ARRIS GROUP INC
Form 10-Q
August 10, 2009

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

FORM 10-Q
For the quarter ended June 30, 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 July 31, 2009, 125,085,460 shares of the registrant s Common Stock, $0.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

ARRIS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data) (unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 476,846	$ 409,894
Short-term investments, at fair value	47,195	17,371
Total cash, cash equivalents and short-term investments	524,041	427,265
Restricted cash	4,552	5,673
Accounts receivable (net of allowances for doubtful accounts of $3,672 in 2009 and $3,988 in 2008)	128,482	159,443
Other receivables	5,904	4,749
Inventories (net of reserves of $18,921 in 2009 and $18,811 in 2008)	115,944	129,752
Prepaids	7,700	8,004
Current deferred income tax assets	41,166	44,004
Other current assets	12,361	19,782
Total current assets	840,150	798,672
Property, plant and equipment (net of accumulated depreciation of $101,527 in 2009 and $100,313 in 2008)	60,048	59,204
Goodwill	231,684	231,684
Intangibles (net of accumulated amortization of $171,888 in 2009 and $153,362 in 2008)	208,822	227,348
Investments	10,317	14,681
Noncurrent deferred income tax assets	3,870	12,157
Other assets	6,251	6,576
	$ 1,361,142	$ 1,350,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 48,859	$ 75,863
Accrued compensation, benefits and related taxes	20,753	27,024
Accrued warranty	5,185	5,652
Deferred revenue	43,727	44,461
Current portion of long-term debt	148	146
Current deferred income tax liability	248	1,059
Other accrued liabilities	35,852	25,410
Total current liabilities	154,772	179,615
Long-term debt, net of current portion	205,710	211,870
Accrued pension	19,665	18,820
Noncurrent income taxes payable	12,386	9,607

Noncurrent deferred income tax liabilities	33,999	41,598
Other noncurrent liabilities	15,094	15,343
Total liabilities	441,626	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; 124.7 million and 123.1 million shares issued and outstanding in 2009 and 2008, respectively	1,379	1,362
Capital in excess of par value	1,169,223	1,159,097
Treasury stock at cost, 13 million shares in 2009 and 2008	(75,960)	(75,960)
Accumulated deficit	(166,711)	(202,502)
Unrealized loss on marketable securities	(161)	(274)
Unfunded pension losses	(8,070)	(8,070)
Cumulative translation adjustments	(184)	(184)
Total stockholders equity	919,516	873,469
	$ 1,361,142	$ 1,350,322

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008 (1)**	**2009**	**2008**
Net sales	$ 278,521	$ 281,110	$ 532,039	$ 554,616
Cost of sales	161,241	188,226	319,249	376,484
Gross margin	117,280	92,884	212,790	178,132
Gross margin %	42.1%	33.0%	40.0%	32.1%
Operating expenses:				
Selling, general and administrative expenses	39,128	37,046	74,471	74,028
Research and development expenses	30,143	27,662	58,538	55,784
Restructuring charges	592	175	712	580
Amortization of intangible assets	9,263	12,454	18,526	25,708
Total operating expenses	79,126	77,337	152,247	156,100
Operating income	38,154	15,547	60,543	22,032
Other expense (income):				
Interest expense	4,278	4,291	8,765	8,312
Loss (gain) on investments	(512)	171	(215)	173
Interest income	(363)	(1,702)	(748)	(4,387)
Loss (gain) on foreign currency	1,570	350	2,528	(640)
Gain on debt retirement			(4,152)	
Other expense (income), net	(522)	65	(624)	29
Income from continuing operations before income taxes	33,703	12,372	54,989	18,545
Income tax expense	10,794	4,543	19,198	6,887
Net income	$ 22,909	$ 7,829	$ 35,791	$ 11,658
Net income per common share:				
Basic	$ 0.18	$ 0.06	$ 0.29	$ 0.09
Diluted	0.18	0.06	0.28	0.09
Weighted average common shares:				
Basic	124,412	122,741	123,849	126,752
Diluted	128,054	124,651	126,482	128,190

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2009	2008
Operating activities:		
Net income	$ 35,791	$ 11,658
Depreciation	9,962	10,095
Amortization of intangible assets	18,526	25,708
Stock compensation expense	7,454	5,391
Deferred income tax provision (benefit)	3,927	(993)
Amortization of deferred finance fees	368	381
Provision for doubtful accounts	(10)	214
Loss (gain) on disposal of fixed assets	30	(2)
Loss (gain) on investments	(215)	173
Excess tax benefits from stock-based compensation plans	(556)	
Non-cash interest expense	5,536	5,262
Gain on debt retirement	(4,152)	
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	30,971	(10,284)
Other receivables	(1,820)	(4,737)
Inventory	13,808	(11,210)
Income taxes payable/recoverable	1,932	(5,629)
Accounts payable and accrued liabilities	(22,863)	20,310
Prepaids and other, net	9,465	(5,402)
Net cash provided by operating activities	108,154	40,935
Investing activities:		
Purchases of property, plant and equipment	(10,868)	(11,792)
Cash paid for acquisition, net of cash acquired	(200)	(4,419)
Cash proceeds from sale of property, plant and equipment	1	237
Purchases of short-term investments	(58,766)	(16,887)
Sales of short-term investments	33,937	72,480
Net cash provided by (used in) investing activities	(35,896)	39,619
Financing activities:		
Payment of debt and capital lease obligations	(10,628)	(35,196)
Repurchase of common stock		(75,960)
Excess tax benefits from stock-based compensation plans	556	
Employer repurchase of shares to satisfy minimum tax withholdings	(2,180)	(1,035)
Proceeds from issuance of common stock, net	6,946	(1,894)
Net cash used in financing activities	(5,306)	(114,085)
Net increase (decrease) in cash and cash equivalents	66,952	(33,531)
Cash and cash equivalents at beginning of period	409,894	323,797

Cash and cash equivalents at end of period	$ 476,846	$ 290,266

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 & 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 telephony, data, video, construction, rebuild and maintenance equipment for the broadband communications industry. In addition, ARRIS is a leading supplier of infrastructure products used by cable system operators to build-out and maintain hybrid fiber-coaxial (HFC) networks. 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 Issued Accounting Standards

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for the interim and annual periods ended after June 15, 2009, and, accordingly, the Company has adopted this statement in second quarter ended June 30, 2009. SFAS 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. The Company has evaluated subsequent events through the time of filing these financial statements with the SEC.

In April 2009, the FASB issued three FASB Staff Positions (FSP) intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* provides additional guidelines for estimating fair value in accordance with FAS 157. FSP FAS 115-2 and FAS 124-2, *Recognition of Other-Than-Temporary Impairments,* amends the other-than-temporary impairment guidance in SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, for debt securities and the presentation and disclosure requirements of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* increases the frequency of fair value disclosures. ARRIS adopted the aforementioned FSPs in the quarter ended June 30, 2009 and the adoption did not have a significant impact on its consolidated financial statements.

In May 2008, the FASB issued 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, to the extent that the convertible notes remain outstanding. As a result of the adoption of FSP APB 14-1, the Company reduced income from continuing operations and net income for the three and six months ended June 30, 2009 by $2.7 million and $5.5 million and reduced basic and diluted earnings per share by $0.02 per share and $0.04 per share, respectively.

The following tables present the effect of the adoption of FSP APB 14-1 on the Company s affected financial statement line items for the three and six months ended June 30, 2008 and as of December 31, 2008 (in thousands, except per share data):

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	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
	As Originally Reported	As Adjusted	Increase (Decrease)	As Originally Reported	As Adjusted	Increase (Decrease)
Statement of Operations:						
Interest expense	$ 1,722	$ 4,291	$ 2,569	$ 3,226	$ 8,312	$ 5,086
Income from continuing operations before income taxes	14,941	12,372	2,569	23,631	18,545	(5,086)
Income tax expense	5,504	4,543	(961)	8,789	6,887	(1,902)
Net income	9,437	7,829	(1,608)	14,842	11,658	(3,184)
Basic net income per share:						
Income from continuing operations before income taxes	$ 0.12	$ 0.10	$ (0.02)	$ 0.18	$ 0.15	$ (0.03)
Basic net income per share	$ 0.08	$ 0.06	$ (0.02)	$ 0.12	$ 0.09	$ (0.03)
Diluted net income per share:						
Income from continuing operations before income taxes	$ 0.12	$ 0.10	$ (0.02)	$ 0.18	$ 0.14	$ (0.04)
Diluted net income per share	$ 0.08	$ 0.06	$ (0.02)	$ 0.12	$ 0.09	$ (0.03)

	As of December 31, 2008		
	As Originally Reported	As Adjusted	Increase (Decrease)
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)

Note 3. Investments

ARRIS investments as of June 30, 2009 and December 31, 2008 consisted of the following (in thousands):

	Fair Value	
	As of June 30, 2009	As of December 31, 2008
Current Assets:		
Commercial paper	$	$ 15,771
Auction rate securities	4,939	
Certificates of deposit	10,320	
U.S. Government agency bonds	30,336	

Variable rate demand notes	1,600		1,600
Total classified as current assets	47,195		17,371
Noncurrent Assets:			
Cash surrender value of company owned life insurance	4,714		4,527
Auction rate securities			4,908
Mutual funds	22		22
Money market funds	438		437
Corporate obligations	20		20
Investment in private company	4,000		4,000
SERP investments	1,123		767
Total classified as noncurrent assets	10,317		14,681
Total	$ 57,512	$	32,052

The amortized cost basis of the Company s investments approximates fair value. The unrealized gains and losses at June 30, 2009 and December 31, 2008 were not material.

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Note 4. Fair Value Measurements

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 at June 30, 2009(in thousands):

	Level 1	Level 2	Level 3	Total
Current investments	$	$42,256	$	$42,256
Noncurrent investments	460	5,857		6,317
Auction rate securities			4,939	4,939
Foreign currency contracts	174			174
Total	$634	$48,113	$4,939	$53,686

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 bonds, 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):

	Level 3
Estimated fair value January 1, 2009	$ 4,909
First quarter 2009 change in fair value	15
Second quarter 2009 change in fair value	15
Estimated fair value June 30, 2009	$ 4,939

ARRIS had $5.0 million invested in a single issue of an auction rate security at June 30, 2009 and December 31, 2008. As of June 30, 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 June 30, 2009 as a short-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.

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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 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 June 30, 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	$ 174	Other accrued liabilities	$ 2,393

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 and six months ended June 30, 2009 and 2008 were as follows (in thousands):

		Three Months Ended June 30,		**Six Months Ended June 30,**	
	Statement of Operations Location	2009	2008	2009	2008
Derivatives Not Designated as Hedging Instruments:					
Foreign exchange contracts	Loss (gain) on foreign currency	$2,755	$(606)	$1,675	$962

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Note 6. Pension Benefits

Components of Net Periodic Pension Benefit Cost

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Service cost	$ 245	$ 190	$ 490	$ 380
Interest cost	530	470	1,060	939
Expected gain on plan assets	(281)	(354)	(563)	(709)
Amortization of prior service cost	115	119	231	239
Amortization of net loss	119		238	
Net periodic pension cost	$ 728	$ 425	$ 1,456	$ 849

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 $581 thousand and $612 thousand for the three and six months ended June 30, 2009, respectively. The Company may make additional voluntary contributions in the second half of 2009. During the three and six months ended June 30, 2008, the Company made voluntary contributions to the plan of approximately $31 thousand and $60 thousand, respectively.

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 (including short-term and long-term) for the six months ended June 30, 2009 was as follows:

	(in thousands)
Balance at December 31, 2008	$ 10,184
Accruals related to warranties (including changes in estimates)	3,304
Settlements made (in cash or in kind)	(4,318)
Balance at June 30, 2009	$ 9,170

Note 8. Restructuring

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 end of the third quarter of 2009.

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		(in thousands)
Balance as of December 31, 2008	$	545
Q1 2009 payments		(396)
Q1 2009 adjustments to accrual		41
Q2 2009 payments		(192)
Q2 2009 adjustments to accrual		86
Balance as of June 30, 2009	$	84

In the fourth quarter of 2007, the Company initiated a restructuring plan related to its acquisition of C-COR, Incorporated (C-COR). ARRIS acquired remaining restructuring accruals of approximately $658 thousand representing C-COR contractual obligations that related to excess leased facilities. These payments will be paid over their remaining lease terms through 2014, unless terminated earlier.

		(in thousands)
Balance as of December 31, 2008	$	494
Q1 2009 payments		(93)
Q1 2009 adjustments to accrual		72
Q2 2009 payments		(93)
Q2 2009 adjustments to accrual		73
Balance as of June 30, 2009	$	453

During the second quarter of 2009, ARRIS consolidated two facilities in Colorado. The consolidation allows the Company to combine its sales force and create a unified presence in the Denver area business community. This consolidation resulted in a restructuring charge of approximately $212 thousand in 2009 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 2010.

		(in thousands)
Balance as of May 2009	$	212
Q2 2009 payments		(74)
Balance as of June 30, 2009	$	138

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):

	June 30, 2009	**December 31, 2008**
Raw material	$ 17,791	$ 19,247
Work in process	4,395	4,814
Finished goods	93,758	105,691

Total net inventories	$ 115,944	$ 129,752

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Note 10. Property, Plant and Equipment

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

	June 30, 2009	December 31, 2008
Land	$ 2,612	$ 2,612
Building and leasehold improvements	21,964	20,048
Machinery and equipment	136,999	136,857
	161,575	159,517
Less: Accumulated depreciation	(101,527)	(100,313)
Total property, plant and equipment, net	$ 60,048	$ 59,204

Note 11. Long-Term Obligations

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

	June 30, 2009	December 31, 2008
2.00% convertible senior notes due 2026 (net of discount of $55,402 in 2009 and $64,267 in 2008)	$ 205,648	$ 211,733
2.00% Pennsylvania Industrial Development Authority debt, net of current portion	62	137
Total long-term debt	205,710	211,870
Other long-term liabilities:		
Deferred compensation	$ 5,118	$ 4,896
Accrued warranty	3,985	4,532
Deferred revenue	2,925	2,671
Landlord funded leasehold improvements	1,124	1,308
Other noncurrent liabilities	1,942	1,936
Total other noncurrent liabilities	$ 15,094	$ 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 August 7, 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.

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 June 30, 2009 and December 31, 2008 was $3.1 million, and $3.7 million, respectively. See Note 2 of the Notes to the Consolidated Financial Statements for information on the adoption of FSP APB 14-1.

As of June 30, 2009 and December 31, 2008, the face value of the outstanding notes was $261.0 million and $276.0 million, respectively. During the first quarter of 2009, 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.

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

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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 and six months ended June 30, 2009 and 2008 are as follow (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$22,909	$7,829	$35,791	$11,658
Changes in the following equity accounts:				
Unrealized (loss)/gain on marketable securities	211	(85)	113	46
Comprehensive income	$23,120	$7,744	$35,904	$11,704

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, radio frequency over glass (RFoG) networks and ethernet passive optical networks (EPON) 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, Mobile Workforce Management and Fixed/Mobile converged communications.

The table below presents information about the Company s reporting segments for the three and six month periods ended June 30, 2009 and 2008 (in thousands):

	BCS	ATS	MCS	Total
Three Months Ended June 30, 2009				
Net sales	$211,770	$43,467	$23,284	$278,521
Gross margin	92,713	9,815	14,752	117,280
Amortization of intangible assets		5,654	3,609	9,263
Three Months Ended June 30, 2008				
Net sales	$190,412	$76,967	13,731	$281,110
Gross margin	61,487	23,870	7,527	92,884
Amortization of intangible assets		6,612	5,842	12,454
Six Months Ended June 30, 2009				

Net sales	$405,901	$86,457	$39,681	$532,039
Gross margin	171,635	19,082	22,073	212,790
Amortization of intangible assets		11,308	7,218	18,526

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	BCS	ATS	MCS	Total
Six Months Ended June 30, 2008				
Net sales	$380,049	$149,861	$24,706	$554,616
Gross margin	119,478	45,746	12,908	178,132
Amortization of intangible assets		13,464	12,244	25,708

The Company s goodwill by reportable segment as of June 30, 2009 did not change 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 and six months ended June 30, 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 under current common control. A summary of sales to these customers for the three and six month periods ended June 30, 2009 and 2008 are set forth below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Comcast	$96,658	$46,727	$161,868	$ 80,953
% of sales	34.7%	16.6%	30.4%	14.6%
Time Warner Cable	$52,883	$75,298	$101,967	$146,219
% of sales	19.0%	26.8%	19.2%	26.4%

No other customer provided more than 10% of total sales for the three and six months ended June 30, 2009 or 2008. 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, Columbia, Mexico, and Puerto Rico. Sales to international customers were approximately $73.7 million, or 26.5% of total sales, for the three months ended June 30, 2009. International sales during the same period in 2008 were $87.0 million, or 30.9% of total sales. For the six months ended June 30, 2009 and 2008 sales to international customers were $141.2 million and $171.8 million, or 26.5% and 31.0%, respectively.

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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Basic:				
Net income	$ 22,909	$ 7,829	$ 35,791	$ 11,658
Weighted average shares outstanding	124,412	122,741	123,849	126,752
Basic earnings per share	$ 0.18	$ 0.06	$ 0.29	$ 0.09
Diluted:				
Net income	$ 22,909	$ 7,829	$ 35,791	$ 11,658

Weighted average shares outstanding	124,412	122,741	123,849	126,752
Net effect of dilutive equity awards	3,642	1,910	2,633	1,438
Total	128,054	124,651	126,482	128,190
Diluted earnings per share	$ 0.18	$ 0.06	$ 0.28	$ 0.09

Excluded from the dilutive securities described above are employee stock options to acquire approximately 3.3 million shares and 5.4 million shares, for the three and six months ended June 30, 2009, respectively. During the same periods in 2008, approximately 7.1 million shares and 7.7 million shares, respectively, were excluded from the dilutive securities above. These exclusions were made because, as a result of the exercise price of such securities, they were antidilutive.

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Note 16. Income Taxes

In the first half of 2009 and 2008, the Company recorded income tax expense of $19.2 million and $6.9 million, respectively. Below is a summary of the components of the tax expense in each period (in millions, except for percentages):

	Six Months Ended June 30,					
	2009			2008		
	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate
Non-Discrete Items	$ 50.8	$ 16.3	32.1%	$ 18.5	$ 6.9	37.3%
Discrete Accounting Events	4.2	1.4	33.3%			
Discrete Tax Events						
Valuation Allowances / FIN 48 Reserves		1.5				
Total	$ 55.0	$ 19.2	34.9%	$ 18.5	$ 6.9	37.3%

In the second quarter of 2009, there was no tax or accounting discrete events. 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 33.3%. 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 half 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*. However, the tax rate for the first half of 2008 did not include any benefit from research and development tax credits as legislation to extend the credit was not enacted until the fourth quarter of 2008.

The Company anticipates that the effective tax rate for full year 2009 for non-discrete items will be approximately 32% 33%.

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 several MSO s alleging infringement of eight patents related to the cable systems operators use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. On July 14, 2009 ARRIS reached and signed a settlement with Rembrandt. As of June 30, 2009, the Company had accrued for the settlement related to the patent infringement.

In 2007, Adelphia Recovery Trust (Trust) contacted ARRIS asserting that ARRIS may have received transfers from Adelphia Cablevision, LLC (Cablevision) during the year prior to its filing of a Chapter 11 petition on June 25, 2002 (the Petition Date), and that said transfers may be voidable. Cablevision sent similar letters to other parties. In the event a suit is commenced, ARRIS intends to contest the case vigorously. To date, ARRIS has received no further communication from Cablevision. 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 Cox and Charter 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 Charter suit is still pending, with trial anticipated for 2010. 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.

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Acacia Media Technologies Corp. sued Charter and Time Warner Cable, Inc. for allegedly infringing several U.S. Patents. 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. The defendants recently received a favorable Markman Ruling and are seeking dismissal of the suit. Both patents expired in June 2008. C-COR manufactured products that allegedly infringed on the 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. Since the patents have expired, it is unlikely ARRIS will be prohibited from using the technology.

In February 2008, several former employees of a former subsidiary of C-COR, filed a class action Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The proposed class could include 1,000 cable installers and field technicians. ARRIS is actively contesting the suit. The opt-in period for substantially all of the plaintiffs ended July 31, 2009. To date, approximately 203 people have opted-in. ARRIS intends to defend this vigorously. It is premature to assess the likelihood of a favorable outcome or estimate the possible range of loss associated with the resolution of this case.

On March 11, 2009, ARRIS filed a declaratory judgment action against British Telecom (BT) seeking to invalidate the BT patents and seeking a declaration that neither the ARRIS products, nor their use by ARRIS s customers infringe any of the BT patents. This action arose from the assertion by BT (via their agent, IPValue), that the ARRIS products or their use by ARRIS s customers infringed four BT patents.

On July 31, 2009, ARRIS filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International related to a patent owned by ARRIS. In its motion, ARRIS is seeking further damages and the enforcement of the permanent injunction entered by the Court against certain of SeaChange products in 2006. The original finding of infringement was affirmed by the Federal Circuit in 2006, and the patent claims (with one exception) recently were upheld by the U.S. Patent Office in a re-examination process initiated by SeaChange. In response, on August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court to declare that its products are non-infringing with respect to the patent.

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 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 & 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, Internet Protocol video 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 second quarter and first half of 2009:

Financial Highlights

- Earnings per diluted share increased to $0.18 in the second quarter 2009 as compared to $0.06 in the second quarter 2008 despite a 1% decline in sales.
- Gross margin percentage increased 9.1 percentage points year over year to 42.1% in the second quarter 2009 reflecting a stronger product mix including notably higher sales of our higher margin CMTS product line.
- We ended the second quarter 2009 with $524.0 million of cash, cash equivalents, & short-term investments. We generated approximately $94.3 million of cash from operating activities in the second quarter and

$108.2 million during the first half of 2009.

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We used $10.6 million of cash in the first quarter 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 in the first quarter as a result of the retirement.

We ended the second quarter with an order backlog of approximately $165.7 million and a book-to-bill ratio of 1.04. Both order backlog and book-to-bill are down compared to the second quarter of 2008.

Product Line Highlights

Broadband Communications Systems

CMTS

Downstream port shipments were 32,005 in the second quarter of 2009, 56,521 through the first half of 2009.

Operators continue to focus on deploying DOCSIS 3.0 technology in order to increase overall capacity as well as compete aggressively with higher speed service tiers. The ARRIS solution has been adopted broadly across the industry, with new wins in Korea, CALA, and North America.

Continued improvement in gross margins resulting from both customer and product mix (increased DOCSIS 3.0).

The first live deployment of a DOCSIS 3.0 Upstream Channel Bonding service with JCN in Japan

Solid CMTS market share results in the first quarter in North America and Rest of World.

CPE

1.2 million and 2.4 million EMTAs were shipped in the second quarter and first half of 2009, down 6% and 16% from first quarter of 2009 and first half of 2008 levels as overall VoIP net subscriber additions have leveled off. We have retained number one market share for 17 consecutive quarters.

We increased shipments of Multi-line Gateways in the second quarter of 2009.

DOCSIS 3.0 CPE shipments increased substantially in second quarter 2009. We expect a continuing transition from deployment of DOCSIS 2.0 to DOCSIS 3.0 CPE throughout the remainder of 2009.

Access, Transport & Supplies

Business continues to be impacted by macro economic factors, which resulted in lower sales year over year with a small sequential gain over the first quarter of 2009.

DOCSIS 3.0 bandwidth efficiency improvements allow for network investments to be delayed.

Product mix and lower volumes impacted margins.

Media & Communications Systems

Strong WorkAssure™ demand due to significant customer expansions in the US and CALA.

Demand for Assurance products continue to be strong based on:

- DOCSIS 3.0 rollouts
- A continued focus on Opex management and control

Introduced new server platforms for On Demand.

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 control approximately 89.9% of the triple play Revenue Generating Units (RGU) within the U.S. cable market (according to Dataxis in the first quarter 2009), 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 and six month periods ended June 30, 2009 and 2008 are set forth below (in thousands):

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	Three Months Ended June 30		Six Months Ended June 30,	
	2009	2008	2009	2008
Comcast	$96,658	$46,727	$161,868	$ 80,953
% of sales	34.7%	16.6%	30.4%	14.6%
Time Warner Cable	$52,883	$75,298	$101,967	$146,219
% of sales	19.0%	26.8%	19.2%	26.4%

Comparison of Operations for the Three and Six Months Ended June 30, 2009 and 2008

Net Sales

The table below sets forth our net sales for the three and six months ended June 30, 2009 and 2008, for each of our reporting segments (in thousands):

	Net Sales				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008	$	%	$	%
Business Segment:								
BCS	$ 211,770	$ 190,412	$ 405,901	$ 380,049	$ 21,358	11.2	$ 25,852	6.8
ATS	43,467	76,967	86,457	149,861	(33,500)	(43.5)	(63,404)	(42.3)
MCS	23,284	13,731	39,681	24,706	9,553	69.6	14,975	60.6
Total sales	$ 278,521	$ 281,110	$ 532,039	$ 554,616	$ (2,589)	(0.9)	$ (22,577)	(4.1)

The table below sets forth our domestic and international sales for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Net Sales				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008	$	%	$	%
Domestic	$ 204,849	$ 194,119	$ 390,875	$ 382,862	$ 10,730	5.5	$ 8,013	2.1
International	73,672	86,991	141,164	171,754	(13,319)	(15.3)	(30,590)	(17.8)
Total sales	$ 278,521	$ 281,110	$ 532,039	$ 554,616	$ (2,589)	(0.9)	$ (22,577)	(4.1)

Broadband Communications Systems (BCS) Net Sales 2009 vs. 2008

During the three and six months ended June 30, 2009, sales of our Broadband Communications Systems segment products increased by approximately 11.2% and 6.8%, respectively, as compared to the same periods in 2008. The following factors contributed to the increase in sales:

Higher sales to multiple customers of our CMTS products.

Comcast sales were partially offset by a decrease in EMTA sales to several customers, notably Time Warner Cable and Affiliates.

Access, Transport and Supplies (ATS) Net Sales 2009 vs. 2008

Access, Transport and Supplies segment revenue decreased by approximately 43.5% and 42.3%, respectively, as compared to the same periods in 2008. The following factors contributed to the decrease in sales:

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.

Operators were also able to delay node segmentations by taking advantage of bandwidth efficiency improvements brought about by the implementation of DOCSIS 3.0.

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Media & Communications Systems (MCS) Net Sales 2009 vs. 2008

Media & Communications Systems revenue increased by approximately 69.6% in the second quarter of 2009 and 60.6% in the first six months of the year, as compared to the same periods in 2008. The following factors contributed to the increase in sales.

Higher demand for our Assurance products.

The impact of the build-up of deferred revenue throughout 2008. The deferred revenue acquired from the C-COR acquisition was marked to fair value at the date of the acquisition and rebuilt through 2008.

Gross Margin

The table below sets forth our gross margin for the three and six months ended June 30, 2009 and 2008, for each of our reporting segments (in thousands):

	Gross Margin $				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008	$	%	$	%
Business Segment:								
BCS	$ 92,713	$ 61,487	$ 171,635	$ 119,478	$ 31,226	50.8	$ 52,157	43.7
ATS	9,815	23.870	19,082	45,746	(14,055)	(58.9)	(26,664)	(58.3)
MCS	14,752	7,527	22,073	12,908	7,225	96.0	9,165	71.0
Total	$ 117,280	$ 92,884	$ 212,790	$ 178,132	$ 24,396	26.3	$ 34,658	19.5

The table below sets forth our gross margin percentages for the three and six months ended June 30, 2009 and 2008, for each of our reporting segments:

	Gross Margin %				Increase (Decrease) Between 2009 and 2008	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30	For the Six Months Ended June 30
	2009	2008	2009	2008	Percentage Points	
Business Segment:						
BCS	43.8%	32.3%	42.3%	31.4%	11.5	10.9
ATS	22.6%	31.0%	22.1%	30.5%	(8.4)	(8.4)
MCS	63.4%	54.8%	55.6%	52.2%	8.6	3.4
Total	42.1%	33.0%	40.0%	32.1%	9.1	7.9

Broadband Communications Systems Gross Margin 2009 vs. 2008

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

The increase in gross margin dollars was primarily the result of higher sales due to the successful introduction of our DOCIS 3.0 CMTS in the second half of last year and product mix.

The increase in gross margin percentage primarily reflects product mix, as we sold more CMTS products and fewer EMTA products in the three and six month periods in 2009 as compared to the same periods in 2008. CMTS products carry 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 in both the three and six month periods in 2009.

The decrease in gross margin percentage was primarily the result of both a change in product mix and a decrease in sales. In the three and six month period in 2009, Access and Transport sales decreased proportionally more than the Supplies sales decreased. In addition, our gross margin was negatively

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impacted by the decline in the overall volume resulting in a higher manufacturing cost per unit due to the allocation of fixed factory overhead costs as well as lower gross margin on certain headend optics gear.

Media & Communications Systems Gross Margin 2009 vs. 2008

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

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

The increase in gross margin percentage was primarily the result of product mix. Performance in this segment is variable as revenue recognition is significantly tied to customer acceptances associated with multiple month and quarter projects, and non linear orders for licenses and hardware

Operating Expenses

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

	Operating Expenses				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008	$	%	$	%
SG&A	$ 39,128	$ 37,046	$ 74,471	$ 74,028	$ 2,082	5.6	$ 443	0.6
Research & development	30,143	27,662	58,538	55,784	2,481	9.0	2,754	4.9
Restructuring Charges	592	175	712	580	417	238.3	132	22.8
Amortization of intangibles	9,263	12,454	18,526	25,708	(3,191)	(25.6)	(7,182)	(27.9)
Total	$ 79,126	$ 77,337	$ 152,247	$ 156,100	$ 1,789	2.3	$ (3,853)	(2.5)

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

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

Higher variable compensation costs, in particular sales commissions and incentive accruals.

An increase in legal expenses $2.8 million for the first six months of 2009 as compared to the same period in 2008, as a result of increased costs associated with various patent and other litigation matters (see Legal Proceedings).

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 increase in research and development expense reflects:

Higher compensation costs, fringe benefits and incentive accruals.

We have incrementally invested year over year in research and development, a trend which we anticipate will continue.

Restructuring Charges

On a quarterly basis, we review our existing restructuring accruals and make adjustments if necessary. For the three and six month periods ending June 30, 2009, we recorded $0.6 million and $0.7 million. For the three and six month period ending June 30, 2008, we recorded $0.2 and $0.6 respectively.

Amortization of Intangible Assets

Intangibles amortization expense for the three months ended June 30, 2009 and 2008 was $9.3 million and $12.5 million, respectively. For the six months ended June 30, 2009 and 2008, intangible amortization expense was

$18.5 million and $25.7 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.

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Goodwill Impairment

No goodwill impairment was recorded for the three and six months ended June 30, 2009 and 2008. We recorded a non-cash 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 half of 2009, we concluded that there was no impairment. 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 three months ended June 30, 2009 and 2008 was $4.3 million. For the six months ended June 30, 2009 and 2008, interest expense was $8.8 million and $8.3 million respectively. Interest expense reflects interest and the amortization of deferred finance fees associated with our $261.0 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 Settle 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 three months and six months ended June 30, 2009, we recorded a foreign currency loss of approximately $1.6 million and $2.5 million, respectively. During the three and six months ended June 30, 2008, we recorded a foreign currency loss (gain) of approximately $0.4 million and ($0.6) million respectively. 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 three months ended June 30, 2009 and 2008 was $0.4 million and $1.7 million, respectively. During the six months ended June 30, 2009 and 2008, interest income was $0.7 million and $4.4 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 in 2009 as compared to 2008.

Other (Income)/Expense

Other (income)/expense for the three months ended June 30, 2009 and 2008 was ($0.5) million and $65 thousand, respectively. For the six months ended June 30, 2009 and 2008, other expense was ($0.6) million and $29 thousand, respectively.

Income Taxes

In the three and six months ended June 30, 2009, we recorded income tax expense of $10.8 million and $19.2 million, respectively, as compared to the same periods in 2008, when we recorded $4.5 million and $6.9 million, respectively. See Note 16 of the Notes to the Consolidated Financial Statements for additional information about income taxes.

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:

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Liquidity & Capital Resources Data

	Six Months Ended June 30,	
	2009	2008
	(in thousands, except DSO and turns)	
Key Working Capital Items		
Cash provided by operating activities	$ 108,154	$ 40,935
Cash, cash equivalents, and short-term investments	$ 524,041	$ 297,769
Accounts receivable, net	$ 128,482	$ 178,178
Days Sales Outstanding (DSOs)	49	58
Inventory, net	$ 115,944	$ 144,507
Inventory turns	5.2	5.5
*Convertible notes at face value**	$ 261,050	$ 276,000
Capital Expenditures	$ 10,868	$ 11,792

* 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 and DSOs decreased during the first six months of 2009 as compared to 2008 as a result of the timing and payment patterns of our customers. Looking forward, it is possible that our DSOs may increase dependent upon our customer mix and payment patterns.

Inventory and inventory turns decreased in the first six months of 2009, as compared to 2008 as the result of timing and an effort to reduce our inventory levels.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately $524.0 million of cash, cash equivalents, and short-term investments on hand as of June 30, 2009, together with the prospects for continued generation of cash from operating activities 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. However, 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 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 were no material changes to our contractual obligations during the first six months of 2009.

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Cash Flow

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

	For the Six Months Ended June 30	
	2009	2008
Cash provided by operating activities	$108,154	$ 40,935
Cash provided by (used in) investing activities	(35,896)	39,619
Cash provided used in financing activities	(5,306)	(114,085)
Net increase (decrease) in cash	$ 66,952	$ (33,531)

Operating Activities:

Below are the key line items affecting cash from operating activities (in thousands):

	For the Six Months Ended June 30,	
	2009	2008
Net income	$ 35,791	$ 11,658
Adjustments to reconcile net income to cash provided by operating activities	40,870	46,229
Net income including adjustments	76,661	57,887
Decrease/(Increase) in accounts receivable	30,971	(10,284)
Decrease/ (Increase) in inventory	13,808	(11,210)
(Decrease) /Increase in accounts payable and accrued liabilities	(22,863)	20,310
All other net	9,577	(15,768)
Cash provided by operating activities	$108,154	$ 40,935

Net income, including adjustments, increased $18.8 million during the first six months of 2009 as compared to 2008. Our net income before depreciation and amortization decreased approximately $24.1 million in the first six months of 2009 as compared to 2008, primarily reflecting our gross margin improvement discussed above. The adjustments to reconcile net income to cash provided by operating activities decreased approximately $5.4 million during the first six months of 2009 as compared to the same period in 2008. This decrease 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 $7.2 million in the first six months 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 $1.0 million during the first six months of 2008 as compared to a net decrease in the net deferred tax asset of $3.9 million during the first six months of 2009.

Accounts receivable decreased in the first six months of 2009 and increased in the first six months of 2008. The decrease in 2009 was related to timing and payment patterns of our customers. The increase in 2008 was related to higher sales in the second quarter of 2008.

The decline in the first half of 2009 in accounts payable and accrued liabilities reflects the payment of annual bonuses in the first half coupled with normal timing variations associated with payment of accounts payable. The increase in accounts payable and accrued liabilities in the first six months of 2008 is due to 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 of acquisition. The increase in deferred revenue was partially offset by the payment of the annual bonus in the first quarter of 2008.

All other net includes the changes in other receivables, excess tax benefits from stock-based compensation plans, and prepaids and other, net. The other receivables represent amounts due from our contract manufacturers for material used in the assembly of our finished goods. Also included is the change in our income taxes recoverable account, which is a result of the timing of the actual estimated tax payments during the year as compared to the actual tax liability for the year.

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

	Six Months Ended June 30	
	2009	2008
Capital expenditures	$(10,868)	$(11,792)
Cash paid for acquisition	(200)	(4,419)
Cash proceeds from sale of property, plant & equipment	1	237
Purchases of short-term investments	(58,766)	(16,887)
Disposals of short-term investments	33,937	72,480
Cash provided by (used in) investing activities	$(35,896)	$ 39,619

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 first six months, net of cash acquired.
Purchases and Sales of Short-Term Investments
This represents purchases and sales of short-term securities.
Financing Activities:
Below are the key line items affecting our financing activities (in thousands):

	For the Six Months Ended June 30	
	2009	2008
Payment of debt and capital lease obligations	$(10,628)	$ (35,196)
Repurchase of common stock		(75,960)
Excess tax benefits from stock-based compensation plans	556	
Employer repurchase of shares to satisfy minimum tax withholdings	(2,180)	(1,035)
Fees and proceeds from issuance of common stock, net	6,946	(1,894)
Cash provided used in financing activities	$ (5,306)	$(114,085)

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 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 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 six months of 2009.

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Employer Repurchase of Shares to Satisfy Minimum Tax Withholdings

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

Excess 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.

Fees and 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 June 30, 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 currencies.

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 June 30, 2009 and December 31, 2008, we had approximately $4.6 million and $5.7 million outstanding, respectively, of cash collateral.

Cash, Short-Term Investments and Available-For-Sale 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 financial instruments. Additionally, as of June 30, 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 as short-term. The security is a single student loan issue rated AAA and is substantially guaranteed by the federal government. Applying the provision of SFAS 157, we analyzed the fair value of the security as of June 30, 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.

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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 June 30, 2009 and December 31, 2008, our holdings in these investments were immaterial. Changes in the market value of these securities typically are 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 Statements 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 $10.9 million in the first six months of 2009 as compared to $11.8 million in the first six months of 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 six months ended June 30, 2009.

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

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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 June 30, 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 June 30, 2009 as a trading security within short-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 six months ended June 30, 2009, we recorded an increase in fair value of $30 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 changes and changes in the volume and mix of the our business. As of June 30, 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 June 30, 2009, we had option collars outstanding with notional amounts totaling $1.5 million Euros, which mature through 2009. As of June 30, 2009, we had forward contracts outstanding with notional amounts totaling $25.0 million Euros, which mature in 2009 and $9.0 million Euros maturing in 2010. The fair value of these option collars and forward contracts was a net liability of approximately $2.2 million as of June 30, 2009.

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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 (the Act)) 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.

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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 several MSO s alleging infringement of eight patents related to the cable systems operators use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. On July 14, 2009 ARRIS reached and signed a settlement with Rembrandt. As of June 30, 2009, the Company had accrued for the settlement related to the patent infringement.

In 2007, Adelphia Recovery Trust (Trust) contacted ARRIS asserting that ARRIS may have received transfers from Adelphia Cablevision, LLC (Cablevision) during the year prior to its filing of a Chapter 11 petition on June 25, 2002 (the Petition Date), and that said transfers may be voidable. Cablevision sent similar letters to other parties. In the event a suit is commenced, ARRIS intends to contest the case vigorously. To date, ARRIS has received no further communication from Cablevision. 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 Cox and Charter 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 Charter suit is still pending, with trial anticipated for 2010. 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. sued Charter and Time Warner Cable, Inc. for allegedly infringing several U.S. Patents. 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. The defendants recently received a favorable Markman Ruling and are seeking dismissal of the suit. Both patents expired in June 2008. C-COR manufactured products that allegedly infringed on the 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. Since the patents have expired, it is unlikely that ARRIS will be prohibited from using the technology.

In February 2008, several former employees of a former subsidiary of C-COR, filed a class action Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The proposed class could include 1,000 cable installers and field technicians. ARRIS is actively contesting the suit. The opt-in period for substantially all of the plaintiffs ended July 31, 2009. To date, approximately 203 people have opted-in. ARRIS intends to defend this vigorously. It is premature to assess the likelihood of a favorable outcome or estimate the possible range of loss associated with the resolution of this case.

On March 11, 2009, ARRIS filed a declaratory judgment action against British Telecom (BT) seeking to invalidate the BT patents and seeking a declaration that neither the ARRIS products, nor their use by ARRIS s customers infringe any of the BT patents. This action arose from the assertion by BT (via their agent, IPValue), that the ARRIS products or their use by ARRIS s customers infringed four BT patents.

On July 31, 2009, ARRIS filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International related to a patent owned by ARRIS. In its motion, ARRIS is seeking further damages and the enforcement of the permanent injunction entered by the Court against certain of SeaChange products in 2006.

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The original finding of infringement was affirmed by the Federal Circuit in 2006, and the patent claims (with one exception) recently were upheld by the U.S. Patent Office in a re-examination process initiated by SeaChange. In response, on August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court to declare that its products are non-infringing with respect to the patent.

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 customer s 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 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,

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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 June 30, 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 assess for impairment. 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 six months ended June 30, 2009, sales to Comcast accounted for approximately 30.4%, and sales to Time Warner Cable accounted for approximately 19.2% of our total revenue. The loss of either 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 or 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 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.

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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 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.

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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.

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.

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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 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders of ARRIS Group, Inc., held on May 21, 2009:

An election of eight Directors was held, and the shares so present were voted as follows for the election of each of the following:

	Number of Shares Voted For	Number of Shares Withheld
Alex B. Best	106,434,791	9,378,064
Harry L. Bosco	106,452,265	9,360,590
John Anderson Craig	108,580,117	7,232,738
Matthew B. Kearney	113,452,034	2,360,821
William H. Lambert	101,363,686	14,449,169
John R. Petty	101,465,463	14,347,392
Robert J. Stanzione	108,151,316	7,661,539
David A. Woodle	108,994,886	6,817,696

A proposal was made to approve the amendment of the Employees Stock Purchase Plan (ESPP), and the shares so present were voted as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Withheld
Approval of the amendment of the Employees Stock Purchase Plan (ESPP)	96,649,213	1,830,209	103,314

A proposal was made to approve the retention of Ernst & Young LLP as the independent registered public accounting firm for ARRIS Group, Inc. for 2009, and the shares so present were voted as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Withheld
Approval of the retention of Ernst & Young LLP	109,873,754	5,835,787	103,314

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Item 6. EXHIBITS

Exhibit No.	*Description of Exhibit*
10.1	Amended and Restated Employee Stock Purchase Plan, incorporated by reference in Appendix A of the Proxy Statement filed on April 17, 2009.
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: August 7, 2009