

ARRIS GROUP INC  
Form 10-Q  
May 08, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q  
For the quarter ended March 31, 2009  
of**

**ARRIS GROUP, INC.**  
A Delaware Corporation  
IRS Employer Identification No. 58-2588724  
SEC File Number 000-31254  
**3871 Lakefield Drive  
Suwanee, GA 30024  
(678) 473-2000**

ARRIS Group, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. ARRIS Group, Inc. is a large accelerated filer and is not a shell company. ARRIS Group, Inc. is not required to file Interactive Data Files.

As of April 30, 2009, 123,896,535 shares of the registrant's Common Stock, \$0.01 par value, were outstanding.

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**FORM 10-Q**  
**For the Three Months Ended March 31, 2009**  
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**ARRIS GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data) (unaudited)

|  | <b>March 31,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|--|---------------------------|----------------------------------|
| <b>ASSETS</b>  |                           |                                  |
| Current assets:  |                           |                                  |
| Cash and cash equivalents  | \$ 398,938                | \$ 409,894                       |
| Short-term investments, at fair value  | 25,494                    | 17,371                           |
| Total cash, cash equivalents and short-term investments  | 424,432                   | 427,265                          |
| Restricted cash  | 4,550                     | 5,673                            |
| Accounts receivable (net of allowances for doubtful accounts of \$3,745 in 2009 and \$3,988 in 2008)       | 155,792                   | 159,443                          |
| Other receivables  | 6,636                     | 4,749                            |
| Inventories (net of reserves of \$19,099 in 2009 and \$18,811 in 2008)                                     | 120,774                   | 129,752                          |
| Prepays  | 6,994                     | 8,004                            |
| Current deferred income tax assets   | 49,027                    | 44,004                           |
| Other current assets   | 18,315                    | 19,782                           |
| Total current assets   | 786,520                   | 798,672                          |
| Property, plant and equipment (net of accumulated depreciation of \$105,158 in 2009 and \$100,313 in 2008) | 59,438                    | 59,204                           |
| Goodwill   | 231,684                   | 231,684                          |
| Intangible assets (net of accumulated amortization of \$162,625 in 2009 and \$153,362 in 2008)             | 218,085                   | 227,348                          |
| Investments, at fair value   | 14,593                    | 14,681                           |
| Noncurrent deferred income tax assets  | 3,771                     | 12,157                           |
| Other assets   | 5,483                     | 6,576                            |
|  | \$ 1,319,574              | \$ 1,350,322                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                           |                                  |
| Current liabilities:   |                           |                                  |
| Accounts payable   | \$ 44,422                 | \$ 75,863                        |
| Accrued compensation, benefits and related taxes   | 15,583                    | 27,024                           |
| Accrued warranty   | 5,306                     | 5,652                            |
| Deferred revenue   | 44,006                    | 44,461                           |
| Current portion of long-term debt  | 147                       | 146                              |
| Current deferred income tax liability  | 241                       | 1,059                            |
| Other accrued liabilities  | 31,922                    | 25,410                           |
| Total current liabilities  | 141,627                   | 179,615                          |
|  | 203,080                   | 211,870                          |

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|   |              |              |
|---|--------------|--------------|
| Long-term debt, net of current portion (net of discount of \$58,069 in 2009 and \$64,267 in 2008)   |              |              |
| Accrued pension   | 19,289       | 18,820       |
| Noncurrent income taxes payable   | 12,441       | 9,607        |
| Noncurrent deferred income tax liabilities  | 42,530       | 41,598       |
| Other long-term liabilities   | 14,391       | 15,343       |
| <br>Total liabilities   | <br>433,358  | <br>476,853  |
| Stockholders' equity:   |              |              |
| Preferred stock, par value \$1.00 per share, 5.0 million shares authorized; none issued and outstanding   |              |              |
| Common stock, par value \$0.01 per share, 320.0 million shares authorized; 123.3 million and 123.1 million shares issued and outstanding in 2009 and 2008, respectively | 1,368        | 1,362        |
| Capital in excess of par value  | 1,159,054    | 1,159,097    |
| Treasury stock at cost, 13 million shares in 2009 and 13 million shares in 2008   | (75,960)     | (75,960)     |
| Accumulated deficit   | (189,620)    | (202,502)    |
| Unrealized loss on marketable securities  | (372)        | (274)        |
| Unfunded pension liability  | (8,070)      | (8,070)      |
| Cumulative translation adjustments  | (184)        | (184)        |
| <br>Total stockholders' equity  | <br>886,216  | <br>873,469  |
|   | \$ 1,319,574 | \$ 1,350,322 |

See accompanying notes to the consolidated financial statements.

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**ARRIS GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data and percentages) (unaudited)

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2009</b>                             | <b>2008</b> |
| Net sales   | \$ 253,518                              | \$ 273,506  |
| Cost of sales   | 158,008                                 | 188,258     |
| Gross margin  | 95,510                                  | 85,248      |
| Gross margin %  | 37.7%                                   | 31.2%       |
| Operating expenses:                                   |   |             |
| Selling, general, and administrative expenses         | 35,343                                  | 36,982      |
| Research and development expenses                     | 28,395                                  | 28,122      |
| Restructuring charges                                 | 120                                     | 405         |
| Amortization of intangible assets                     | 9,263                                   | 13,254      |
| Total operating expenses                              | 73,121                                  | 78,763      |
| Operating income                                      | 22,389                                  | 6,485       |
| Other expense (income):                               |   |             |
| Interest expense                                      | 4,487                                   | 4,021       |
| Loss on investments                                   | 297                                     | 2           |
| Loss (gain) on foreign currency                       | 958                                     | (990)       |
| Interest income                                       | (385)                                   | (2,685)     |
| Gain on debt retirement                               | (4,152)                                 |             |
| Other (income), net                                   | (102)                                   | (36)        |
| Income from continuing operations before income taxes | 21,286                                  | 6,173       |
| Income tax expense                                    | 8,404                                   | 2,344       |
| Net income  | \$ 12,882                               | \$ 3,829    |
| Net income per common share:                          |   |             |
| Basic   | \$ 0.10                                 | \$ 0.03     |
| Diluted   | \$ 0.10                                 | \$ 0.03     |
| Weighted average common shares:                       |   |             |
| Basic   | 123,281                                 | 130,763     |
| Diluted   | 124,920                                 | 131,981     |

See accompanying notes to the consolidated financial statements.



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**ARRIS GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(in thousands) (unaudited)**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2009</b>                             | <b>2008</b> |
| Operating activities:  |   |             |
| Net income   | \$ 12,882                               | \$ 3,829    |
| Adjustments to reconcile net income to net cash provided by operating activities:            |   |             |
| Depreciation   | 4,827                                   | 4,963       |
| Amortization of intangible assets  | 9,263                                   | 13,254      |
| Stock compensation expense   | 3,401                                   | 2,551       |
| Deferred income tax provision (benefit)  | 4,689                                   | (6,389)     |
| Amortization of deferred finance fees  | 189                                     | 191         |
| Provision for doubtful accounts  | 6                                       | 205         |
| Loss on investments  | 297                                     | 2           |
| Excess income tax benefits from stock-based compensation plans                               | (431)                                   |             |
| Non-cash interest expense  | 2,818                                   | 2,605       |
| Gain on debt retirement  | (4,152)                                 |             |
| Changes in operating assets and liabilities, net of effect of acquisitions and dispositions: |   |             |
| Accounts receivable  | 3,645                                   | (5,336)     |
| Other receivables  | (2,032)                                 | (1,744)     |
| Inventory  | 8,978                                   | 10,245      |
| Income taxes payable/recoverable   | (1,123)                                 | (1,734)     |
| Accounts payable and accrued liabilities   | (35,789)                                | 9,300       |
| Prepays and other, net   | 6,377                                   | (1,427)     |
| Net cash provided by operating activities  | 13,845                                  | 30,515      |
| Investing activities:  |   |             |
| Purchases of property, plant and equipment   | (5,066)                                 | (6,429)     |
| Cash paid for acquisition, net of cash acquired  | (200)                                   | (4,192)     |
| Cash proceeds from sale of property, plant & equipment                                       |   | 224         |
| Purchases of short-term investments  | (23,870)                                | (16,887)    |
| Sale of short-term investments   | 15,806                                  | 30,500      |
| Net cash provided by (used in) investing activities  | (13,330)                                | 3,216       |
| Financing activities:  |   |             |
| Payment of debt and capital lease obligations  | (10,592)                                | (35,097)    |
| Repurchase of common stock   |   | (75,960)    |
| Excess income tax benefits from stock-based compensation plans                               | 431                                     |             |
| Repurchase of shares to satisfy tax withholdings   | (1,807)                                 | (239)       |
| Proceeds from issuance of common stock, net  | 497                                     | (2,717)     |
| Net cash (used in) financing activities  | (11,471)                                | (114,013)   |

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|  |            |            |
|--|------------|------------|
| Net decrease in cash and cash equivalents        | (10,956)   | (80,282)   |
| Cash and cash equivalents at beginning of period | 409,894    | 323,797    |
| Cash and cash equivalents at end of period       | \$ 398,938 | \$ 243,515 |

See accompanying notes to the consolidated financial statements.

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**ARRIS GROUP, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**Note 1. Organization and Basis of Presentation**

ARRIS Group, Inc. (together with its consolidated subsidiaries, except as the context otherwise indicates, ARRIS or the Company), is an international communications technology company, headquartered in Suwanee, Georgia. ARRIS operates in three business segments, Broadband Communications Systems, Access, Transport and Supplies, and Media & Communications Systems, specializing in integrated broadband network solutions that include products, systems and software for content and operations management (including video on demand, or VOD), and professional services. ARRIS is a leading developer, manufacturer and supplier of cable telephony, video and high-speed data products, as well as outside plant construction and maintenance equipment for cable system operators. The Company provides products and equipment principally to cable system operators and, more specifically, to Multiple System Operators (MSOs). The Company provides its customers with products and services that enable reliable, high-speed, two-way broadband transmission of video, telephony, and data.

The consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of the consolidated financial statements for the periods shown. Interim results of operations are not necessarily indicative of results to be expected from a twelve-month period. These financial statements should be read in conjunction with the Company's most recently audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the United States Securities and Exchange Commission (SEC).

**Note 2. Impact of Recently Adopted Accounting Standards**

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. SFAS No. 161 was effective for ARRIS as of January 1, 2009. SFAS No. 161 amends SFAS No. 133 to change the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. See Note 5 of Notes to the Consolidated Financial Statements for required disclosures.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (including Partial Cash Settlement)*. The FSP requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The resulting debt discount is accreted over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. The adoption of FSP APB 14-1 on January 1, 2009 impacted the accounting treatment of the Company's 2% convertible senior subordinated notes due 2026, which were issued on November 6, 2006. Upon adoption, the Company recorded an adjustment to increase additional paid-in capital as of the November 6, 2006 issuance date by approximately \$87.3 million. The Company is accreting the resulting debt discount to interest expense over the estimated seven year life of the convertible notes, which represents the first redemption date of November 15, 2013 when the Company may redeem the notes at its election or the note holders may require their redemption. The Company recorded a pre-tax adjustment of approximately \$23.0 million to retained earnings that represents the debt discount accretion during the years ending December 31, 2006, 2007 and 2008 and will recognize additional non-cash interest expense of \$11.1 million, \$11.9 million, \$12.9 million, \$13.9 million and \$11.2 million during the years ending December 31, 2009, 2010, 2011, 2012 and 2013, respectively, for accretion of the debt discount. As a result of the adoption of FSP APB 14-1, the Company reduced income from continuing operations and net income for the three months ended March 31, 2009 by \$2.8 million and reduced basic and diluted earnings per share by \$0.02 per share.



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The following tables present the effect of the adoption of FSP APB14-1 on the Company's affected financial statement line items for the three months ended March 31, 2008 and as of December 31, 2008 (in thousands, except per share data):

| <b>Three Months Ended March 31, 2008</b>              |                                       |                        |                                |
|---|---------------------------------------|------------------------|--------------------------------|
|   | <b>As<br/>Originally<br/>Reported</b> | <b>As<br/>Adjusted</b> | <b>Increase<br/>(Decrease)</b> |
| Statement of Operations:                              |                                       |                        |                                |
| Interest expense                                      | \$ 1,504                              | \$ 4,021               | \$ 2,517                       |
| Income from continuing operations before income taxes | 8,690                                 | 6,173                  | (2,517)                        |
| Income tax expense                                    | 3,285                                 | 2,344                  | (941)                          |
| Net income  | 5,405                                 | 3,829                  | (1,576)                        |
| Basic net income per share:                           |                                       |                        |                                |
| Income from continuing operations before income taxes | \$ 0.07                               | \$ 0.05                | \$ (0.02)                      |
| Basic net income per share                            | 0.04                                  | 0.03                   | \$ (0.01)                      |
| Diluted net income per share:                         |                                       |                        |                                |
| Income from continuing operations before income taxes | \$ 0.07                               | \$ 0.05                | \$ (0.02)                      |
| Diluted net income per share                          | 0.04                                  | 0.03                   | \$ (0.01)                      |
| <b>As of December 31, 2008</b>                        |                                       |                        |                                |
|   | <b>As Originally<br/>Reported</b>     | <b>As<br/>Adjusted</b> | <b>Increase<br/>(Decrease)</b> |
| Balance Sheet:  |                                       |                        |                                |
| Noncurrent deferred income tax assets                 | \$ 11,514                             | \$ 12,157              | \$ 643                         |
| Other assets  | 8,294                                 | 6,576                  | (1,718)                        |
| Long-term debt, net of current portion                | 276,137                               | 211,870                | (64,267)                       |
| Noncurrent deferred income tax liabilities            | 17,565                                | 41,598                 | 24,033                         |
| Capital in excess of par value                        | 1,105,998                             | 1,159,097              | 53,099                         |
| Accumulated deficit                                   | (188,562)                             | (202,502)              | (13,940)                       |

**Table of Contents****Note 3. Investments**

ARRIS investments as of March 31, 2009 and December 31, 2008 consisted of the following (in thousands):

|  | <b>Fair Value</b>                       |  |
|--|---|--|
|  | <b>As of<br/>March<br/>31,<br/>2009</b> | <b>As of December<br/>31,<br/>2008</b> |
| Current Assets:                                      |   |  |
| Commercial paper                                     | \$                                      | 15,771                                 |
| Certificates of deposit                              | 8,900                                   |  |
| U.S. Government agency bonds                         | 14,994                                  |  |
| Variable rate demand notes                           | 1,600                                   | 1,600                                  |
| Total classified as current assets                   | 25,494                                  | 17,371                                 |
| Non-Current Assets:                                  |   |  |
| Cash surrender value of company owned life insurance | 4,286                                   | 4,527                                  |
| Auction rate securities                              | 4,924                                   | 4,908                                  |
| Mutual funds   | 19                                      | 22                                     |
| Money market funds                                   | 437                                     | 437                                    |
| Corporate obligations                                | 20                                      | 20                                     |
| Investment in private company                        | 4,000                                   | 4,000                                  |
| SERP investments                                     | 907                                     | 767                                    |
| Total classified as non-current assets               | 14,593                                  | 14,681                                 |
| Total  | \$ 40,087                               | 32,052                                 |

The unrealized gains and losses at March 31, 2009 and December 31, 2008 were not material.

**Note 4. Fair Value Measurement**

As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The following table presents the Company's investment assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 (in thousands):

|                         | <b>March 31, 2009</b> |                |                |              |
|-------------------------|-----------------------|----------------|----------------|--------------|
|                         | <b>Level<br/>1</b>    | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| Current investments     | \$                    | \$ 25,494      | \$             | \$ 25,494    |
| Non-current investments | 456                   | 5,213          |                | 5,669        |
| Auction rate securities |                       |                | 4,924          | 4,924        |

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|                               |          |           |          |           |
|-------------------------------|----------|-----------|----------|-----------|
| Investment in private company |          |           | 4,000    | 4,000     |
| Foreign currency contracts    | 1,653    |           |          | 1,653     |
| Total                         | \$ 2,109 | \$ 30,707 | \$ 8,924 | \$ 41,740 |

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Substantially all of the Company's short-term investments and long-term investments instruments are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, market prices for similar securities, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include the Company's investment in money market funds and mutual funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include the Company's U.S. government agency notes, variable rate demand notes, cash surrender value of company owned life insurance, corporate obligations and certificates of deposit. Such instruments are classified within Level 2 of the fair value hierarchy. See Note 3 for further information on the Company's investments.

The table below includes a roll-forward of the Company's auction rate securities that have been classified as a Level 3 in the fair value hierarchy (in thousands):

|   | <b>Level 3</b> |
|---|----------------|
| Estimated fair value January 1, 2009    | \$ 4,909       |
| First quarter 2009 change in fair value | 15             |
| Estimated fair value March 31, 2009     | \$ 4,924       |

ARRIS had \$5.0 million invested in a single auction rate security at March 31, 2009 and December 31, 2008. As of March 31, 2009, there was no active market for this auction rate security or comparable securities due to current market conditions. Therefore, until such a market becomes active, the auction rate security is classified as Level 3 within the fair value hierarchy. Due to the current market conditions and the failure of the security to reprice, beginning in the second quarter of 2008, the Company has recorded changes in the fair value of the instrument as an impairment charge in the Statement of Operations in the loss (gain) on investments line. The security was held as of March 31, 2009 as a long-term investment, classified as a trading security, with a fair market value of \$4.9 million, which includes the fair value of the put option described below. The Company may not be able to liquidate this security until a successful auction occurs, or, alternatively, beginning June 30, 2010 through July 2, 2012, when the Company has the option to sell the security to a major financial institution. This security is a single student loan issue rated AAA and is substantially guaranteed by the federal government. ARRIS will continue to evaluate the fair value of its investment in this auction rate security for any further impairment.

During the third quarter of 2008, ARRIS invested \$4.0 million in equity in a venture-backed private company focused on video processing and management. As part of the investment, ARRIS secured exclusive rights to sell the products developed by this company to some of our customers. The private company is in its early stages of development and is currently not traded on any exchanges. Since its offering in July 2008, there have been no further offerings of equity ownership. For these reasons, ARRIS has concluded that its investment should be classified as a Level 3 asset. SFAS No. 157 recognizes that unobservable inputs may need to be used for measuring fair value for Level 3 assets and liabilities as observable inputs are not available. ARRIS has obtained current financial projections from the private company, and concluded that it has no reason to believe that its investment is impaired and that the balance of \$4.0 million is stated at fair value.

All of the Company's foreign currency contracts are over-the-counter instruments. There is an active market for these instruments, and therefore, they are classified as Level 1 in the fair value hierarchy. ARRIS does not enter into currency contracts for trading purposes. The Company has a master netting agreement with the primary counterparty to the derivative instruments. This agreement allows for the net settlement of assets and liabilities arising from different transactions with the same counterparty.

**Note 5. Derivative Instruments and Hedging Activities**

ARRIS has certain international customers who are billed in their local currency. Changes in the monetary exchange rates may adversely affect the Company's results of operations and financial condition. When appropriate, ARRIS enters into various derivative transactions to enhance its ability to manage the volatility relating to these typical business exposures. The Company does not hold or issue derivative instruments for trading or other speculative

purposes. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, The Company's derivative instruments are recorded on the Consolidated Balance Sheets at their fair values. The

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Company's derivative instruments are not designated as hedges, and accordingly, all changes in the fair value of the instruments are recognized as a loss (gain) on foreign currency in the Consolidated Statements of Operations. The maximum time frame for ARRIS' derivatives is 12 months. As of January 1, 2009, derivative instruments which are subject to master netting arrangements are not offset in the Consolidated Balance Sheets.

The fair values of ARRIS' derivative instruments recorded in the Consolidated Balance Sheet as of March 31, 2009 were as follows (in thousands):

|   | Asset Derivatives      |            | Liability Derivatives     |            |
|---|------------------------|------------|---------------------------|------------|
|   | Balance Sheet Location | Fair Value | Balance Sheet Location    | Fair Value |
| Derivatives Not Designated as Hedging Instruments:  |                        |            |                           |            |
| Foreign exchange contracts  | Other current assets   | \$1,654    | Other accrued liabilities | \$837      |
| Prior to the adoption of SFAS No. 161 on January 1, 2009, the Company recorded its derivative instruments on a net basis on the Consolidated Balance Sheet. As of December 31, 2008, the fair value of the instruments was recorded as a net asset of \$391 thousand, comprised of an asset of \$1,094 thousand offset with a liability of \$703 thousand. The change in the fair values of ARRIS' derivative instruments recorded in the Consolidated Statements of Operations during the three months ended March 31, 2009 and 2008 were as follows (in thousands): |                        |            |                           |            |

|  | Statement of Operations Location | Three Months Ended March 31, |         |
|--|----------------------------------|------------------------------|---------|
|  |                                  | 2009                         | 2008    |
| Derivatives Not Designated as Hedging Instruments: |                                  |                              |         |
| Foreign exchange contracts                         | Loss (gain) on foreign currency  | \$(1,080)                    | \$1,074 |
| <b>Note 6. Pension Benefits</b>                    |                                  |                              |         |
| <i>Components of Net Periodic Pension Cost</i>     |                                  |                              |         |

|                                    | Three Months Ended March 31, |        |
|------------------------------------|------------------------------|--------|
|                                    | 2009                         | 2008   |
|                                    | (in thousands)               |        |
| Service cost                       | \$ 245                       | \$ 190 |
| Interest cost                      | 530                          | 470    |
| Expected return on plan assets     | (281)                        | (355)  |
| Amortization of prior service cost | 115                          | 119    |
| Amortization of net loss           | 119                          |        |
| Net periodic pension cost          | \$ 728                       | \$ 424 |

**Employer Contributions**

No minimum funding contributions are required in 2009 under the Company's defined benefit plan. However, the Company made voluntary contributions to the plan of approximately \$31 thousand and \$29 thousand for the three month periods ended March 31, 2009 and 2008, respectively.

**Table of Contents****Note 7. Guarantees***Warranty*

ARRIS provides warranties of various lengths to customers based on the specific product and the terms of individual agreements. The Company provides for the estimated cost of product warranties based on historical trends, the embedded base of product in the field, failure rates, and repair costs at the time revenue is recognized. Expenses related to product defects and unusual product warranty problems are recorded in the period that the problem is identified. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its suppliers, the estimated warranty obligation could be affected by changes in ongoing product failure rates, material usage and service delivery costs incurred in correcting a product failure, as well as specific product failures outside of ARRIS' baseline experience. If actual product failure rates, material usage or service delivery costs differ from estimates, revisions (which could be material) would be recorded to the warranty liability. ARRIS evaluates its warranty obligations on an individual product basis.

The Company offers extended warranties and support service agreements on certain products. Revenue from these agreements is deferred at the time of the sale and recognized on a straight-line basis over the contract period. Costs of services performed under these types of contracts are charged to expense as incurred, which approximates the timing of the revenue stream.

Information regarding the changes in ARRIS' aggregate product warranty liabilities for the three months ended March 31, 2009 was as follows (in thousands):

|   |           |
|---|-----------|
| Balance at December 31, 2008                                    | \$ 10,184 |
| Accruals related to warranties (including changes in estimates) | 1,255     |
| Settlements made (in cash or in kind)                           | (1,773)   |
| Balance at March 31, 2009                                       | \$ 9,666  |

**Note 8. Restructuring Charges**

The Company's restructuring activities are accounted for in accordance with Statement of Financial Accounting Standards No 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

During the first quarter of 2004, ARRIS consolidated two facilities in Georgia, giving the Company the ability to house many of its core technology, marketing, and corporate headquarters functions in a single building. This consolidation resulted in a restructuring charge of approximately \$6.2 million in 2004 related to lease commitments and the write-off of leasehold improvements and other fixed assets. ARRIS expects the remaining payments to be made by the second quarter of 2009, which is the end of the lease.

|                                 | (in<br>thousands) |
|---------------------------------|-------------------|
| Balance as of December 31, 2008 | \$ 545            |
| Q1 2009 payments                | (396)             |
| Q1 2009 adjustments to accrual  | 41                |
| Balance as of March 31, 2009    | \$ 190            |

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In the fourth quarter of 2007, the Company initiated a restructuring plan related to its acquisition of C-COR, Incorporated ( C-COR ). The plan focuses on the rationalization of personnel, facilities and systems across the entire organization. The restructuring affected approximately 60 employees. The plan also includes contractual obligations related to change of control provisions included in certain C-COR employment contracts. The total estimated cost of this restructuring plan was approximately \$8.6 million, of which approximately \$0.5 million was recorded as severance expense during the fourth quarter of 2007 and \$8.1 million was assumed liabilities related to employee severance and termination benefits which were accounted for as an adjustment to the allocation of the original purchase price for C-COR upon acquisition. The restructuring plan was completed in the first quarter of 2009.

|                                 | (in<br>thousands) |
|---------------------------------|-------------------|
| Balance as of December 31, 2008 | \$ 211            |
| Q1 2009 payments                | (218)             |
| Q1 2009 adjustments to accrual  | 7                 |
| Balance as of March 31, 2009    | \$                |

Additionally, ARRIS acquired remaining restructuring accruals of approximately \$0.7 million representing C-COR contractual obligations that related to excess leased facilities. These payments will be made over the remaining lease terms through 2014, unless terminated earlier.

|                                 | (in<br>thousands) |
|---------------------------------|-------------------|
| Balance as of December 31, 2008 | \$ 494            |
| Q1 2009 payments                | (93)              |
| Q1 2009 adjustments to accrual  | 72                |
| Balance as of March 31, 2009    | \$ 473            |

**Note 9. Inventories**

Inventories are stated at the lower of average cost, approximating first-in, first-out, or market. The components of inventory were as follows, net of reserves (in thousands):

|                       | <b>March 31,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|-----------------------|---------------------------|----------------------------------|
| Raw material          | \$ 21,598                 | \$ 19,247                        |
| Work in process       | 5,929                     | 4,814                            |
| Finished goods        | 93,247                    | 105,691                          |
| Total net inventories | \$ 120,774                | \$ 129,752                       |

**Note 10. Property, Plant and Equipment**

Property, plant and equipment, at cost, consisted of the following (in thousands):

|      | <b>March 31,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|------|---------------------------|----------------------------------|
| Land | \$ 2,612                  | \$ 2,612                         |

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|  |           |           |
|--|-----------|-----------|
| Building and leasehold improvements      | 21,629    | 20,048    |
| Machinery and equipment                  | 140,355   | 136,857   |
|  | 164,596   | 159,517   |
| Less: Accumulated depreciation           | (105,158) | (100,313) |
| Total property, plant and equipment, net | \$ 59,438 | \$ 59,204 |

**Table of Contents****Note 11. Long-Term Obligations**

Debt, capital lease obligations and other long-term liabilities consist of the following (in thousands):

|  | <b>March 31,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|--|---------------------------|----------------------------------|
| 2.00% convertible senior notes due 2026 (net of discount of \$58,069 in 2009 and \$64,267 in 2008) | \$ 202,981                | \$ 211,733                       |
| 2.00% Pennsylvania Industrial Development Authority debt, net of current portion                   | 99                        | 137                              |
| Total long-term debt   | 203,080                   | 211,870                          |
| Other long-term liabilities:   |                           |                                  |
| Deferred compensation  | \$ 4,784                  | \$ 4,896                         |
| Accrued warranty   | 4,360                     | 4,532                            |
| Deferred revenue   | 2,110                     | 2,671                            |
| Landlord funded leasehold improvements   | 1,237                     | 1,308                            |
| Other long-term liabilities  | 1,900                     | 1,936                            |
| Total other long-term liabilities  | \$ 14,391                 | \$ 15,343                        |

On November 6, 2006, the Company issued \$276.0 million of 2% convertible senior notes due 2026. The notes are convertible, at the option of the holder, based on an initial conversion rate, subject to adjustment, of 62.1504 shares per \$1,000 base amount (which represents an initial conversion price of approximately \$16.09 per share of our common stock), into cash up to the principal amount and, if applicable, shares of the Company's common stock, cash or a combination thereof. The notes may be converted during any calendar quarter in which the closing price of ARRIS common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect at that time (which, based on the current conversion price would be \$19.31) and upon the occurrence of certain other events. Upon conversion, the holder will receive the principal amount in cash and an additional payment, in either cash or stock at the option of the Company. The additional payment will be based on a formula which calculates the difference between the initial conversion rate (\$16.09) and the market price at the date of the conversion. As of May 8, 2009, the notes could not be converted by the holders thereof. Interest is payable on May 15 and November 15 of each year. The Company may redeem the notes at any time on or after November 15, 2013, subject to certain conditions. In addition, the holders may require the Company to purchase all or a portion of their convertible notes on or after November 13, 2013.

As of March 31, 2009 and December 31, 2008, the face value of the outstanding notes was \$261.0 million and \$276.0 million respectively. During the quarter, the Company acquired \$15.0 million face value of the notes for approximately \$10.6 million. The Company also wrote off approximately \$0.2 million of deferred finance fees associated with the portion of the notes acquired. As a result, the Company realized a gain of approximately \$4.2 million on the retirement of the notes.

On January 1, 2009, the Company adopted FSP APB 14-1, which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's non-convertible debt borrowing rate. The resulting debt discount is accreted over the period of the convertible debt is expected to be outstanding as additional non-cash interest expense. The adoption of FSP ABP 14-1 on January 1, 2009 affected the accounting for the Company's convertible senior notes. Upon adoption, the Company recorded an adjustment to increase additional paid-in capital as of the November 6, 2006 issuance date by approximately \$87.3 million. The Company is accreting the resulting debt

discount to interest expense over the estimated seven year life of the convertible notes, which represents the first redemption date of November 15, 2013 when the Company may redeem the notes at its election or the note holders may require their redemption. The Company recorded a pre-tax adjustment of approximately \$23.0 million to retained earnings that represents the debt discount accretion during the years ending December 31, 2006, 2007 and 2008 and will recognize additional non-cash interest expense of \$11.1 million, \$11.9 million, \$12.9 million, \$13.9 million and \$11.2 million during the years ending December 31, 2009, 2010, 2011, 2012 and 2013, respectively, for accretion of the debt discount. Additionally, the Company paid approximately \$7.8 million of finance fees related to the issuance of the notes. Of the \$7.8 million, \$2.5 million were attributed to the equity component of the convertible debt instrument. The portion related to the debt issuance costs are being amortized over seven years. The remaining balance of unamortized financing costs from these notes as of March 31, 2009 and December 31, 2008 was \$3.3 million, and \$3.7 million, respectively.

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In conjunction with the acquisition of C-COR, the Company assumed certain debt obligations, including unsecured convertible notes and financing related to equipment purchases and property expansion. On December 14, 2007, the Company gave notice to the note holders that it was calling all of the Notes and that redemption would occur on January 14, 2008. The notes were subsequently redeemed on January 14, 2008.

The Company has not paid cash dividends on its common stock since its inception.

**Note 12. Comprehensive Income**

Total comprehensive income represents the net change in stockholders' equity during a period from sources other than transactions with stockholders. For ARRIS, the components of comprehensive income include the unrealized gain (loss) on marketable securities. The components of comprehensive income for the three months ended March 31, 2009 and 2008 are as follows (in thousands):

|   | <b>Three Months Ended March<br/>31,</b> |             |
|---|---|-------------|
|   | <b>2009</b>                             | <b>2008</b> |
| Net income                                      | \$ 12,882                               | \$ 3,829    |
| Changes in the following equity accounts:       |   |             |
| Unrealized gain (loss) on marketable securities | (98)                                    | 131         |
| Comprehensive income                            | \$ 12,784                               | \$ 3,960    |

**Note 13. Segment Information**

The management approach required under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, has been followed in order to present our segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker for evaluating segment performance and deciding how to allocate resources to segments.

The Company manages its business under three segments: Broadband Communications Systems ( BCS ), Access, Transport & Supplies ( ATS ), and Media & Communications Systems ( MCS ). A detailed description of each segment is contained in our December 31, 2008 Form 10-K under Item 1 in Our Principal Products.

The *Broadband Communications Systems* segment's product solutions include Headend and Subscriber Premises equipment that enable cable operators to provide Voice over IP, Video over IP and high-speed data services to residential and business subscribers.

The *Access, Transport & Supplies* segment's product lines cover all components of a hybrid fiber coax network, including managed and scalable headend and hub equipment, optical nodes, radio frequency products, transport products and supplies.

The *Media & Communications Systems* segment provides content and operations management systems, including products for Video on Demand, Ad Insertion, Digital Advertising, Service Assurance, Service Fulfillment and Mobile Workforce Management.

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The table below presents information about the Company's reporting segments for the three months ended March 31, 2009 and 2008 (in thousands):

|                                     | BCS        | ATS       | MCS       | Total      |
|-------------------------------------|------------|-----------|-----------|------------|
| <b>Quarter Ended March 31, 2009</b> |            |           |           |            |
| Net sales                           | \$ 194,131 | \$ 42,990 | \$ 16,397 | \$ 253,518 |
| Gross margin                        | 78,921     | 9,268     | 7,321     | 95,910     |
| Amortization of intangible assets   |            | 5,654     | 3,609     | 9,263      |

|                                     |            |           |           |            |
|-------------------------------------|------------|-----------|-----------|------------|
| <b>Quarter Ended March 31, 2008</b> |            |           |           |            |
| Net sales                           | \$ 189,637 | \$ 72,894 | \$ 10,975 | \$ 273,506 |
| Gross margin                        | 57,991     | 21,876    | 5,381     | 85,248     |
| Amortization of intangible assets   |            | 6,852     | 6,402     | 13,254     |

The Company's net intangible assets and goodwill by reportable segment as of March 31, 2009 has not materially changed from December 31, 2008.

**Note 14. Sales Information**

The Company had two customers (including their affiliates, as applicable) with sales of more than 10% during the three months ended March 31, 2009. Over the past year, certain customers' beneficial ownership may have changed as a result of mergers and acquisitions. Therefore, the revenue for ARRIS' customers for prior periods has been adjusted to include the affiliates currently understood to be under common control. A summary of sales to these customers for the three month periods ended March 31, 2009 and 2008 are set forth below (in thousands):

|                                  | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------|---|-------------|
|                                  | <b>2009</b>                             | <b>2008</b> |
| Comcast and affiliates           | \$ 65,210                               | \$ 34,226   |
| % of sales                       | 25.7%                                   | 12.5%       |
| Time Warner Cable and affiliates | \$ 49,083                               | \$ 70,921   |
| % of sales                       | 19.4%                                   | 25.9%       |

ARRIS sells its products primarily in United States. The Company's international revenue is generated from Asia Pacific, Europe, Latin America and Canada. The Asia Pacific market primarily includes China, Hong Kong, Japan, Korea, Singapore and Taiwan. The European market primarily includes Austria, Belgium, France, Germany, the Netherlands, Poland, Portugal, Spain and Switzerland. The Latin American market primarily includes Argentina, Brazil, Chile, Colombia, Mexico, and Puerto Rico. Sales to international customers were approximately \$67.5 million, or 26.6% of total sales, for the three months ended March 31, 2009. International sales during the same period in 2008 were \$84.8 million, or 31.0% of total sales.

**Table of Contents****Note 15. Earnings Per Share**

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share ( EPS ) computations for the periods indicated (in thousands except per share data):

|                                      | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------------|---|-------------|
|                                      | <b>2009</b>                             | <b>2008</b> |
| Basic:                               |   |             |
| Net income                           | \$ 12,882                               | \$ 3,829    |
| Weighted average shares outstanding  | 123,281                                 | 130,763     |
| Basic earnings per share             | \$ 0.10                                 | \$ 0.03     |
| Diluted:                             |   |             |
| Net income                           | \$ 12,882                               | \$ 3,829    |
| Weighted average shares outstanding  | 123,281                                 | 130,763     |
| Net effect of dilutive equity awards | 1,639                                   | 1,218       |
| Total                                | 124,920                                 | 131,981     |
| Diluted earnings per share           | \$ 0.10                                 | \$ 0.03     |

Excluded from the dilutive securities described above are employee stock options to acquire approximately 7.0 million shares and 8.1 million shares for the three months ended March 31, 2009 and 2008, respectively. These exclusions were made because they were antidilutive.

**Note 16. Income Taxes**

In the first quarters of 2009 and 2008, the Company recorded income tax expense of \$8.4 million and \$3.3 million, respectively. Below is a summary of the components of the tax expense in each period (in millions, except for percentages):

|   | <b>Three Months Ended March 31,</b> |                          |                       |                         |                          |                       |
|---|-------------------------------------|--------------------------|-----------------------|-------------------------|--------------------------|-----------------------|
|   | <b>2009</b>                         |                          |                       | <b>2008</b>             |                          |                       |
|   | Income<br>Before<br>Tax             | Income<br>Tax<br>Expense | Effective<br>Tax Rate | Income<br>Before<br>Tax | Income<br>Tax<br>Expense | Effective<br>Tax Rate |
| Non-Discrete Items                        | 17.0                                | \$ 5.5                   | 32.3%                 | \$ 8.7                  | \$ 3.3                   | 37.8%                 |
| Discrete Accounting Events                | 4.2                                 | 1.4                      | 35.2%                 |                         |                          |                       |
| Discrete Tax Events                       |                                     |                          |                       |                         |                          |                       |
| Valuation Allowances / FIN<br>48 Reserves |                                     | 1.5                      |                       |                         |                          |                       |
| Total                                     | \$ 21.2                             | \$ 8.4                   | 39.6%                 | \$ 8.7                  | \$ 3.3                   | 37.8%                 |

In the first quarter of 2009, the Company reported a discrete accounting gain of \$4.2 million on the repurchase of convertible debt. Income tax expense of \$1.4 million was recorded on the gain, reflecting a tax rate of 35.2%. Additionally, during the first quarter, the Company identified \$1.5 million of discrete tax expense

relating to adjustments of FIN 48 allowances.

In the first quarter of 2008, the Company recorded income tax expense at the applicable federal rate and state rates. There was no discrete tax or accounting events pursuant to the guidance of APB Opinion 28, *Interim Financial Reporting* and FIN 18, *Accounting for Income Taxes in Interim Periods*.

The Company anticipates that the effective tax rate for full year 2009 for non-discrete items will be approximately 33%.

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### **Note 17. Contingencies**

From time to time, ARRIS is involved in claims, disputes, litigation or legal proceedings incidental to the ordinary course of its business, such as employment matters, environmental proceedings, contractual disputes and intellectual property disputes. Except as described below, ARRIS is not party to any proceedings that are, or reasonably could be expected to be, material to its business, results of operations or financial condition.

Commencing in 2005, Rembrandt Technologies, LP filed a series of lawsuits against Charter Communications, Inc., Time Warner Cable, Inc., Comcast Corporation and others alleging infringement of eight (8) patents related to the cable systems operators' use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. Although ARRIS is not a defendant in any of these lawsuits, its customers are, and its customers either have requested indemnification from, or may request indemnification or cooperation with the defense costs from, ARRIS and the other manufacturers of the equipment that is alleged to infringe. ARRIS is party to a joint defense agreement with respect to one of the lawsuits and has various understandings with the defendants in the remaining lawsuits with respect to cost sharing. In June 2007, the Judicial Panel of multi district litigation issued an order centralizing the litigation for administrative purposes in the District Court for Delaware. In November 2007, ARRIS, Cisco, Motorola and other suppliers filed a declaratory judgment action in the District Court of Delaware seeking to have the court declare the patents invalid and not infringed. After a favorable Markman hearing, Rembrandt reduced the number of asserted patents from eight to four with leave to reassert under certain circumstances. It is premature to assess the likelihood of a favorable outcome. In the event of an adverse outcome, ARRIS could be required to indemnify its customers, pay royalties, and/or cease using certain technology. Also, an adverse outcome may require a change in the DOCSIS® standards to avoid using the patented technology.

In connection with our acquisition of C-COR, ARRIS on October 31, 2007, was named as the defendant in a suit entitled CIBC World Market Corp. vs. ARRIS Group, Inc., Action No. 603605/2007, in the Supreme Court of the State of New York, New York County. This suit was settled, and the settlement cost was included in operating expenses for the three months ended March 31, 2009.

In 2007, ARRIS received correspondence from attorneys for the Adelpia Recovery Trust ( Trust ), that the Company may have received transfers from Adelpia Cablevision, LLC ( Cablevision ), one of the Adelpia debtors, during the year prior to its filing of a Chapter 11 petition on June 25, 2002 (the Petition Date ). The correspondence further asserts that information obtained during the course of the Adelpia Chapter 11 proceedings indicates that Cablevision was insolvent during the year prior to the Petition Date, and, accordingly, the Trust intends to assert that the payments made to ARRIS were fraudulent transfers under section 548 (a) of the Bankruptcy Code that may be recovered for the benefit of Cablevision's bankruptcy estate pursuant to section 550 of the Bankruptcy Code. Prior to its acquisition by ARRIS, C-COR received a similar correspondence making the same claims. We understand that similar letters were received by other Adelpia suppliers and we may seek to enter into a joint defense agreement to share legal expenses if a suit is commenced. To date, no suit has been commenced by the Trust. In the event a suit is commenced, ARRIS intends to contest the case vigorously. No estimate can be made of the possible range of loss, if any, associated with a resolution of these assertions.

In January and February 2008, Verizon Services Corp. filed separate lawsuits against various affiliates of Cox and against Charter, in the District Courts for the Eastern District of Virginia and for the Eastern District of Texas respectively, alleging infringement of eight patents. In the Verizon v. Cox suit, the jury issued a verdict in favor of Cox, finding non-infringement in all patents and invalidating two of Verizon's patents. Verizon has filed a notice of appeal. The suit against Charter is still pending, and trial is anticipated to take place in 2010. Verizon and Comcast have reached a settlement of the subject patents. It is premature to assess the likelihood of a favorable outcome of the Charter case or Cox appeal; though the Cox outcome at trial increases the likelihood of a favorable Charter outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Charter and Cox, pay royalties and/or cease utilizing certain technology.

Acacia Media Technologies Corp. has sued Charter and Time Warner Cable, Inc. for allegedly infringing U.S. Patent Nos. 5,132,992; 5,253,275; 5,550,863; and 6,144,702. The case has been bifurcated, where the case for invalidity of the patents will be tried first, and only if one or more patents are found to be valid, then the case for infringement will be tried. Both customers requested C-COR's, as well as other vendors', support under the indemnity provisions of the

purchase agreements (related to video-on-demand products). It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, pay royalties and /or cease using certain technology.

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V-Tran Media Technologies has filed a number of lawsuits against 21 different parties, including suits against Comcast, Charter, Verizon, Time Warner and numerous smaller MSOs for infringement on two patents related to television broadcast systems for selective transmission. Both patents expired in June 2008. C-COR manufactured products that allegedly infringed on their patents. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, or pay royalties. Given that the patents have expired, it is unlikely that the case will result in injunctions or ceasing the use of the technology. In February 2008, sixteen former employees of a former subsidiary of C-COR, filed a Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The suit was filed as a class action and the proposed class could include 1,000 cable installers and field technicians. ARRIS is actively contesting the suit.

From time to time third parties approach ARRIS or an ARRIS customer, seeking that ARRIS or its customer consider entering into a license agreement for such patents. Such invitations cause ARRIS to dedicate time to study such patents and enter into discussions with such third parties regarding the merits and value, if any, of the patents. These discussions, may materialize into license agreements or patents asserted against ARRIS or its customers. If asserted against our customers, our customers may seek indemnification from ARRIS. It is not possible to determine the impact of any such ongoing discussions on ARRIS's business financial conditions.

**Note 18. Purchases of ARRIS Common Stock**

During the first quarter of 2008, ARRIS publicly announced that its Board of Directors had authorized a plan (the 2008 Plan ) for the Company to purchase up to \$100 million of the Company's common stock. ARRIS repurchased 13 million shares at an average price of \$5.84 per share for an aggregate consideration of approximately \$76 million during the first quarter of 2008. The remaining authorized amount of \$24 million was not purchased.

During the first quarter of 2009, ARRIS's Board of Directors authorized a new plan (the 2009 Plan ), which replaced the 2008 Plan, for the Company to purchase up to \$100 million of the Company's common stock. The Company did not purchase any shares under the 2009 Plan during the first quarter of 2009.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Overview**

We are a global communications technology company specializing in the design and engineering of broadband network solutions. We are a leading developer, manufacturer and supplier of cable telephony, video and high-speed data products, as well as outside plant construction and maintenance equipment for cable system operators. We provide products and equipment principally to cable system operators and, more specifically, to Multiple System Operators (MSOs). Our products allow MSOs and other broadband service providers to deliver a full range of integrated voice, video and high-speed data services to their subscribers. Our core strategy is to lead network operators through the transition to Internet Protocol-based networks by leveraging our extensive global installed base of products and experienced workforce to deliver network solutions that meet the business needs of our customers. We operate our business in three segments:

Broadband Communications Systems (BCS)

Access, Transport and Supplies (ATS)

Media & Communications Systems (MCS)

A detailed description of each segment is contained in Our Principal Products in our Form 10-K for the year ended December 31, 2008.

**Our Strategy and Key Highlights**

Our long-term business strategy Convergence Enabled includes the following key elements:

Maintain a strong capital structure, mindful of our 2013 debt maturity, share repurchase opportunities and other capital needs including mergers and acquisitions.

Grow our current business into a more complete portfolio including a strong video product suite.

Continue to invest in the evolution toward enabling true network convergence onto an all IP platform.

Continue to expand our product/service portfolio through internal developments, partnerships and acquisitions.

Expand our international business and begin to consider opportunities in markets other than cable.

Continue to invest in and evolve the ARRIS talent pool to implement the above strategies.

Our mission is to simplify technology, facilitate its implementation, and enable operators to put their subscribers in control of their entertainment, information, and communication needs. Through a set of business solutions that respond to specific market needs, we are integrating our products, software, and services solutions to work with our customers as they address Internet Protocol telephony deployment, high speed data deployment, network capacity issues, on demand video rollout, operations management, network integration, and business services opportunities. Below are some key highlights and trends relative to our first quarter 2009:

**Financial Highlights**

Earnings per diluted share increased to \$0.10 in the first quarter 2009 as compared to \$0.03 in the first quarter 2008 despite a 7% decline in sales.

Gross margin percentage increased 6.5 percentage points year over year to 37.7% in the first quarter 2009 reflecting a stronger product mix notably higher sales of our higher margin CMTS product line.

We ended the first quarter 2009 with \$424.4 million of cash & short-term investments. We generated approximately \$13.8 million of cash from operating activities in the quarter.

We used \$10.6 million of cash to retire \$15.0 million principal amount of our convertible debt which represented a 29% discount. The Company also wrote off approximately \$0.2 million of deferred finance fees associated with the portion of the notes retired. We recorded a pre-tax net gain of \$4.2 million as a result of the retirement.

We ended the first quarter with an order backlog of approximately \$155 million and a book-to-bill ratio of 1.16. Both order backlog and book-to-bill are up relative to the first and fourth quarters of 2008.

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*Product Line Highlights*

**CMTS**

- o Downstream port shipments were 24,516 in the first quarter of 2009
- o DOCSIS 3.0 equipment has had wide market acceptance
- o Key wins occurred in Korea, Japan and North America
- o Worldwide market share improved in the fourth quarter of 2008 (source: Infonetics)

**CPE**

- o 1.3 million EMTAs were shipped in the first quarter of 2009. We have retained number one market share for 16 consecutive quarters (source: Infonetics)
- o We have twice as large a market share as our nearest competitor in the fourth quarter of 2008
- o We increased shipments of Multi-line and Wireless Gateways in the first quarter of 2009
- o DOCSIS 3.0 CPE shipments increased over fourth quarter of 2008, but we still expect more significant transition to this product later in 2009

**Access, Transport & Supplies**

- o Business continues to be impacted by macro economics which resulted in lower sales year over year and sequentially
- o Product mix and lower volumes impacted margins

**Media & Communications Systems**

- o We have seen strong acceptance of WorkAssure projects
- o Won a new WorkAssure customer in Latin America in the first quarter of 2009
- o Experienced mix shift toward On-Demand and Ad insertion in the first quarter of 2009
- o Introduced two new video distribution platforms

**Significant Customers**

The vast majority of our sales are to cable system operators worldwide. As the U.S. cable industry continued a trend toward consolidation, the six largest MSOs controlled approximately 89.9% of the triple play Revenue Generating Units ( RGU ) within the U.S. cable market (according to Dataxis in the third quarter 2008), thereby making our sales to those MSOs critical to our success. Our sales are substantially dependent upon a system operator's selection of ARRIS network equipment, demand for increased broadband services by subscribers, and general capital expenditure levels by system operators. Our two 10% customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. Over the past year, certain customers' beneficial ownership may have changed as a result of mergers and acquisitions. Therefore, the revenue for ARRIS customers for prior periods has been adjusted to include the affiliates currently understood to be under common control. A summary of sales to these customers for the three month periods ended March 31, 2009 and 2008 are set forth below (in thousands):

|                        | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------|---|-------------|
|                        | <b>2009</b>                             | <b>2008</b> |
| Comcast and affiliates | \$65,210                                | \$34,226    |
| % of sales             | 25.7%                                   | 12.5%       |

|                                  |    |          |          |
|----------------------------------|----|----------|----------|
| Time Warner Cable and affiliates |    | \$49,083 | \$70,921 |
| % of sales                       |    | 19.4%    | 25.9%    |
|                                  | 19 |          |          |

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**Table of Contents****Comparison of Operations for the Three Months Ended March 31, 2009 and 2008*****Net Sales***

The table below sets forth our net sales for the three months ended March 31, 2009 and 2008, for each of our segments (in thousands):

|                                  | Net Sales          |            |                       |         |
|----------------------------------|--------------------|------------|-----------------------|---------|
|                                  | Three Months Ended |            | Increase (Decrease) - |         |
|                                  | March 31,          |            | 2009 vs. 2008         |         |
|                                  | 2009               | 2008       | \$                    | %       |
| <i>Business Segment:</i>         |                    |            |                       |         |
| Broadband Communications Systems | \$ 194,131         | \$ 189,637 | \$ 4,494              | 2.4%    |
| Access, Transport & Supplies     | 42,990             | 72,894     | (29,904)              | (41.0)% |
| Media & Communications Systems   | 16,397             | 10,975     | 5,422                 | 49.4%   |
| Total sales                      | \$ 253,518         | \$ 273,506 | \$ (19,988)           | (7.3)%  |

The table below sets forth our domestic and international sales for the three months ended March 31, 2009 and 2008 (in thousands):

|                     | Net Sales          |            |                       |         |
|---------------------|--------------------|------------|-----------------------|---------|
|                     | Three Months Ended |            | Increase (Decrease) - |         |
|                     | March 31,          |            | 2009 vs. 2008         |         |
|                     | 2009               | 2008       | \$                    | %       |
| Domestic sales      | \$ 186,025         | \$ 188,743 | \$ (2,718)            | (1.4)%  |
| International sales | 67,493             | 84,763     | (17,270)              | (20.4)% |
| Total sales         | \$ 253,518         | \$ 273,506 | \$ (19,988)           | (7.3)%  |

***Broadband Communication Systems Net Sales 2009 vs. 2008***

During the first quarter of 2009, sales of our BCS segment products increased by approximately 2.4% as compared to the first quarter of 2008. This increase in sales primarily resulted from:

Higher sales to Comcast of both CMTS and EMTAs. Sales to Comcast were lower in the first quarter of 2008 as they awaited the launch of our DOCSIS 3.0 product in the third quarter of 2008.

Comcast sales were partially offset by decreases in sales to several customers, notably Charter and Liberty Media International.

***Access, Transport and Supplies Net Sales 2009 vs. 2008***

Access, Transport and Supplies segment revenue decreased by approximately 41.0% in the first quarter of 2009, as compared to the first quarter of 2008. The decrease was primarily the result of the reduced spending by cable operators as a result of the slowdown of the US economy, and in particular new housing construction that drives capital equipment spending for plant upgrades and rebuilds by cable operators.

***Media & Communication Systems Net Sales 2009 vs. 2008***

During the first quarter of 2009, sales of our MCS segment products increased by approximately 49.4% as compared to the first quarter of 2008. This increase in sales primarily reflects the build-up of deferred revenue throughout 2008. The deferred revenue acquired from C-COR acquisition was marked to fair value at the date of the acquisition and rebuilt through 2008.

**Table of Contents*****Gross Margin***

The table below sets forth our gross margin for the three months ended March 31, 2009 and 2008, for each of our reporting segments (in thousands):

|                                  | <b>Gross Margin \$</b>    |           |                            |         |
|----------------------------------|---------------------------|-----------|----------------------------|---------|
|                                  | <b>Three Months Ended</b> |           | <b>Increase (Decrease)</b> |         |
|                                  | <b>March 31,</b>          |           | <b>2009 vs. 2008</b>       |         |
|                                  | 2009                      | 2008      | \$                         | %       |
| <i>Business Segment:</i>         |                           |           |                            |         |
| Broadband Communications Systems | \$ 78,921                 | \$ 57,991 | \$ 20,930                  | 36.1%   |
| Access, Transport and Supplies   | 9,268                     | 21,876    | (12,608)                   | (57.6)% |
| Media & Communications Systems   | 7,321                     | 5,381     | 1,940                      | 36.1%   |
| Total                            | \$ 95,510                 | \$ 85,248 | \$ 10,262                  | 12.0%   |

The table below sets forth our gross margin percentages for the three months ended March 31, 2009 and 2008, for each of our business segments:

|                                  | Gross Margin %     |       |                             |
|----------------------------------|--------------------|-------|-----------------------------|
|                                  | Three Months Ended |       | Percentage Point            |
|                                  | March 31,          |       | Increase                    |
|                                  | 2009               | 2008  | (Decrease)<br>2009 vs. 2008 |
| <i>Business Segment:</i>         |                    |       |                             |
| Broadband Communications Systems | 40.7%              | 30.6% | 10.1                        |
| Access, Transport and Supplies   | 21.6%              | 30.0% | (8.4)                       |
| Media & Communications Systems   | 44.6%              | 49.0% | (4.4)                       |
| Total                            | 37.7%              | 31.2% | 6.5                         |

***Broadband Communications Systems Gross Margin 2009 vs. 2008***

Broadband Communications Systems segment gross margin dollars and percentage increased year over year:

The increase in gross margin dollars was primarily the result of higher sales and product mix.

The increase in gross margin percentage in the first quarter of 2009 as compared to the first quarter of 2008 primarily reflects product mix, as we sold more CMTS products and fewer EMTA products.

CMTS products carry a higher gross margin percentage than the EMTA products.

***Access, Transport and Supplies Gross Margin 2009 vs. 2008***

The Access, Transport and Supplies segment gross margin dollars and percentage decreased year over year:

The decrease in gross margin dollars was primarily the result of a decrease in sales.

The decrease in gross margin percentage was primarily the result of both a change in product mix and a decrease in sales. Access and Transport sales decreased proportionally more than the Supplies sales decreased, in particular the higher gross margin optics gear.

***Media & Communications Systems Gross Margin 2009 vs. 2008***

Media & Communications Systems segment gross margin dollars increased as gross margin percentage decreased year over year:

The increase in gross margin dollars was primarily the result of increased sales.

The decrease in gross margin percentage was primarily the result of product mix.



**Table of Contents*****Operating Expenses***

The table below provides detail regarding our operating expenses (in thousands):

|                                    | <b>Operating Expenses</b> |           |                            |         |
|------------------------------------|---------------------------|-----------|----------------------------|---------|
|                                    | <b>Three Months Ended</b> |           | <b>Increase (Decrease)</b> |         |
|                                    | <b>March 31,</b>          |           | <b>2009</b>                |         |
|                                    | 2009                      | 2008      | \$                         | %       |
| Selling general and administrative | \$ 35,343                 | \$ 36,982 | \$ (1,639)                 | (4.4)%  |
| Research and development           | 28,395                    | 28,122    | 273                        | 1.0%    |
| Restructuring                      | 120                       | 405       | (285)                      | (70.4)% |
| Amortization of intangible assets  | 9,263                     | 13,254    | (3,991)                    | (30.1)% |
| Total                              | \$ 73,121                 | \$ 78,763 | \$ (5,642)                 | (7.2)%  |

***Selling, General, and Administrative, or SG&A, Expenses***

The year over year decrease in SG&A expense reflects:

The synergies we achieved during 2008 primarily related to the C-COR acquisition.

The decrease achieved by the synergies was partially offset by an increase in legal costs of approximately \$1.2 million associated with patent and other litigation matters.

***Research & Development Expenses***

We continue to aggressively invest in research and development. Our primary focus is on products that allow MSOs to capture new revenues and reduce operating costs. The research and development expenses increased slightly as compared to first quarter 2008.

***Restructuring Charges***

On a quarterly basis, we review our existing restructuring accruals and make adjustments if necessary. For the first three months of 2009 and 2008, we recorded increases to the accruals \$0.1 million and \$0.4 million, respectively. The \$0.4 million recorded in the first quarter 2008 related to severance for the C-COR acquisition and changes in estimates associated with real estate leases.

***Amortization of Intangibles***

Intangibles amortization expense for the three months ended March 31, 2009 and 2008 was \$9.3 million and \$13.3 million, respectively. Our intangible expense in 2009 and 2008 is related to the acquisitions of Auspice Corporation in August of 2008 and C-COR Incorporated in December of 2007. The decline reflects the completion of the amortization of the C-COR order backlog in 2008.

***Goodwill Impairment***

Goodwill impairment for the three months ended March 31, 2009 and 2008 was \$0 for each period. We recorded a noncash goodwill impairment charge of \$128.9 million and \$80.4 million related to the ATS and MCS reporting units, respectively, during the fourth quarter of 2008. We continue to monitor our assessments of goodwill, particularly in light of the current economic climate, most notably with respect to the ATS segment. For the first quarter of 2009, we concluded that indicators of potential impairment did not exist. As the ongoing expected cash flows and carrying amounts of our remaining goodwill are assessed, changes in the economic conditions, changes to our business strategy, changes in operating performance or other indicators of impairment could cause us to realize additional impairment charges in the future.

***Other Expense (Income)******Interest Expense***

Interest expense for the first quarter 2009 and 2008 was \$4.5 million and \$4.0 million, respectively. Interest expense reflects interest and the amortization of a portion of the deferred finance fees primarily associated with

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our \$276.0 million 2% convertible subordinated notes. It also includes the non-cash interest expense recorded in accordance with FSP ABP 14-1, *Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion (including Partial Cash Settlement)*. See Note 2 and Note 11 of Notes to the Consolidated Financial Statements.

***Loss (Gain) in Foreign Currency***

During the first quarter 2009, we recorded a foreign currency loss of approximately \$1.0 million. During the first quarter 2008, we recorded a foreign currency gain of approximately \$1.0 million. The gains and losses are primarily driven by the fluctuation of the value of the euro, as compared to the U.S. dollar, as we had several European customers whose receivables and collections are denominated in euros. We have implemented a hedging strategy to mitigate the monetary exchange fluctuations from the time of invoice to the time of payment, and have occasionally entered into forward contracts based on a percentage of expected foreign currency receipts.

***Interest Income***

Interest income during the first quarter of 2009 and 2008 was \$385 thousand and \$2.7 million, respectively. The income reflects interest earned on cash, cash equivalents and short term investments. Interest income decreased year over year as result of lower interest rates earned in 2009 as compared to 2008.

***Other Income***

Other income for the three months ended March 31, 2009 and 2008 was \$103 thousand and \$36 thousand, respectively.

***Income Taxes***

In the three months ended March 31, 2009 and 2008, we recorded income tax expense of \$8.4 million and \$2.3 million, respectively. See Note 16 of the Notes to the Consolidated Financial Statements for additional information about income taxes.

**Table of Contents****Financial Liquidity and Capital Resources***Overview*

One of our key strategies is to maintain and improve our capital structure. The key metrics we focus on are summarized in the table below:

*Liquidity & Capital Resources Data*

|  | Three Months Ended March 31,         |            |
|--|--------------------------------------|------------|
|  | 2009                                 | 2008       |
|  | (in thousands, except DSO and turns) |            |
| <i>Key Working Capital Items</i>                   |                                      |            |
| Cash provided by operating activities              | \$ 13,845                            | \$ 30,515  |
| Cash, cash equivalents, and short-term investments | \$ 424,432                           | \$ 293,028 |
| Accounts receivable, net                           | \$ 155,792                           | \$ 172,719 |
| Days Sales Outstanding ( DSOs )                    | 57                                   | 57         |
| Inventory  | \$ 120,774                           | \$ 122,361 |
| Inventory turns                                    | 5.0                                  | 5.9        |
| <i>Convertible notes at face value*</i>            | \$ 261,050                           | \$ 276,000 |
| <i>Capital Expenditures</i>                        | \$ 5,066                             | \$ 6,429   |

\* The face value of our convertible notes will not agree to the amount on our balance sheet as a result of the accounting treatment in accordance with FSP APB 14-1. See Notes 2 and 11 of Notes to the Consolidated Financial Statements for more details.

*Accounts Receivable & Inventory*

We use the number of times per year that inventory turns over (based upon sales for the most recent period, or turns) to evaluate inventory management, and days sales outstanding, or DSOs, to evaluate accounts receivable management. Accounts receivable decreased in the first quarter of 2009 as compared to 2008 as a result of lower sales during the quarter. The DSOs remained unchanged year over year.

Inventory decreased in the first quarter of 2009 as compared to the first quarter of 2008 by approximately \$1.6 million. Declines in our inventory levels of the ATS and MCS segments were partially offset with a modest increase in the BCS segment. Inventory turns in the first quarter of 2009 were 5.0 as compared to 5.9 in the same

period of 2008. The decrease in turns relates to a couple factors:

With the market driven decline in the ATS sales, inventory was not reduced at a similar rate resulting in higher inventory turns for this segment. We anticipate that inventory turns for the ATS segment will improve over the next several quarters.

Despite a year over year increase in BCS segment sales of \$4.5 million, the cost of goods sold decreased by approximately \$16.4 million reflecting a shift in product mix. This resulted in lower inventory turns for the BCS segment year over year.

*Summary of Current Liquidity Position and Potential for Future Capital Raising*

We believe our current liquidity position, where we have approximately \$424 million of cash, cash equivalents, and short-term investments on hand as of March 31, 2009, together with the prospects for continued generation of cash from operations are adequate for our short- and medium-term business needs. We may in the future elect to repurchase additional shares of our common stock or additional principal amounts of our outstanding convertible notes. In addition, a key part of our overall long-term strategy may be implemented through additional acquisitions, and a portion of these funds may be used for that purpose. Should our available funds be insufficient

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for those purposes, it is possible that we will raise capital through private, or public, share or debt offerings. Absent a major acquisition, we do not anticipate a need to access the capital markets in 2009.

*Commitments*

Our contractual obligations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008. There has been no material change to our contractual obligations during the first quarter of 2009.

*Cash Flow*

Below is a table setting forth the key line items of our Consolidated Statements of Cash Flows (in thousands):

|   | For the Three Months Ended<br>March 31, |             |
|---|---|-------------|
|   | 2009                                    | 2008        |
| Cash provided by operating activities           | \$ 13,845                               | \$ 30,515   |
| Cash provided by (used in) investing activities | (13,330)                                | 3,216       |
| Cash (used in) financing activities             | (11,471)                                | (114,013)   |
| Net decrease in cash                            | \$(10,956)                              | \$ (80,282) |

**Operating Activities:**

Below are the key line items affecting cash provided by (used in) operating activities (in thousands):

|  | For the Three Months Ended<br>March 31, |          |
|--|---|----------|
|  | 2009                                    | 2008     |
| Net income   | \$ 12,882                               | \$ 3,829 |
| Adjustments to reconcile net income to cash provided by operating activities | 20,907                                  | 17,382   |
| Net income including adjustments   | 33,789                                  | 21,211   |
| Decrease/(increase) in accounts receivable                                   | 3,645                                   | (5,336)  |
| Decrease in inventory  | 8,978                                   | 10,245   |
| (Decrease) /increase in accounts payable and accrued liabilities             | (35,789)                                | 9,300    |
| All other net  | 3,222                                   | (4,905)  |
| Cash provided by operating activities  | \$ 13,845                               | \$30,515 |

Net income including adjustments increased \$12.6 million during the first quarter of 2009 as compared to 2008. Our net income before adjustments to net income increased approximately \$9.1 million in the first quarter 2009 as compared to 2008. The adjustments to reconcile net income to cash provided by operating activities increased approximately \$3.5 million during the first quarter of 2009 as compared to the same period in 2008. This increase was related to primarily three factors: (1) a gain of \$4.2 million associated with the redemption of a portion of our convertible debt, (2) a decrease in intangible amortization of \$4.0 million in the first quarter of 2009 as compared to 2008 as the order backlog acquired from C-COR was fully amortized during the first half of 2008, and (3) the net deferred tax asset increased by \$6.4 million during the first quarter of 2008 as compared to a net decrease in the net deferred tax asset of \$4.7 million during the first quarter of 2009.

Accounts receivable decreased in the first quarter of 2009 and increased in the first quarter 2008. These moderate changes related to the level of sales and the timing of sales during the quarters.

Inventory decreased in the first quarter of both 2009 and 2008. During 2009 the decrease was due to timing and an effort to reduce our inventory levels.

The decline in accounts payable and accrued liabilities in 2009 reflects the payment of the annual bonus in the first quarter coupled with normal timing variations associated with payments of accounts payable. In 2008, accounts

payable and accrued liabilities increased as a result of the build-up of deferred revenue from the MCS segment. The deferred revenue acquired from C-COR during the acquisition was marked to fair value at the date

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of acquisition. The increase in deferred revenue was partially offset by the payment of the annual bonus in the first quarter of 2008.

**Investing Activities:**

Below are the key line items affecting investing activities (in thousands):

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2009                            | 2008       |
| Capital expenditures                                   | \$ (5,066)                      | \$ (6,429) |
| Cash paid for acquisition                              | (200)                           | (4,192)    |
| Cash proceeds from sale of property, plant & equipment |                                 | 224        |
| Purchases of short-term investments                    | (23,870)                        | (16,887)   |
| Disposals of short-term investments                    | 15,806                          | 30,500     |
| Cash provided by (used in) investing activities        | \$(13,330)                      | \$ 3,216   |

*Capital Expenditures*

Capital expenditures are mainly for test equipment, manufacturing equipment, leasehold improvements, computer equipment, and business application software. We anticipate investing approximately \$20 million in fiscal year 2009.

*Cash Paid for Acquisition*

This represents the cash payments made during the quarter related to the C-COR acquisition, net of cash acquired.

*Purchases and Disposals of Short-Term Investments*

This represents purchases and disposals of short-term securities.

**Financing Activities:**

Below are the key line items affecting our financing activities (in thousands):

|  | For the Three Months Ended<br>March 31, |             |
|--|---|-------------|
|  | 2009                                    | 2008        |
| Payment of debt and capital lease obligations                  | \$(10,592)                              | \$ (35,097) |
| Repurchase of common stock                                     |   | (75,960)    |
| Excess income tax benefits from stock-based compensation plans | 431                                     |             |
| Repurchase of shares to satisfy tax withholdings               | (1,807)                                 | (239)       |
| Proceeds from issuance of common stock, net                    | 497                                     | (2,717)     |
| Cash (used in) financing activities                            | \$(11,471)                              | \$(114,013) |

*Payment of Debt and Capital Lease Obligation*

During the first quarter of 2009, we purchased \$15 million of face value of our convertible debt for approximately \$10.6 million. The Company also wrote off approximately \$0.2 million of deferred finance fees associated with the portion of the notes retired. The Company realized a gain of approximately \$4.2 million on the retirement of the convertible notes. As part of the C-COR acquisition in December 2007, we assumed \$35.0 million of 3.5% senior unsecured convertible notes due on December 31, 2009. We redeemed the notes were on January 14, 2008.

*Repurchase of Common Stock*

During the first quarter of 2008, ARRIS publicly announced that its Board of Directors had authorized a plan (the 2008 Plan ) for the Company to purchase up to \$100 million of the Company's common stock. ARRIS

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repurchased 13 million shares at an average price of \$5.84 per share for an aggregate consideration of approximately \$76 million during the first quarter of 2008. The remaining authorized amount of \$24 million was not purchased. During the first quarter of 2009, ARRIS Board of Directors authorized a new plan (the 2009 Plan), which replaced the 2008 Plan, for the Company to purchase up to \$100 million of the Company's common stock. The Company did not purchase any shares under the 2009 Plan during the first quarter of 2009.

### *Repurchase of Shares to Satisfy Tax Withholdings*

This represents the minimum shares withheld to satisfy the tax withholding when restricted stock vests.

### *Excess Income Tax Benefits from Stock-Based Compensation Plans*

This represents the cash that otherwise would have been paid for income taxes if increases in the value of equity instruments also had not been deductible in determining taxable income.

### *Proceeds from Issuance of Common Stock, Net*

Represents expenses paid related to the issuance of stock for the C-COR acquisition, offset with cash proceeds related to the exercise of stock options by employees.

### *Interest Rates*

As of March 31, 2009, we did not have any floating rate indebtedness or outstanding interest rate swap agreements.

### *Foreign Currency*

A significant portion of our products are manufactured or assembled in Mexico, Taiwan, China, Ireland, and other foreign countries. Further, as part of the C-COR acquisition we acquired a manufacturing facility in Mexico. Our sales into international markets have been and are expected in the future to be an important part of our business. These foreign operations are subject to the usual risks inherent in conducting business abroad, including risks with respect to currency exchange rates, economic and political destabilization, restrictive actions and taxation by foreign governments, nationalization, the laws and policies of the United States affecting trade, foreign investment and loans, and foreign tax laws.

We have certain international customers who are billed in their local currency. We use a hedging strategy and enter into forward or currency option contracts based on a percentage of expected foreign currency revenues. The percentage can vary, based on the predictability of the revenues denominated in foreign currency.

### *Financial Instruments*

In the ordinary course of business, we, from time to time, will enter into financing arrangements with customers. These financial arrangements include letters of credit, commitments to extend credit and guarantees of debt. These agreements could include the granting of extended payment terms that result in longer collection periods for accounts receivable and slower cash inflows from operations and/or could result in the deferral of revenue.

ARRIS executes letters of credit in favor of certain landlords and vendors to guarantee performance on lease and insurance contracts. Additionally, we have cash collateral account agreements with our financial institutions as security against potential losses with respect to our foreign currency hedging activities. The letters of credit and cash collateral accounts are reported as restricted cash. As of March 31, 2009 and December 31, 2008, we had approximately \$4.6 million and \$5.7 million outstanding, respectively, of cash collateral.

### *Cash, Cash Equivalents, and Investments*

Our cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) are primarily held in money market funds that pay either taxable or non-taxable interest. We hold short-term investments consisting of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities consist primarily of commercial paper, certificates of deposits, and U.S. government agency

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financial instruments. Additionally, as of March 31, 2009, we had approximately \$4.9 million of a single auction rate security outstanding at fair value, classified as a trading security within our long-term investments. Because it has failed at auction, we are uncertain of when we will be able to liquidate the security. However, the Company has been provided the option to sell the security to a major financial institution at par on June 30, 2010. Therefore, ARRIS has classified the investment at long-term. The security is a single student loan issue rated AAA and is substantial guaranteed by the federal government. Applying the provision of SFAS 157, we analyzed the fair value of the security as of March 31, 2009. We have concluded that the fair value is approximately \$4.9 million (including the fair value of the put options), which compares to a face value of \$5.0 million. We will continue to evaluate the fair value of this security and mark it to market accordingly.

From time to time, we held certain investments in the common stock of publicly-traded companies, which were classified as available-for-sale. As of March 31, 2009 and December 31, 2008 our holdings in these investments were immaterial. Changes in the market value of these securities are typically recorded in other comprehensive income and gain or losses on related sales of these securities are recognized in income.

On January 1, 2008, ARRIS adopted SFAS No. 157, *Fair Value Measurements*, for its financial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 4 of Notes to the Consolidated Financial statement for disclosures related to the fair value of our investments.

The Company has a deferred compensation plan that was available to certain current and former officers and key executives of C-COR. During 2008, this plan was merged into a new non-qualified deferred compensation plan which is also available to key executives of the Company. Employee compensation deferrals and matching contributions are held in a rabbi trust, and are accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. A rabbi trust is a funding vehicle used to protect the deferred compensation from various events (but not from bankruptcy or insolvency).

Additionally, ARRIS previously offered a deferred compensation arrangement, which was available to certain employees. As of December 31, 2004, the plan was frozen and no further contributions are allowed. The deferred earnings are invested in a rabbi trust, and are accounted for in accordance with Emerging Issues Task Force Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested*.

The Company also has a deferred retirement salary plan, which was limited to certain current or former officers of C-COR. ARRIS holds an investment to cover its liability, and accounts for the investment in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

### ***Capital Expenditures***

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS capital expenditures were \$5.1 million in the first quarter 2009 as compared to \$6.4 million in the first quarter 2008. Management expects to invest approximately \$20 million in capital expenditures for the fiscal year 2009.

### **Critical Accounting Estimates**

The accounting and financial reporting policies of the ARRIS are in conformity with U.S. generally accepted accounting principles. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has discussed the development and selection of the Company's critical accounting estimates with the audit committee of the Company's Board of Directors and the audit committee has reviewed the Company's related disclosures. Our critical accounting policies and estimates are disclosed extensively in our Form 10-K for the year ended December 31, 2008, as filed with the SEC. Our critical accounting estimates have not changed in any material respect during the three months ended March 31, 2009.

**Table of Contents****Forward-Looking Statements**

Certain information and statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this report, including statements using terms such as may, expect, anticipate, intend, estimate, believe, plan, continue, could be, or similar variations or the negative thereof, forward-looking statements with respect to the financial condition, results of operations, and business of ARRIS, including statements that are based on current expectations, estimates, forecasts, and projections about the markets in which we operate and management's beliefs and assumptions regarding these markets. These and any other statements in this document that are not statements about historical facts are forward-looking statements. We caution investors that forward-looking statements made by us are not guarantees of future performance and that a variety of factors could cause our actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. Important factors that could cause results or events to differ from current expectations are described in the risk factors set forth in Item 1A, Risk Factors. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. In providing forward-looking statements, ARRIS expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks, including interest rates and foreign currency rates. The following discussion of our risk-management activities includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

We have had investments in auction rate securities that are classified as available-for-sale securities. As of March 31, 2009 and December 31, 2008, we held one auction rate security of \$5.0 million. Although these securities have maturity dates of 15 to 30 years, they have characteristics of short-term investments as the interest rates reset every 7, 28, or 35 days and we have the potential to liquidate them in an auction process. Due to the short duration of these investments, a movement in market interest rates would not have a material impact on our operating results. However, it is possible that a security will fail to reprice at the scheduled auction date. In these instances, we are entitled to receive a penalty interest rate above market and the auction rate security will be held until the next scheduled auction date. ARRIS' auction rate security of \$5.0 million has continued to fail at auction, resulting in ARRIS continuing to hold this security. Due to the current market conditions and the failure of the auction rate security to reprice, beginning in the second quarter of 2008, we recorded changes in the fair value of the instrument as an impairment charge in the Statement of Operations in the gain (loss) on investment line. This particular security was held as of March 31, 2009 as a trading security within long-term investments with a fair market value of \$4.9 million (including the fair value of the put option). ARRIS may not be able to liquidate this security until a successful auction occurs, or alternatively, we have been provided the option to sell the security to a major financial institution at par on June 30, 2010. During the quarter ended March 31, 2009, we recorded an increase in fair value of \$15 thousand.

A significant portion of our products are manufactured or assembled in China, Mexico, Ireland, Taiwan, and other countries outside the United States. Our sales into international markets have been and are expected in the future to be an important part of our business. These foreign operations are subject to the usual risks inherent in conducting business abroad, including risks with respect to currency exchange rates, economic and political destabilization, restrictive actions and taxation by foreign governments, nationalization, the laws and policies of the United States affecting trade, foreign investment and loans, and foreign tax laws.

We have certain international customers who are billed in their local currency. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes. The euro and the yen are the predominant currencies of those customers who are billed in their local currency. Taking into account the effects of foreign currency fluctuations of the euro and the yen versus the dollar, a hypothetical 10% weakening of the U.S. dollar (as of December 31, 2008) would provide a gain on foreign currency of approximately \$1.9 million. Conversely, a hypothetical 10% strengthening of the U.S. dollar would provide a loss on foreign currency of approximately

\$1.9 million. There were no material changes in this market risk since December 31, 2008. The actual impact of foreign exchange rate changes will depend on, among other factors, the timing of rate

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changes and changes in the volume and mix of the our business. As of March 31, 2009, we had no material contracts, other than accounts receivable, denominated in foreign currencies.

We regularly review our forecasted sales in euros and enter into option contracts when appropriate. In the event that we determine a hedge to be ineffective prior to expirations earnings may be effected by the change in the hedge value. As of March 31, 2009, we had option collars outstanding with notional amounts totaling \$6.0 million euros, which mature through 2009. As of March 31, 2009, we had forward contracts outstanding with notional amounts totaling \$29.5 million euros, which mature in 2009 and \$4.5 million euros maturing in 2010. The fair value of these option collars and forward contracts was a net asset of approximately \$0.8 million as of March 31, 2009.

### **Item 4. CONTROLS AND PROCEDURES**

(a) *Evaluation of Disclosure Controls and Procedures.* Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report (the *Evaluation Date* ). Based on that evaluation, such officers concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective as contemplated by the Act.

(b) *Changes in Internal Control over Financial Reporting.* Our principal executive officer and principal financial officer evaluated the changes in our internal control over financial reporting that occurred during the most recent fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there had been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

From time to time, ARRIS is involved in claims, disputes, litigation or legal proceedings incidental to the ordinary course of its business, such as employment matters, environmental proceedings, contractual disputes and intellectual property disputes. Except as described below, ARRIS is not party to any proceedings that are, or reasonably could be expected to be, material to its business, results of operations or financial condition.

Commencing in 2005, Rembrandt Technologies, LP filed a series of lawsuits against Charter Communications, Inc., Time Warner Cable, Inc., Comcast Corporation and others alleging infringement of eight (8) patents related to the cable systems operators' use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. Although ARRIS is not a defendant in any of these lawsuits, its customers are, and its customers either have requested indemnification from, or may request indemnification or cooperation with the defense costs from, ARRIS and the other manufacturers of the equipment that is alleged to infringe. ARRIS is party to a joint defense agreement with respect to one of the lawsuits and has various understandings with the defendants in the remaining lawsuits with respect to cost sharing. In June 2007, the Judicial Panel of multi district litigation issued an order centralizing the litigation for administrative purposes in the District Court for Delaware. In November 2007 ARRIS, Cisco, Motorola and other suppliers filed a declaratory judgment action in the District Court of Delaware seeking to have the court declare the patents invalid and not infringed. After a favorable Markman hearing, Rembrandt reduced the number of asserted patents from eight to four with leave to reassert under certain circumstances. It is premature to assess the likelihood of a favorable outcome. In the event of an adverse outcome, ARRIS could be required to indemnify its customers, pay royalties, and/or cease using certain technology. Also, an adverse outcome may require a change in the DOCSIS® standards to avoid using the patented technology.

In connection with our acquisition of C-COR, Inc., ARRIS on October 31, 2007, was named as the defendant in a suit entitled CIBC World Market Corp. vs. ARRIS Group, Inc., Action No. 603605/2007, in the Supreme Court of the State of New York, New York County. This suit was settled, and the settlement cost was included in operating expenses for the quarter ended March 31, 2009.

In 2007, ARRIS received correspondence from attorneys for the Adelphia Recovery Trust ( *Trust* ), that the Company may have received transfers from Adelphia Cablevision, LLC ( *Cablevision* ), one of the Adelphia debtors, during the year prior to its filing of a Chapter 11 petition on June 25, 2002 (the *Petition Date* ). The

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correspondence further asserts that information obtained during the course of the Adelphia Chapter 11 proceedings indicates that Cablevision was insolvent during the year prior to the Petition Date, and, accordingly, the Trust intends to assert that the payments made to ARRIS were fraudulent transfers under section 548 (a) of the Bankruptcy Code that may be recovered for the benefit of Cablevision's bankruptcy estate pursuant to section 550 of the Bankruptcy Code. Prior to its acquisition by ARRIS, C-COR received a similar correspondence making the same claims. We understand that similar letters were received by other Adelphia suppliers and we may seek to enter into a joint defense agreement to share legal expenses if a suit is commenced. To date, no suit has been commenced by the Trust. In the event a suit is commenced, ARRIS intends to contest the case vigorously. No estimate can be made of the possible range of loss, if any, associated with a resolution of these assertions.

In January and February 2008, Verizon Services Corp. filed separate lawsuits against various affiliates of Cox and against Charter, in the District Courts for the Eastern District of Virginia and for the Eastern District of Texas respectively, alleging infringement of eight patents. In the Verizon v. Cox suit, the jury issued a verdict in favor of Cox, finding non-infringement in all patents and invalidating two of Verizon's patents. Verizon has filed a notice of appeal. The suit against Charter is still pending, and trial is anticipated to take place in 2010. Verizon and Comcast have reached a settlement of the subject patents. It is premature to assess the likelihood of a favorable outcome of the Charter case or Cox appeal; though the Cox outcome at trial increases the likelihood of a favorable Charter outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Charter and Cox, pay royalties and/or cease utilizing certain technology.

Acacia Media Technologies Corp. has sued Charter and Time Warner Cable, Inc. for allegedly infringing U.S. Patent Nos. 5,132,992; 5,253,275; 5,550,863; and 6,144,702. The case has been bifurcated, where the case for invalidity of the patents will be tried first, and only if one or more patents are found to be valid, then the case for infringement will be tried. Both customers requested C-COR's, as well as other vendors', support under the indemnity provisions of the purchase agreements (related to video-on-demand products). It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, pay royalties and/or cease using certain technology.

V-Tran Media Technologies has filed a number of lawsuits against 21 different parties, including suits against Comcast, Charter, Verizon, Time Warner and numerous smaller MSOs for infringement on two patents related to television broadcast systems for selective transmission. Both patents expired in June 2008. C-COR manufactured products that allegedly infringed on their patents. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, or pay royalties. Given that the patents have expired, it is unlikely that the case will result in injunctions or ceasing the use of the technology. In February 2008, sixteen former employees of a former subsidiary of C-COR, filed a Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The suit was filed as a class action and the proposed class could include 1,000 cable installers and field technicians. ARRIS is actively contesting the suit.

From time to time third parties approach ARRIS or an ARRIS customer, seeking that ARRIS or its customer consider entering into a license agreement for such patents. Such invitations cause ARRIS to dedicate time to study such patents and enter into discussions with such third parties regarding the merits and value, if any, of the patents. These discussions, may materialize into license agreements or patents asserted against ARRIS or its customers. If asserted against our customers, our customers may seek indemnification from ARRIS. It is not possible to determine the impact of any such ongoing discussions on ARRIS's business financial conditions.

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**Item 1A. Risk Factors**

***Our business is dependent on customers' capital spending on broadband communication systems, and reductions by customers in capital spending adversely affect our business.***

Our performance is dependent on customers' capital spending for constructing, rebuilding, maintaining or upgrading broadband communications systems. Capital spending in the telecommunications industry is cyclical and can be curtailed or deferred on short notice. A variety of factors affect the amount of capital spending and, therefore, our sales and profits, including:

- general economic conditions;
- customer specific financial or stock market conditions;
- availability and cost of capital;
- governmental regulation;
- demand for network services;
- competition from other providers of broadband and high speed services;
- technological change;
- new housing starts;
- acceptance of new services offered by our customers; and

real or perceived trends or uncertainties in these factors.

Several of our customers have accumulated significant levels of debt. These high debt levels, coupled with the current turbulence and uncertainty in the capital markets, have affected the market values of domestic cable operators and may impact their access to capital in the future. Even if the financial health of our customers remains intact, we cannot assure you that these customers may not purchase new equipment at levels we have seen in the past or expect in the future. During the later part of 2008 and continuing into 2009, the economy and financial markets have been heavily impacted by housing market disruptions and foreclosures as well as the recent material credit market disruptions. One major MSO, Charter Communications, recently filed for bankruptcy protection, and others may do so in due course. We cannot predict the impact if any of the recent financial market turmoil, or of specific customer financial challenges on our customers' upgrade and maintenance expenditures.

***The markets in which we operate are intensely competitive, and competitive pressures may adversely affect our results of operations.***

The markets for broadband communication products and services are extremely competitive and dynamic, requiring the companies that compete in these markets to react quickly and capitalize on change. This requires us to retain skilled and experienced personnel as well as to deploy substantial resources toward meeting the ever-changing demands of the industry. We compete with national and international manufacturers, distributors and wholesalers including many companies that are larger than we are. Our major competitors include:

- Ambit Microsystems;
- Aurora Networks;
- BigBand Networks;
- Cisco Systems, Inc.;

Commscope, Inc;

Concurrent Computer Corporation;

Ericsson (TandbergTV);

Harmonic, Inc.;

Motorola, Inc.;

SeaChange, Inc.;

Thomson; and

TVC Communications, Inc.

In some instances, notably our software products, our customers themselves may be our competition as they may develop their own software. The rapid technological changes occurring in the broadband markets may lead to the entry of new competitors, including those with substantially greater resources than our own. Because the markets in which we compete are characterized by rapid growth and, in some cases, low barriers to entry, smaller niche market companies and start-up ventures also may become principal competitors in the future. Actions by existing

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competitors and the entry of new competitors may have an adverse effect on our sales and profitability. The broadband communications industry is further characterized by rapid technological change. In the future, technological advances could lead to the obsolescence of some of our current products, which could have a material adverse effect on our business.

Further, many of our larger competitors are in a better position to withstand any significant reduction in capital spending by customers in these markets. They often have broader product lines and market focus and therefore are not as susceptible to downturns in a particular market. In addition, several of our competitors have been in operation longer than we have been, and therefore they have more established relationships with domestic and foreign broadband service users. We may not be able to compete successfully in the future, and competition may negatively impact our business.

***Consolidations in the telecommunications industry could result in delays or reductions in purchases of products, which would have a material adverse effect on our business.***

The telecommunications industry has experienced the consolidation of many industry participants, and this trend may continue. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, thereby possibly resulting in an immediate or future elimination of sales opportunities for us or our competitors, depending upon who had the business initially. Consolidations also could result in delays in purchasing decisions by the merged businesses. The purchasing decisions of the merged companies could have a material adverse effect on our business.

Mergers among the supplier base also have increased, and this trend may continue. For example, in February 2006, Cisco Systems, Inc. acquired Scientific-Atlanta, Inc.; in April 2007, Ericsson acquired TANDBERG Television ASA; and in July 2007, Motorola, Inc. acquired Terayon, Inc. Larger combined companies with pooled capital resources may be able to provide solution alternatives with which we would be put at a disadvantage to compete. The larger breadth of product offerings by these consolidated suppliers could result in customers electing to trim their supplier base for the advantages of one-stop shopping solutions for all of their product needs. Consolidation of the supplier base could have a material adverse effect on our business.

***We may pursue acquisitions and investments that could adversely affect our business.***

In the past, we have made acquisitions of and investments in businesses, products, and technologies to complement or expand our business. While we have no announced plans for additional acquisitions, future acquisitions are part of our strategic objectives and may occur. If we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition or integrate the acquired businesses, products, or technologies with our existing business and products. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization expenses, and substantial goodwill. We will test the goodwill that is created by acquisitions, at least annually and will record an impairment charge if its value has declined. For instance, in the fourth quarter of 2008, we recorded a substantial impairment charge with respect to the goodwill that was created as part of our acquisition of C-COR.

***We have substantial goodwill.***

Our financial statements reflect substantial goodwill, approximately \$231.7 million as of March 31, 2009, that was recognized in connection with the acquisitions that we have made. In accordance with Statement of Financial Accounting Standard ( SFAS ) No. 142, *Goodwill and Other Intangible Assets*, we annually (and more frequently if changes in circumstances indicate that the asset may be impaired) review the carrying amount of our goodwill in order to determine whether it has been impaired for accounting purposes. In general, if the fair value of the corresponding reporting unit is less than the carrying value of the goodwill, we record an impairment charge. The determination of fair value is dependent upon a number of factors, including assumptions about future cash flows and growth rates that are based on our current and long-term business plans. In 2008, we recorded an impairment charge to our goodwill of approximately \$209.3 million. As the ongoing expected cash flows and carrying amounts of our remaining goodwill are assessed, changes in the economic conditions, changes to our business strategy, changes in operating performance or other indicators of impairment could cause us to realize an additional impairment charge in the future.

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***Our business comes primarily from a few key customers. The loss of one of these customers or a significant reduction in sales to one of these customers would have a material adverse effect on our business.***

Our two largest customers (including their affiliates, as applicable) are Comcast, and Time Warner Cable. For the quarter ended March 31, 2009, sales to Comcast accounted for approximately 25.7%, and sales to Time Warner Cable accounted for approximately 19.4% of our total revenue. The loss of any of these customers, or one of our other large customers, or a significant reduction in the products or services provided to any of them would have a material adverse impact on our business. For each of these customers, we also are one of their largest suppliers. A consequence of that, if from time-to-time customers elect to purchase products from our competitors in order to diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon our business.

***We may have difficulty in forecasting our sales.***

Because a significant portion of the purchases by our customers are discretionary, accurately forecasting sales is difficult. In addition, more so than historically, in recent years our customers have submitted their purchase orders less evenly over the course of each quarter and year and with shorter lead times. This has made it even more difficult for us to forecast sales and other financial measures and plan accordingly.

***The broadband products that we develop and sell are subject to technological change and a trend toward open standards, which may impact our future sales and margins.***

The broadband products we sell are subject to continuous technological evolution. Further, the cable industry has and will continue to demand a move toward open standards. The move toward open standards is expected to increase the number of MSOs that will offer new services, in particular, telephony. This trend also is expected to increase the number of competitors and drive capital costs per subscriber deployed down. These factors may adversely impact both our future revenues and margins.

***Fluctuations in our Media & Communications Systems sales result in greater volatility in our operating results.***

The level of our Media & Communications Systems sales fluctuate significantly quarter to quarter and results in greater volatility of our operating results than has been typical in the past, when the main source of volatility was the high proportion of quick-turn product sales. The timing of revenue recognition on software and system sales is based on specific contract terms and, in certain cases, is dependent upon completion of certain activities and customer acceptance which are difficult to forecast accurately. Because the gross margins associated with software and systems sales are substantially higher than our average gross margins, fluctuations in quarterly software sales have a disproportionate effect on operating results and earnings per share and could result in our operating results falling short of the expectations of securities analysts and investors.

***Products currently under development may fail to realize anticipated benefits.***

Rapidly changing technologies, evolving industry standards, frequent new product introductions and relatively short product life cycles characterize the markets for our products. The technology applications that we currently are developing may not be ultimately successful. Even if the products in development are successfully brought to market, they may not be widely used or we may not be able to successfully capitalize on their technology. To compete successfully, we must quickly design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability. However, we may not be able to successfully develop or introduce these products if our products:

are not cost-effective;

are not brought to market in a timely manner;

fail to achieve market acceptance; or

fail to meet industry certification standards.

Furthermore, our competitors may develop similar or alternative technologies that, if successful, could have a material adverse effect on us. Our strategic alliances are based on business relationships that have not been the

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subject of written agreements expressly providing for the alliance to continue for a significant period of time. The loss of a strategic relationship could have a material adverse effect on the progress of new products under development with that third party.

***Our success depends in large part on our ability to attract and retain qualified personnel in all facets of our operations.***

Competition for qualified personnel is intense, and we may not be successful in attracting and retaining key personnel, which could impact our ability to maintain and grow our operations. Our future success will depend, to a significant extent, on the ability of our management to operate effectively. In the past, competitors and others have attempted to recruit our employees and in the future, their attempts may continue. The loss of services of any key personnel, the inability to attract and retain qualified personnel in the future or delays in hiring required personnel, particularly engineers and other technical professionals, could negatively affect our business.

***We are substantially dependent on contract manufacturers, and an inability to obtain adequate and timely delivery of supplies could adversely affect our business.***

Many components, subassemblies and modules necessary for the manufacture or integration of our products are obtained from a sole supplier or a limited group of suppliers. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our reliance on subcontractors involves several risks including a potential inability to obtain an adequate supply of required components, subassemblies or modules and reduced control over pricing, quality and timely delivery of components, subassemblies or modules. Historically, we have not maintained long-term agreements with any of our suppliers or subcontractors. An inability to obtain adequate deliveries or any other circumstance that would require us to seek alternative sources of supply could affect our ability to ship products on a timely basis. Any inability to reliably ship our products on time could damage relationships with current and prospective customers and harm our business.

***Our international operations may be adversely affected by any decline in the demand for broadband systems designs and equipment in international markets.***

Sales of broadband communications equipment into international markets are an important part of our business. Our products are marketed and made available to existing and new potential international customers. In addition, United States broadband system designs and equipment are increasingly being employed in international markets, where market penetration is relatively lower than in the United States. While international operations are expected to comprise an integral part of our future business, international markets may no longer continue to develop at the current rate, or at all. We may fail to receive additional contracts to supply equipment in these markets.

***Our international operations may be adversely affected by changes in the foreign laws in the countries in which we and our manufacturers and assemblers have plants.***

A significant portion of our products are manufactured or assembled in China, Ireland, Mexico, and other countries outside of the United States. The governments of the foreign countries in which our products are manufactured may pass laws that impair our operations, such as laws that impose exorbitant tax obligations or nationalize these manufacturing facilities.

In addition, we own a manufacturing facility located in Tijuana, Mexico. This operation is exposed to certain risks as a result of its location, including:

- changes in international trade laws, such as the North American Free Trade Agreement and Prosec, affecting our import and export activities;

- changes in, or expiration of, the Mexican government's IMMEX (Manufacturing Industry Maquiladora and Export Services) program, which provides economic benefits to us;

- changes in labor laws and regulations affecting our ability to hire and retain employees;

- fluctuations of foreign currency and exchange controls;

- potential political instability and changes in the Mexican government;

potential regulatory changes; and

general economic conditions in Mexico.

Any of these risks could interfere with the operation of this facility and result in reduced production, increased costs, or both. In the event that production capacity of this facility is reduced, we could fail to ship products on

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schedule and could face a reduction in future orders from dissatisfied customers. If our costs to operate this facility increase, our margins would decrease. Reduced shipments and margins would have an adverse effect on our financial results.

***We face risks relating to currency fluctuations and currency exchange.***

On an ongoing basis we are exposed to various changes in foreign currency rates because significant sales are denominated in foreign currencies. These risk factors can impact our results of operations, cash flows and financial position. We manage these risks through regular operating and financing activities and periodically use derivative financial instruments such as foreign exchange forward and option contracts. There can be no assurance that our risk management strategies will be effective.

We also may encounter difficulties in converting our earnings from international operations to U.S. dollars for use in the United States. These obstacles may include problems moving funds out of the countries in which the funds were earned and difficulties in collecting accounts receivable in foreign countries where the usual accounts receivable payment cycle is longer.

***We depend on channel partners to sell our products in certain regions and are subject to risks associated with these arrangements.***

We utilize distributors, value-added resellers, system integrators, and manufacturers' representatives to sell our products to certain customers and in certain geographic regions to improve our access to these customers and regions and to lower our overall cost of sales and post-sales support. Our sales through channel partners are subject to a number of risks, including:

ability of our selected channel partners to effectively sell our products to end customers;

our ability to continue channel partner arrangements into the future since most are for a limited term and subject to mutual agreement to extend;

a reduction in gross margins realized on sale of our products; and

a diminution of contact with end customers which, over time, could adversely impact our ability to develop new products that meet customers' evolving requirements.

***Our profitability has been, and may continue to be, volatile, which could adversely affect the price of our stock.***

Although we have been profitable in the last three fiscal years, prior to that we experienced significant losses and we may not be profitable, or meet the level of expectations of the investment community, in the future. This could have a material adverse impact on our stock price.

***We may face higher costs associated with protecting our intellectual property or obtaining access necessary to intellectual property of others.***

Our future success depends in part upon our proprietary technology, product development, technological expertise and distribution channels. We cannot predict whether we can protect our technology or whether competitors can develop similar technology independently. We have received, directly or indirectly, and may continue to receive from third parties, including some of our competitors, notices claiming that we, or our customers using our products, have infringed upon third-party patents or other proprietary rights. We are a defendant in proceedings (and other proceedings have been threatened) in which our customers were sued for patent infringement and sued, or made claims against, us and other suppliers for indemnification, and we may become involved in similar litigation involving these and other customers in the future. These claims, regardless of their merit, result in costly litigation, divert the time, attention and resources of our management, delay our product shipments, and, in some cases, require us to enter into royalty or licensing agreements. If a claim of product infringement against us is successful and we fail to obtain a license or develop non-infringing technology, our business and operating results could be materially and adversely affected. In addition, the payment of any damages or any necessary licensing fees or indemnification costs associated with a patent infringement claim could be material and could also materially adversely affect our operating results. See Legal Proceedings.



**Table of Contents*****Changes in accounting pronouncements can impact our business.***

We prepare our financial statements in accordance with U.S. generally accepted accounting principles. These principles periodically are modified by the Financial Accounting Standards Board and other governing authorities, and those changes can impact how we report our results of operations, cash flows and financial positions. For instance, the FASB recently announced that it has modified, the accounting principles that govern the reporting of interest expense with respect to certain convertible indebtedness, such as the convertible notes that we have outstanding. The consequence of this resulted in an increase in our interest expense and a restatement of interest expense for prior periods. These changes could be significant.

***We do not intend to pay cash dividends in the foreseeable future.***

Although from time to time we may consider repurchasing shares of our common stock, we do not anticipate paying cash dividends on our common stock in the foreseeable future. In addition, the payment of dividends in certain circumstances may be prohibited by the terms of our current and future indebtedness.

***We have anti-takeover defenses that could delay or prevent an acquisition of our company.***

We have a shareholder rights plan (commonly known as a "poison pill"). This plan is not intended to prevent a takeover, but is intended to protect and maximize the value of stockholders' interests. This plan could make it more difficult for a third party to acquire us or may delay that process.

***We have the ability to issue preferred shares without stockholder approval.***

Our common shares may be subordinate to classes of preferred shares issued in the future in the payment of dividends and other distributions made with respect to common shares, including distributions upon liquidation or dissolution. Our Amended and Restated Certificate of Incorporation permits our board of directors to issue preferred shares without first obtaining stockholder approval. If we issued preferred shares, these additional securities may have dividend or liquidation preferences senior to the common shares. If we issue convertible preferred shares, a subsequent conversion may dilute the current common stockholders' interest.

**Item 6. EXHIBITS**

| <i>Exhibit No.</i> | <i>Description of Exhibit</i>  |
|--------------------|--|
| 10.24*             | Form of Restricted Stock Agreement                                   |
| 10.25*             | Form of Restricted Stock Unit  |
| 31.1               | Section 302 Certification of Chief Executive Officer, filed herewith |
| 31.2               | Section 302 Certification of Chief Financial Officer, filed herewith |
| 32.1               | Section 906 Certification of Chief Executive Officer, filed herewith |
| 32.2               | Section 906 Certification of Chief Financial Officer, filed herewith |

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**SIGNATURES**

Pursuant to the requirements the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARRIS GROUP, INC.

/s/ David B. Potts

David B. Potts

Executive Vice President, Chief Financial  
Officer, Chief Accounting Officer, and  
Chief Information Officer

Dated: May 8, 2009