

ARM Holdings plc
Third Quarter and Nine Months Results – US GAAP

	Quarter ended 30 September 2005 Unaudited £'000	Quarter ended 30 September 2004 Unaudited £'000	Nine months ended 30 September 2005 Unaudited £'000	Nine months ended 30 September 2004 Unaudited £'000	Nine months ended 30 September 2005 ⁽¹⁾ Unaudited \$'000
Revenues					
Product revenues	53,026	35,904	158,883	100,582	281,080
Service revenues	3,656	3,530	10,663	10,780	18,864
Total revenues	56,682	39,434	169,546	111,362	299,944
Cost of revenues					
Product costs	(5,491)	(1,538)	(14,952)	(4,177)	(26,452)
Service costs	(1,466)	(1,308)	(4,514)	(3,896)	(7,986)
Total cost of revenues	(6,957)	(2,846)	(19,466)	(8,073)	(34,438)
Gross profit	49,725	36,588	150,080	103,289	265,506
Research and development	(13,929)	(13,004)	(44,438)	(37,459)	(78,615)
Sales and marketing	(8,451)	(6,006)	(25,041)	(17,593)	(44,300)
General and administrative	(9,605)	(5,852)	(26,599)	(19,272)	(47,056)
Deferred stock-based compensation	(2,760)	105	(7,262)	(395)	(12,847)
Amortization of intangibles purchased through business combination	(4,342)	(426)	(12,917)	(476)	(22,852)
Total operating expenses	(39,087)	(25,183)	(116,257)	(75,195)	(205,670)
Income from operations	10,638	11,405	33,823	28,094	59,836
Interest, net	1,394	1,885	3,633	5,027	6,427
Income before income tax	12,032	13,290	37,456	33,121	66,263
Provision for income taxes	(2,248)	(3,757)	(8,553)	(9,653)	(15,131)
Net income	9,784	9,533	28,903	23,468	51,132
Net income	9,784	9,533	28,903	23,468	51,132
Other comprehensive income:					
Foreign currency adjustments	6,760	(116)	42,023	(238)	74,343
Unrealized holding gain/(loss) on available-for-sale securities, net of tax of £339,000 (Q3 2004: £255,000; 9m 2005: £1,217,000; 9m 2004: £793,000)	826	595	(2,768)	2,242	(4,897)
Total comprehensive income	17,370	10,012	68,158	25,472	120,578
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,437,448	1,039,329	1,428,444	1,041,174	
Earnings per share – pence	0.7	0.9	2.0	2.3	
Earnings per ADS (assuming dilution)					
ADSs outstanding ('000)	479,149	346,443	476,148	347,058	
Earnings per ADS – cents	3.6	5.0	10.7	12.2	

(1) US dollar amounts have been translated from sterling at the 30 September 2005 closing rate of \$1.7691=£1 (see note 1)

ARM Holdings plc
Consolidated balance sheet - US GAAP

	30 September 2005 Unaudited £'000	31 December 2004 Audited £'000	30 September 2005 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	137,856	110,561	243,881
Short-term investments	5,000	5,307	8,845
Marketable securities	21,881	21,511	38,710
Accounts receivable, net of allowance of £1,779,000 in 2005 and £1,451,000 in 2004	52,208	34,347	92,361
Inventory: finished goods	1,444	897	2,555
Prepaid expenses and other assets	16,439	16,001	29,082
Total current assets	234,828	188,624	415,434
Long-term marketable securities	-	5,438	-
Deferred income taxes	3,914	2,529	6,924
Prepaid expenses and other assets	1,761	-	3,115
Property and equipment, net	12,760	14,117	22,574
Goodwill	369,109	340,416	652,991
Other intangible assets	67,185	74,578	118,857
Investments	8,014	12,235	14,178
Total assets	697,571	637,937	1,234,073
Liabilities and shareholders' equity			
Accounts payable	4,244	4,110	7,508
Income taxes payable	12,107	6,345	21,418
Personnel taxes	1,292	1,123	2,286
Accrued liabilities (see note 2)	21,451	38,600	37,949
Deferred revenue	23,189	21,355	41,024
Dividends payable	4,677	-	8,274
Total current liabilities	66,960	71,533	118,459
Accrued liabilities	-	1,732	-
Deferred income taxes	4,624	12,345	8,180
Total liabilities	71,584	85,610	126,639
Shareholders' equity			
Ordinary shares	692	675	1,224
Additional paid-in capital	425,479	414,133	752,715
Deferred compensation	(8,080)	(12,083)	(14,294)
Treasury stock, at cost	(6,879)	(7,485)	(12,169)
Retained earnings	171,854	153,421	304,027
Accumulated other comprehensive income:			
Unrealized holding gain on available-for-sale securities, net of tax of £860,000 (2004: £2,077,000)	3,407	6,175	6,027
Cumulative translation adjustment	39,514	(2,509)	69,904
Total shareholders' equity	625,987	552,327	1,107,434
Total liabilities and shareholders' equity	697,571	637,937	1,234,073

(1) US dollar amounts have been translated from sterling at the 30 September 2005 closing rate of \$1.7691=£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 30 September 2005 of \$1.7691=£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 £21.5 million (2004: £38.6 million) includes: £nil million (2004: £14.3 million) for acquisition-related expenses, £0.5 million (2004: £4.4 million) for staff costs and £0.9 million (2004: £2.8 million) representing the fair value of embedded derivatives.

(3) Consolidated statement of changes in shareholders' equity (US GAAP)

	Share capital	Additional paid-in capital	Deferred compensation	Treasury stock	Retained earnings	Unrealized holding gain	Cumulative translation adjustment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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	17	12,452	-	-	-	-	-	12,469
Net income	-	-	-	-	28,903	-	-	28,903
Dividends	-	-	-	-	(10,436)	-	-	(10,436)
Unrealized holding losses on available- for-sale securities	-	-	-	-	-	(2,768)	-	(2,768)
Deferred compensation arising on share schemes	-	3,872	(3,872)	-	-	-	-	-
Tax benefits on exercise of options issued as part consideration for a business combination	-	1,227	-	-	-	-	-	1,227
Amortization of deferred compensation	-	-	7,261	-	-	-	-	7,261
Reversal of unearned compensation	-	(614)	614	-	-	-	-	-
Issuance of shares	-	(5,591)	-	6,044	(34)	-	-	419
Purchase of own shares	-	-	-	(5,438)	-	-	-	(5,438)
Currency translation adjustment	-	-	-	-	-	-	42,023	42,023
At 30 September 2005	692	425,479	(8,080)	(6,879)	171,854	3,407	39,514	625,987

(4) Non-GAAP measures

The following non-GAAP measures, including reconciliations to the US 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) Q3 2005	(4.2) Q2 2005	(4.3) Q3 2004	(4.4) 9M 2005	(4.5) 9M 2004
Income from operations	10,638	11,662	11,405	33,823	28,094
Acquisition-related charge – amortization of intangibles	4,342	4,608	426	12,917	476
Acquisition-related charge – deferred stock-based compensation	1,311	1,640	-	5,017	
Other deferred stock-based compensation	1,449	502	(105)	2,245	395
Pro forma income from operations	17,740	18,412	11,726	54,002	28,965
As % of revenue	31.3%	31.8%	29.7%	31.9%	26.0%
	(4.6) Q3 2005	(4.7) Q2 2005	(4.8) Q3 2004	(4.9) 9M 2005	(4.10) 9M 2004
Income before income tax	12,032	12,892	13,290	37,456	33,121
Acquisition-related charge – amortization of intangibles	4,342	4,608	426	12,917	476
Acquisition-related charge – deferred stock-based compensation	1,311	1,640	-	5,017	-
Other deferred stock-based compensation	1,449	502	(105)	2,245	395
Pro forma income before income tax	19,134	19,642	13,611	57,635	33,992
	(4.11) 30 September 2005	(4.12) 30 June 2005	(4.13) 31 March 2005	(4.14) 31 December 2004	
Cash and cash equivalents	137,856	121,646	93,816	110,561	
Short-term investments	5,000	10,437	24,956	5,307	
Short-term marketable securities	21,881	22,553	21,975	21,511	
Long-term marketable securities	-	-	1,038	5,438	
Pro forma cash	164,737	154,636	141,785	142,817	

	(4.15) Q3 2005	(4.16) Q2 2005	(4.17) Q3 2004
Pro forma cash at end of period (as above)	164,737	154,636	174,550
Less: Pro forma cash at beginning of period (as above)	(154,636)	(141,785)	(166,297)
Add back: Cash outflow from acquisitions	1,690	-	6,796
Add back: Cash outflow from payment of dividends	-	5,759	-
Add back: Cash outflow from purchase of own shares	5,438	-	-
Pro forma cash generation	17,229	18,610	15,049

	(4.18) Q3 2005	(4.19) Q2 2005	(4.20) Q3 2004	(4.21) 9M 2005	(4.22) 9M 2004
Net income (US GAAP)	9,784	10,040	9,533	28,903	23,468
Acquisition-related charge – amortization of intangibles	4,342	4,608	426	12,917	476
Acquisition-related charge – deferred stock-based compensation	1,311	1,640	-	5,017	-
Other deferred stock-based compensation	1,449	502	(105)	2,245	395
Estimated tax impact of above charges	(1,860)	(1,875)	(18)	(5,566)	(18)
Pro forma net income	15,026	14,915	9,836	43,516	24,321
Dilutive shares ('000)	1,437,448	1,426,944	1,039,329	1,428,444	1,041,174
Pro forma diluted EPS	1.0p	1.0p	0.9p	3.0p	2.3p

	(4.23) Q3 2004	(4.24) 9M 2004
ARM reported dollar revenues \$'000	70,125	197,721
Artisan reported dollar revenues	25,140	68,481
Aggregate ARM and Artisan dollar revenues	95,265	266,202

Note

The results shown for Q3 2005, Q3 2004, 9M 2005 and 9M 2004 are unaudited.

The results for ARM for Q3 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 2004.

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 number 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 2004 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.

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

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