



**ARRIS**

Third Quarter 2013  
ARRIS Earnings  
Conference Call

---

October 30, 2013

# Safe Harbor

Statements in this presentation or made in this meeting, including those related to the outlook for the remainder of 2013 and beyond, the integration of Motorola Home, 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 products; and because the market in which ARRIS operates is volatile and 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; ARRIS' ability to successfully integrate Motorola Home's opportunities, technology, personnel, and operations, 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, 2013. 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 2013 Highlights & Business Outlook

---













Bob Stanzione  
CEO & Chairman

# The New ARRIS

- **Increased scale and diversification vs. Q3 2012**
  - Revenues tripled
  - Direct Contribution up 185%
  - Significant synergies achieved
  
- **Advanced our Strategic Objectives**
  - Enhanced customer diversification
  - Increased international presence
  - Attained scale in video delivery solutions

**Enhancing shareholder value**

# Post Acquisition Report Card

	Status	Comments
<b>Customer &amp; Technology</b>		
Sales force Integration	 	Complete - ahead of schedule
Product Roadmaps Alignment	 	Complete with targeted support of legacy
<b>Cost Synergies</b>		
R&D Restructuring & Alignment	 	Complete – ahead of schedule
CoGS Synergies	 	On track with initial savings in Q4
<b>Integration Actions</b>		
Simplification/Optimization	 	Manufacturing & Real Estate on track
Google/Motorola Separation		On track to complete majority by YE
“Back Office” Systems		Execution underway – targeted Q3 2014

# Q3 2013 Highlights

- Solid Q3 results
  - Revenue on target
  - EPS better than guidance
- Third quarter revenues of \$1,067.8 million
  - ~69% Domestic, ~31% International
- Non-GAAP EPS\* of \$0.39
- Solid cash performance
- Line of sight to improving Q4 revenues
  - Progress made on new product launches
- Operating expense/cost improvements on track

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

# Q3 2013 CPE Highlights

- Sales and Direct Contribution up vs. Q2 2013\*

- Driven by Digital Video & Telco products
- Continuing to build momentum with product pipeline



- Digital Video Solutions

- Cable set top unit shipments up ~13% from Q2 2013
- New in-home architectures continuing to advance – Customer interest in video gateway-based solutions remains strong
- Achieved product acceptance & began deployment of Charter's new set top platform supporting all-digital migration activities
- Comcast field trials underway to complete XG1 product qualification
- Remaining design win activities progressing

\*Including full quarter for Motorola Home

# Q3 2013 CPE Highlights

## ▪ Telco Solutions

- Volumes improved due to increases in Video Access Point shipments
- Announced industry-leading portfolio of gateways & wireless set-tops at IBC Show
- Selected to provide IPTV set-top solutions to Telenor Sweden



## ▪ DOCSIS Devices

- DOCSIS CPE shipments remain solid
  - ~89% of units were DOCSIS 3.0
  - ~60% of units were Wi-Fi enabled Gateway devices
- Introduced the next generation wireless 802.11 AC data gateway into the retail channel





# Q3 2013 Network & Cloud Highlights

- Network and Cloud segment sales down, direct contribution up vs. Q2 2013\*
  - CMTS and Access and Transport product lines down, offset by strong Video Infrastructure sales
  - Rationalization complete
- CMTS:
  - Solid E6000 shipments, reaching 1 million subscriber mark
    - Several new wins announced including deployments with Time Warner, GCI, and WOW. Growing pipeline of new customers
    - Expanded footprint lays the foundation for future software upgrades.
    - Growing interest in video convergence primarily to simplify headend architecture
  - Reduced spend on 'classic' platforms (C4, BSR)



\*Including full quarter for Motorola Home

# Q3 2013 Network & Cloud Highlights

## ▪ Access and Transport:

- Overall sales down as operators consume inventory
- Several significant international projects in the pipeline
- Manufacturing consolidation underway



## ▪ Video Infrastructure

- Strong quarter; record shipment of Video Processing products
- Growing momentum with Apex3000 CCAP QAM platform including new customer announcements in Europe
- Building momentum behind HEVC encoding
- Several new Programmer wins expanding MPEG4 distribution networks
- Good progress on Network DVR implementation



## ▪ Cloud:

- Good growth in both Dream Gallery and Moxi subscribers – roadmap in place to converge product offerings
- Announced partnership with Sling to accelerate deployment of Mobile TV



# Q4 2013 Outlook and Beyond

- **Guidance**

- As anticipated, new product introductions are leading to revenue growth

- **2014 outlook**

- Demand for video and data services continues to grow
- Robust market
- Model is on track
- We have the portfolio, the scale, and the talent to win

**Investor day: December 4, 2013  
New York Hilton, Midtown**



**ARRIS**

# Third Quarter 2013 Financial Highlights

---

David Potts  
Chief Financial Officer

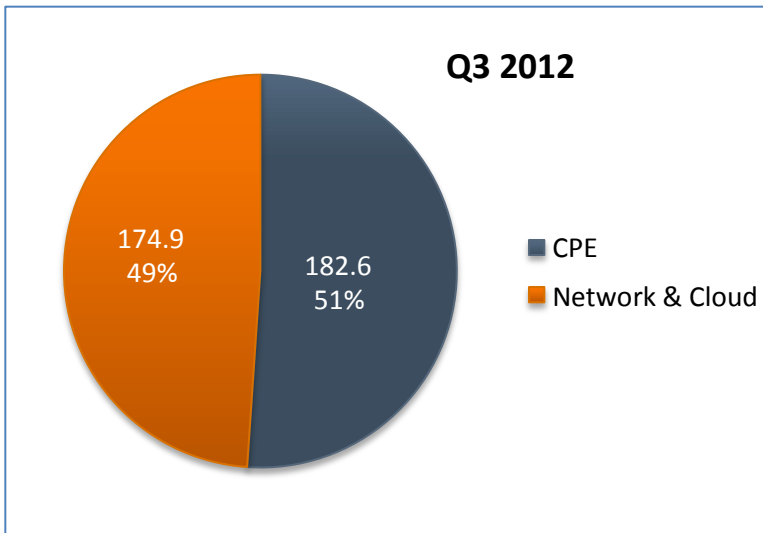
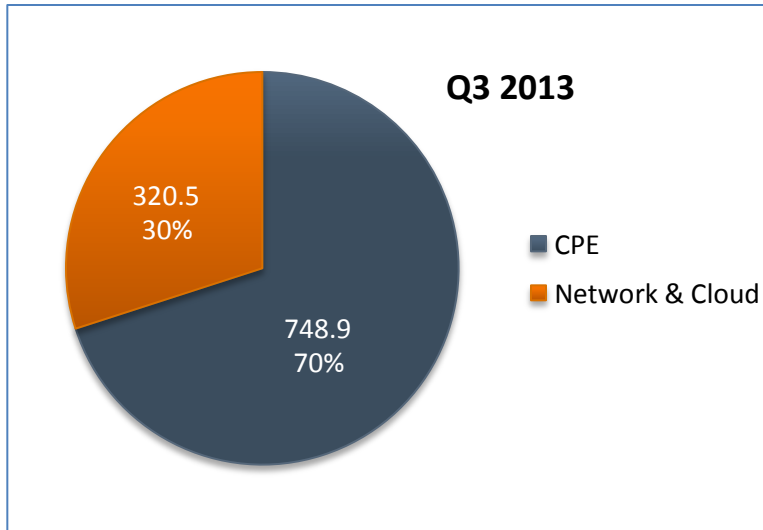
# Financial Highlights – Q3 2013 (Preliminary & Unaudited)

	<u>Q3 2012</u>	<u>Q3 2013</u>
Sales - \$M	357.4	1,067.8
Gross Margin - \$M	112.0	317.0
Gross Margin - %	31.3%	29.7%
Direct Contribution <sup>(1)</sup>	31.1	88.9
EPS - GAAP	0.15	0.13
Adjusted EPS - Non-GAAP	0.22	0.39
Cash, ST & LT Marketable Securities - \$M	571.2	695.0
Cash Provided by Operating Activities - \$M	6.7	28.1
Short-term Debt - \$M	0.0	293.4
Long-term Debt - \$M	232.1	1,822.9
Weighted average common shares - diluted - M	116.3	140.6
Backlog - \$M	185.8	523.7
Book-to-Bill	0.82	0.99

(1) Defined as gross margin less direct operating expenses , excluding amortization of intangible assets, restructuring charges and acquisition and other costs.

See GAAP to Non GAAP Reconciliation

# Sales \$M – Q3 2013 (Preliminary & Unaudited)



	<b>Q3 2013</b>	<b>% of Sales</b>
Domestic Sales	731.5	68.5%
International Sales	336.4	31.5%

	<b>Q3 2013</b>	<b>% of Sales</b>
Comcast	204.0	19.1%
Time Warner	85.6	8.0%
Verizon	118.2	11.1%

# Sales and Direct Contribution by Segment — (Preliminary & Unaudited)

(\$M)

	<u>Q3 2013</u>			<u>Total</u>
	<u>Network &amp; Cloud</u>	<u>CPE</u>	<u>Corp/ Other</u>	
Net Sales	320.5	748.9	(1.6)	1,067.8
Non GAAP Adjustments <sup>(1)</sup>	-	-	1.6	1.6
Adjusted Net Sales	<u>320.5</u>	<u>748.9</u>	<u>(0.0)</u>	<u>1,069.4</u>
Direct Contribution <sup>(2)</sup>	58.6	150.4	(120.1)	88.9
Non GAAP Adjustments <sup>(3)</sup>	-	-	11.7	11.7
Adjusted Direct Contribution	<u>58.6</u>	<u>150.4</u>	<u>(108.4)</u>	<u>100.6</u>

See GAAP to Non GAAP Reconciliation

(1) Revenue impact of "fair valuing" Motorola Home deferred revenue that Motorola Home would have recorded but ARRIS cannot as a result of acquisition accounting.

(2) Defined as gross margin less direct operating expenses, excluding amortization of intangible assets, restructuring charges and acquisition and other costs.

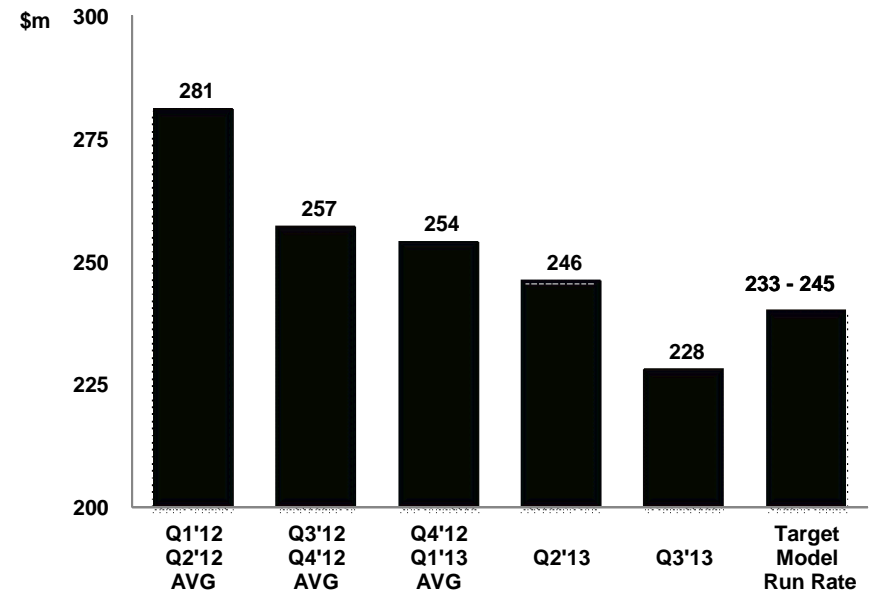
(3) Stock compensation expense and adjustments related to the acquisition accounting impacts of deferred revenue.

# Operating Expenses – Q3 2013 (Preliminary & Unaudited)

\$M		As Reported		
		Qtr 3 2012	Qtr 3 2013	
R&D	\$M	43.0	128.6	
	% of Sales	12.0%	12.0%	
SG&A	\$M	37.9	99.6	
	% of Sales	10.6%	9.3%	
<b>Operating Expenses</b>		<b>\$M</b>	<b>80.9</b>	<b>228.1</b>
		<b>% of Sales</b>	<b>22.6%</b>	<b>21.4%</b>
Restructuring	\$M	0.2	6.1	
	% of Sales	0.1%	0.6%	
Acquisition Costs & Other	\$M	(0.0)	6.2	
	% of Sales	0.0%	0.6%	
Amortization of Intangibles	\$M	7.7	64.6	
	% of Sales	2.2%	6.1%	
<b>Total</b>		<b>\$M</b>	<b>88.8</b>	<b>305.0</b>
		<b>% of Sales</b>	<b>24.9%</b>	<b>28.6%</b>

Equity Compensation Expense Included                      6.7                      10.7

SG&A/R&D Trend – Estimated Combined <sup>(1)</sup>



- At or below target run rate
- Working other reduction actions, in particular exit of transitional services with Google

(1) Includes estimates for ARRIS and Motorola Home for the full quarters of 2012 and 2013.



# Cash & Cash Flow Highlights – Q3 2013 (Preliminary & Unaudited)

	<u>\$M</u>
Cash , ST and LT marketable securities - Q3 2013	695.0
Cash flow items:	
Operating Activities:	
Post closing cash settlements with Google (net)	(125.9)
Legal settlements (net): TiVo .....	(50.0)
Net Income including adjustments	104.1
Changes in operating assets and liabilities	<u>99.9</u>
	28.1
Key Investing Activities	
Capital expenditures	(26.1)
Purchase price working capital adjustments with Google	(48.4)
Key Financing Activities	
Mandatory payments of debt obligations	(15.8)

Strong cash from operating activities excluding post close cash settlements to Google and legal settlements.

# Q4 2013 Guidance

(Preliminary & Unaudited)

## Q4 2013

Sales - \$M	1,150 - 1,180
EPS - GAAP	\$0.00 - \$0.04
Adjusted EPS - Non-GAAP	\$0.42 - \$0.46

See reconciliation of GAAP to Non GAAP

# GAAP to Adjusted Non-GAAP EPS Guidance Reconciliation

	<u>Q4 2013 Guidance</u>
Estimated GAAP EPS	\$ 0.00 - \$ 0.04
Reconciling Items (after tax):	
Amortization of Intangibles	0.34
Acquisition accounting impacts related to Motorola Home deferred revenue	0.01
Stock Compensation Expense	0.05
Acquisition Costs	<u>0.02</u>
Subtotal	<u>0.42</u>
Estimated Adjusted (Non-GAAP) EPS	<u><u>\$ 0.42 - \$ 0.46</u></u>

# GAAP EPS<sup>(1)</sup>/Adjusted EPS Reconciliation Q3

## 2013 (Preliminary & Unaudited)

(in thousands, except per share data)

	Q3 2012		Q3 2013		YTD 2012		YTD 2013 <sup>(1)</sup>	
	Amount		Amount		Amount		Amount	
Sales	\$ 357,432		\$ 1,067,823		\$ 1,009,660		\$ 2,421,835	
Highlighted items:								
Acquisition accounting impacts related to Motorola Home and BigBand deferred revenue	546		1,556		2,467		3,973	
Reduction in revenue related to Comcast investment in ARRIS	-		-		-		13,182	
Sales excluding highlighted items	\$ 357,978		\$ 1,069,379		\$ 1,012,127		\$ 2,438,990	
	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income (loss)	\$ 17,864	\$ 0.15	\$ 17,959	\$ 0.13	\$ 38,664	\$ 0.33	\$ (44,380)	\$ (0.34) <sup>(2)</sup>
Highlighted items:								
<i>Impacting gross margin:</i>								
Acquisition accounting impacts related to Motorola Home fair value of inventory	-	-	-	-	-	-	57,600	0.44
Product rationalization	-	-	-	-	-	-	13,582	0.10
Acquisition accounting impacts related to Motorola Home and BigBand deferred revenue	546	0.00	1,006	0.01	2,467	0.02	2,478	0.02
Fair value impacts related to Comcast investment in ARRIS	-	-	-	-	-	-	13,182	0.10
Stock compensation expense	808	0.01	1,248	0.01	2,367	0.02	2,945	0.02
<i>Impacting operating expenses:</i>								
Acquisition costs and other	30	0.00	6,221	0.04	739	0.01	32,804	0.25
Restructuring	213	0.00	6,057	0.04	6,455	0.06	38,323	0.29
Amortization of intangible assets	7,742	0.07	64,606	0.46	22,565	0.19	127,751	0.97
Loss off sale of product line	-	-	-	-	337	0.00	-	-
Stock compensation expense	5,870	0.05	9,481	0.07	18,827	0.16	21,708	0.16
<i>Impacting other (income) / expense:</i>								
Non-cash interest expense	3,120	0.03	3,374	0.02	9,177	0.08	9,926	0.08
Impairment of investment	-	-	-	-	466	0.00	-	-
Credit facility - ticking Fees	-	-	-	-	-	-	865	0.01
Mark-to-market FV adjustment related to Comcast investment in ARRIS	-	-	-	-	-	-	13,189	0.10
<i>Net Tax Items</i>	(10,545)	(0.09)	(54,998)	(0.39)	(25,415)	(0.22)	(143,034)	(1.08)
Total highlighted items	7,784	0.07	36,995	0.26	37,985	0.33	191,319	1.45
Net income excluding highlighted items	\$ 25,648	\$ 0.22	\$ 54,954	\$ 0.39	\$ 76,649	\$ 0.66	\$ 146,939	\$ 1.11
Weighted average common shares - Basic		113,709		138,478		114,206		129,502
Weighted average common shares - diluted		116,346		140,605		116,348		132,169

(1) Excludes Motorola Home results prior to April 17, 2013

(2) Basic shares used for YTD 2013 as a loss was reported for that periods and the inclusion of dilutive shares would be anti-dilutive

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:

**Acquisition Accounting Impacts Related to Deferred Revenue:** In connection with our acquisitions of Motorola Home and 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.

**Inventory Valuation:** In connection with our acquisition of Motorola Home, business combinations rules require the inventory be recorded at fair value on the opening balance sheet. This is different from historical cost. Essentially we were required to write the inventory up to end customer price less a reasonable margin as a distributor. This resulted in an increase in the value of inventory and will result in higher cost of goods sold as it is sold.

**Product Rationalization:** In conjunction with the integration of Motorola Home, we have identified certain product lines which overlap. In the second quarter of 2013, we made the decision to eliminate certain products. As a result, we recorded expenses related to the elimination of inventory and certain vendor liabilities. We believe it is useful to understand the effects of this item on our total cost of goods sold.

**Reduction in Revenue Related to Comcast Investment in ARRIS:** In connection with our acquisition of Motorola Home, Comcast purchased shares of ARRIS common stock to fund a portion of the acquisition price. The accounting guidance requires that we record the implied fair value of benefit received by Comcast as a reduction in revenue. Until the closing of the deal, changes in the value of the investment were marked to market and flowed through other expense (income). We have excluded the effect of the implied fair value in calculating our non-GAAP financial measures. We believe it is useful to understand the effects of these items on our total revenues and other expense (income).

**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.

**Restructuring, Acquisition and Integration 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 will incur significant expenses in connection with our recent acquisition of Motorola Home, which we generally would not otherwise incur 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. 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).

# Notes to GAAP/Adjusted Non-GAAP Financial Measures (con't)

(Preliminary & Unaudited)

Credit Facility - Ticking Fees: In connection with our acquisition of Motorola Home, the cash portion of the consideration was funded primarily through debt financing commitments. A ticking fee is a fee paid to our banks to compensate for the time lag between the commitment allocation on a loan and the actual funding. We have excluded the effect of the ticking fee 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).

Mark To Market Fair Value Adjustment Related To Comcast Investment in ARRIS: In connection with our acquisition of Motorola Home, Comcast purchased shares of ARRIS common stock. The accounting guidance requires we mark to market the changes in the value of the investment and flow through other expense (income). We have excluded the effect of the implied fair value in calculating our non-GAAP financial measures. We believe it is useful to understand the effects of these items on our total 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.

