



**First Quarter 2010**

**ARRIS Earnings Conference Call**

**April 27, 2010**

# Safe Harbor

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Statements in this presentation or made on this call, including those related to first quarter 2010 (and beyond) revenues and net income, cash flows, gross margins, operating expenses, income taxes, 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; the impact of acquisitions; 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, 2009. 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.

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# **First Quarter 2010 Highlights & Business Outlook**

**Bob Stanzione  
CEO & Chairman**

# Q1 2010 Highlights

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## ■ A Solid Quarter with positive year over year results....

- Q1 2010 revenues of \$266.7M as compared to Q1 2009 revenues of \$253.5M and record Q409 revenues of \$300.0M
- Gross margins continue strong at 42.2% compared to 37.7% in Q1 2009
- Adjusted (non-GAAP) operating income at 17.8% (GAAP: 12.7%)\* compared to 13.9% in Q1 2009 (GAAP: 8.8%)
- \$0.24 of adjusted (non-GAAP) earnings per share (GAAP: \$0.15) compared to \$0.18 in Q1 2009 (GAAP \$0.10)
- Great operating metrics... inventory turns, DSOs, cash
- Order backlog at \$195.1 million up from \$144.4 million at Q4 2009

\*See reconciliation of GAAP to non-GAAP measures

# Q1 2010 Highlights

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- **Rapid internet traffic growth continues as primary business driver**
  
- **Shift in customer mix from domestic to international**
  - As expected sales to Comcast and Time Warner decreased
  - Latin America and Europe very strong
  - Over 40% of revenue from international customers
  
- **DOCSIS 3.0 acceptance and demand in Europe**
  - Cable Congress in Europe

# Q1 2010 Highlights

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- **Momentum growing on DOCSIS 3.0 wideband service deployments**
  - DOCSIS 3.0 CPE adoption accelerating – 14% in Q1
- **Second highest ever shipments of CMTS down streams at 33,992**
  - #1 Worldwide CMTS market share for last two quarters of 2009
- **First residential RFoG deployment and RFoG and EPON field trials at multiple MSO's in NA and Europe**
- **21 deployments of CMM (Converged Media Manager) VOD back office completed, with 31 planned or in progress**

# Business Outlook Remains Bright

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- **Comcast and Time Warner expected to rebound**
- **Traffic growth drives expansion**
  - Web-to-TV is here now, and sales of Web-enabled TVs accelerating
  - 3D-TV is here now
  - IP Video emerging as a major new driver in our business
  - Broadband traffic doubling every 18 to 24 months
- **DOCSIS 3.0 CPE accelerating driven by new DOCSIS 3.0 service deployments**
- **International demand strong and growing**

# 2010 Analyst Day Key Take-aways

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- The way people consume media is changing, worldwide
- Speed, content, usage and new applications are driving huge amounts of new traffic onto networks creating demand for evermore capacity
- **The optimal technology choice for the MSO's is IP.**
- **A technology disruption is underway. Migration to video over IP.**
- **ARRIS has a multi-year plan on which we have been successfully executing for many years.**
- International opportunities present great potential for ARRIS products.
- Economic recovery 2010-2012 will drive growth in Optical and CPE market segments
- ARRIS will continue to generate positive cash flow throughout the investment and upgrade cycle.

# Summary

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- **Total addressable market expanding**
- **High, sustainable market shares**
- **Deeply involved with our customers**
- **Exciting new products in the pipeline**
- **Great financial profile and strong balance sheet provide solid foundation**
- **Positioned for long term growth**

**The Cable Show 2010  
May 11-13 in Los Angeles**

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# Q1 2010 Financial Highlights

**David Potts**  
**Chief Financial Officer**

# Financial Highlights - Q1 2010

(Preliminary and Unaudited)

	<u>Q1 2010</u>	<u>Q1 2009</u>	<u>H/(L)</u>
Sales - \$M	266.7	253.5	13.2
Gross Margin - \$M	112.5	95.5	17.0
Gross Margin - %	42.2%	37.7%	4.5 pts
SG&A / R&D - \$M	69.5	63.7	5.8
Amortization of Intangibles / Restructuring - \$M	9.1	9.4	(0.3)
EPS - GAAP	0.15	0.10	0.05
Adjusted EPS - Non-GAAP (1)	0.24	0.18	0.06
Cash, and Short-term Marketable Securities - \$M	661.1	424.4	236.7
Cash Provided by Operating Activities - \$M	48.2	13.8	34.4
Weighted average common shares - diluted - M	130.0	124.9	5.1
Backlog - \$M	195.1	155.0	40.1
Book-to-Bill	1.19	1.16	0.03

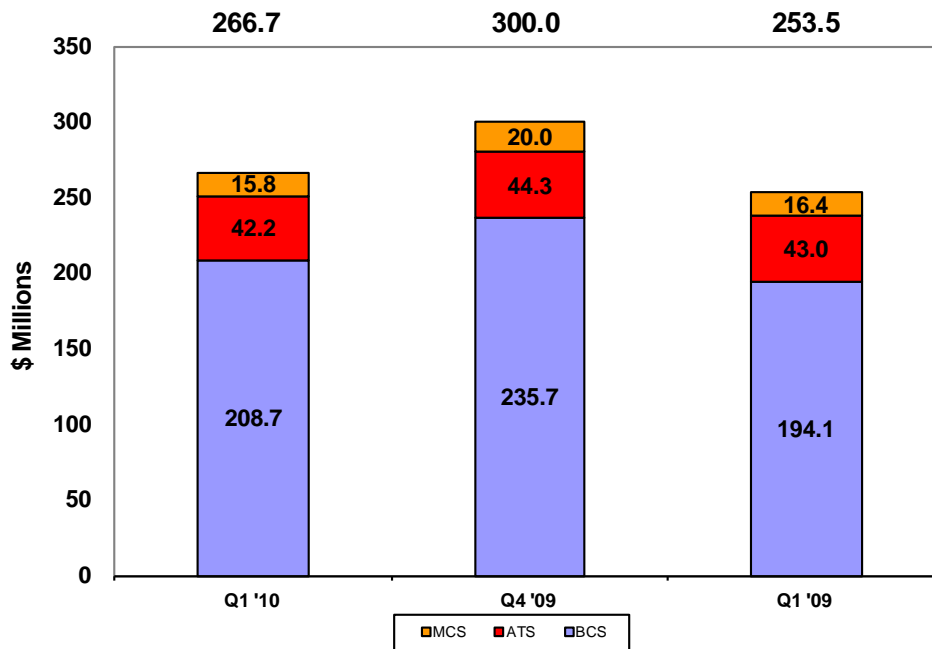
(1) See reconciliation of GAAP to Non-GAAP measures.



# Sales – Q1 2010

(Preliminary & Unaudited)

## Sales by Segment



## Domestic / International Sales

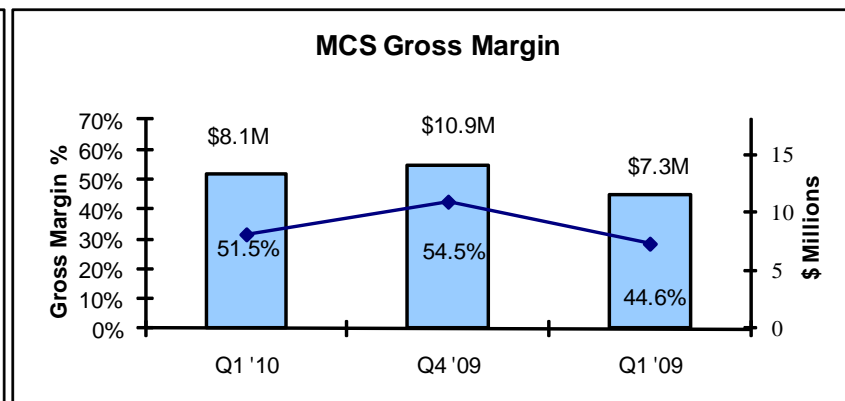
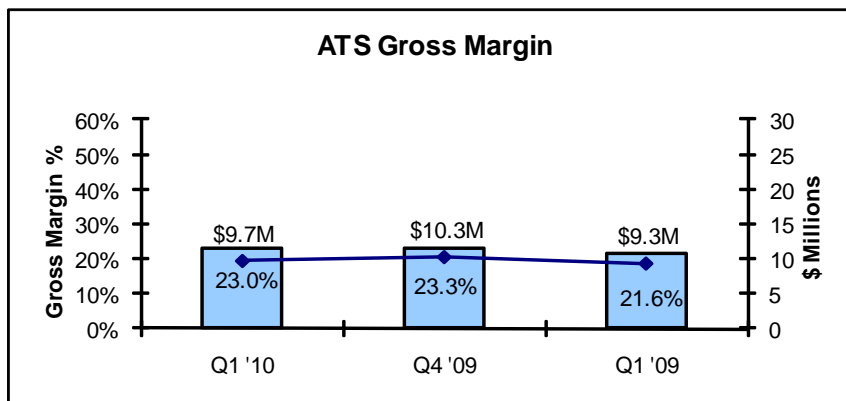
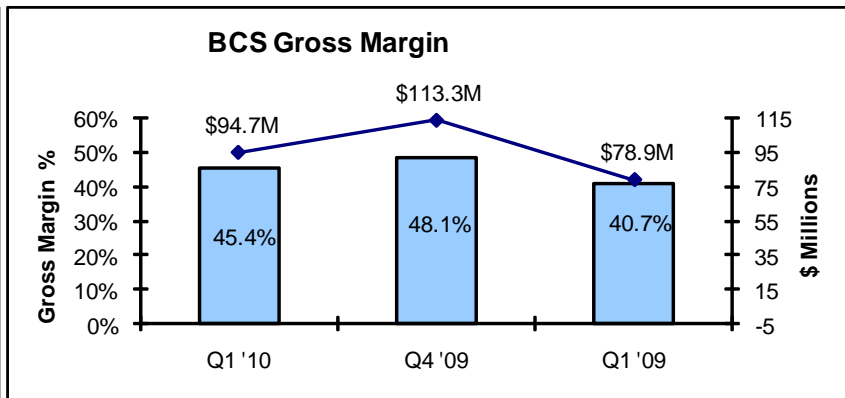
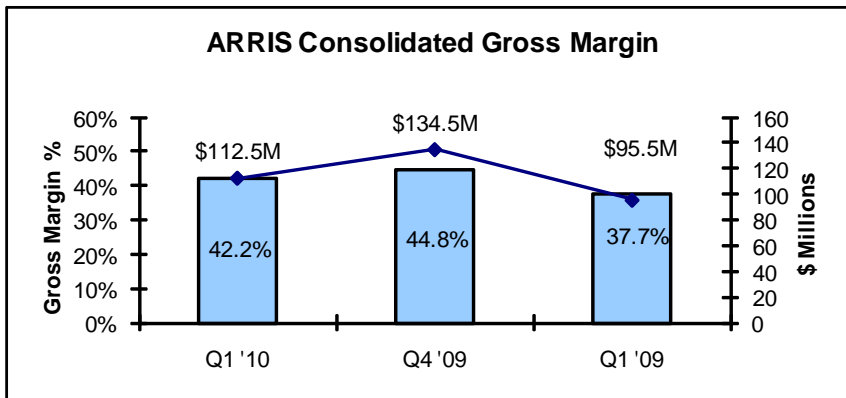
	Q1 '10	Q4 '09	Q1 '09
Domestic - \$M	157.9	226.8	186.0
- %	59.2%	75.6%	73.4%
International - \$M	108.8	73.2	67.5
- %	40.8%	24.4%	26.6%

## 10% Customers

	Q1 '10	Q4 '09	Q1 '09
Time Warner Cable and Affiliates	41.1	82.3	49.1
Comcast and Affiliates	46.3	89.8	65.2

# Gross Margin– Q1 2010

(Preliminary & Unaudited)



# Operating Expenses – Q1 2010

(Preliminary & Unaudited)

		Q1 2010	Q4 2009	Q1 2009	H(L) Q4 2009	H(L) Q1 2009
R&D	\$M	34.4	35.1	28.4	(0.7)	6.0
	% of Sales	12.9%	11.7%	11.2%	1.2 pts	1.7 pts
SG&A	\$M	35.1	37.6	35.3	(2.5)	(0.2)
	% of Sales	13.2%	12.5%	13.9%	0.7 pts	(0.7) pts
Operating Expenses	\$M	69.5	72.7	63.7	(3.2)	5.8
	% of Sales	26.1%	24.2%	25.1%	1.9 pts	1.0 pts
Restructuring	\$M	0.1	2.9	0.1	(2.8)	0.0
	% of Sales	0.0%	1.0%	0.0%	(1.0) pts	0.0% pts
Amortization of Intangibles	\$M	9.0	9.6	9.3	(0.6)	(0.3)
	% of Sales	3.4%	3.2%	3.7%	0.2 pts	(0.3) pts
Total	\$M	78.6	85.2	73.1	(6.6)	5.5
	% of Sales	29.5%	28.4%	28.8%	1.1 pts	0.7 pts



# Balance Sheet & Cash Flow Highlights – Q1 2010

(Preliminary & Unaudited)

	<u>Q1 10</u>	<u>Q4 09</u>	<u>Q3 09</u>	<u>Q2 09</u>	<u>Q1 09</u>
<b>Cash &amp; Short-term Investments - \$M</b>	661.1	625.6	561.7	524.0	424.4
<b>Long-term Marketable Securities - \$M</b>	0.0	0.0	15.0	0.0	0.0
<b>Total - \$M</b>	<u>661.1</u>	<u>625.6</u>	<u>576.7</u>	<u>524.0</u>	<u>424.4</u>
<b>Cash provided by Operating Activities - \$M</b>	48.2	69.8	63.1	94.3	13.8
<b>Cash used to retire 2013 Convertible Debt - \$M</b>	0.0	0.0	0.0	0.0	10.6
<b>Accounts Receivable, net - \$M</b>	139.2	143.7	119.1	128.5	155.8
<i>DSOs</i>	48	40	41	47	57
<b>Inventory, net - \$M</b>	79.9	95.9	100.0	115.9	120.8
<i>Turns</i>	7.0	6.8	5.9	5.4	5.0
<b>2013 Convertible Debt at Face Value- \$M</b>	261.0	261.0	261.0	261.0	261.0
<b>2013 Convertible Debt at Book Value- \$M</b>	214.1	211.2	208.4	205.7	203.0

Certain balance sheet and cash flow items in prior periods have been reclassified to conform to the current financial statement presentation

# Q2 2010 Guidance

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- Revenue \$275M - \$295M
- Adjusted (Non-GAAP) EPS \$0.22 - \$0.26
- GAAP EPS \$0.14 - \$0.18
- 131M diluted shares assumed

# EPS Guidance Reconciliation

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<b>Estimated GAAP EPS - diluted</b>	<b>\$0.14 - \$0.18</b>
<b>Reconciling Items:</b>	
<b>Amortization of intangibles, after tax</b>	0.05
<b>Stock compensation expense, after tax</b>	0.02
<b>Non-cash interest expense, after tax</b>	0.01
<b>Subtotal</b>	<u>0.08</u>
<b>Estimated adjusted (non-GAAP) EPS - diluted</b>	<u><u>\$0.22 - \$0.26</u></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

## Q1 2010

(Preliminary & Unaudited)

	Q1 2010		Q1 2009	
	Amount	Per Diluted Share	Amount	Per Diluted Share
Net income	\$ 18,991	\$ 0.15	\$ 12,882	\$ 0.10
Highlighted items:				
<i>Impacting gross margin:</i>				
Stock compensation expense	433	-	303	-
<i>Impacting operating expenses:</i>				
Acquisition costs, restructuring and other	52	-	120	-
Amortization of intangible assets	9,022	0.07	9,263	0.07
Stock compensation expense	4,088	0.03	3,098	0.02
<i>Impacting other (income) / expense:</i>				
Non-cash interest expense	2,883	0.02	2,818	0.02
Gain on repurchase of debt	-	-	(4,152)	(0.03)
<i>Impacting income tax expense:</i>				
Adjustments of income tax valuation allowances and research & development credits and other	1,222	0.01	1,455	0.01
Tax related to highlighted items above	(5,505)	(0.04)	(3,646)	(0.03)
Total highlighted items	<u>12,195</u>	<u>0.09</u>	<u>9,259</u>	<u>0.07</u>
Net income excluding highlighted items	<u>\$ 31,186</u>	<u>\$ 0.24</u>	<u>\$ 22,141</u>	<u>\$ 0.18</u>
Weighted average common shares - diluted		<u>129,975</u>		<u>124,920</u>

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 as a result of the adoption of FSP ABP 14-1 on January 1, 2009. 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 2010 and 2009, income tax expense adjustments were recorded for state valuation allowances and research and development tax credits. During the first quarter of 2009, ARRIS repurchased a portion of their convertible debt and recognized a gain of approximately \$4.2 million.

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)	Q1 2010	Q1 2009
Operating Income as reported	\$ 33,955	\$ 22,390
Operating Income as a % of sales	12.7%	8.8%
Highlighted Items:		
Stock compensation expense	4,521	3,401
Acquisition costs, restructuring and other	52	120
Amortization of intangible assets	9,022	9,263
Operating Income excluding highlighted items	47,550	35,174
Operating Income excluding highlighted items as a % of sales	17.8%	13.9%

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.





# First Quarter 2010 ARRIS Earnings Conference Call

## Q & A