

ARM Holdings plc
First Quarter Results – US GAAP

	Quarter ended 31 March 2005 Unaudited £'000	Quarter ended 31 March 2004 Unaudited £'000	Quarter ended 31 March 2005 ⁽¹⁾ Unaudited \$'000
Revenues			
Product revenues	51,372	31,382	97,093
Service revenues	3,645	3,606	6,889
Total revenues	<u>55,017</u>	<u>34,988</u>	<u>103,982</u>
Cost of revenues			
Product costs	(4,913)	(1,378)	(9,286)
Service costs	(1,410)	(1,322)	(2,665)
Total cost of revenues	<u>(6,323)</u>	<u>(2,700)</u>	<u>(11,951)</u>
Gross profit	<u>48,694</u>	<u>32,288</u>	<u>92,031</u>
Research and development	(14,723)	(12,099)	(27,826)
Sales and marketing	(8,284)	(5,704)	(15,657)
General and administration	(7,837)	(6,291)	(14,812)
Deferred stock-based compensation	(2,360)	(258)	(4,460)
Amortization of intangibles purchased through business combination	(3,967)	(25)	(7,498)
Total operating expenses	<u>(37,171)</u>	<u>(24,377)</u>	<u>(70,253)</u>
Income from operations	11,523	7,911	21,778
Interest, net	1,009	1,504	1,907
Income before income tax	<u>12,532</u>	<u>9,415</u>	<u>23,685</u>
Provision for income taxes	(3,453)	(2,782)	(6,526)
Net income	<u>9,079</u>	<u>6,633</u>	<u>17,159</u>
Net income	9,079	6,633	17,159
Other comprehensive income:			
Foreign currency adjustments	8,744	(249)	16,526
Unrealized holding gain /(loss) on available-for- sale securities, net of tax of £692,000 (2004: £17,000)	(1,614)	353	(3,050)
Total comprehensive income	<u>16,209</u>	<u>6,737</u>	<u>30,635</u>
Earnings per share (assuming dilution)			
Shares outstanding ('000)	1,424,612	1,043,795	
Earnings per share – pence	0.6	0.6	
Earnings per ADS (assuming dilution)			
ADSs outstanding ('000)	474,871	347,932	
Earnings per ADS – cents	3.6	3.5	

(1) US dollar amounts have been translated from sterling at the 31 March 2005 closing rate of \$1.89=£1 (see note 1)

ARM Holdings plc
Consolidated balance sheet-US GAAP

	31 March 2005 Unaudited £'000	31 December 2004 Audited £'000	31 March 2005 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	93,816	110,561	177,312
Short-term investments	24,956	5,307	47,167
Marketable securities	21,975	21,511	41,533
Accounts receivable, net of allowance of £1,165,000 in 2005 and £1,451,000 in 2004	43,875	34,347	82,924
Inventory: finished goods	909	897	1,718
Prepaid expenses and other assets	17,198	16,001	32,504
Total current assets	202,729	188,624	383,158
Long-term marketable securities	1,038	5,438	1,961
Deferred income taxes	3,324	2,529	6,282
Property and equipment, net	13,202	14,117	24,952
Goodwill	348,801	340,416	659,234
Other intangible assets	71,040	74,578	134,266
Investments	9,659	12,235	18,256
Total assets	649,793	637,937	1,228,109
Liabilities and shareholders' equity			
Accounts payable	3,890	4,110	7,352
Income taxes payable	10,084	6,345	19,059
Personnel taxes	1,235	1,123	2,334
Accrued liabilities (see note 2)	19,968	38,600	37,740
Deferred revenue	21,807	21,355	41,215
Dividends payable	5,759	-	10,884
Total current liabilities	62,743	71,533	118,584
Accrued liabilities	1,759	1,732	3,325
Deferred income taxes	10,729	12,345	20,278
Total liabilities	75,231	85,610	142,187
Shareholders' equity			
Ordinary shares	688	675	1,300
Additional paid-in capital	423,302	414,133	800,041
Deferred compensation	(9,480)	(12,083)	(17,917)
Treasury stock, at cost	(7,485)	(7,485)	(14,147)
Retained earnings	156,741	153,421	296,241
Accumulated other comprehensive income:			
Unrealized holding gain on available-for-sale securities, net of tax of £1,385,000 (2004: £2,077,000)	4,561	6,175	8,620
Cumulative translation adjustment	6,235	(2,509)	11,784
Total shareholders' equity	574,562	552,327	1,085,922
Total liabilities and shareholders' equity	649,793	637,937	1,228,109

(1) US dollar amounts have been translated from sterling at the 31 March 2005 closing rate of \$1.89=£1 (see note 1)

Notes to the Financial Statements

(1) Basis of preparation – reporting currency

The Group prepares and reports its financial statements in UK sterling. Purely for the convenience of the reader, the US GAAP income statement and balance sheet have been translated from sterling at the closing rate on 31 March 2005 of \$1.89=£1. Such translations should not be construed as representations that the sterling amounts represent, or have been or could be so converted into US dollars at that or at any other rate.

(2) Accrued liabilities

Accrued liabilities under US GAAP of £20.0 million (2004: £38.6 million) includes: £nil million (2004: £14.3 million) for acquisition-related expenses, £1.1 million (2004: £4.4 million) for staff costs and £2.1 million (2004: £2.8 million) representing the fair value of embedded derivatives.

(3) Consolidated statement of changes in shareholders' equity

	Share capital £'000	Additional paid-in capital £'000	Deferred compensation £'000	Treasury stock £'000	Retained earnings £'000	Unrealized holding gain £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2005	675	414,133	(12,083)	(7,485)	153,421	6,175	(2,509)	552,327
Shares issued on exercise of options	13	9,412	-	-	-	-	-	9,425
Net income	-	-	-	-	9,079	-	-	9,079
Dividends	-	-	-	-	(5,759)	-	-	(5,759)
Unrealized holding gains on available-for-sale securities	-	-	-	-	-	(1,614)	-	(1,614)
Deferred compensation arising on share schemes	-	(181)	181	-	-	-	-	-
Amortization of deferred compensation	-	-	2,360	-	-	-	-	2,360
Reversal of unearned compensation	-	(62)	62	-	-	-	-	-
Currency translation adjustment	-	-	-	-	-	-	8,744	8,744
At 31 March 2005	688	423,302	(9,480)	(7,485)	156,741	4,561	6,235	574,562

(4) Non-GAAP measures

The following non-GAAP measures, including reconciliations to the GAAP measures, have been used in this earnings release. These measures have been presented as they allow a clearer comparison of operating results that exclude one-off non-recurring charges and acquisition-related charges. All figures in £'000 unless otherwise stated.

	(4.1) Q1 2005	(4.2) Q4 2004	(4.3) Q1 2004
Income from operations	11,523	3,417	7,911
Non-recurring charge – technology license agreement	-	4,510	-
Acquisition-related charge – in-process research and development	-	3,256	-
Acquisition-related charge – amortization of intangibles	3,967	456	25
Acquisition-related charge – deferred stock-based compensation	2,066	-	-
Other deferred stock-based compensation	294	565	258
Pro forma income from operations	17,850	12,204	8,194
As % of revenue	32.4%	29.4%	23.4%

	(4.4) 31 March 2005	(4.5) 31 December 2004
Cash and cash equivalents	93,816	110,561
Short-term investments	24,956	5,307
Short-term marketable securities	21,975	21,511
Long-term marketable securities	1,038	5,438
Pro forma cash	141,785	142,817

	(4.6)
	Q1 2005
Pro forma cash at 31 March 2005 (as above)	141,785
Less: pro forma cash at 31 December 2004 (as above)	(142,817)
Add back: acquisition-related expenses	14,260
Pro forma net cash generation	13,228

	(4.7)	(4.8)	(4.9)
	Q1 2005	Q4 2004	Q1 2004
Net income	9,079	4,509	6,633
Non-recurring charge – technology license agreement	-	4,510	-
Acquisition-related charge – in-process research and development	-	3,256	-
Acquisition-related charge – amortization of intangibles	3,967	456	25
Acquisition-related charge – deferred stock-based compensation	2,066	-	-
Other deferred stock-based compensation	294	565	258
Estimated tax impact of above charges	(1,831)	(1,353)	-
Pro forma net income	13,575	11,943	6,916
Dilutive shares ('000)	1,424,612	1,071,645	1,043,795
Pro forma diluted EPS	1.0p	1.1p	0.7p

	(4.10)
	Q1 2004
	\$'000
ARM reported dollar revenues	62,250
Artisan reported dollar revenues (quarter ended 31 March 2004)	21,368
Aggregate ARM and Artisan dollar revenues	83,618

Note

The results shown for Q1 2005 are unaudited.

The results for ARM for Q1 2005 and previous quarters as shown reflect the accounting policies as stated in Note 1 to the US GAAP financial statements in the Annual Report and Accounts filed with Companies House in the UK for the fiscal year ended 31 December 2004 and in the Annual Report on Form 20-F for the fiscal year ended 31 December 2003.

This document contains forward-looking statements as defined in section 102 of the Private Securities Litigation Reform Act of 1995. These statements are subject to risk factors associated with the semiconductor and intellectual property businesses. When used in this document, the words “anticipates”, “may”, “can”, “believes”, “expects”, “projects”, “intends”, “likely”, similar expressions and any other statements that are not historical facts, in each case as they relate to ARM, its management or its businesses and financial performance and condition are intended to identify those assertions as forward-looking statements. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables, many of which are beyond our control. These variables could cause actual results or trends to differ materially and include, but are not limited to: failure to realize the benefits of our recent acquisitions, unforeseen liabilities arising from our recent acquisitions, price fluctuations, actual demand, the availability of software and operating systems compatible with our intellectual property, the continued demand for products including ARM’s intellectual property, delays in the design process or delays in a customer’s project that uses ARM’s technology, the success of our semiconductor partners, loss of market and industry competition, exchange and currency fluctuations, any future strategic investments or acquisitions, rapid technological change, regulatory developments, ARM’s ability to negotiate, structure, monitor and enforce agreements for the determination and payment of royalties, actual or potential litigation, changes in tax laws, interest rates and access to capital markets, political, economic and financial market conditions in various countries and regions and capital expenditure requirements.

More information about potential factors that could affect ARM's business and financial results is included in ARM's Annual Report on Form 20-F for the fiscal year ended 31 December 2003 including (without limitation) under the captions, "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is on file with the Securities and Exchange Commission (the "SEC") and available at the SEC's website at www.sec.gov, and in the Listing Particulars dated 19 November 2004.

The financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 240 (3) of the Companies Act 1985. Statutory accounts of the Company in respect of the financial year ended 31 December 2004 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of that Act.

About ARM

ARM designs the technology that lies at the heart of advanced digital products, from wireless, networking and consumer entertainment solutions to imaging, automotive, security and storage devices. ARM's comprehensive product offering includes 16/32-bit RISC microprocessors, data engines, 3D processors, digital libraries, embedded memories, peripherals, software and development tools, as well as analog functions and high-speed connectivity products. Combined with the company's broad Partner community, they provide a total system solution that offers a fast, reliable path to market for leading electronics companies. More information on ARM is available at <http://www.arm.com/>

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