ARRIS GROUP INC
Form 10-Q
August 07, 2008

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

FORM 10-Q
For the quarter ended June 30, 2008
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.
As of July 31, 2008, 122,758,337 shares of the registrant s Common Stock, $0.01 par value, were outstanding.

ARRIS GROUP, INC.
FORM 10-Q
For the Three and Six Months Ended June 30, 2008
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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	June 30, 2008 (unaudited)	December, 31 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 290,266	$ 323,797
Short-term investments, at fair value	7,503	68,011
Total cash, cash equivalents and short-term investments	297,769	391,808
Restricted cash	7,051	6,977
Accounts receivable (net of allowances for doubtful accounts of $2,990 in 2008 and $2,826 in 2007)	168,664	166,953
Other receivables	9,067	4,330
Inventories (net)	147,716	131,792
Prepaids	5,305	5,856
Current deferred income tax assets	43,749	44,939
Other current assets	15,707	4,841
Total current assets	695,028	757,496
Property, plant and equipment (net of accumulated depreciation of $93,745 in 2008 and $83,644 in 2007)	60,823	59,156
Goodwill	452,398	455,352
Intangibles (net of accumulated amortization of $134,875 in 2008 and $109,167 in 2007)	244,575	269,893
Investments	9,937	6,412
Noncurrent deferred income tax assets	3,547	3,459
Other assets	11,383	10,181
	$ 1,477,691	$ 1,561,949
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 68,476	$ 58,852
Accrued compensation, benefits and related taxes	18,072	26,177
Accrued warranty	7,566	8,298
Deferred revenue	28,100	8,474
Current portion of long-term debt	314	35,305
Other accrued liabilities	23,221	42,121
Total current liabilities	145,749	179,227
Long-term debt, net of current portion	276,606	276,765
Accrued pension	11,362	10,455

Noncurrent income taxes payable	6,250	6,322
Noncurrent deferred income tax liabilities	48,725	45,255
Other long-term liabilities	18,694	18,158
Total liabilities	507,386	536,182
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; 122.7 million and 132.4 million shares issued and outstanding in 2008 and 2007, respectively	1,358	1,356
Capital in excess of par value	1,098,581	1,093,498
Treasury stock at cost, 13 million shares in 2008 and 51 thousand shares in 2007	(76,007)	(572)
Accumulated deficit	(50,151)	(64,993)
Unrealized gain on marketable securities	66	20
Unfunded pension losses	(3,358)	(3,358)
Cumulative translation adjustments	(184)	(184)
Total stockholders equity	970,305	1,025,767
	$ 1,477,691	$ 1,561,949

See accompanying notes to the consolidated financial statements.

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,	
	2008	**2007**	**2008**	**2007**
Net sales	$ 281,110	$ 252,718	$ 554,616	$ 487,971
Cost of sales	188,226	180,342	376,484	346,848
Gross margin	92,884	72,376	178,132	141,123
Gross margin %	33.0%	28.6%	32.1%	28.9%
Operating expenses:				
Selling, general and administrative expenses	37,046	26,455	74,028	50,630
Research and development expenses	27,662	17,791	55,784	35,887
Restructuring and impairment charges	175		580	421
Amortization of intangibles	12,454	58	25,708	116
Total operating expenses	77,337	44,304	156,100	87,054
Operating income	15,547	28,072	22,032	54,069
Other expense (income):				
Interest expense	1,722	1,652	3,226	3,320
Loss (gain) on investments	171	(1,444)	173	(1,425)
Interest income	(1,702)	(6,459)	(4,387)	(12,942)
Loss (gain) on foreign currency	350	(146)	(640)	176
Gain related to terminated acquisition, net of expenses				(22,835)
Other expense, net	65	51	29	116
Income from continuing operations before income taxes	14,941	34,418	23,631	87,659
Income tax expense	5,504	11,144	8,789	26,741
Net income	$ 9,437	$ 23,274	$ 14,842	$ 60,918
Net income per common share -				
Basic	$ 0.08	$ 0.21	$ 0.12	$ 0.56
Diluted	$ 0.08	$ 0.21	$ 0.12	$ 0.55
Weighted average common shares:				
Basic	122,741	109,398	126,752	108,935
Diluted	124,651	111,698	128,190	111,340

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, 2008	Six Months Ended June 30, 2007
Operating activities:		
Net income	$ 14,842	$ 60,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,095	5,145
Amortization of intangibles	25,708	116
Stock compensation expense	5,391	6,034
Deferred income tax provision	4,572	9,626
Amortization of deferred finance fees	557	557
Provision for doubtful accounts	214	596
Gain related to previously written off receivables		(377)
Gain on disposal of fixed assets	(2)	
Loss (gain) on investments	173	(1,425)
Gain related to terminated acquisition, net of expenses		(22,835)
Excess tax benefits from stock-based compensation plans		(6,531)
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	(770)	(5,972)
Other receivables	(4,737)	(4,289)
Inventory	(14,419)	3,684
Income taxes payable	(2,997)	(5,731)
Accounts payable and accrued liabilities	4,501	(17,809)
Prepaids and other, net	(2,193)	2,158
Net cash provided by operating activities	40,935	23,865
Investing activities:		
Purchases of property, plant and equipment	(11,792)	(7,055)
Cash paid for acquisition, net of cash acquired	(4,419)	
Cash proceeds from sale of property, plant and equipment	237	
Cash proceeds from sale of short-term investments	16	
Cash received related to terminated acquisition, net of expenses paid		10,554
Cash paid for hedge related to terminated acquisition		(26,469)
Cash proceeds from hedge related to terminated acquisition		38,750
Purchases of short-term investments	(16,887)	(197,850)
Disposals of short-term investments	72,464	125,110
Net cash provided by (used in) investing activities	39,619	(56,960)
Financing activities:		
Payment of debt and capital lease obligations	(35,196)	

Repurchase of common stock	(75,960)	
Excess tax benefits from stock-based compensation plans		6,531
Employer repurchase of shares to satisfy minimum tax withholdings	(1,035)	(1,690)
Fees and proceeds from issuance of common stock, net	(1,894)	10,656
Net cash provided by (used in) financing activities	(114,085)	15,497
Net decrease in cash and cash equivalents	(33,531)	(17,598)
Cash and cash equivalents at beginning of period	323,797	461,618
Cash and cash equivalents at end of period	$ 290,266	$ 444,020

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Noncash investing and financing activities:

	Six Months Ended June 30, 2008	2007
Net tangible assets acquired, excluding cash	6,986	
Intangible assets acquired, including goodwill	(2,567)	
Cash paid for acquisition, net of cash acquired	$ 4,419	

See accompanying notes to the consolidated financial statements.

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

Note 1. Organization and Basis of Presentation

ARRIS Group, Inc. (together with its consolidated subsidiaries, except as the context otherwise indicates, ARRIS or the Company), is an international communications technology company, headquartered in Suwanee, Georgia. ARRIS operates in three business segments, Broadband Communications Systems, Access, Transport and Supplies, and Media & Communications Systems, specializing in integrated broadband network solutions that include products, systems and software for content and operations management (including video on demand, or VOD), and professional services. ARRIS is a leading developer, manufacturer and supplier of 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. Additionally, certain prior period amounts have been reclassified to conform to the 2008 financial statement presentation. 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, 2007, as filed with the United States Securities and Exchange Commission (SEC).

Note 2. Impact of Recently Issued Accounting Standards

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion (including Partial Cash Settlement)*. The FSP requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), commonly referred to as an Instrument C under Emerging Issues Task Force (EITF) Issue No. 90-19, Convertible Bonds with Issuer Options to Settle for Cash Upon Conversion, to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and is to be applied retrospectively to all periods presented (retroactive restatement) pursuant to the guidance in Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. The FSP will impact the accounting treatment of the Company s 2% convertible senior subordinated notes due 2026 by (1) shifting a portion of the convertible notes balances to capital in excess of par value, (2) creating a discount on the convertible notes that would be amortized through interest expense over the life of the convertible notes, thus significantly increasing interest expense and (3) therefore, reducing net income and basic and diluted earnings per shares within the Company s consolidated statements of operations. The Company will adopt the requirements of the FSP on January 1, 2009. The Company is currently evaluating the impact that the adoption of FSP APB 14-1 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133.* SFAS No. 161 is effective for our Company as of January 1, 2009. SFAS No. 161 amends SFAS No. 133 to change the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Based on the Company s initial analysis, SFAS No. 161 will not have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.* Effective for the fiscal year ending 2006, the Company was required to fully recognize the

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funded status of its defined benefit plans and provide required disclosures. Effective for the fiscal year ending 2008, the Company will be required to measure each plan s assets and liabilities as of the end of the fiscal year instead of the Company s current measurement date of September 30. Based on the initial analysis, the Company estimates that the impact of changing the measurement date for plan assets and liabilities from September 30 to December 31 will be a one-time addition to annual net periodic expense of approximately $0.4 million for 2008 which will be charged directly to retained earnings in the fourth quarter of 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 was effective for the Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position FSP FAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for ARRIS financial assets and liabilities did not have a material impact on its consolidated financial statements. The Company is currently evaluating the impact that the adoption of SFAS No. 157 for ARRIS non-financial assets and liabilities will have on its consolidated financial statements.

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 majority of the Company s cash equivalents and short-term investment 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 investments in money market funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include the Company s U.S. government agency notes, corporate bonds and commercial paper. Such instruments are classified within Level 2 of the fair value hierarchy. See Note 3 for further information on the Company s investments and fair value measurements.

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Note 3. Investments

Investments classified as available for sale securities as of June 30, 2008 and December 31, 2007 consisted of the following (in thousands):

	Fair Value		
	As of June 30, 2008 (Unaudited)	As of December 31, 2007	
Current Assets:			
Commercial paper	$	$	11,833
Auction rate securities			30,270
Certificates of deposit	1,999		9,807
U.S. Government agency bonds	4,502		9,574
Corporate obligations	1,002		3,447
Asset-backed securities			2,974
Equity securities			106
Total classified as current assets	7,503		68,011
Non-current Assets:			
Cash surrender value of company owned life insurance	3,011		3,075
Auction rate securities	4,667		
Mutual funds	2,184		3,230
Money market funds	38		70
Corporate obligations	37		37
Total classified as non-current assets	9,937		6,412
Total	$ 17,440	$	74,423

The unrealized gains and losses at June 30, 2008 and 2007 were not material.

Fair Value Measurement

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

	June 30, 2008 (unaudited)			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 1,999	$	$	$ 1,999
U.S. government agency bonds		4,502		4,502
Corporate obligations	37	1,002		1,039
Auction rate securities			4,667	4,667
Cash surrender value of company owned life insurance		3,011		3,011
Mutual funds	2,184			2,184
Money market funds	38			38

Total	$ 4,258	$ 8,515	$ 4,667	$ 17,440

The table below includes a roll-forward of the Company s Auction rate securities which have been classified as a level 3 in the Valuation Hierarchy.

	Level 3 (Unaudited)
Fair value January 1, 2008	$ 5,000
Impairment Charge	333
Fair value June 30, 2008	4,667

At December 31, 2007 and June 30, 2008 ARRIS had $30.3 million and $5.0 million invested in auction rate securities, respectively. During the first six months of 2008, the Company successfully liquidated, at par, a net of $25.3 million of its auction rate securities. However, on July 31, 2008, an auction rate security of approximately $5.0 million failed to reprice for the fifth time, resulting in ARRIS continuing to hold this security. Due to the current market conditions and of the failure of the auction rate to reprice for the third time, the Company recorded an impairment charge, in the Statement of Operations in the Gain Loss on investment line, of $0.3 million. This particular security was held as of June 30, 2008 as a long-term investment with a fair market value of $4.7 million. The Company may not be able to liquidate this security until a successful auction occurs. This security is a single student loan issue rated AAA and is 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. As of June 30, 2008, 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.

The Company periodically reviews its investment securities classified as available-for-sale for potential impairment and records impairment in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity*

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Securities. This includes a review of the fair value of each investment security in relation to its book value, the current grade of the security, and other significant events. During the three and six months ended June 30, 2008, the Company recorded an impairment charge of $0.3. During the same periods in 2007, no investment securities were determined to be other than temporarily impaired and, as a result, no impairment charges were recorded.

Note 4. Pension Benefits

Components of Net Periodic Pension Benefit Cost

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands) (unaudited)			
Service cost	$ 190	$ 140	$ 380	$ 279
Interest cost	470	412	939	824
Expected gain on plan assets	(354)	(319)	(709)	(639)
Amortization of prior service cost	119	119	239	239
Amortization of net loss		25		51
Net periodic pension cost	$ 425	$ 377	$ 849	$ 754

Employer Contributions

No minimum funding contributions are required in 2008 under the Company s defined benefit plan. However, the Company made voluntary contributions to the plan of approximately $31 thousand and $60 thousand for the three and six months ended June 30, 2008, respectively.

Note 5. 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, 2008 was as follows (in thousands):

Balance at December 31, 2007	$ 14,370
Accruals related to warranties (including changes in estimates)	2,986
Settlements made (in cash or in kind)	(4,758)
Balance at June 30, 2008 (unaudited)	$ 12,598

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Note 6. Business Acquisition

Acquisition of C-COR Incorporated

On December 14, 2007, ARRIS completed its acquisition of 100% of the outstanding shares of C-COR Incorporated (C-COR). Pursuant to the Agreement and Plan of Merger, each issued and outstanding share of C-COR common stock, other than shares held in treasury or by ARRIS, was converted into the right to receive either (i) $13.75 in cash or (ii) 1.0245 shares of ARRIS common stock and $0.688 in cash. ARRIS paid approximately $366 million in cash and issued 25.1 million shares of common stock valued at $281 million in the merger. In addition, all outstanding options to acquire shares of C-COR common stock were converted into options to acquire shares of ARRIS common stock and the number of shares underlying such options and the exercise price thereof were adjusted accordingly. The C-COR options became fully vested as a result of the merger.

Presented below is unaudited supplemental pro forma information for the Company and C-COR to give effect to the transaction. This summary unaudited information is derived from the historical financial statements of the Company and C-COR. This information assumes the transactions were consummated at the beginning of the applicable period. This information is presented for illustrative purposes only and does not purport to represent what the financial position or results of operations of the Company and C-COR or the combined entity would actually have been had the transactions occurred at the applicable date, or to project the Company s, C-COR s, or the combined entity s results of operations for any future period or date. Pro forma results are not presented for the first and second quarters of 2008 as the actual results of C-COR are included in the Company s operations from January 1, 2008 to June 30, 2008.

Supplemental Pro Forma Information
(in millions, except per share data)

	Three Months Ended June 30, 2007 (unaudited)	Six Months Ended June 30, 2007 (unaudited)
Net sales	$ 327.1	$ 635.4
Net income from continuing operations	18.4	51.0
Income from continuing operations per common share:		
Basic	$ 0.14	$ 0.38
Diluted	$ 0.13	$ 0.36

Preliminary Purchase Price Allocation

The following is a summary of the total preliminary purchase price of the transaction and allocation of the preliminary purchase price (in millions) (unaudited):

Total purchase consideration cash and equity	$ 646.6
Prior investment in acquired company	6.0
Fair value of assumed stock options	22.8
Acquisition-related transaction costs	5.7
Total preliminary purchase price	$ 681.1
Net tangible assets	$ 100.9
Identifiable intangible assets:	
Acquired technology	38.8

Order backlog		7.9
Customer relationships		220.5
Non-compete agreements		5.1
Acquired in-process research and development		6.1
Goodwill		301.8
Allocation of preliminary purchase price	$	681.1

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Fair Value of Assets and Liabilities

Under the purchase method of accounting, the purchase price, as shown in the table above, is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price was allocated using the information currently available, and ARRIS may adjust the purchase price allocation after obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions of estimates. The purchase price allocation will be finalized within one year of the acquisition date The excess of the total purchase price over the net of the amounts assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill.

Note 7. Restructuring and Impairment Charges

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

	(in thousands)
Balance as of December 31, 2007	$ 2,121
Q1 2008 payments	(396)
Q1 2008 adjustments to accrual	159
Q2 2008 payments	(397)
Balance as of June 30, 2008 (unaudited)	$ 1,487

In the fourth quarter of 2007, the Company initiated a restructuring plan related to its acquisition of C-COR. The plan focuses on the rationalization of personnel, facilities and systems across the entire organization. The restructuring affected approximately 60 employees. The plan also includes contractual obligations related to change of control provisions included in certain C-COR employment contracts. The total estimated cost of this restructuring plan was approximately $8.6 million, of which approximately $0.5 million was recorded as severance expense during the fourth quarter of 2007 and $8.1 million was assumed liabilities related to employee severance and termination benefits which were accounted for as an adjustment to the allocation of the original purchase price for C-COR upon acquisition. The majority of the expenses are expected to be paid in 2008.

	(in thousands)
Balance as of December 31, 2007	$ 8,622
Q1 2008 payments	(6,663)
Q1 2008 adjustments to accrual	(44)
Q2 2008 payments	(1,682)
Q2 2008 adjustments to accrual	218
Balance as of June 30, 2008 (unaudited)	$ 451

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

(in thousands)

Balance as of December 31, 2007	$	642
Q1 2008 payments		(32)
Q2 2008 payments		(170)
Q2 2008 adjustments to accrual		95
Balance as of June 30, 2008 (unaudited)	$	535

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Note 8. Inventories

The components of inventory were as follows, net of reserves (in thousands):

	June 30, 2008 (unaudited)	December 31, 2007
Raw material	$ 25,432	$ 20,004
Work in process	1,146	2,533
Finished goods	121,138	109,255
Total net inventories	$ 147,716	$ 131,792

Note 9. Property, Plant and Equipment

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

	June 30, 2008 (unaudited)	December 31, 2007
Land	$ 2,612	$ 2,612
Building and leasehold improvements	19,510	19,432
Machinery and equipment	132,446	120,756
	154,568	142,800
Less: Accumulated depreciation	(93,745)	(83,644)
Total property, plant and equipment, net	$ 60,823	$ 59,156

Note 10. Long-Term Obligations

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

	June 30, 2008 (unaudited)	December 31, 2007
2.00% convertible senior notes due 2026	$ 276,000	$ 276,000
2.00% Pennsylvania Industrial Development Authority debt, net of current portion	198	271
9.26% equipment financing obligations, net of current portion	408	494
Total long-term debt	276,606	276,765
Other long-term liabilities:		
Deferred compensation	7,069	8,986
Accrued warranty	5,033	6,072
Deferred revenue	3,805	114
Landlord funded leasehold improvements	1,527	1,747
Other long-term liabilities	1,260	1,239

Total other long-term liabilities	18,694	18,158
Total long-term liabilities	$ 295,300	$ 294,923

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 principal 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, 2008, 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. As of June 30, 2008 and December 31, 2007, there were $276.0 million of the notes outstanding. Additionally, we paid approximately $7.8 million of finance fees related to the issuance of the notes. These costs are being amortized over seven years. The remaining balance of unamortized financing costs from these notes as of June 30, 2008, and 2007 was $6.0 million, and $7.1 million, respectively. See Note 2 above with respect to the possible impact of FSP ABP 14-1 with respect to these notes.

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

Note 11. 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 total comprehensive income include the unrealized gain (loss) on marketable securities and unrealized gain (loss) on derivative instruments qualifying for hedge accounting. The components of comprehensive income for the three and six months ended June 30, 2008 and 2007 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	(unaudited)			
	2008	2007	2008	2007
Net income	$9,437	$23,274	$14,842	$60,918
Changes in the following equity accounts:				
Unrealized gain (loss) on marketable securities	85	(1,345)	216	(1,297)
Unrealized gain (loss) on derivative instruments				551
Comprehensive income	$9,522	$21,929	$15,058	$60,172

In the second quarter of 2007, ARRIS reclassified the accumulated gain of approximately $1.3 million related to its deferred compensation plan, resulting in a gain on investments.

Note 12. 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.

Prior to fiscal year 2007, the Company reported its results of operations as one operating segment. In connection with the acquisition of C-COR on December 14, 2007, the Company realigned its organizational structure for the new combined business. Under the new organizational structure, 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, 2007 Form 10-K under Item 1 in Our Principal Products.

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

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

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

The table below presents information about the Company s reporting segments for the three and six month periods ended June 30, 2008 and 2007 (in thousands) (unaudited):

	BCS	ATS	MCS	Total
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
Three Months Ended June 30, 2007				
Net sales	$218,361	$ 34,170	$ 187	$252,718
Gross margin	66,420	6,060	(104)	72,376
Amortization of intangible assets			58	58
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
Six Months Ended June 30, 2007				
Net sales	$417,361	$ 70,176	$ 434	$487,971
Gross margin	128,872	12,486	(235)	141,123
Amortization of intangible assets			116	116

The Company s goodwill by reportable segment as of June 30, 2008 did not materially change from December 31, 2007.

The Company s two largest 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 under current common control. A summary of sales to these customers for the three and six month periods ended June 30, 2008 and 2007 are set forth below (in thousands):

		(unaudited)		
	2008	**2007**	**2008**	**2007**
Comcast	46.7	95.8	80.9	178.3
% of sales	16.6%	37.9%	14.6%	36.5%
Time Warner Cable	75.2	23.4	146.2	45.8
% of sales	26.8%	9.3%	26.4%	9.4%

No other customer provided more than 10% of total sales for the three and six months ended June 30, 2008 or 2007.

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, Russia, Spain and Switzerland. The Latin American market primarily includes

Argentina, Brazil, Chile, Columbia, Mexico, and Puerto Rico. Sales to international customers were approximately $87.0 million, or 30.9% of total sales, for the three months ended June 30, 2008. International sales during the same period in 2007 were $67.8 million, or 26.8% of total sales. For the six months ended June 30, 2008 and 2007 sales to international customers were $171.8 million and $128.3 million, or 31.0 % and 26.3 %, respectively.

Note 13. 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,	
	(unaudited)			
	2008	2007	2008	2007
Basic:				
Net income	$ 9,437	$ 23,274	$ 14,842	$ 60,918
Weighted average shares outstanding	122,741	109,398	126,752	108,935
Basic earnings per share	$ 0.08	$ 0.21	$ 0.12	$ 0.56
Diluted:				
Net income	$ 9,437	$ 23,274	$ 14,842	$ 60,918
Weighted average shares outstanding	122,741	109,398	126,752	108,935
Net effect of dilutive equity awards	1,910	2,300	1,438	2,405
Total	124,651	111,698	128,190	111,340
Diluted earnings per share	$ 0.08	$ 0.21	$ 0.12	$ 0.55

Excluded from the dilutive securities described above are employee stock options to acquire approximately 7.1 million shares and 7.7 million shares, for the three and six months ended June 30, 2008, respectively. During the same periods in 2007, approximately 2.9 million shares and 2.5 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.

Note 14. Income Taxes

In the six months ended June 30, 2008 and 2007, the Company recorded income tax expense of $8.8 million and $26.7 million, respectively. Below is a summary of the components of the income tax expense in each period (in thousands, except for percentages):

	Six Months Ended June 30, (unaudited)					
	2008			2007		
	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate
Non-Discrete Items	$23,631	$ 8,789	37.2%	$64,824	$21,319	32.9%

Discrete Accounting Events	-0-	-0-	N/A	22,835	8,668	38.0%
Discrete Tax Events - Valuation Allowances / FIN 48 Reserves	-0-	-0-			(3,246)	
Total	$23,631	$ 8,789	37.2%	$87,659	$26,741	30.5%

In the first six months of 2008, income tax expense was recorded at the applicable federal rate and state rates. There were no discrete tax or accounting events during this period.

In the first quarter of 2007, the Company considered the net gain related to the termination of the proposed TANDBERG Television acquisition to be discrete in nature in accordance with the guidance of APB Opinion 28, *Interim Financial Reporting* and FIN 18, *Accounting for Income Taxes in Interim Periods*. As a result, income tax expense was recorded at a discrete rate of 38.0%. There were no discrete events during the second quarter of 2007.

The termination fee, less expenses, associated with the terminated TANDBERG Television acquisition was considered capital in nature. As a result, during the first quarter of 2007, the Company reversed a net of $4.0 million of valuation allowances associated with deferred tax assets related to net capital loss carry-forwards. Prior to the capital gain created by the terminated acquisition, the Company considered it more-likely-than-not that capital loss carry-forwards would not be realizable. Additionally, the Company recorded an additional $0.8 million of discrete income tax expense related to the terminated TANDBERG transaction.

Note 15. Contingencies

From time to time, ARRIS is involved in claims, disputes, litigation or legal proceedings incident 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.

The three previously reported Hybrid Patents, Inc. cases have been settled. ARRIS settlement costs were included in operating expenses for the quarter ended March 31, 2008.

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

On February 2, 2007, GPNE Corp. (GPNE) filed a patent infringement lawsuit against Time Warner Inc., Comcast and Charter, in the United States District Court for the Eastern District of Texas. In its suit, GPNE alleges that certain DOCSIS® standard products and services sold or used by the defendants infringe a GPNE patent. These suits were dismissed without prejudice. To date ARRIS has not been named a defendant, nor has ARRIS received a formal request for formal indemnification. However, we believe it is likely that the claims will be reasserted and that the defendants will make indemnification requests, as well as a request to contribute to the legal costs and expenses of the litigation. ARRIS, Cisco and Thomson filed a Declaratory Judgment (DJ) action in the District Court of Delaware seeking to have the court declare the patents not infringed. The parties to the DJ have been negotiating and appear to have reached an agreement in principal which would result in a license to the suppliers for the GPNE patents. ARRIS has fully reserved for the anticipated settlement amount that ARRIS would have to pay. Should the settlement negotiations collapse, it is premature to assess the likelihood of a favorable outcome. In the event of an adverse outcome, ARRIS and other similarly situated suppliers of DOCSIS® compliant products could be required to indemnify its customers, pay royalties, and/or cease using certain technology. Also, an adverse outcome may require a change in the DOCSIS® standards to avoid using the patented technology.

In connection with the Company s acquisition of C-COR, Inc., the Company on October 31, 2007, was named as the defendant in a suit entitled CIBC World Market Corp. vs. ARRIS Group, Inc., Action No. 603605/2007, in the Supreme Court of the State of New York, New York County. In the suit, CIBC asserts that it is entitled to a $4.0 million fee plus expenses (fee) at the closing of the proposed acquisition. The Company does not believe that any fee is due to CIBC in connection with this acquisition. The Company s position is that its June 1, 2005, engagement with CIBC, pursuant to which CIBC asserts its claim, was terminated and that no fee is due under the engagement. Independent of that termination, CIBC was conflicted from representing the Company in the transaction, provided no services to the Company in connection with the transaction, and otherwise is estopped from asserting that it is entitled to a fee. The Company intends to contest the entitlement to a fee asserted by CIBC vigorously.

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

In January and February 2008, Verizon Services Corp. filed separate lawsuits against the Cox Companies and the Charter companies, in the District Courts for the Eastern District of Virginia and for the Eastern District of Texas, respectively, alleging infringement of eight patents. ARRIS anticipates that it may be asked to indemnify the respective defendants or cooperate with the defense costs. ARRIS, various MSOs and suppliers have begun to consider the cases. 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 utilizing certain technology.

As a result of the Company s recent acquisition of C-COR Incorporated, ARRIS is now involved in the following patent infringement cases.

In June 2007, USA Video Technology Corp. brought a suit in the U.S. District Court of the Eastern District of Texas against Time Warner Cable, Cox, Charter and Comcast (Civil Action 2:06-CV-239) alleging infringement of U.S. Patent No. 5,130.792. One or more of the defendants asked C-COR and other suppliers to participate in the defense under the indemnification provisions of their respective purchase agreements. On December 10, 2007, the District Court granted Defendants Summary judgment motion. USA Video has filed notice of appeal.

Acacia Media Technologies Corp. has sued Charter and Time Warner Cable, Inc. for allegedly infringing U.S. Patent Nos. 5,132,992; 5,253,275; 5,550,863; and 6,144,702. 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). We are reviewing the patents and analyzing the extent to which these patents may relate to our 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 will expire in June of this year. ARRIS is reviewing the patents and our products and analyzing the extent to which these patents may relate to our 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, or pay royalties. Given that the patents expire soon, it is unlikely that the case will result in injunctions or ceasing the use of the technology.

In February 2008, Brasfield and 21 other named plaintiffs, all current or former installers or technicians servicing cable TV customers in Memphis, Tennessee, filed a Fair Labor Standards Act suit against Source Broadband and C-COR alleging that the plaintiffs were not properly paid for overtime. Source Broadband purchased C-COR s installation business in June 2007. Plaintiffs are attempting to certify this case as a class action. ARRIS is contesting the suit.

An unfavorable outcome to any of the above described proceedings could have a material adverse effect on the Company s business, financial condition and results of operations.

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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 integrated broadband network solutions that include products, systems and software for content and operations management, and professional services. We develop, manufacture and supply cable telephony, video and high-speed data equipment. In addition, we are a leading supplier of infrastructure products used by cable system operators to build-out and maintain HFC networks. We provide products and equipment principally to cable system operators and, more specifically, to 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.

Our Strategy and Key Highlights

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

- Transition to IP with an Everything IP, Everywhere philosophy and build on current market successes;
- Leverage our current voice, video, and data businesses;
- Expand our existing product/services portfolio through internal developments, partnerships and acquisitions; and
- Maintain and improve an already strong capital and expense structure.

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

Everything IP, Everywhere is taking hold as MSOs globally have embraced VoIP and are now rapidly deploying this key new service.

- We have successfully leveraged our existing market position and industry experience to continue to generate robust demand for both EMTA and CMTS products. Further, we have leveraged the market position we acquired as a result of the purchase of C-COR in December 2007 to increase sales of new products, notably Video on Demand, Operations Support Software, Access, and Transport.
- As expected, sales to Comcast were down significantly in the first six months of 2008. We expect sales to Comcast to increase in future quarters.
- We experienced increased sales to other customers, notably Time Warner, Charter and certain international customers in the first six months of 2008.
- We expect strong demand for CMTS products to continue in future periods as new services and competition between our customers and their competitors intensifies the need to provide ever faster download speeds requiring added CMTS capacity and features. In the second half of 2008, a new generation of CMTS products based upon the DOCSIS 3.0 standard is expected to be introduced, leveraging the installed base of current ARRIS CMTS products by providing an efficient upgrade to these systems. Modest shipments of this new product were made in the second quarter but revenue was deferred pending customer acceptance. At the end of second quarter, we had on hand significant orders for third quarter delivery. Assuming customer acceptance, we anticipate significant revenues from the sale of DOCSIS 3.0 CMTS products in the third quarter 2008.

We introduced our Universal EdgeQAM D5 late in 2007. Our expectation, based on customer input, was that demand for this product would be robust in the first quarter of 2008 driven by Switched Digital Video (SDV) requirements. However, customers, in particular Comcast, have since delayed purchasing decisions. We have expanded our marketing and development efforts to include other applications including Modular CMTS, Broadcast and Video on Demand (VOD). We expect that sales of this new product will continue through 2008, but at a slower rate than initially expected. Initial margins on this product will be low until cost reductions can be implemented.

We expect demand for EMTAs to remain robust; however, we do not anticipate the growth in aggregate sales that we have enjoyed for the past few years. Many of our customers have now passed through the initial launch stage, and are at steady state deployment rates and may not continue to incrementally increase the rate of their purchases. While most of our customers have a multi-vendor strategy, we enjoyed 100% market share with many customers well into 2007. In late 2007, several of our customers awarded a portion of their business to our competitors, which we expect will continue. Our ultimate level of sales of EMTAs will be affected by, but not limited to, such factors as the success our customers have marketing IP telephony to their subscribers, and the success our customers have retaining their IP telephony subscribers as well as our ability to limit the impact of the implementation of a multi-vendor strategy by our customers. We are encouraged by the initial success we are having with our VoIP products in Central and Latin American countries, as competition between large service providers such as Telmex and Telefonica drive the deployment of competitive voice, video and data services. We also anticipate ongoing competition for EMTAs in the future. The deployment of higher speed data service tiers will require new DOCSIS 3.0 capable EMTAs and modems, providing opportunity for sales of a new generation of CPE devices starting in the second half of 2008.

Through our acquisition of C-COR in late 2007, we expanded our portfolio to include several key new products that leverage the IP spending of our customers. The Access and Transport products are expected to benefit from the plant upgrades MSOs will undertake to expand the capacity they will require to offer new services to their subscribers. The operations support system (OSS) and On-Demand products also are well positioned to provide value added services and operational improvements to the MSOs.

We continue to invest significantly in research and development.

We have made significant investments through our research and development efforts in new products and expansion of our existing products. Our primary focus has been on products and services that will enable MSOs to build and operate high-availability, fault-tolerant networks, which allow them to generate greater revenue by offering high-speed data, IP telephony and digital video to both residential and business subscribers. This success-based capital expenditure is becoming an increasing portion of the cable operators total capital spending. In addition, some MSOs have expressed interest in offering bundled wireless telephony as part of their product offering. This product, known as Fixed Mobile Convergence (FMC), will allow cable subscribers to use mobile phones in their homes, connecting to the MSOs VoIP network in the home, and to roam from the home VoIP network to the cellular network outside of the home and back seamlessly. We are developing products to support this new offering.

With our late 2007 acquisition of C-COR, our research and development was significantly expanded to include Access and Transport, VOD, Ad Insertion and OSS products. During the first six months of 2008, we spent approximately $55.8 million on research and development, or 10.1% of revenue, which compares to $35.9 million, or 7.4% of revenue, in the same period last year. We expect to continue to spend similar or slightly higher amounts on research and development in the future. We anticipate we may modestly increase our development efforts on VOD and OSS products.

Key research and development accomplishments in the first six months of 2008 included:

- We announced DOCSIS 3.0 certification of the WBM750 Data Modem and the TM702 Voice over IP EMTA. The TM702 also received Packetcable1.5 certification. These key milestones pave the way for operator DOCSIS 3.0 deployments starting in second half of 2008.

- The ARRIS C4 CMTS reached a critical milestone in releasing the new DOCSIS 3.0 hardware and software for customer field trials.

- A new release was made available in the second quarter for the ARRIS D5 UEQ platform increasing the density to 72 QAM channels per 2RU chassis, using Hex channel bonding.

- Access and Transport received formal qualification of the CORWave multi-wavelength optical platform.

- On-Demand introduced Start Over, a feature that allows a viewer to view a program from the beginning even when they tune in a few minutes late.

At the end of the second quarter, we had cash, cash equivalents and short term investments of approximately $297.8 million.

In the first quarter 2008, we announced a share buyback program of up to $100 million. During the first quarter 2008, we repurchased 13 million shares at an average price of $5.84 per share for an aggregate consideration of approximately $76 million. No additional shares were repurchased during the second quarter of 2008.

In the first quarter 2008 we redeemed, at par, $35 million of convertible notes we assumed as part of the C-COR acquisition.

We generated $40.9 million of cash from operating activities in the first six months of 2008.

Through a combination of our cash resources, anticipated cash generation from operating activities and our ability to access capital markets, we continue to be well positioned to execute on strategic opportunities.

Our income statement reflects several significant items year-over- year

As a result of the acquisition of C-COR in late 2007, sales, gross margin and operating expenses significantly increased. Below is a table which compares second quarter 2008 results to the estimated ARRIS and C-COR results for the second quarter 2007:

Results for ARRIS and C-COR
(in millions, except gross margin percentages)
(unaudited)

	Three Months Ended June 30,		
	ARRIS 2008	ARRIS 2007	C-COR 2007 (1) (2)
Sales	281.1	252.7	74.4
Gross margin - $	92.9	72.3	33.6
Gross margin - %	33.0%	28.6%	45.2%
SG&A	37.0	26.5	16.3
R&D	27.7	17.8	8.3
Restructuring & impairment	0.2	0.0	0.2
Amortization of intangibles	12.4	0.0	0.8
Operating income	15.6	28.0	8.0

Results for ARRIS and C-COR
(in millions, except gross margin percentages)
(unaudited)

	Six Months Ended June 30,		
	ARRIS 2008	ARRIS 2007	C-COR 2007 (1) (2)
Sales	554.6	488.0	147.4
Gross margin - $	178.1	141.1	66.3
Gross margin - %	32.1%	28.9%	45.0%
SG&A	74.0	50.7	31.2
R&D	55.8	35.9	17.0
Restructuring & impairment	0.6	0.4	0.4
Amortization of intangibles	25.7	0.1	1.6
Operating income	22.0	54.0	16.1

(1) See C-COR Form 8-K filed with the Securities and Exchange Commission on August 27 2007.

(2) C-COR gross margin and SG&A have been adjusted to conform to ARRIS accounting policies with respect to freight billed to customers.

In the first quarter of 2007, we recorded a net gain of $22.8 million related to the termination of the proposed TANDBERG acquisition. We did not experience a similar event in 2008.

In the first quarter of 2007, we recorded a tax expense of $15.6 million, which equates to an effective tax rate of 29.3%. Included in the tax expense are discrete items, per the guidance of Accounting Principles Board (APB) Opinion 28, *Interim Financial Reporting*, related to the terminated TANDBERG

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transaction. The foreign exchange gain, break-up fee and deal expenses were considered discrete items and were recorded at a marginal tax rate of 38.0%. The break-up fee and expenses are considered to be capital in nature versus ordinary income. As a result, we reversed a net $3.2 million of deferred tax valuation allowances as we viewed it as more likely than not that we would be able to utilize the capital gain NOLs to offset the capital gain recorded as a result of the TANDBERG break-up fee net of expenses.

In the first six months of 2008, we recorded a tax expense of $8.8 million which equates to an effective tax rate of 37.2%. We did not have any discrete items in the first six months of 2008. We anticipate that our average tax rate for 2008 will be approximately 35%. This rate is dependent on Congress enacting legislation, applied retroactively, continuing tax credits relating to Qualified Research Expenditures. If such legislation is not enacted or is not retroactively applied, we believe the effective tax rate will be approximately 38%.

Our outstanding share count has increased year over year reflecting several factors:

We issued approximately 25 million shares as partial consideration for the purchase of C-COR in 2007.

Partially offsetting the increase was the repurchase of approximately 13 million shares as part of our share buyback program in the first quarter of 2008.

Significant Customers

The vast majority of our sales are to cable system operators worldwide. As the U.S. cable industry continued a trend toward consolidation, the six largest MSOs controlled approximately 89.2% of the revenue generating units (RGUs) within the U.S. cable market (according to Dataxis in the third quarter 2007), 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 largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. From time-to-time, the affiliates included in our revenues from these customers have changed as a result of mergers and acquisitions. Therefore, the revenue for our customers for prior periods has been adjusted to include, on a comparable basis for all periods presented, the affiliates currently understood to be under common control. A summary of sales to these customers for the six month periods ended June 30, 2008 and 2007 are set forth below (in millions):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	(unaudited)			
	2008	**2007**	**2008**	**2007**
Comcast	46.7	95.8	80.9	178.3
% of sales	16.6%	37.9%	14.6%	36.5%
Time Warner Cable	75.2	23.4	146.2	45.8
% of sales	26.8%	9.3%	26.4%	9.4%

No other customer provided more than 10% of total sales for the three or six months ended June 30, 2008.

Comparison of Operations for the Three and Six Months Ended June 30, 2008 and 2007

In general, most comparisons of the period results of 2008 to 2007 will show an increase in amounts due to the incremental impact of the C-COR acquisition in December 2007.

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Net Sales

The table below sets forth our net sales for the three and six months ended June 30, 2008 and 2007, for each of our reporting segments (in millions):

	Net Sales				Increase (Decrease) Between 2008 and 2007			
	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	
	2008	2007	2008	2007	$	%	$	%
Business Segment:								
BCS	$ 190.4	218.3	$ 380.0	417.4	$ (27.9)	(12.8)	$ (37.4)	(9.0)
ATS	77.0	34.2	149.9	70.2	42.8	125.1	79.7	113.5
MCS	13.7	0.2	24.7	0.4	13.5	67.5	24.3	6075.0
Total sales	$ 281.1	$ 252.7	$ 554.6	$ 488.0	$ 28.4	11.2	$ 66.6	13.6

The table below sets forth our domestic and international sales for the three and six months ended June 30, 2008 and 2007 (in millions):

	Net Sales				Increase (Decrease) Between 2008 and 2007			
	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	
	2008	2007	2008	2007	$	%	$	%
Domestic	$ 194.1	$ 184.9	$ 382.9	$ 359.7	$ 9.2	5.0	$ 23.2	6.4
International	87.0	67.8	171.7	128.3	19.2	28.3	43.4	33.8
Total sales	$ 281.1	$ 252.7	$ 554.6	$ 488.0	$ 28.4	11.2	$ 66.6	13.6

Broadband Communication Systems (BCS) Net Sales 2008 vs. 2007

During the three and six months ended June 30, 2008, sales of our BCS segment products decreased by approximately 12.8% and 9.0%, respectively, as compared to the same periods in 2007. The following factors contributed to the decrease in sales:

We had lower sales to Comcast of both CMTS and EMTAs. Sales to Comcast of EMTAs were immaterial in the first quarter and, as expected, increased in the second quarter 2008. Sales of CMTS to Comcast in the second quarter 2008 were insignificant and are expected to increase in conjunction with the launch of our DOCSIS 3.0 product in the third quarter of 2008.

The declines associated with Comcast were partially offset by gains at several customers, notably Time Warner, Charter and certain international customers.

Access, Transport and Supplies (ATS) Net Sales 2008 vs. 2007

Access, Transport and Supplies segment revenue increased by approximately 125.1% and 113.5%, respectively, as compared to the same periods in 2007:

The increase was the result of the acquisition of C-COR. In 2007, we estimate that C-COR recorded sales associated with this segment of approximately $58.5 million and $116.0 million for the three and six month periods of 2007, respectively.

Sales in 2007 in this segment consisted of sales of our Supplies products. Year over year sales of these products have declined primarily as a result of lower purchases by MSOs for new plant and extension equipment reflecting the softness in new home sales in the U.S.

Media & Communication Systems (MCS) Net Sales 2008 vs. 2007

Media & Communication Systems revenue increased in the second quarter of 2008 and the first six months of the year, as compared to the same periods in 2007. This increase is primarily attributable to the C-COR acquisition.

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Gross Margin

The table below sets forth our gross margin for the three and six months ended June 30, 2008 and 2007, for each of our reporting segments (in millions):

	Gross Margin $				**Increase (Decrease) Between 2008 and 2007**			
	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**	
	2008	2007	2008	2007	$	%	$	%
Business Segment:								
BCS	$ 61.5	$ 66.4	$ 119.5	$ 128.8	$ (4.9)	7.4	$ (9.3)	7.2
ATS	23.9	6.1	45.7	12.5	17.8	291.8	33.2	265.6
MCS	7.5	(0.1)	12.9	(0.2)	7.6	7600.0	13.1	6550.0
Total	$ 92.9	$ 72.4	178.1	$ 141.1	$ 20.5	28.3	$ 37.0	26.2

The table below sets forth our gross margin percentages for the three and six months ended June 30, 2008 and 2007, for each of our reporting segments:

	Gross Margin %				**Increase (Decrease) Between 2008 and 2007**	
	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**
	2008	2007	2008	2007	Percentage Points	
Business Segment:						
BCS	32.3%	30.4%	31.4%	30.9%	1.9	0.5
ATS	31.0%	17.7%	30.5%	17.8%	13.3	12.7
MCS	54.8%	(56.5)%	52.2%	(54.3)%	111.3	106.5
Total	33.0%	28.6%	32.1%	28.9%	4.4	3.2

Broadband Communications Systems Gross Margin 2008 vs. 2007

Broadband Communications Systems segment gross margin dollars decreased, while gross margin percentage increased year over year:

The reduction in gross margin dollars was the result of lower sales, primarily EMTAs.

The increase in gross margin percentage reflects product mix and cost reductions. In particular, in both the three and six month periods in 2008 we sold proportionately more CMTSs than EMTAs. CMTS products have a higher gross margin percentage than EMTAs.

Access, Transport and Supplies Gross Margin 2008 vs. 2007

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

As a result of the C-COR acquisition, revenues and gross margin dollars increased significantly year over year. The increase in gross margin percentage was the result of the addition of higher margin Access and Transport products which we added to our portfolio as part of the C-COR acquisition.

Supplies gross margin dollars are lower in both the three and six month periods as a result of lower sales.

Media & Communications Systems Gross Margin 2008 vs. 2007

Media & Communications Syst*e*ms segment gross margin dollars and percentage increased year over year:

The increases are attributable to the VOD and OSS products we added to our portfolio as a result of the C-COR acquisition.

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Operating Expenses

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

	Operating Expenses				Increase (Decrease) Between 2008 and 2007			
	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	
	2008	2007	2008	2007	$	%	$	%
SG&A	$ 37.0	$ 26.4	$ 74.0	$ 50.7	$ 10.5	39.6	$ 23.3	46.0
Research & development	27.7	17.8	55.8	35.9	9.9	55.6	19.9	55.4
Restructuring & impairment	0.2	0.0	0.6	0.4	0.2	0.0	0.2	50.0
Amortization of intangibles	12.4	0.1	25.7	0.1	12.4	0.0	25.6	25600.0
Total	$ 77.3	$ 44.3	$ 156.1	$ 87.1	$ 33.0	74.5	$ 69.0	79.2

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

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

The inclusion of expenses associated with the former C-COR.

For the first six months of 2008, SG&A expenses declined by approximately $7.9 million when compared to the combined expenses of ARRIS and the former C-COR for the first six months of 2007. The decline predominately reflects synergies achieved as a result of the combination of the two companies.

Legal expenses increased by approximately $3.7 million year over year for the first six months as a result increased costs associated with various matters (see Legal Proceedings). We anticipate that this trend may continue.

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:

The inclusion of expenses associated with the former C-COR.

For the first six months research and development expenses increased by $2.9 million when compared to the combined expenses of ARRIS and the former C-COR.

We anticipate that we may modestly increase our R&D spending as a combined company, particularly on Video on Demand and OSS products.

Restructuring and Impairment 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, 2008, we recorded $0.2 million and $0.6 million, respectively, related to severance for the C-COR acquisition. For the six month period ending June 30, 2007, we recorded $0.4 related to changes in estimates associated with real estate leases. The entire $0.4 million was recorded in the first quarter of 2007 and therefore no expense was recorded in the second quarter of 2007.

Amortization of Intangibles

Intangibles amortization expense for the three months ended June 30, 2008 and 2007 was $12.4 million and $0.1 million, respectively. For the six months ended June 30, 2008 and 2007 intangible amortization expense was

$25.7 million and $0.1 million, respectively. Our intangible expense for 2008 represents the amortization of intangible assets acquired as a result of the C-COR acquisition in December 2007. Our intangible expense for 2007 represents the amortization of existing technology acquired as a result of the cXm Broadband acquisition in the second quarter of 2005, which were fully amortized by the end of 2007.

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Other Expense (Income)

Interest Expense

Interest expense for the three months ended June 30, 2008 and 2007 was $1.7 million and $1.7 million, respectively. For the six months ended June 30, 2008 and 2007, interest expense was $3.2 million and $3.3 million, respectively. Interest expense reflects interest and the amortization of deferred finance fees associated with our $276.0 million 2% convertible subordinated notes. As a result of our implementation of FSP ABP 14-1, we expect interest expense to increase in 2009. See Note 2 of the Consolidated Financial Statements.

Loss (Gain) in Foreign Currency

During the three months and six months ended June 30, 2008, we recorded a foreign currency loss (gain) of approximately $0.4 million and $(0.6) million, respectively. During the three and six months ended June 30, 2007, we recorded a foreign currency loss (gain) of approximately $(0.1) million and $0.2 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, 2008 and 2007 was $1.7 million and $6.5 million, respectively. During the six months ended June 30, 2008 and 2007, interest income was $4.4 million and $12.9 million, respectively. The income reflects interest earned on cash, cash equivalents and short term investments. Interest income decreased year over year as result of: 1) having less cash on hand due to the use of approximately $290 million of cash to partially fund the C-COR acquisition, $76 million to fund share repurchases, and $35 million to redeem the convertible notes assumed as part of the C-COR acquisition and 2) lower interest rates in 2008 as compared to 2007.

Gains Related to Terminated Acquisition, Net of Expenses

In the first quarter of 2007 we recorded a net gain of $22.8 million related to the proposed TANDBERG Television acquisition which was terminated in March 2007. The gain consisted of a termination fee of $18.0 million, gains of $12.3 million on foreign exchange contracts we entered into to hedge the purchase, offset by expenses incurred of approximately $7.5 million.

Other Expense

Other expense for the three months ended June 30, 2008 and 2007 was $0.1 million and $0.1 million, respectively. For the six months ended June 30, 2008 and 2007 other expense was $0.0 million and $0.1 million, respectively. Other expense relates primarily to bank fees.

Income Taxes

In the three and six months ended June 30, 2008, we recorded income tax expense of $5.5 million and $8.8 million, respectively, as compared to the same periods in 2007, when we recorded $11.1 and $26.7 million, respectively. See Note 14 of the Notes to the Consolidated Financial Statements for additional information about income taxes.

We anticipate that the effective tax rate for full year 2008 will be approximately 35%. This rate is dependent upon Congress enacting legislation, applied retroactively, continuing Qualified Research Expenditures. If such legislation is not enacted or is not retroactively applied, we believe the effective tax rate will be approximately 38%.

Financial Liquidity and Capital Resources

Overview

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

Liquidity & Capital Resources Data

	Six Months Ended June 30, 2008	2007
	(in millions, except DSO and turns)	
Key Working Capital Items		
Cash provided by operating activities	$ 40.9	$ 23.9
Cash, cash equivalents, and short-term investments	$ 297.8	$ 604.3
Accounts receivable, net	$ 168.7	$ 120.7
Days Sales Outstanding (DSOs)	55	44
Inventory, net	$ 147.7	$ 90.5
Inventory turns	5.4	7.5

Inventory & Accounts Receivable

We use turns to evaluate inventory management and days sales outstanding, or DSOs, to evaluate accounts receivable management.

Accounts receivable increased year over year. Several factors have led to the increase:

The 2008 accounts receivable includes sales associated with the former C-COR products, which were not included in 2007.

As part of ongoing commercial discussions with certain customers, we have in some instances changed our standard business practice with respect to payment terms and, as result, our DSOs increased in the first half of 2008 as compared to the same period in 2007.

The growth in our international sales resulted in higher DSOs as international customers typically have longer payment terms.

Looking forward, it is possible that our DSOs may modestly increase further dependent upon our customer mix.

Inventory increased in the first half of 2008 as compared to 2007 as the result of several factors:

We acquired approximately $28.1 million of inventory upon closing of the C-COR transaction in December 2007.

As a result of lower sales than anticipated, our inventory levels increased. We expect to reduce these levels in future periods.

Inventory turns decreased in 2008 as compared to 2007 as a result of higher inventory levels and product mix.

Inventory turns may modestly improve in the future as a result of an anticipated increase in sales.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately $297.8 million of cash, cash equivalents, and short-term investments on hand as of June 30, 2008, together with the prospects for continued generation of cash from operating activities are adequate for our short- and medium-term business needs. 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.

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Commitments

Our contractual obligations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007. There were no material changes to our contractual obligations during the first half of 2008.

Cash Flow

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

	For the Six Months Ended June 30 (unaudited),	
	2008	2007
Cash provided by operating activities	$ 40.9	$ 23.9
Cash provided by (used in) investing activities	39.6	(57.0)
Cash provided by (used in) financing activities	(114.0)	15.5
Net (decrease) in cash	$ (33.5)	$(17.6)

Operating Activities:

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

	For the Six Months Ended June 30, (unaudited)	
	2008	2007
Net income	$ 14.8	$ 60.9
Adjustments to reconcile net income to cash provided by (used in) operating activities	46.7	(9.1)
Net income including adjustments	61.5	51.8
Decrease/(Increase) in accounts receivable	(0.7)	(6.0)
Decrease/ (Increase) in inventory	(14.4)	3.7
Decrease /(Increase) in accounts payable and accrued liabilities	4.5	(17.8)
All other net	(10.0)	(7.8)
Cash provided by operating activities	$ 40.9	$ 23.9

Net income, including adjustments, increased $9.7 million during the first half of 2008 as compared to 2007. Our net income before depreciation and amortization decreased approximately $15.5 million in the first half of 2008 as compared to 2007. However, net income in the first half of 2007 included gains of $22.8 million associated with the terminated TANDBERG transaction and $6.5 million of excess tax benefits from stock based compensation plans.

Accounts receivable increased in the first half of 2008. As part of ongoing commercial discussions with certain customers, we have in some instances changed our standard business practice with respect to payment terms and, as result, our DSOs have been increasing in 2008. Accounts receivable increased in the first half of 2007 as a result of higher sales in comparison to the fourth quarter of 2006.

The increase in accounts payable and accrued liabilities in the first six months of 2008 is due to the C-COR acquisition, including gross purchase accounting impacts in deferred revenue. The decline in the first half of 2007 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.

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Investing Activities:

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

	Six Months Ended June 30 (unaudited),	
	2008	**2007**
Capital expenditures	$(11.8)	$ (7.1)
Proceeds from termination of TANDBERG Television acquisition, net of payments		22.9
Cash paid for acquisition	(4.4)	
Cash proceeds from sale of property, plant & equipment	0.2	
Purchases of short-term investments	(16.9)	(197.9)
Disposals of short-term investments	72.5	125.1
Cash provided by (used in) investing activities	$ 39.6	$ (57.0)

Capital Expenditures

Capital expenditures are mainly for test equipment, manufacturing equipment, leasehold improvements, computer equipment, and business application software. We anticipate investing approximately $25 million in fiscal year 2008. This increase over 2007 is primarily a result of the C-COR acquisition.

Proceeds from Termination of TANDBERG Television Acquisition, Net of Payments

This represents the cash proceeds we received from the breakup fee of the proposed acquisition, foreign exchange gains associated with the transaction, and related costs we incurred in association with the proposed transaction.

Cash Paid for Acquisition

This represents the cash expenditures for expenses incurred in connection with the C-COR acquisition during the first six months of 2008.

Purchases and Disposals of Short-Term Investments

This represents purchases and disposals of short-term securities.

Financing Activities:

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

	For the Six Months Ended June 30 (unaudited),	
	2008	**2007**
Payment of debt and capital lease obligations	$ (35.2)	
Repurchase of common stock	(76.0)	
Excess tax benefits from stock-based compensation plans		6.5
Employer repurchase of shares to satisfy minimum tax withholdings	(1.0)	(1.7)
Fees and proceeds from issuance of common stock, net	(1.8)	10.7
Cash provided by (used in) financing activities	$(114.0)	$15.5

Payment of Debt and Capital Lease Obligation -

As part of the C-COR acquisition in December 2007, we assumed $35.0 million of 3.5% senior unsecured convertible notes due December 31, 2009. Interest on the notes was payable semi-annually on June 30 and December 30. Each note was convertible by the holder, at its option, into shares of ARRIS common stock at a conversion rate of 92.9621 shares per one thousand dollars of principal amount of the note, for an aggregate of 3,253,674 potential common shares. The Notes were redeemed on January 14, 2008.

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Repurchase of Common Stock -

As announced on February 19, 2008, our Board of Directors approved the repurchase of up to $100 million of our common stock. During the first quarter of 2008, we acquired approximately 13 million shares at a cost of $76 million. No repurchases were made during the second quarter of 2008. The unexpended portion of the original authorization is $24 million.

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, 2008, 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, 2008 and December 31, 2007, we had approximately $7.1 million and $7.0 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, auction rate securities, certificates of deposits, and variable rate demand financial instruments. Auction rate securities, paying either taxable or non-taxable interest, generally have long-term maturities beyond three months but are priced and traded as short-term instruments. At December 31, 2007, ARRIS had $30.3 million invested in auction rate securities, all of which were classified as short-term investments. As of June 30, 2008, we had approximately $4.7 million of auction rate securities outstanding at fair value, classified as long-term investments. We are uncertain of when we will be able to liquidate the remaining $4.7 million of auction rate securities because they have failed at auction. Therefore, ARRIS has classified the investment as long-term. These securities are a single student loan issue rated AAA and is guaranteed by the federal government. Applying the provisions of SFAS 157, we analyzed the fair value of the security as of June 30, 2008. We have concluded that the fair value is approximately $4.7 million, which compares to a face value of $5.0 million. We will continue to evaluate the fair value of this security and mark it to market accordingly.

From time to time, we held certain investments in the common stock of publicly-traded companies, which were classified as available-for-sale. As of June 30, 2008 and December 31, 2007, our holdings in these investments were zero. Changes in the market value of these securities are typically recorded in other comprehensive income and gain or losses on related sales of these securities are recognized in income.

We previously offered a deferred compensation arrangement, which allowed certain employees to defer a portion of their earnings and defer the related income taxes. 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*. A rabbi trust is a funding vehicle used to protect the deferred compensation from various events (but not from bankruptcy or insolvency). Upon the acquisition of C-COR, we also acquired rabbi trust assets related to a C-COR deferred compensation plan. As of December 31, 2007, the plan was frozen and no further contributions are allowed. At June 30, 2008 and December 31, 2007, ARRIS had an accumulated unrealized gain related to the rabbi trusts of approximately $66 thousand and $20 thousand, respectively, included in other comprehensive income.

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS capital expenditures were $11.8 million in the first half of 2008 as compared to $7.1 million in the first half of 2007. The increase is the result of the acquisition of C-COR. ARRIS had no significant commitments for capital expenditures at June 30, 2008. Management expects to invest approximately $25 million in capital expenditures for the fiscal year 2008.

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, 2007, as filed with the SEC. Our critical accounting estimates have not changed in any material respect during the six months ended June 30, 2008.

Forward-Looking Statements

We make numerous forward-looking statements throughout this report, including statements with respect to strategy, expected changes in sales levels of different products, product development plans, gross margin levels, expense levels, income taxes, acquisitions and liquidity. Frequently these statements are introduced with words such as assume, may, expect, likely, will, believe, estimate, project, anticipate, intend, plan, continue, could be, or may differ materially from those suggest by the forward-looking statements that we make for a number of reasons including those described in Part II, Item 1A, Risk Factors of this Report.

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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, in our investment portfolio, one non-taxable auction rate security, that is classified as a long term investment. Although these types of securities have maturity dates of 15 to 30 years, they have certain characteristics of short-term investments as the interest rates reset every 7, 28, or 35 days. 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 higher interest rate above market and the auction rate security will be held until the next successful scheduled auction date. At December 31, 2007 ARRIS had $30.3 million invested in auction rate securities. For the first six months of 2008, we successfully liquidated, at par, a net of $25.3 million of the auction rate securities. However, on July 30, 2008, an auction rate security of approximately $5.0 million failed to reprice for the fifth time. ARRIS continues to hold this security as of June 30, 2008. As a result of the unsuccessful auctions, the reset interest rate has been increased to above market and the next auction is scheduled for September 4, 2008. We may not be able to access these funds until a successful auction occurs. We have recorded an impairment charge of $0.3 in the current period reflecting our current view of the decline in market value of this security.

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 versus the dollar, a hypothetical 10% weakening of the U.S. dollar (as of December 31, 2007) would provide a gain on foreign currency of approximately $1.6 million. Conversely, a hypothetical 10% strengthening of the U.S. dollar would provide a loss on foreign currency of approximately $1.6 million. There were no material changes in this market risk since December 31, 2007. 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, 2008, we had no material contracts, other than accounts receivable, denominated in foreign currencies.

We regularly review our forecasted sources and uses of foreign currencies and enter into option contracts when appropriate. As of June 30, 2008, we had option collars outstanding with notional amounts totaling 17.0 million Euros, which mature through 2008.

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 incident 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.

The three previously reported Hybrid Patents, Inc. cases have been settled. ARRIS settlement costs were included in operating expenses for the quarter ended March 31, 2008.

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

On February 2, 2007, GPNE Corp. (GPNE) filed a patent infringement lawsuit against Time Warner Inc., Comcast and Charter, in the United States District Court for the Eastern District of Texas. In its suit, GPNE alleges that certain DOCSIS® standard products and services sold or used by the defendants infringe a GPNE patent. These suits were dismissed without prejudice. To date ARRIS has not been named a defendant, nor has ARRIS received a formal request for formal indemnification. However, we believe it is likely that the claims will be reasserted and that the defendants will make indemnification requests, as well as a request to contribute to the legal costs and expenses of the litigation. ARRIS, Cisco and Thomson filed a Declaratory Judgment action in the District Court of Delaware seeking to have the court declare the patents not infringed. The parties to the DJ have been negotiating and appear to have reached an agreement in principal which would result in a license to the suppliers for the GPNE patents. ARRIS has fully reserved for the anticipated settlement amount that ARRIS would have to pay. Should the settlement negotiations collapse, it is premature to assess the likelihood of a favorable outcome. In the event of an adverse outcome, ARRIS and other similarly situated suppliers of DOCSIS® compliant products could be required to indemnify its customers, pay royalties, and/or cease using certain technology. Also, an adverse outcome may require a change in the DOCSIS® standards to avoid using the patented technology.

In connection with our acquisition of C-COR, Inc., ARRIS on October 31, 2007, was named as the defendant in a suit entitled CIBC World Market Corp. vs. ARRIS Group, Inc., Action No. 603605/2007, in the Supreme Court of the State of New York, New York County. In the suit CIBC asserts that it is entitled to a $4.0 million fee plus expenses (fee) at the closing of the proposed acquisition. We do not believe that any fee is due to CIBC in connection with this acquisition. ARRIS s position is that its June 1, 2005, engagement with CIBC, pursuant to which CIBC asserts its claim, was terminated and that no fee is due under the engagement. Independent of that termination, CIBC was conflicted from representing ARRIS in the transaction, provided no services to ARRIS in connection with the transaction, and otherwise is estopped from asserting that it is entitled to a fee. ARRIS intends to contest the entitlement to a fee asserted by CIBC vigorously.

In 2007, ARRIS received correspondence from attorneys for the Adelphia Recovery Trust (Trust), that the Company may have received transfers from Adelphia Cablevision, LLC (Cablevision), one of the Adelphia debtors, during the year prior to its filing of a Chapter 11 petition on June 25, 2002 (the Petition Date). The correspondence further asserts that information obtained during the course of the Adelphia Chapter 11 proceedings indicates that Cablevision was insolvent during the year prior to the Petition Date, and, accordingly, the Trust intends to assert that the payments made to ARRIS were fraudulent transfers under section 548 (a) of the Bankruptcy Code that may be recovered for the benefit of Cablevision s bankruptcy estate pursuant to section 550 of

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the Bankruptcy Code. Prior to its acquisition by ARRIS, C-COR received a similar correspondence making the same claims. We understand that similar letters were received by other Adelphia suppliers and we may seek to enter into a joint defense agreement to share legal expenses if a suit is commenced. To date, no suit has been commenced by the Trust. In the event a suit is commenced, ARRIS intends to contest the case vigorously. No estimate can be made of the possible range of loss, if any, associated with a resolution of these assertions.

In January and February 2008, Verizon Services Corp. filed separate lawsuits against the Cox Companies and the Charter companies, in the District Courts for the Eastern District of Virginia and for the Eastern District of Texas respectively, alleging infringement of eight patents. ARRIS anticipates that it may be asked to indemnify the respective defendants or cooperate with the defense costs. ARRIS, various MSOs and suppliers have begun to consider the cases. 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 utilizing certain technology.

As a result of ARRIS s recent acquisition of C-COR Incorporated, ARRIS is now involved in the following patent infringement cases.

In June 2007, USA Video Technology Corp. brought a suit in the U.S. District Court of the Eastern District of Texas against Time Warner Cable, Cox, Charter and Comcast (Civil Action 2:06-CV-239) alleging infringement of U.S. Patent No. 5,130.792. One or more of the defendants asked C-COR and other suppliers to participate in the defense under the indemnification provisions of their respective purchase agreements. On December 10, 2007, the District Court granted Defendants Summary judgment motion. USA Video has filed notice of appeal.

Acacia Media Technologies Corp. has sued Charter and Time Warner Cable, Inc. for allegedly infringing U.S. Patent Nos. 5,132,992; 5,253,275; 5,550,863; and 6,144,702. 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). We are reviewing the patents and analyzing the extent to which these patents may relate to our 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 will expire in June of this year. ARRIS is reviewing the patents and our products and analyzing the extent to which these patents may relate to our 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, or pay royalties. Given that the patents expire soon, it is unlikely that the case will result in injunctions or ceasing the use of the technology.

In February 2008, Brasfield and 21 other named plaintiffs, all current or former installers or technicians servicing cable TV customers in Memphis, Tennessee, filed a Fair Labor Standards Act suit against Source Broadband and C-COR alleging that the plaintiffs were not properly paid for overtime. Source Broadband purchased C-COR s installation business in June 2007. Plaintiffs are attempting to certify this case as a class action. ARRIS is contesting the suit.

An unfavorable outcome to any of the above described proceedings could have a material adverse effect on ARRIS s business financial condition and results of operations.

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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;
- demands for network services;
- competition from other providers of broadband and high speed services;
- 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 will be in a position to purchase new equipment at levels we have seen in the past or expect in the future.

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

The markets for broadband communication systems 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;
- Big Band Networks;
- Cisco Systems, Inc.;
- Commscope, Inc;
- Concurrent Computer Corporation;
- Ericsson (TandbergTV);
- Harmonic, Inc.;
- Motorola, Inc.;

- SeaChange, Inc.;
- Thomson; and
- TVC Communications, Inc.

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, 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. For instance, in July 2006, Adelphia sold its assets to Comcast and Time Warner. 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 may fail to realize the anticipated revenue and earnings growth and other benefits expected from our recently completed acquisition of C-COR, which could adversely affect the value of our shares.

Our recently completed acquisition of C-COR involves the integration of two companies that previously operated independently. The integration of two previously independent companies is a challenging, time-consuming and costly process. While we have begun the integration process, complete integration will take some time to accomplish. The value of shares of our common stock will be affected by our ability to achieve the benefits expected to result from the acquisition. Achieving the benefits of the merger will depend in part upon meeting the challenges inherent in the successful combination of two business enterprises of the size and scope of ARRIS and C-COR, and the possible resulting diversion of management s attention for an extended period of time. It is possible that the process of combining the companies could result in the loss of key employees, the disruption of our ongoing businesses, or inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with customers, suppliers, and employees, or to achieve the anticipated benefits of the merger. In addition, the successful combination of the companies will require the dedication of significant management resources, which could temporarily divert attention from the day-to-day business of the combined company.

There can be no assurance that these challenges will be met and that the diversion of management attention will not negatively impact our operations. Delays encountered during the current transition process could have a material adverse effect on our revenues, expenses, operating results, and financial condition. Although we expect significant benefits, such as revenue and earnings growth, to result from the merger, there can be no assurance that we will actually realize any of these anticipated benefits.

Purchase accounting adjustments required under GAAP with respect to our acquisition of C-COR will have a significant impact on our GAAP earnings, which could impact the trading price of our common stock.

Under U.S. GAAP, we accounted for the C-COR acquisition using a set of accounting rules known as purchase accounting, whereby the assets and liabilities of C-COR were recorded at fair value as of the date of acquisition. In connection with the acquisition, certain adjustments made as a result of the purchase accounting requirements will have a significant adverse effect on our GAAP earnings for at least the next year. These adjustments include, but are not limited to, fair market value adjustments to C-COR s inventory, intangible assets, in-process research and development, and deferred revenue. For instance, the deferred revenue that was reflected as a liability in C-COR s financial statements and that, absent the merger, would have been recognized over time as revenue has been substantially eliminated, thereby resulting in reduced revenues until the level of deferred revenue (or revenue that is instead recognized on a current basis) again builds to the levels present immediately prior to the merger. The initial purchase accounting adjustments, and their subsequent impact on financial results, do not necessarily reflect our future expected cash flows following the merger; however, the negative impact of such adjustments on our GAAP earnings could have a material adverse effect on the market price of our common stock.

Our results of operations after the proposed C-COR acquisition could be adversely affected as a result of goodwill impairment.

Under GAAP, when we acquire a business, Statement of Financial Accounting Standards (SFAS) No. 141, *Accounting for Business Combinations,* requires us to record an asset called goodwill in an amount equal to the amount we pay for the business, including liabilities assumed, in excess of the fair value of the tangible and intangible assets of the business. Our recently completed acquisition of C-COR resulted in the recognition of approximately $305 million in additional goodwill as of December 31, 2007. SFAS No. 142, *Goodwill and Other Intangible Assets,* requires that goodwill and other intangible assets that have indefinite useful lives not be amortized, but instead be tested at least annually for impairment, and that intangible assets that have finite useful lives be amortized over their useful lives. In testing for impairment, SFAS No. 142 provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. SFAS No. 142 requires us to make certain estimates and assumptions, including, among other things, an assessment of market conditions and projections of cash flows, investment rates and cost of capital and growth rates. These estimates and assumptions can significantly impact the reported value of goodwill and other intangible assets. Absent any impairment indicators, we perform our impairment tests annually during the fourth quarter. Any future impairment would negatively impact our results of operations for the period in which the impairment is recognized.

Our business has primarily come from several 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, 2008, sales to Comcast accounted for approximately 14.6%, and sales to Time Warner Cable accounted for approximately 26.4% of our total revenue. The loss of any of these customers, or one of our other large customers, or a significant reduction in the products or services provided to any of them would have a material adverse impact on our business. For each of these customers, we also are one of their largest suppliers. A consequence of that, if from time-to-time customers elect to purchase products from our competitors in order to diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon or business.

We may have difficulty in forecasting our sales.

For instance, the recently announced reduction in purchases by Comcast will affect our business. 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 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 towards 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.

Failure to increase our Media & Communications Systems revenue would adversely affect our financial results.

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Media & Communications Systems is expected to be our fastest growing and highest gross margin segment. If we are unable to grow revenues in this area, it will limit our ability to increase earnings and likely have an adverse effect on our stock price. Our ability to increase the revenue generated by our MCS segment depends on many factors that are beyond our control. For example:

- our customers may decide to continue to manage their networks by focusing on limited, individual elements of the network rather than managing their entire network integrity and service delivery processes using a suite of software application modules such as those we offer;
- our software products may not perform as expected;
- new and better products may be developed by competitors;
- others may claim that our products infringe on their intellectual property;
- our customers may decide to use internally developed software tools to manage their networks rather than license software from us;
- the software business is volatile and we may not be able to effectively utilize our resources and meet the needs of our customers if we are unable to forecast the future demands of such customers;
- if our customers increase the amount of spending on automated network, service, and content and operations management tools, new suppliers of these tools may enter the market and successfully capture market share; and
- we may be unable to hire and retain enough qualified technical and management personnel to support our growth plans.

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 ultimately be 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.

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, including former C-COR 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, as a result of our acquisition of C-COR, we acquired 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, affecting our import and export activities;

- changes in, or expiration of, the Mexican government s Maquiladora 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.

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We face risks relating to currency fluctuations and currency exchange.
On an ongoing basis we are exposed to various changes in foreign currency rates because significant sales are denominated in foreign currencies. These risk factors can impact our results of operations, cash flows and financial position. We manage these risks through regular operating and financing activities and periodically use derivative financial instruments such as foreign exchange forward and option contracts. There can be no assurance that our risk management strategies will be effective.
We also may encounter difficulties in converting our earnings from international operations to U.S. dollars for use in the United States. These obstacles may include problems moving funds out of the countries in which the funds were earned and difficulties in collecting accounts receivable in foreign countries where the usual accounts receivable payment cycle is longer.
We depend on channel partners to sell our products in certain regions and are subject to risks associated with these arrangements.
We utilize distributors, value-added resellers, system integrators, and manufacturers representatives to sell our products to certain customers and in certain geographic regions to improve our access to these customers and regions and to lower our overall cost of sales and post-sales support. Our sales through channel partners are subject to a number of risks, including:

- ability of our selected channel partners to effectively sell our products to end customers;
- our ability to continue channel partner arrangements into the future since most are for a limited term and subject to mutual agreement to extend;
- a reduction in gross margins realized on sale of our products; and
- 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 us and several 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 necessary licensing fees or indemnification costs associated with a patent infringement claim 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 may modify, or interpret differently, 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 potential consequence of this will be an increase in our interest expense and a possible restatement of interest expense for prior periods. These changes could be significant.

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

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

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

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

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

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

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Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders of ARRIS Group, Inc., held on May 28, 2008:

An election of seven 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	103,976,605	6,640,570
Harry L. Bosco	109,331,827	1,285,348
John Anderson Craig	103,972,962	6,644,213
Matthew B. Kearney	109,332,119	1,285,056
William H. Lambert	100,196,725	10,420,450
John R. Petty	105,546,849	5,070,326
Robert J. Stanzione	105,576,627	5,040,548
David A. Woodle	105,577,737	5,039,438

A proposal was made to approve the 2008 Stock Incentive Plan, and the shares so present were voted as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Abstain	Number of Shares Broker Non-vote
Approval of the 2008 Stock Incentive Plan	68,885,790	21,808,996	359,460	19,562,929

A proposal was made to approve the retention of Ernst & Young LLP as the independent registered public accounting firm for ARRIS Group, Inc. for 2007, and the shares so present were voted as follows:

	Number of Shares Voted For	Number of Shares Voted Against	Number of Shares Abstain
Approval of the retention of Ernst & Young LLP	105,031,702	5,521,710	63,763

Item 6. EXHIBITS

Exhibit No.	*Description of Exhibit*
10.15	2008 Stock Incentive Plan, filed herewith
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, 2008

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