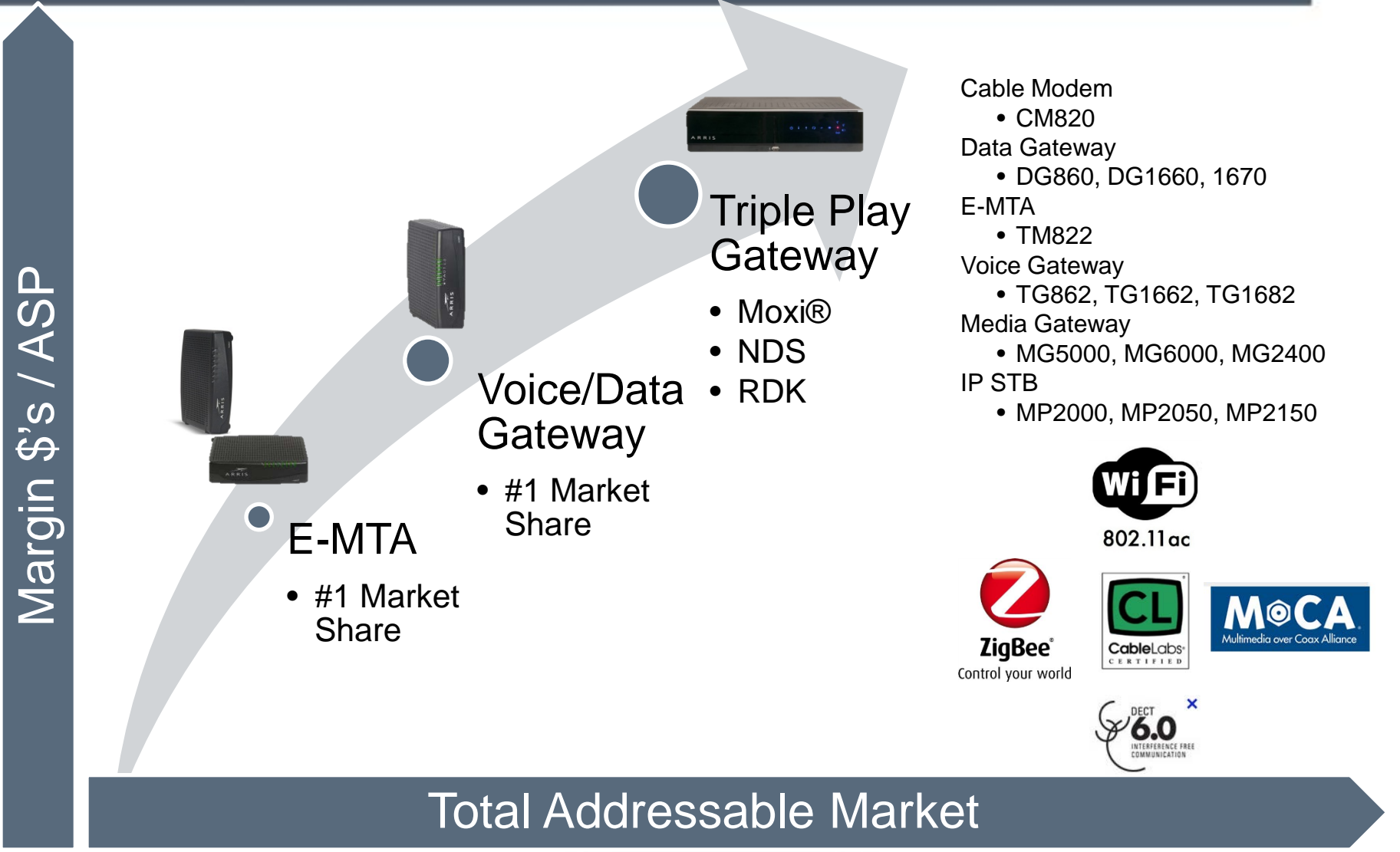
# Service Provider Investment Cycle



The Nature of the Cable Network Creates a Cyclical, Predictable Investment Cycle

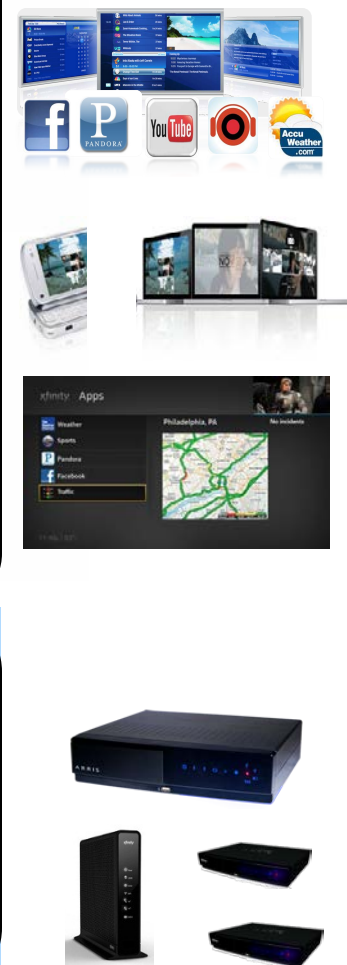
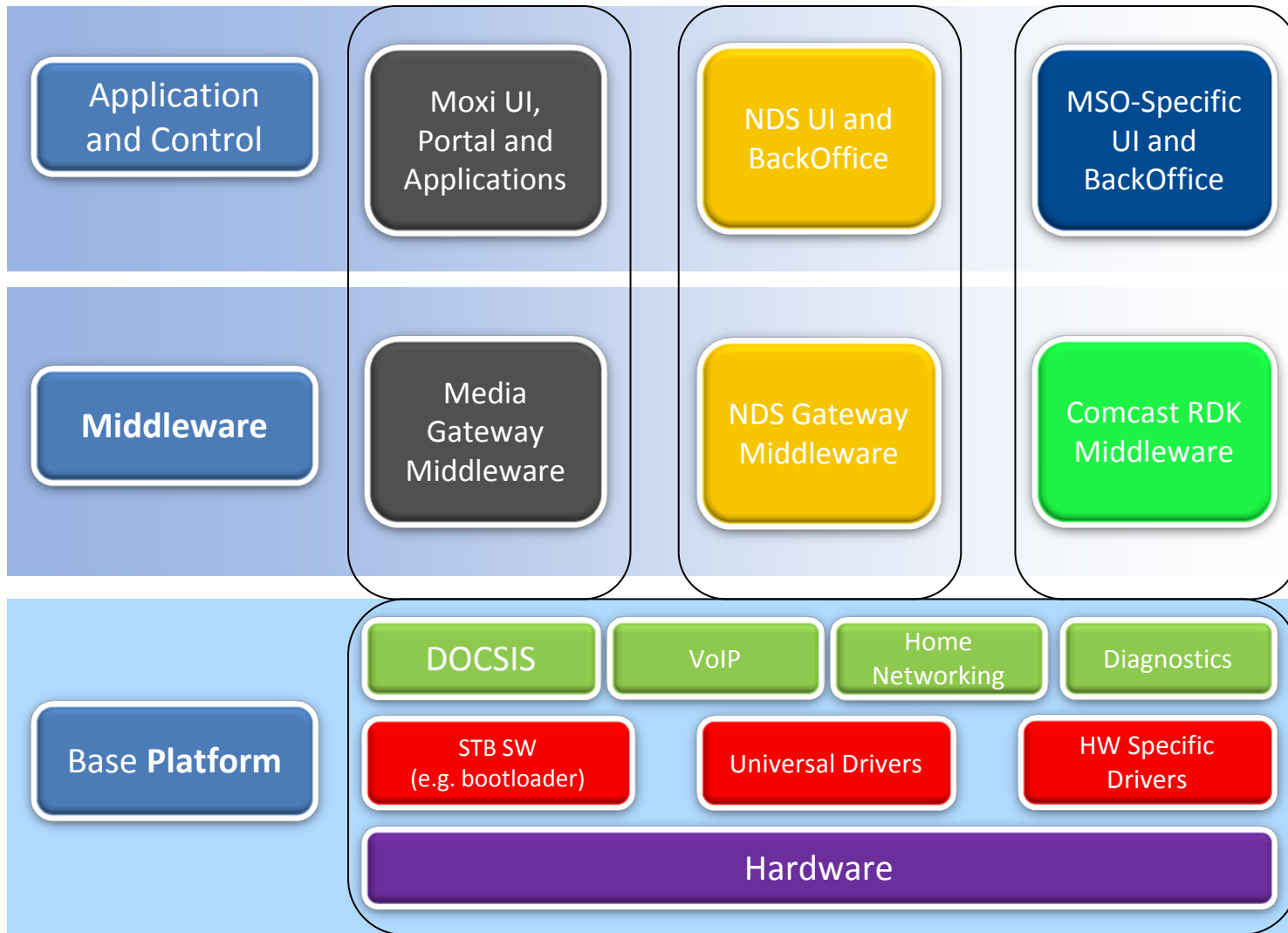


# Moving Up the Home Networking Value Chain... and Into Larger TAM's & ASP's



# Expanded Video Gateway Portfolio

## Moxi - 3<sup>rd</sup> Party Middleware – Comcast RDK



# Well Positioned for Profitable Growth in 2013

- Target ~10% Organic Sales Growth in 2013
  - Larger Addressable Markets
  - Continued IP Traffic Growth
  - Well Positioned Product Portfolio
  - International Focus
- Focus on Incremental Gross Profit \$'s from Higher Sales
  - Mix will determine ultimate amount and Operating/EBITDA margin
- Target OPEX growth at ~ 3% in 2013
  - ~ \$85M per quarter of R&D/SG&A  
(including ~ \$7M of Equity Compensation)
  - Create operating leverage
- Leverage Balance Sheet for Enhanced Returns





Thank You

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# GAAP EPS / Adjusted EPS Reconciliation – Past Four Quarters

(in thousands, except per share data)

	Q3 2011		Q4 2011		Q1 2012		Q2 2012	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Sales	\$ 274,374		\$ 281,076		\$ 302,901		\$ 349,327	
Highlighted items:								
Purchase accounting impacts of deferred revenue	-	-	4,332	0.04	1,258	0.01	663	0.01
Sales excluding highlighted items	\$ 274,374		\$ 285,408		\$ 304,159		\$ 349,990	
Net income	\$ 13,713	\$ 0.11	\$ (59,629)	\$ (0.51)	\$ 5,799	\$ 0.05	\$ 15,001	\$ 0.13
Highlighted items:								
<i>Impacting gross margin:</i>								
Purchase accounting impacts of deferred revenue	-	-	3,126	0.03	1,258	0.01	663	0.01
Stock compensation expense	525	-	521	-	750	0.01	809	0.01
<i>Impacting operating expenses:</i>								
Acquisition costs	475	-	2,730	0.02	607	0.01	102	-
Restructuring	969	0.01	3,391	0.03	5,203	0.04	1,039	0.01
Amortization of intangible assets	8,944	0.07	6,817	0.06	7,379	0.06	7,444	0.06
Loss of sale of product line	-	-	-	-	337	-	-	-
Goodwill and intangibles impairment	-	-	88,633	0.74	-	-	-	-
Stock compensation expense	5,213	0.04	4,586	0.04	5,899	0.05	7,058	0.06
<i>Impacting other (income) / expense:</i>								
Non-cash interest expense	2,883	0.02	2,941	0.02	2,999	0.03	3,058	0.03
Impairment of investment	-	-	3,000	0.03	-	-	466	-
Loss on retirement of debt	19	-	-	-	-	-	-	-
<i>Impacting income tax expense:</i>								
Adjustments of income tax valuation allowances and other	(2,334)	(0.02)	3,032	0.03	-	-	-	-
Tax impact related to goodwill and intangibles impairment	-	-	(25,584)	(0.21)	-	-	-	-
<i>Tax related to highlighted items above</i>	(5,265)	(0.04)	(8,553)	(0.07)	(8,121)	(0.07)	(6,749)	(0.06)
Total highlighted items	11,429	0.09	84,640	0.71	16,311	0.14	13,890	0.12
Net income excluding highlighted items	\$ 25,142	\$ 0.21	\$ 25,011	\$ 0.21	\$ 22,110	\$ 0.19	\$ 28,891	\$ 0.25
Weighted average common shares - basic				117,316				
Weighted average common shares - diluted		121,237		119,609				115,111

# GAAP EPS / Adjusted EPS Reconciliation – 1H 2012 vs 1H 2011

(in thousands, except per share data)

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

	YTD 2012		YTD 2011	
	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 20,800	\$ 0.18	\$ 28,254	\$ 0.23
Highlighted items:				
<i>Impacting gross margin:</i>				
Purchase accounting impacts of deferred revenue	1,921	0.02	-	-
Stock compensation expense	1,559	0.01	994	0.01
<i>Impacting operating expenses:</i>				
Acquisition costs	709	0.01	-	-
Restructuring	6,242	0.05	-	-
Amortization of intangible assets	14,823	0.13	17,888	0.14
Loss of sale of product line	337	-	-	-
Stock compensation expense	12,957	0.11	10,215	0.08
<i>Impacting other (income) / expense:</i>				
Non-cash interest expense	6,057	0.05	5,721	0.05
Impairment of investment	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>	(14,870)	(0.13)	(9,939)	(0.08)
Total highlighted items	<u>30,201</u>	<u>0.26</u>	<u>21,296</u>	<u>0.17</u>
Net income excluding highlighted items	<u>\$ 51,001</u>	<u>\$ 0.44</u>	<u>\$ 49,550</u>	<u>\$ 0.40</u>
Weighted average common shares - diluted		<u>116,352</u>		<u>124,720</u>

# Notes to GAAP / Adjusted Non-GAAP Financial Measures

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 (loss) 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 (loss) 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 (loss) 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 (loss) 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.

**Impairment of Goodwill and Intangibles:** We have excluded the effect of the estimated impairment of goodwill and intangible assets in calculating our non-GAAP operating expenses and net income (loss) measures. Although an impairment does not directly impact the Company's current cash position, such expense represents the declining value of the technology and other intangibles assets that were acquired. We exclude these impairments when significant and they are not reflective of ongoing business and operating results.

**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 (loss) 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).

**Loss (Gain) on Retirement of Debt:** We have excluded the effect of the loss (gain) on retirement of debt in calculating our non-GAAP financial measures. We believe it is useful for investors to understand the effect of this non-cash item in our other expense (income).

**Income Tax Expense (Benefit):** 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.