ARRIS GROUP INC
Form 10-Q
November 06, 2009

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

FORM 10-Q

For the quarter ended September 30, 2009
of
ARRIS GROUP, INC.
A Delaware Corporation
IRS Employer Identification No. 58-2588724
SEC File Number 000-31254
3871 Lakefield Drive
Suwanee, GA 30024
(678) 473-2000

ARRIS Group, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

ARRIS Group, Inc. is a large accelerated filer and is not a shell company. ARRIS Group, Inc. is not required to file Interactive Data Files.
As of October 31, 2009, 125,366,526 shares of the registrant s Common Stock, $0.01 par value, were outstanding.

ARRIS GROUP, INC.
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PART I. FINANCIAL INFORMATION
Item 1. CONDENSED FINANCIAL STATEMENTS

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

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 461,795	$ 409,894
Short-term investments, at fair value	99,917	17,371
Total cash, cash equivalents and short-term investments	561,712	427,265
Restricted cash	4,473	5,673
Accounts receivable (net of allowances for doubtful accounts of $3,809 in 2009 and $3,988 in 2008)	119,125	159,443
Other receivables	2,235	4,749
Inventories (net of reserves of $20,281 in 2009 and $18,811 in 2008)	100,024	129,752
Prepaids	10,764	8,004
Current deferred income tax assets	32,883	44,004
Other current assets	17,193	19,782
Total current assets	848,409	798,672
Property, plant and equipment (net of accumulated depreciation of $102,302 in 2009 and $100,313 in 2008)	58,339	59,204
Goodwill	234,416	231,684
Intangibles (net of accumulated amortization of $181,169 in 2009 and $153,362 in 2008)	201,351	227,348
Investments	30,574	14,681
Noncurrent deferred income tax assets	3,593	12,157
Other assets	7,648	6,576
	$ 1,384,330	$ 1,350,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 42,659	$ 75,863
Accrued compensation, benefits and related taxes	27,054	27,024
Accrued warranty	5,292	5,652
Deferred revenue	35,423	44,461
Current portion of long-term debt	148	146
Other accrued liabilities	35,229	26,469
Total current liabilities	145,805	179,615
Long-term debt, net of current portion	208,433	211,870
Accrued pension	18,914	18,820

Noncurrent income taxes payable	10,632	9,607
Noncurrent deferred income tax liabilities	35,188	41,598
Other noncurrent liabilities	15,301	15,343
Total liabilities	434,273	476,853
Stockholders equity:		
Preferred stock, par value $1.00 per share, 5.0 million shares authorized; none issued and outstanding		
Common stock, par value $0.01 per share, 320.0 million shares authorized; 125.4 million and 123.1 million shares issued and outstanding in 2009 and 2008, respectively	1,385	1,362
Capital in excess of par value	1,177,958	1,159,097
Treasury stock at cost, 13 million shares in 2009 and 2008	(75,960)	(75,960)
Accumulated deficit	(145,012)	(202,502)
Unrealized loss on marketable securities	(60)	(274)
Unfunded pension losses	(8,070)	(8,070)
Cumulative translation adjustments	(184)	(184)
Total stockholders equity	950,057	873,469
	$ 1,384,330	$ 1,350,322

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net sales	$ 275,772	$ 297,551	$ 807,811	$ 852,167
Cost of sales	160,299	191,417	479,548	567,901
Gross margin	115,473	106,134	328,263	284,266
Gross margin %	41.9%	35.7%	40.6%	33.4%
Operating expenses:				
Selling, general and administrative expenses	36,311	33,012	110,782	107,040
Research and development expenses	30,909	27,473	89,447	83,257
Restructuring charges	73	202	785	782
Amortization of intangible assets	9,281	9,146	27,807	34,854
Total operating expenses	76,574	69,833	228,821	225,933
Operating income	38,899	36,301	99,442	58,333
Other expense (income):				
Interest expense	4,356	4,360	13,121	12,672
Loss (gain) on investments	(238)	37	(453)	210
Interest income	(424)	(1,504)	(1,172)	(5,891)
Loss (gain) on foreign currency	1,114	382	3,642	(258)
Gain on debt retirement			(4,152)	
Other expense (income), net	(263)	(72)	(887)	(43)
Income from continuing operations before income taxes	34,354	33,098	89,343	51,643
Income tax expense	12,655	10,664	31,853	17,551
Net income	$ 21,699	$ 22,434	$ 57,490	$ 34,092
Net income per common share:				
Basic	$ 0.17	$ 0.18	$ 0.46	$ 0.27
Diluted	$ 0.17	$ 0.18	$ 0.45	$ 0.27
Weighted average common shares:				
Basic	125,326	122,922	124,381	125,466
Diluted	129,695	125,420	127,916	127,249

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2009	**2008**
Operating activities:		
Net income	$ 57,490	$ 34,092
Depreciation	15,370	15,521
Amortization of intangible assets	27,807	34,854
Stock compensation expense	11,714	8,286
Deferred income tax provision	13,678	2,863
Amortization of deferred finance fees	548	571
Provision for doubtful accounts	1	365
Gain on disposal of fixed assets	(46)	(15)
Loss (gain) on investments	(453)	210
Excess tax benefits from stock-based compensation plans	(2,027)	(24)
Non-cash interest expense	8,308	7,972
Gain on debt retirement	(4,152)	
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	40,801	(12,103)
Other receivables	539	(4,001)
Inventory	30,449	(6,028)
Income taxes payable/recoverable	(2,868)	(657)
Accounts payable and accrued liabilities	(32,620)	9,743
Prepaids and other, net	6,665	(5,117)
Net cash provided by operating activities	171,204	86,532
Investing activities:		
Purchases of property, plant and equipment	(14,327)	(16,444)
Cash paid for acquisitions, net of cash acquired	(8,130)	(10,066)
Cash proceeds from sale of property, plant and equipment	208	250
Purchases of short-term investments	(151,845)	(86,998)
Sales of short-term investments	54,416	122,486
Net cash provided by (used in) investing activities	(119,678)	9,228
Financing activities:		
Payment of debt and capital lease obligations	(10,677)	(35,518)
Repurchase of common stock		(75,960)
Excess tax benefits from stock-based compensation plans	2,027	24
Employer repurchase of shares to satisfy minimum tax withholdings	(2,180)	(1,035)
Proceeds from issuance of common stock, net	11,205	(1,081)
Net cash provided by (used in) financing activities	375	(113,570)
Net increase (decrease) in cash and cash equivalents	51,901	(17,810)

Cash and cash equivalents at beginning of period	409,894	323,797
Cash and cash equivalents at end of period	$ 461,795	$ 305,987

See accompanying notes to the consolidated financial statements.

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

Note 1. Organization and Basis of Presentation

ARRIS Group, Inc. (together with its consolidated subsidiaries, except as the context otherwise indicates, ARRIS or the Company), is an international communications technology company, headquartered in Suwanee, Georgia. ARRIS operates in three business segments, Broadband Communications Systems, Access, Transport & Supplies, and Media & Communications Systems, specializing in integrated broadband network solutions that include products, systems and software for content and operations management (including video on demand, or VOD), and professional services. ARRIS is a leading developer, manufacturer and supplier of telephony, data, video, construction, rebuild and maintenance equipment for the broadband communications industry. In addition, ARRIS is a leading supplier of infrastructure products used by cable system operators to build-out and maintain hybrid fiber-coaxial (HFC) networks. The Company provides its customers with products and services that enable reliable, high-speed, two-way broadband transmission of video, telephony, and data.

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

Note 2. Impact of Recently Issued Accounting Standards

In September 2009, the Financial Accounting Standards Boards (FASB) amended the guidance for revenue recognition in multiple-element arrangements. It has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product s essential functionality. The guidance now requires an entity to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; and allocate revenue in an arrangement using estimated selling prices of deliverables for these products if a vendor does not have vendor-specific objective evidence (VSOE) or third-party evidence of selling price. The guidance also eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method for these products. The accounting changes summarized are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company is currently assessing the impact of these amendments on its accounting and reporting systems and processes; however, at this time the Company is unable to quantify the impact on its financial statements of its adoption or determine the timing and method of its adoption.

In May 2008, the FASB issued new guidance on accounting for convertible debt instruments that may be settled in cash upon conversion. The guidance requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. The resulting debt discount is accreted over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. The adoption of the guidance on January 1, 2009 affected the accounting treatment of the Company s 2% convertible senior subordinated notes due 2026, which were issued on November 6, 2006. Upon adoption, the Company recorded an adjustment to increase additional paid-in capital as of the November 6, 2006 issuance date by approximately $87.3 million. The Company is accreting the resulting debt discount to interest expense over the estimated seven year life of the convertible notes, which represents the first redemption date of November 15, 2013 when the Company may redeem the notes at its election or the note holders may require their redemption. The Company recorded a pre-tax adjustment of approximately $23.0 million to retained earnings that represents the debt discount accretion during the years ending December 31, 2006, 2007 and 2008 and will recognize additional non-cash interest expense of $11.1 million, $11.9 million, $12.9 million, $13.9 million and $11.2 million during the years ending December 31, 2009, 2010, 2011, 2012 and 2013, respectively, for accretion of the debt discount, to the extent that the convertible notes remain outstanding. The Company reduced income from continuing operations and net income for the three and nine months ended September 30, 2009 by $2.8 million and $8.3 million and reduced basic and diluted earnings per share by $0.02 per share and $0.06 per share, respectively.

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The following tables present the effect on the Company s affected financial statement line items for the three and nine months ended September 30, 2008 and as of December 31, 2008 (in thousands, except per share data):

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	As Originally Reported	As Adjusted	Increase (Decrease)	As Originally Reported	As Adjusted	Increase (Decrease)
Statement of Operations:						
Interest expense	$ 1,738	$ 4,360	$ 2,622	$ 4,964	$12,672	$ 7,708
Income from continuing operations before income taxes	35,720	33,098	(2,622)	59,351	51,643	(7,708)
Income tax expense	11,645	10,664	(981)	20,434	17,551	(2,883)
Net income	24,075	22,434	(1,641)	38,917	34,092	(4,825)
Basic net income per share:						
Income from continuing operations before income taxes	$ 0.29	$ 0.27	$ (0.02)	$ 0.47	$ 0.41	$ (0.06)
Basic net income per share	$ 0.20	$ 0.18	$ (0.02)	$ 0.31	$ 0.27	$ (0.04)
Diluted net income per share:						
Income from continuing operations before income taxes	$ 0.28	$ 0.26	$ (0.02)	$ 0.47	$ 0.41	$ (0.06)
Diluted net income per share	$ 0.19	$ 0.18	$ (0.01)	$ 0.31	$ 0.27	$ (0.04)

	As of December 31, 2008		
	As Originally Reported	As Adjusted	Increase (Decrease)
Balance Sheet:			
Noncurrent deferred income tax assets	$ 11,514	$ 12,157	$ 643
Other assets	8,294	6,576	(1,718)
Long-term debt, net of current portion	276,137	211,870	(64,267)
Noncurrent deferred income tax liabilities	17,565	41,598	24,033
Capital in excess of par value	1,105,998	1,159,097	53,099
Accumulated deficit	(188,562)	(202,502)	(13,940)

Note 3. Investments

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

	Fair Value	
	As of September	As of December 31,

	30, 2009	2008
Current Assets:		
Trading securities	$ 4,954	$
Available-for-sale securities	94,963	17,371
Total classified as current assets	99,917	17,371
Noncurrent Assets:		
Trading securities		4,908
Available-for-sale securities	26,574	5,773
Cost method investments	4,000	4,000
Total classified as noncurrent assets	30,574	14,681
Total	$ 126,491	$ 32,052

ARRIS investments in debt and marketable equity securities are categorized as trading or available-for-sale. The Company currently does not hold any held-to-maturity securities. Realized and unrealized gains and losses on trading securities and realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses on available-for-sale securities are included in our consolidated balance sheet as a component of accumulate other comprehensive income (loss). The unrealized losses in total and by individual

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investment as of September 30, 2009 and December 31, 2008 were not material. The amortized cost basis of the Company s investments approximates fair value.

As of September 30, 2009 and December 31, 2008, ARRIS cost method investment is an investment in a private company, which is recorded at cost of $4.0 million. Each quarter ARRIS evaluates its investment for any other-than-temporary impairment, by reviewing the current revenues, bookings and long-term plan of the private company. In the third quarter of 2009, the private company raised additional financing at the same price and terms that ARRIS had invested. As of September 30, 2009, ARRIS believes there has been no other-than-temporary impairment but will continue to evaluate the investment for impairment. Due to the fact the investment is in a private company, ARRIS is exempt from estimating the fair value on an interim basis. However, ARRIS is required to estimate the fair value if there has been an identifiable event or change in circumstance that may have a significant adverse effect on the fair value of the investment.

Classification of available-for-sales securities as current or non-current is dependent upon management s intended holding period, the security s maturity date and liquidity consideration based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current.

Note 4. Fair Value Measurements

The 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, a fair value hierarchy was established that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

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

The following table presents the Company s investment assets measured at fair value on a recurring basis at September 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Current investments	$ 90,243	$ 4,720	$	$ 94,963
Noncurrent investments	20,366	6,208		26,574
Auction rate securities			4,954	4,954
Foreign currency contracts	164			164
				5
Total	$110,773	$10,928	$4,954	$126,655

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

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

	Level 3
Estimated fair value January 1, 2009	$ 4,909
First quarter 2009 change in fair value	15
Second quarter 2009 change in fair value	15
Third quarter 2009 change in fair value	15
Estimated fair value September 30, 2009	$ 4,954

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

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

Note 5. Derivative Instruments and Hedging Activities

ARRIS has certain international customers who are billed in their local currency. Changes in the monetary exchange rates may adversely affect the Company s results of operations and financial condition. When appropriate, ARRIS enters into various derivative transactions to enhance its ability to manage the volatility relating to these typical business exposures. The Company does not hold or issue derivative instruments for trading or other speculative purposes. The Company s derivative instruments are recorded on the Consolidated Balance Sheets at their fair values. The Company s derivative instruments are not designated as hedges, and accordingly, all changes in the fair value of the instruments are recognized as a loss (gain) on foreign currency in the Consolidated Statements of Operations. The maximum time frame for ARRIS derivatives is 12 months. As of January 1, 2009, derivative instruments which are subject to master netting arrangements are not offset in the Consolidated Balance Sheets.

The fair values of ARRIS derivative instruments recorded in the Consolidated Balance Sheet as of September 30, 2009 were as follows (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange contracts	Other current assets	$164	Other accrued liabilities	$3,067

Prior to January 1, 2009, the Company recorded its derivative instruments on a net basis on the Consolidated Balance Sheet. As of December 31, 2008, the fair value of the instruments was recorded as a net asset of $391 thousand, comprised of an asset of $1,094 thousand offset with a liability of $703 thousand.

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The change in the fair values of ARRIS derivative instruments recorded in the Consolidated Statements of Operations during the three and nine months ended September 30, 2009 and 2008 were as follows (in thousands):

	Statement of Operations Location	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Derivatives Not Designated as Hedging Instruments:					
Foreign exchange contracts	Loss (gain) on foreign currency	$1,425	$(2,057)	$3,099	$(1,096)

Note 6. Pension Benefits

Components of Net Periodic Pension Benefit Cost

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(in thousands)			
Service cost	$ 245	$ 190	$ 735	$ 570
Interest cost	530	472	1,590	1,412
Expected gain on plan assets	(281)	(354)	(844)	(1,064)
Amortization of prior service cost	115	119	346	358
Amortization of net loss	119		358	
Net periodic pension cost	$ 728	$ 427	$ 2,185	$ 1,276

Employer Contributions

No minimum funding contributions are required in 2009 under the Company s defined benefit plan. However, the Company made voluntary contributions to the plan of approximately $1.5 million and $2.1 million for the three and nine months ended September 30, 2009, respectively. During the three and nine months ended September 30, 2008, the Company made voluntary contributions to the plan of approximately $1.0 million and $1.1 million, respectively.

Note 7. Guarantees

Warranty

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

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

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Information regarding the changes in ARRIS aggregate product warranty liabilities (including short-term and long-term) for the nine months ended September 30, 2009 was as follows:

	(in thousands)
Balance at December 31, 2008	$ 10,184
Accruals related to warranties (including changes in estimates)	4,588
Settlements made (in cash or in kind)	(5,244)
Balance at September 30, 2009	$ 9,528

Note 8. Business Acquisitions

Acquisition of EG Technology, Inc.

On September 1, 2009, ARRIS acquired certain assets and liabilities of EG Technology, Inc. (EGT) for $6.5 million. This transaction was accounted for as a business combination. ARRIS acquired EGT patents and video processing technology for digital networks which complements ARRIS video offerings by adding multi-functional, flexible, and scalable video processors to its portfolio of market leading voice, video and data solutions. The goodwill and intangible assets recorded as a result of this acquisition are in the Broadband Communications System (BCS) segment.

Acquisition of Auspice Corporation

On August 12, 2008, ARRIS acquired certain assets of Auspice Corporation (Auspice) for $5.0 million. This transaction was accounted for as a business combination. The Company completed this transaction to enhance its offerings for Service Assurance software and to gain market share in the industry.

Cash Paid For Acquisitions

Below is information regarding the cash paid for acquisitions in the Company s Consolidated Statements of Cash Flows:

2009 Cash Paid for Acquisitions:

During the third quarter of 2009, the Company acquired certain assets of EG Technology, Inc. for $6.5 million. In exchange, ARRIS acquired tangible assets of $1.6 million, intangible assets (including goodwill) of $5.6 million, and assumed liabilities of $0.7 million.

During the third quarter of 2009, the Company paid a deposit of $1.5 million for Digeo, Inc. The remaining cash was paid upon closing of the transaction on October 1, 2009, and the final purchase price allocation will be included in the three months ending December 31, 2009.

During the first quarter of 2009, ARRIS paid $0.2 million for transaction costs related to the 2007 C-COR acquisition that had been accrued as of December 31, 2008.

2008 Cash Paid for Acquisitions:

During the first quarter of 2008, the Company paid transaction fees of $5.0 million in 2008 which resulted in an adjustment to the purchase price allocation and increased goodwill by the same amount.

During the third quarter of 2008, the Company acquired certain assets of Auspice Corporation for $5.0 million and paid related transaction fees of $48 thousand. In exchange, ARRIS acquired tangible assets of $0.5 million, intangible assets (including goodwill) of $4.7 million, and assumed liabilities of $0.1 million.

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Note 9. Restructuring

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.

	(in thousands)
Balance as of December 31, 2008	$ 545
Q1 2009 payments	(396)
Q1 2009 adjustments to accrual	41
Q2 2009 payments	(192)
Q2 2009 adjustments to accrual	86
Q3 2009 payments	(84)
Balance as of September 30, 2009	$ 0

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

	(in thousands)
Balance as of December 31, 2008	$ 494
Q1 2009 payments	(93)
Q1 2009 adjustments to accrual	72
Q2 2009 payments	(93)
Q2 2009 adjustments to accrual	73
Q3 2009 payments	(93)
Q3 2009 adjustments to accrual	73
Balance as of September 30, 2009	$ 433

During the second quarter of 2009, ARRIS consolidated two facilities in Colorado. The consolidation allows the Company to combine its sales force and create a unified presence in the Denver area business community. This consolidation resulted in a restructuring charge of approximately $212 thousand in 2009 related to lease commitments and the write-off of leasehold improvements and other fixed assets. ARRIS expects the remaining payments to be made by the second quarter of 2010.

	(in thousands)
Balance as of May 2009	$ 212
Q2 2009 payments	(74)
Q3 2009 payments	(48)
Balance as of September 30, 2009	$ 90

Note 10. Inventories

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

	September 30, 2009	**December 31, 2008**
Raw material	$ 17,939	$ 19,247
Work in process	3,861	4,814
Finished goods	78,224	105,691
Total net inventories	$ 100,024	$ 129,752

Note 11. Property, Plant and Equipment
Property, plant and equipment, at cost, consisted of the following (in thousands):

	September 30, 2009	December 31, 2008
Land	$ 2,612	$ 2,612
Building and leasehold improvements	22,271	20,048
Machinery and equipment	135,758	136,857
	160,641	159,517
Less: Accumulated depreciation	(102,302)	(100,313)
Total property, plant and equipment, net	$ 58,339	$ 59,204

Note 12. Long-Term Obligations
Debt, capital lease obligations and other long-term liabilities consist of the following (in thousands):

	September 30, 2009	December 31, 2008
2.00% convertible senior notes due 2026 (net of discount of $52,630 in 2009 and $64,267 in 2008)	$ 208,420	$ 211,733
2.00% Pennsylvania Industrial Development Authority debt, net of current portion	13	137
Total long-term debt	208,433	211,870
Other long-term liabilities:		
Deferred compensation	$ 5,580	$ 4,896
Accrued warranty	4,236	4,532
Deferred revenue	2,554	2,671
Landlord funded leasehold improvements	1,012	1,308
Other noncurrent liabilities	1,919	1,936
Total other long-term liabilities	$ 15,301	$ 15,343

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

The Company paid approximately $7.8 million of finance fees related to the issuance of the notes. Of the $7.8 million, $2.5 million were attributed to the equity component of the convertible debt instrument. The portion related to the debt issuance costs are being amortized over seven years. The remaining balance of unamortized financing costs from these notes as of September 30, 2009 and December 31, 2008 was $3.0 million, and $3.7 million, respectively. See Note 2 of the Notes to the Consolidated Financial Statements for additional information on the notes.

As of September 30, 2009 and December 31, 2008, the face value of the outstanding notes was $261.0 million and $276.0 million, respectively. During the first quarter of 2009, the Company acquired $15.0 million face value of the notes for approximately $10.6 million. The Company also wrote off approximately $0.2 million of deferred finance fees associated with the portion of the notes acquired. As a result, the Company realized a gain of approximately $4.2 million on the retirement of the notes.

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

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Note 13. Comprehensive Income

Total comprehensive income represents the net change in stockholders equity during a period from sources other than transactions with stockholders. For ARRIS, the components of comprehensive income include the unrealized gain (loss) on marketable securities. The components of comprehensive income for the three and nine months ended September 30, 2009 and 2008 are as follow (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	$21,699	$22,434	$ 57,490	$ 34,092
Changes in the following equity accounts:				
Unrealized (loss)/gain on marketable securities	101	(195)	214	(149)
Comprehensive income	$21,800	$22,239	$ 57,704	$ 33,943

Note 14. Segment Information

The management approach has been followed in order to present our segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker for evaluating segment performance and deciding how to allocate resources to segments.

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

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

The *Access, Transport & Supplies* segment s product lines cover all components of a hybrid fiber coax network, radio frequency over glass (RFoG) networks and ethernet passive optical networks (EPON) including managed and scalable headend and hub equipment, optical nodes, radio frequency products, transport products and supplies.

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

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

	BCS	ATS	MCS	Total
Three Months Ended September 30, 2009				
Net sales	$211,288	$ 45,488	$18,996	$275,772
Gross margin	94,317	10,650	10,506	115,473
Amortization of intangible assets	18	5,654	3,609	9,281
Three Months Ended September 30, 2008				
Net sales	$217,729	$ 62,100	17,722	$297,551
Gross margin	79,278	16,624	10,232	106,134
Amortization of intangible assets		5,654	3,492	9,146
Nine Months Ended September 30, 2009				
Net sales	$617,188	$131,946	$58,677	$807,811
Gross margin	265,952	29,733	32,578	328,263
Amortization of intangible assets	18	16,962	10,827	27,807
Nine Months Ended September 30, 2008				
Net sales	$597,777	$211,961	$42,429	$852,167
Gross margin	198,756	62,370	23,140	284,266
Amortization of intangible assets		19,118	15,736	34,854

The following table summarizes the Company s net intangible assets and goodwill by reportable segment as of September 30, 2009 and December 31, 2008.

	BCS	ATS	MCS	Total
September 30, 2009				
Goodwill	$154,314	$ 37,738	$42,364	$234,416
Intangible assets, net	1,792	121,422	78,137	201,351
December 31, 2008				
Goodwill	$150,569	$ 38,366	$42,749	$231,684
Intangible assets, net		138,384	88,964	227,348

Note 15. Sales Information

The Company had two customers (including their affiliates, as applicable) with sales of more than 10% during the three and nine months ended September 30, 2009. Over the past year, certain customers beneficial ownership may have changed as a result of mergers and acquisitions. Therefore, the revenue for ARRIS customers for prior periods has been adjusted to include the affiliates under current common control. A summary of sales to these customers for the three and nine month periods ended September 30, 2009 and 2008 are set forth below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Comcast	$ 101,975	$ 100,920	$263,843	$181,872
% of sales	37.0%	33.9%	32.7%	21.3%
Time Warner Cable	$ 45,992	$ 43,862	$147,959	$190,081
% of sales	16.7%	14.7%	18.3%	22.3%

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No other customer provided more than 10% of total sales for the three and nine months ended September 30, 2009 or 2008.

ARRIS sells its products primarily in United States. The Company s international revenue is generated from Asia Pacific, Europe, Latin America and Canada. The Asia Pacific market primarily includes China, Hong Kong, Japan, Korea, Singapore and Taiwan. The European market primarily includes Austria, Belgium, France, Germany, the Netherlands, Poland, Portugal, Spain and Switzerland. The Latin American market primarily includes Argentina, Brazil, Chile, Columbia, Mexico, and Puerto Rico. Sales to international customers were approximately $79.0 million, or 28.7% of total sales, for the three months ended September 30, 2009. International sales during the same period in 2008 were $77.5 million, or 26.0% of total sales. For the nine months ended September 30, 2009 and 2008 sales to international customers were $220.2 million and $249.2 million, or 27.3% and 29.2%, respectively.

Note 16. 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 September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Basic:				
Net income	$ 21,699	$ 22,434	$ 57,490	$ 34,092
Weighted average shares outstanding	125,326	122,922	124,381	125,466
Basic earnings per share	$ 0.17	$ 0.18	$ 0.46	$ 0.27
Diluted:				
Net income	$ 21,699	$ 22,434	$ 57,490	$ 34,092
Weighted average shares outstanding	125,326	122,922	124,381	125,466
Net effect of dilutive equity awards	4,369	2,498	3,535	1,783
Total	129,695	125,420	127,916	127,249
Diluted earnings per share	$ 0.17	$ 0.18	$ 0.45	$ 0.27

In November 2006, the Company issued $276.0 million of convertible senior notes. Upon conversion, ARRIS will satisfy at least the principal amount in cash, rather than common stock. This reduced the potential earnings dilution to only include the conversion premium, which is the difference between the conversion price per share of common stock and the average share price. The average share price for the three and nine months ended September 30, 2009 and 2008 was less than the conversion price of $16.09 and, consequently, did not result in dilution.

Excluded from the dilutive securities described above are employee stock options to acquire approximately 2.1 million shares and 3.3 million shares, for the three and nine months ended September 30, 2009, respectively. During the same periods in 2008, approximately 6.1 million shares and 7.1 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 17. Income Taxes

In the first nine months of 2009 and 2008, the Company recorded income tax expense of $31.9 million and $17.6 million, respectively. Below is a summary of the components of the tax expense in each period (in thousands, except for percentages):

	Nine Months Ended September 30,					
	2009			2008		
	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate
Non-Discrete Items	$ 85,191	$ 29,016	34.1%	$ 51,643	$ 19,081	36.9%
Discrete Accounting Events	4,152	1,383	33.3%			
Discrete Tax Events - Valuation Allowances / Uncertain tax positions		1,454			(1,530)	
Total	$ 89,343	$ 31,853	35.7%	$ 51,643	$ 17,551	34.0%

In the third quarter of 2009, the Company reported a discrete income tax benefit of $0.1 million arising predominately from U.S. Federal return-to-provision adjustments for the 2008 corporate income tax return. In the second quarter of 2009, there was no tax or accounting discrete event. In the first quarter of 2009, the Company reported a discrete accounting gain of $4.2 million on the repurchase of convertible debt. Income tax expense of $1.4 million was recorded on the gain, reflecting a tax rate of 33.3%. Additionally, during the first quarter, the Company identified $1.5 million of discrete income tax expense relating primarily to adjustments of valuation allowances.

In the third quarter of 2008, the Company reported $1.5 million of discrete income tax benefit, mostly attributable to U.S. Federal return-to-provision adjustments for the 2007 corporate income tax return. There was no discrete accounting event during the first nine months of 2008.

The Company anticipates that the effective tax rate for full year 2009 for non-discrete items will be in the range of 33% 35%.

Note 18. Contingencies

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

Commencing in 2005, Rembrandt Technologies, LP filed a series of lawsuits against several MSO s alleging infringement of eight patents related to the cable systems operators use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. On July 14, 2009 ARRIS reached a settlement with Rembrandt.

In 2007, Adelphia Recovery Trust (Trust) contacted ARRIS asserting that ARRIS may have received transfers from Adelphia Cablevision, LLC (Cablevision) during the year prior to its filing of a Chapter 11 petition on September 25, 2002 (the Petition Date), and that said transfers may be voidable. Cablevision sent similar letters to other parties. In the event a suit is commenced, ARRIS intends to contest the case vigorously. To date, ARRIS has received no further communication from Cablevision. No estimate can be made of the possible range of loss, if any, associated with a resolution of these assertions.

In January and February 2008, Verizon Services Corp. filed separate lawsuits against Cox and Charter alleging infringement of eight patents. In the Verizon v. Cox suit, the jury issued a verdict in favor of Cox, finding non-infringement in all patents and invalidating two of Verizon s patents. Verizon has filed a notice of appeal. The

Charter suit is still pending, with trial anticipated for 2010. It is premature to assess the likelihood of a favorable outcome of the Charter case or Cox appeal; though the Cox outcome at trial increases the likelihood of a favorable Charter outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Charter and Cox, pay royalties and/or cease utilizing certain technology.

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

V-Tran Media Technologies has filed a number of patent infringement lawsuits against 21 different parties, including suits against Comcast, Charter, Verizon, Time Warner and numerous smaller MSOs, for the alleged infringement of two patents related to a television broadcast system for selective transmission of viewer chosen programs at viewer requested times. Both patents expired in June 2008. The defendants recently received a favorable Markman Ruling and are seeking dismissal of the suit. C-COR manufactured products that allegedly infringed on the patents. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants or pay royalties. Since the patents have expired, it is unlikely ARRIS will be prohibited from using the technology.

In February 2008, several former employees of a former subsidiary of C-COR, filed a class action Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The proposed class could have included 1,000 cable installers and field technicians. ARRIS is actively contesting the suit. The opt-in period for substantially all of the plaintiffs ended July 31, 2009. To date, approximately 280 people have opted-in relative to C-COR. The parties engaged in an attempted mediation of the dispute and such communications continue. If the mediation is not successful ARRIS intends to vigorously defend this case.

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

On July 31, 2009, ARRIS filed a contempt motion in the U.S. District Court for the District of Delaware against SeaChange International related to a patent owned by ARRIS. In its motion, ARRIS is seeking further damages and the enforcement of the permanent injunction entered by the Court against certain of SeaChange products sold since 2002. The original finding of infringement was affirmed by the Federal Circuit in 2006, and the patent claims (with one exception) recently were upheld by the U.S. Patent Office in a re-examination process initiated by SeaChange. In response to ARRIS Motion for Contempt, on August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court to declare that its products are non-infringing with respect to the patent.

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

Note 19. Subsequent Events

On October 1, 2009, the Company acquired substantially all of the assets and assumed certain of the liabilities of Digeo, Inc. (Digeo). The aggregate purchase price for the transaction is approximately $20 million, of which an initial payment of approximately $1.5 million was paid in September of 2009 and approximately $14.5 million in cash at closing. The remaining $4 million is being deferred until the first anniversary of the closing of the transactions and may be reduced as a result of any claims for breaches of representations and warranties by Digeo. The Digeo acquisition, along with the recently completed acquisition of EG Technology, provides the Company with substantial technical expertise in video networking and an innovative multimedia services delivery platform.

The Company has disclosed all subsequent events through the time of filing these financial statements with the SEC.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

We operate our business in three segments:

- Broadband Communications Systems (BCS)
- Access, Transport & Supplies (ATS)
- Media & Communications Systems (MCS)

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

Our Strategy and Key Highlights

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

- Maintain a strong capital structure, mindful of our 2013 debt maturity, share repurchase opportunities and other capital needs including mergers and acquisitions.
- Grow our current business into a more complete portfolio including a strong video product suite.
- Continue to invest in the evolution toward enabling true network convergence onto an all IP platform.
- Continue to expand our product/service portfolio through internal developments, partnerships and acquisitions.
- Expand our international business and begin to consider opportunities in markets other than cable.
- Continue to invest in and evolve the ARRIS talent pool to implement the above strategies.

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

Below are some key highlights and trends relative to our third quarter and nine months ended September 30, 2009:

Financial Highlights

- Earnings per diluted share decreased only slightly (from $0.18 in the third quarter 2008 to $0.17 in the third quarter 2009), despite a 7% decline in sales.
- Gross margin percentage increased 6.2 percentage points to 41.9% in the third quarter 2009 as compared to the period in 2008, reflecting a stronger product mix including notably higher sales of our higher margin CMTS product line.
- We ended the third quarter 2009 with $576.7 million of cash resources which includes $561.7 of cash, cash equivalents, and short-term investments and $15.0 million of long-term U.S. treasury notes that mature in Q4 2010. We generated approximately $63.1 million of cash from operating activities in the third quarter and $171.2 million during the first nine months of 2009.

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We used $10.6 million of cash in the first quarter of 2009 to retire $15.0 million of the principal amount of our convertible debt, which represented a 29% discount. The Company also wrote off approximately $0.2 million of deferred finance fees associated with the portion of the notes retired. We recorded a pre-tax net gain of $4.2 million in the first quarter as a result of the retirement.

We ended the third quarter of 2009 with an order backlog of approximately $169 million and a book-to-bill ratio of 1.01. Both order backlog and book-to-bill are up moderately compared to the third quarter of 2008.

Product Line Highlights

Broadband Communications Systems

Expanded Video Capability

Through two recent acquisitions ARRIS has expanded its expertise in video processing and multimedia video delivery systems for delivery of programming from multiple sources to a variety of consumer devices. The acquired expertise and talent will accelerate the introduction of next generation IP based consumer video products and services. The two acquisitions are:

- The purchase of the assets, including the video processing intellectual property, of EG Technologies which includes a portfolio of encoding, transcoding and multiplexing products.
- On October 1, 2009, the purchase of the assets, including the intellectual property, of Digeo, Inc. The assets include an extensive patent portfolio in digital video recording, home networking, e-commerce and multimedia technologies, as well as the Moxi® line of home video delivery products.

CMTS

- Downstream port shipments reached a record level of 33,955 in the third quarter of 2009, and were 90,476 through the first nine months of 2009.
- Operators continue to focus on deploying DOCSIS 3.0 technology in order to increase overall capacity as well as compete aggressively with higher speed service tiers. The ARRIS solution has been adopted broadly across the industry, with strong domestic US shipments and increased business internationally in CALA, Asia, and Europe.
- Continued improvement in gross margins resulting from both customer and product mix (increased CMTS shipments).
- The first in-service deployment of a DOCSIS 3.0 Upstream Channel Bonding service with JCN in Japan
- Achieved #1 CMTS world-wide market share for the first time in the second quarter of 2009.

CPE

- Approximately 1.2 million and 3.6 million EMTAs were shipped in the third quarter and first nine months of 2009, respectively, which was down 21% and 18% from the third quarter and first nine months of 2008, respectively, a result of overall VoIP net subscriber additions leveling off. We have retained number one market share for EMTAs for 17 consecutive quarters.
- We increased shipments of Multi-line and Wireless Gateways in the third quarter of 2009.
- DOCSIS 3.0 CPE shipments increased substantially in third quarter 2009. We expect a continuing transition from deployment of DOCSIS 2.0 to DOCSIS 3.0 CPE throughout the remainder of 2009.

Access, Transport & Supplies

- Business continues to be impacted by macro economic factors, which resulted in lower sales year over year with a small sequential gain over the first quarter of 2009.
- DOCSIS 3.0 bandwidth efficiency improvements allow for network investments to be delayed.
- CORWave multi-wavelength optical transport platforms are continuing to gain traction with both domestic and international customers. These platforms will allow operators to multiply network capacity in support of narrowcast services at a fraction of traditional infrastructure upgrade costs. We expect these platforms to become more widely adopted as bandwidth demands continue to increase.

- Product mix and lower volumes negatively impacted margins.

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Media & Communications Systems

- o Completed WorkAssure™ deployments for several Time Warner Cable regions.
- o Demand for Assurance products continue to be strong based on:
  - § DOCSIS 3.0 rollouts
  - § A continued focus on Opex management and control
- o Began ConvergeMedia backoffice and server deployments in several US MSOs including Charter.

Significant Customers

The vast majority of our sales are to cable system operators worldwide. As the U.S. cable industry continued a trend toward consolidation, the six largest MSOs control approximately 89.9% of the triple play Revenue Generating Units (RGU) within the U.S. cable market (according to Dataxis in the first quarter 2009), thereby making our sales to those MSOs critical to our success. Our sales are substantially dependent upon a system operator s selection of ARRIS network equipment, demand for increased broadband services by subscribers, and general capital expenditure levels by system operators. Our two 10% customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. Over the past year, certain customers beneficial ownership may have changed as a result of mergers and acquisitions. Therefore, the revenue for ARRIS customers for prior periods has been adjusted to include the affiliates currently understood to be under common control. A summary of sales to these customers for the three and nine month periods ended September 30, 2009 and 2008 are set forth below (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30,	
	2009	2008	2009	2008
Comcast	$ 101,975	$ 100,920	$ 263,843	$ 181,872
% of sales	37.0%	33.9%	32.7%	21.3%
Time Warner Cable	$ 45,992	$ 43,862	$ 147,959	$ 190,081
% of sales	16.7%	14.7%	18.3%	22.3%

Comparison of Operations for the Three and Nine Months Ended September 30, 2009 and 2008

Net Sales

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

	Net Sales				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008	$	%	$	%
Business Segment:								
BCS	$ 211,288	$ 217,729	$ 617,188	$ 597,777	$ (6,441)	(3.0)	$ 19,411	3.2
ATS	45,488	62,100	131,946	211,961	(16,612)	(26.8)	(80,015)	(37.7)
MCS	18,996	17,722	58,677	42,429	1,274	7.2	16,248	38.3
Total sales	$ 275,772	$ 297,551	$ 807,811	$ 852,167	$ (21,779)	(7.3)	$ (44,356)	(5.2)

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

	Net Sales				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008	$	%	$	%
Domestic	$ 196,729	$ 220,105	$ 587,604	$ 602,967	$ (23,376)	(10.6)	$ (15,363)	(2.5)
International	79,043	77,446	220,207	249,200	1,597	2.1	(28,993)	(11.6)
Total sales	$ 275,772	$ 297,551	$ 807,811	$ 852,167	$ (21,779)	(7.3)	$ (44,356)	(5.2)

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

During the three months ended September 30, 2009, sales of our Broadband Communications Systems segment products decreased by approximately 3.0% as compared to the same period in 2008. The following factors contributed to the decrease in sales:

- In the third quarter of 2009, we had lower sales of EMTAs as compared to the third quarter of 2008.
- The decline in EMTAs was partially offset by higher sales of CMTSs to several customers including Time Warner Cable and Cablevision Mexico.

During the nine months ended September 30, 2009, sales of our Broadband Communications Systems segment products increased by approximately 3.2% as compared to the same period in 2008. The following factors contributed to the increase in sales:

- Higher sales to multiple customers of our CMTS products.
- The increase in our CMTS product sales was partially offset by a decrease in EMTA sales to several customers.

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

Access, Transport and Supplies segment revenue decreased by approximately 26.8% and 37.7% for the three and nine months ended September 30, 2009, respectively, as compared to the same periods in 2008. The following factors contributed to the decrease in sales:

- The decrease was primarily the result of the reduced spending by cable operators as a result of the slowdown of the US economy, and in particular new housing construction that drives capital equipment spending for plant upgrades and rebuilds by cable operators.
- Operators were also able to delay node segmentations by taking advantage of bandwidth efficiency improvements brought about by the implementation of DOCSIS 3.0.

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

Media & Communications Systems revenue increased by approximately 7.2% in the third quarter of 2009 and 38.3% in the first nine months of the year, as compared to the same periods in 2008. The increase in sales primarily reflects the build-up of deferred revenue throughout 2008. The deferred revenue acquired from C-COR acquisition was marked to fair value at the date of the acquisition and rebuilt through 2008.

Gross Margin

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

	Gross Margin $				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008	$	%	$	%
Business Segment:								
BCS	$ 94,317	$ 79,278	$ 265,952	$ 198,756	$ 15,039	19.0	$ 67,196	33.8
ATS	10,650	16,624	29,733	62,370	(5,974)	(35.9)	(32,637)	(52.3)
MCS	10,506	10,232	32,578	23,140	274	2.7	9,438	40.8
Total	$ 115,473	$ 106,134	$ 328,263	$ 284,266	$ 9,339	8.8	$ 43,997	15.5

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

	Gross Margin %				Increase (Decrease) Between 2009 and 2008	
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended September 30	For the Nine Months Ended September 30
	2009	2008	2009	2008	Percentage Points	
Business Segment:						
BCS	44.6%	36.4%	43.1%	33.2%	8.2	9.9
ATS	23.4%	26.8%	22.5%	29.4%	(3.4)	(6.9)
MCS	55.3%	57.7%	55.5%	54.5%	(2.4)	1.0
Total	41.9%	35.7%	40.6%	33.4%	6.2	7.2

Broadband Communications Systems Gross Margin 2009 vs. 2008

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

- The increase in gross margin dollars was primarily the result of higher sales due to the successful introduction of our DOCSIS 3.0 CMTS in the second half of last year and product mix.
- The increase in gross margin percentage primarily reflects product mix, as we sold more CMTS products and fewer EMTA products in the three and nine month periods in 2009 as compared to the same periods in 2008. CMTS products carry higher gross margin percentage than the EMTA products.

Access, Transport and Supplies Gross Margin 2009 vs. 2008

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

- The decrease in gross margin dollars was primarily the result of a decrease in sales in both the three and nine month periods in 2009.
- The decrease in gross margin percentage was primarily the result of both a change in product mix and a decrease in sales. In the three and nine month periods in 2009, Access and Transport sales decreased proportionally more than the Supplies sales decreased. In addition, our gross margin was negatively impacted by the decline in the overall volume resulting in a higher manufacturing cost per unit due to the allocation of fixed factory overhead costs as well as lower gross margin on certain headend optics gear.

Media & Communications Systems Gross Margin 2009 vs. 2008

Media & Communications Systems gross margin percentage decreased during the three months ended September 30, 2009 while increasing during the nine months ended September 30, 2009 as compared to the same periods in 2008.

- Both the decrease during the three months ended and the increase during the nine months ended are primarily a result of product mix.
- Performance in this segment is variable as revenue recognition is significantly tied to customer acceptances associated with multiple month and quarter projects, and non linear orders for licenses and hardware.

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Operating Expenses

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

	Operating Expenses				Increase (Decrease) Between 2009 and 2008			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008	$	%	$	%
SG&A	$ 36,311	$ 33,012	$ 110,782	$ 107,040	$ 3,299	10.0	$ 3,742	3.5
Research & development	30,909	27,473	89,447	83,257	3,436	12.5	6,190	7.4
Restructuring Charges	73	202	785	782	(129)	(63.9)	3	0.4
Amortization of intangibles	9,281	9,146	27,807	34,854	135	1.5	(7,047)	(20.2)
Total	$ 76,574	$ 69,833	$ 228,821	$ 225,933	$ 6,741	9.7	$ 2,888	1.3

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

The increase in SG&A expenses for the three months ended September 30, 2009 as compared to the same period in 2008 reflects:

- Higher variable compensation costs, in particular sales commissions and incentive accruals.
- An increase in stock compensation expense of $0.9 million as a result of the annual grant in March of 2009.
- An increase in legal expenses of $0.8 million as a result of increased costs associated with various patent and other litigation matters (see Legal Proceedings).

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

- Higher variable compensation costs, in particular incentive accruals.
- An increase in stock compensation expense of $2.1 million as a result of the annual stock grant in March of 2009.
- An increase in legal expenses of $3.7 as a result of increased costs including settlement costs associated with various patent and other litigation matters (see Legal Proceedings).
- The increases were partially offset by decreases in travel and entertainment and professional fees.

Research & Development Expenses

We continue to aggressively invest in research and development. Our primary focus is on products that allow MSOs to capture new revenues and reduce operating costs. The increase in research and development expense reflects:

- Higher compensation costs, fringe benefits and incentive accruals.
- We have incrementally invested year over year in research and development, a trend which we anticipate will continue.
- We anticipate an increase in research and development expense of approximately $3 million per quarter associated with the acquisitions of EGT and Digeo.

Restructuring Charges

On a quarterly basis, we review our existing restructuring accruals and make adjustments if necessary. For the three and nine month periods ending September 30, 2009, we recorded adjustments of $0.1 million and $0.8 million. For the three and nine month period ending September 30, 2008, we recorded adjustments of $0.2 million and $0.8 million respectively.

Amortization of Intangible Assets

Intangibles amortization expense for the three months ended September 30, 2009 and 2008 was $9.3 million and $9.1 million, respectively. For the nine months ended September 30, 2009 and 2008, intangible amortization expense was $27.8 million and $34.9 million, respectively.

The decline for the nine months ended September 30, 2009, reflects the completion of the amortization of the C-COR order backlog in 2008.

Goodwill Impairment

No goodwill impairment was recorded for the three and nine months ended September 30, 2009 and 2008. We recorded a non-cash goodwill impairment charge of $128.9 million and $80.4 million related to the ATS and MCS reporting units, respectively, during the fourth quarter of 2008. We continue to monitor our assessments of goodwill, particularly in light of the current economic climate, most notably with respect to the ATS segment. For the first nine months of 2009, we concluded that there was no impairment. As the ongoing expected cash flows and carrying amounts of our remaining goodwill are assessed, changes in the economic conditions, changes to our business strategy, changes in operating performance or other indicators of impairment could cause us to realize additional impairment charges in the future.

Other Expense (Income)

Interest Expense

Interest expense for the three months ended September 30, 2009 and 2008 was $4.4 million. For the nine months ended September 30, 2009 and 2008, interest expense was $13.1 million and $12.7 million respectively. Interest expense reflects interest (including cash and non-cash components) and the amortization of deferred finance fees associated with our $261.0 million 2% convertible subordinated notes. See Note 2 and Note 12 of Notes to the Consolidated Financial Statements.

Loss (Gain) in Foreign Currency

During the three months ended September 30, 2009 and 2008, we recorded a foreign currency loss of approximately $1.1 million and $0.4 million, respectively. During the nine months ended September 30, 2009 and 2008, we recorded a foreign currency loss (gain) of approximately $3.6 million and $(0.3) million respectively. The gains and losses are primarily driven by the fluctuation of the value of the euro and peso, as compared to the U.S. dollar, as we had several European and Mexican customers whose receivables and collections are denominated in Euros and Pesos. 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 September 30, 2009 and 2008 was $0.4 million and $1.5 million, respectively. During the nine months ended September 30, 2009 and 2008, interest income was $1.2 million and $5.9 million, respectively. The income reflects interest earned on cash, cash equivalents and short term investments. Interest income decreased year over year as result of lower interest rates in 2009 as compared to 2008.

Other (Income)/Expense

Other (income)/expense for the three months ended September 30, 2009 and 2008 was $(0.3) million and $(72) thousand, respectively. For the nine months ended September 30, 2009 and 2008, other expense was $(0.9) million and $(43) thousand, respectively.

Income Taxes

In the three and nine months ended September 30, 2009, we recorded income tax expense of $12.7 million and $31.9 million, respectively, as compared to the same periods in 2008, when we recorded $10.7 million and $17.6 million, respectively. See Note 17 of the Notes to the Consolidated Financial Statements for additional information about income taxes.

Financial Liquidity and Capital Resources

Overview

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

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Liquidity & Capital Resources Data

	Nine Months Ended September 30,	
	2009	**2008**
	(in thousands, except DSO and turns)	
Key Working Capital Items		
Cash provided by operating activities	$ 171,204	$ 86,532
Cash, cash equivalents, and short-term investments	$ 561,712	$ 329,558
Long-term U.S. treasury notes	$ 15,041	
Total cash, cash equivalents, short-term investments and long-term U.S. treasury notes	$ 576,753	$ 329,558
Accounts receivable, net	$ 119,125	$ 180,367
Days Sales Outstanding (DSOs)	47	56
Inventory, net	$ 100,024	$ 139,598
Inventory turns	5.6	5.6
Convertible notes at face value	$ 261,050	$ 276,000
Convertible notes at book value	$ 208,420	$ 208,969
Capital Expenditures	$ 14,327	$ 16,444

Accounts Receivable & Inventory

We use the number of times per year that inventory turns over (based upon sales for the most recent period, or turns) to evaluate inventory management, and days sales outstanding, or DSOs, to evaluate accounts receivable management. Accounts receivable and DSOs decreased during the first nine months of 2009 as compared to 2008 as a result of lower sales and payment patterns of our customers. Looking forward, it is possible that our DSOs may increase dependent upon our customer mix and payment patterns.

Inventory decreased in the first nine months of 2009, as compared to 2008. The dollar value of the inventory currently on hand is lower due to the year over year decrease in sales and cost of goods sold. Inventory turns have remained the same in the first nine months of 2009 as compared to 2008.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately $561.7 million of cash, cash equivalents, and short-term investments and $15.0 million of long-term U.S treasury notes on hand as of September 30, 2009, together with the prospects for continued generation of cash from operating activities are adequate for our short- and medium-term business needs. We may in the future elect to repurchase additional shares of our common stock or additional principal amounts of our outstanding convertible notes. However, a key part of our overall long-term strategy may be implemented through additional acquisitions, and a portion of these funds may be used for that purpose. Should our available funds be insufficient for those purposes, it is possible that we will raise capital through private or public, share or debt offerings. Absent a major acquisition, we do not anticipate a need to access the capital markets in 2009.

Commitments

Our contractual obligations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008. In October 2009, we made a partial payment of approximately $14.5 million for the purchase of Digeo, Inc. We made an initial payment of approximately $1.5 million prior to October 1, 2009. We are currently committed to making a holdback payment of approximately $4.0 million in December 2010 subject to permitted claims against the holdback. Except for these commitments with respect to Digeo there were no other material changes to our contractual obligation, during the first nine months of 2009.

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Cash Flow

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

	For the Nine Months Ended September 30	
	2009	2008
Cash provided by operating activities	$ 171,204	$ 86,532
Cash provided by (used in) investing activities	(119,678)	9,228
Cash provided by (used in) financing activities	375	(113,570)
Net increase (decrease) in cash	$ 51,901	$ (17,810)

Operating Activities:

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

	For the Nine Months Ended September 30,	
	2009	2008
Net income	$ 57,490	$ 34,092
Adjustments to reconcile net income to cash provided by operating activities	70,748	70,603
Net income including adjustments	128,238	104,695
Decrease/(Increase) in accounts receivable	40,801	(12,103)
Decrease/ (Increase) in inventory	30,449	(6,028)
(Decrease) /Increase in accounts payable and accrued liabilities	(32,620)	9,743
All other net	4,336	(9,775)
Cash provided by operating activities	$171,204	$ 86,532

Net income including adjustments increased $23.5 million during the first nine months of 2009 as compared to the same period in 2008. Net income increased approximately $23.4 million year over year, primarily reflecting our gross margin improvement discussed above. The adjustments to reconcile net income to cash provided by operating activities in total remained the same year over year but had three individual differences. The three differences were (1) a gain of $4.2 million associated with the 2009 redemption of a portion of our convertible debt, (2) a decrease in intangible amortization of $7.0 million in the first nine months of 2009 as compared to 2008 which was the result of the order backlog from C-COR being fully amortized during the first half of 2008, and (3) the net deferred tax asset increased by $13.7 million during the first nine months of 2009 as compared to an increase of only $2.9 million in the same period of 2008.

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

Inventory decreased in the first nine months of 2009 primarily as a result of lower sales. Inventory decreased in 2008 as a result of higher sales. Turns were the same in both periods.

The decline in the first nine months of 2009 in accounts payable and accrued liabilities reflects a decrease in inventory purchases and the timing variations associated with payment of accounts payable. The increase in accounts payable and accrued liabilities in the first nine months of 2008 is due to the build-up of deferred revenue from the MCS segment. The deferred revenue acquired from C-COR during the acquisition was marked to fair value at the date of acquisition. The increase in deferred revenue was partially offset by the payment of the annual bonus in the first quarter of 2008.

All other net includes the changes in (1) other receivables, (2) income taxes payable (recoverable), and (3) prepaids and other, net. The other receivables represent amounts due from our contract manufacturers for material used in the assembly of our finished goods. Whether the balance results in an income tax payable or income tax recoverable position is a result of the timing of the actual estimated tax payments during the year as compared to the actual tax liability for the year.

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Investing Activities:

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

	Nine Months Ended September 30	
	2009	**2008**
Capital expenditures	$ (14,327)	$ (16,444)
Cash paid for acquisitions	(8,130)	(10,066)
Cash proceeds from sale of property, plant & equipment	208	250
Purchases of investments	(151,845)	(86,998)
Disposals of investments	54,416	122,486
Cash provided by (used in) investing activities	$(119,678)	$ 9,228

Capital Expenditures

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

Cash Paid for Acquisitions

This represents the cash payments made during the first nine months of 2009 and 2008 in connection with the C-COR, Auspice, EG Technology and Digeo acquisitions, net of cash acquired.

Purchases and Sales of Investments

This represents purchases and sales of securities.

Financing Activities:

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

	For the Nine Months Ended September 30	
	2009	**2008**
Payment of debt and capital lease obligations	$(10,677)	$ (35,518)
Repurchase of common stock		(75,960)
Excess tax benefits from stock-based compensation plans	2,027	24
Employer repurchase of shares to satisfy minimum tax withholdings	(2,180)	(1,035)
Fees and proceeds from issuance of common stock, net	11,205	(1,081)
Cash provided by (used in) financing activities	$ 375	$(113,570)

Payment of Debt and Capital Lease Obligation

During the first quarter of 2009, we purchased $15.0 million of the face value of our convertible debt for approximately $10.6 million. The Company also wrote off approximately $0.2 million of deferred finance fees associated with the portion of the notes retired. The Company realized a gain of approximately $4.2 million on the retirement of the convertible notes. As part of the C-COR acquisition in December 2007, we assumed $35.0 million of 3.5% senior unsecured convertible notes due on December 31, 2009. We redeemed the notes on January 14, 2008.

Repurchase of Common Stock

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

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

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

This 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 September 30, 2009, we did not have any floating rate indebtedness or outstanding interest rate swap agreements.

Foreign Currency

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

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

Financial Instruments

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

ARRIS executes letters of credit in favor of certain landlords and vendors to guarantee performance on lease and insurance contracts. Additionally, we have cash collateral account agreements with our financial institutions as security against potential losses with respect to our foreign currency hedging activities. The letters of credit and cash collateral accounts are reported as restricted cash. As of September 30, 2009 and December 31, 2008, we had approximately $4.5 million and $5.7 million outstanding, respectively, of cash collateral.

Cash, Short-Term Investments and Available-For-Sale Investments

Our cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) are primarily held in money market funds that pay either taxable or non-taxable interest. We hold short-term investments consisting of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities consist primarily of commercial paper, certificates of deposits, and U.S. government agency financial instruments. Additionally, as of September 30, 2009, we had approximately $5.0 million of a single auction rate security outstanding at fair value, classified as a trading security within our long-term investments. Because it has failed at auction, we are uncertain of when we will be able to liquidate the security. However, the Company has been provided the option to sell the security to a major financial institution at par on June 30, 2010. Therefore, ARRIS has classified the investment as short-term. The security is a single student loan issue rated AAA and is substantially guaranteed by the federal government. We analyzed the fair value of the security as of September 30, 2009. We have concluded that the fair value is approximately $5.0 million (including the fair value of the put options), which compares to a face value of $5.0 million. We will continue to evaluate the fair value of this security and mark it to market accordingly.

From time to time, we held certain investments in the common stock of publicly-traded companies, which were classified as available-for-sale. As of September 30, 2009 and December 31, 2008, our holdings in these investments were immaterial. Changes in the market value of these securities typically are recorded in other comprehensive income and gain or losses on related sales of these securities are recognized in income.

See Note 4 of Notes to the Consolidated Financial Statements for disclosures related to the fair value of our investments.

The Company has a deferred compensation plan that was available to certain current and former officers and key executives of C-COR. During 2008, this plan was merged into a new non-qualified deferred compensation plan which is also available to key executives of the Company. Employee compensation deferrals and matching contributions are held in a rabbi trust, which is a funding vehicle used to protect the deferred compensation from various events (but not from bankruptcy or insolvency).

Additionally, ARRIS previously offered a deferred compensation arrangement, which was available to certain employees. As of December 31, 2004, the plan was frozen and no further contributions are allowed. The deferred earnings are invested in a rabbi trust.

The Company also has a deferred retirement salary plan, which was limited to certain current or former officers of C-COR. ARRIS holds an investment to cover its liability.

The Company, beginning in the third quarter of 2009, has begun funding in a rabbi trust, its nonqualified defined benefit plan for certain executives.

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS capital expenditures were $14.3 million in the first nine months of 2009 as compared to $16.4 million in the first nine months of 2008. Management expects to invest approximately $20 million in capital expenditures for the fiscal year 2009.

Critical Accounting Estimates

The accounting and financial reporting policies of the ARRIS are in conformity with U.S. generally accepted accounting principles. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has discussed the development and selection of the Company s critical accounting estimates with the audit committee of the Company s Board of Directors and the audit committee has reviewed the Company s related disclosures. Our critical accounting policies and estimates are disclosed extensively in our Form 10-K for the year ended December 31, 2008, as filed with the SEC. Our critical accounting estimates have not changed in any material respect during the nine months ended September 30, 2009.

Forward-Looking Statements

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

These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. In providing forward-looking statements, ARRIS expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We have had investments in auction rate securities that are classified as available-for-sale securities. As of September 30, 2009 and December 31, 2008, we held one auction rate security of $5.0 million. Although these securities have maturity dates of 15 to 30 years, they have characteristics of short-term investments as the interest rates reset every 7, 28, or 35 days and we have the potential to liquidate them in an auction process. Due to the short duration of these investments, a movement in market interest rates would not have a material impact on our operating results. However, it is possible that a security will fail to reprice at the scheduled auction date. In these instances, we are entitled to receive a penalty interest rate above market and the auction rate security will be held until the next scheduled auction date. ARRIS auction rate security of $5.0 million has continued to fail at auction, resulting in ARRIS continuing to hold this security. Due to the current market conditions and the failure of the auction rate security to reprice, beginning in the second quarter of 2008, we recorded changes in the fair value of the instrument as an impairment charge in the Statement of Operations in the gain (loss) on investments line. This particular security was held as of September 30, 2009 as a trading security within short-term investments with a fair market value of $5.0 million (including the fair value of the put option). ARRIS may not be able to liquidate this security until a successful auction occurs, or alternatively, we have been provided the option to sell the security to a major financial institution at par on September 30, 2010. During the nine months ended September 30, 2009, we recorded an increase in fair value of $46 thousand.

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

We have certain international customers who are billed in their local currency. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes. The euro and the peso are the predominant currencies of those customers who are billed in their local currency. Taking into account the effects of foreign currency fluctuations of the euro and the peso versus the dollar, a hypothetical 10% weakening of the U.S. dollar (as of September 30, 2009) would provide a gain on foreign currency of approximately $1.8 million. Conversely, a hypothetical 10% strengthening of the U.S. dollar would provide a loss on foreign currency of approximately $1.8 million. 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 September 30, 2009, we had no material contracts, other than accounts receivable, denominated in foreign currencies.

We regularly review our forecasted sales in euros and enter into option contracts when appropriate. In the event that we determine a hedge to be ineffective prior to expirations earnings may be effected by the change in the hedge value. As of September 30, 2009, we had option collars outstanding with notional amounts totaling $6.0 million euros, which mature through 2010. As of September 30, 2009, we had forward contracts outstanding with notional amounts totaling $12.0 million euros, which mature in 2009 and $9.0 million euros maturing in 2010. The fair value of these option collars and forward contracts was a net liability of approximately $2.7 million as of September 30, 2009.

Item 4. CONTROLS AND PROCEDURES

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

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

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Commencing in 2005, Rembrandt Technologies, LP filed a series of lawsuits against several MSO s alleging infringement of eight patents related to the cable systems operators use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. On July 14, 2009 ARRIS reached a settlement with Rembrandt.

In 2007, Adelphia Recovery Trust (Trust) contacted ARRIS asserting that ARRIS may have received transfers from Adelphia Cablevision, LLC (Cablevision) during the year prior to its filing of a Chapter 11 petition on September 25, 2002 (the Petition Date), and that said transfers may be voidable. Cablevision sent similar letters to other parties. In the event a suit is commenced, ARRIS intends to contest the case vigorously. To date, ARRIS has received no further communication from Cablevision. No estimate can be made of the possible range of loss, if any, associated with a resolution of these assertions.

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

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

V-Tran Media Technologies has filed a number of patent infringement lawsuits against 21 different parties, including suits against Comcast, Charter, Verizon, Time Warner and numerous smaller MSOs, for the alleged infringement of two patents related to a television broadcast system for selective transmission of viewer chosen programs at viewer requested times. Both patents expired in June 2008. The defendants recently received a favorable Markman Ruling and are seeking dismissal of the suit. C-COR manufactured products that allegedly infringed on the patents. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants or pay royalties. Since the patents have expired, it is unlikely ARRIS will be prohibited from using the technology.

In February 2008, several former employees of a former subsidiary of C-COR, filed a class action Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The proposed class could have included 1,000 cable installers and field technicians. ARRIS is actively contesting the suit. The opt-in period for substantially all of the plaintiffs ended July 31, 2009. To date, approximately 280 people have opted-in relative to C-COR. The parties engaged in an attempted mediation of the dispute and such communications continue. If the mediation is not successful ARRIS intends to vigorously defend this case.

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

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

2002. The original finding of infringement was affirmed by the Federal Circuit in 2006, and the patent claims (with one exception) recently were upheld by the U.S. Patent Office in a re-examination process initiated by SeaChange. In response to ARRIS Motion for Contempt, on August 3, 2009, SeaChange filed a complaint seeking a declaratory judgment from the Court to declare that its products are non-infringing with respect to the patent.

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

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Item 1A. RISK FACTORS

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

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

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

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

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

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

- Ambit Microsystems;
- Aurora Networks;
- BigBand Networks;
- Cisco Systems, Inc.;
- Commscope, Inc.;
- Concurrent Computer Corporation;
- Ericsson (TandbergTV);
- Harmonic, Inc.;
- Motorola, Inc.;
- SeaChange, Inc.;
- Thomson; and
- TVC Communications, Inc.

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

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technological advances could lead to the obsolescence of some of our current products, which could have a material adverse effect on our business.

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

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

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

Mergers among the supplier base also have increased, and this trend may continue. Larger combined companies with pooled capital resources may be able to provide solution alternatives with which we would be put at a disadvantage to compete. The larger breadth of product offerings by these consolidated suppliers could result in customers electing to trim their supplier base for the advantages of one-stop shopping solutions for all of their product needs. Consolidation of the supplier base could have a material adverse effect on our business.

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

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

We have substantial goodwill.

Our financial statements reflect substantial goodwill, approximately $234.4 million as of September 30, 2009, that was recognized in connection with the acquisitions that we have made. We annually (and more frequently if changes in circumstances indicate that the asset may be impaired) review the carrying amount of our goodwill in order to determine whether it has been impaired for accounting purposes. In general, if the fair value of the corresponding reporting unit is less than the carrying value of the goodwill, we assess for impairment. The determination of fair value is dependent upon a number of factors, including assumptions about future cash flows and growth rates that are based on our current and long-term business plans. In 2008, we recorded an impairment charge to our goodwill of approximately $209.3 million. As the ongoing expected cash flows and carrying amounts of our remaining goodwill are assessed, changes in the economic conditions, changes to our business strategy, changes in operating performance or other indicators of impairment could cause us to realize an additional impairment charge in the future. Further, as of October 1, 2009, the Company will perform its annual impairment testing which could result in an impairment of goodwill.

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

Our two largest customers (including their affiliates, as applicable) are Comcast, and Time Warner Cable. For the nine months ended September 30, 2009, sales to Comcast accounted for approximately 32.7% , of our total revenues and sales to Time Warner Cable accounted for approximately 18.3%. The loss of either of these customers, or one of our other large customers, or a significant reduction in the products or services provided to any of them would have a material adverse impact on our business. For each of these customers, we also are one of their largest suppliers. A consequence of that, if from time-to-time customers elect to purchase products from our competitors in order to diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon or business.

We may have difficulty in forecasting our sales.

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

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

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

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

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

Products currently under development may fail to realize anticipated benefits.

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

- are not cost-effective;
- are not brought to market in a timely manner;
- fail to achieve market acceptance; or
- fail to meet industry certification standards.

Furthermore, our competitors may develop similar or alternative technologies that, if successful, could have a material adverse effect on us. Our strategic alliances are based on business relationships that have not been the subject of written agreements expressly providing for the alliance to continue for a significant period of time. The loss of a strategic relationship could have a material adverse effect on the progress of new products under development with that third party.

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

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

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

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

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

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

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

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

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

- changes in international trade laws, such as the North American Free Trade Agreement and Prosec, affecting our import and export activities;
- changes in, or expiration of, the Mexican government s IMMEX (Manufacturing Industry Maquiladora and Export Services) program, which provides economic benefits to us;
- changes in labor laws and regulations affecting our ability to hire and retain employees;
- fluctuations of foreign currency and exchange controls;
- potential political instability and changes in the Mexican government;
- potential regulatory changes; and
- general economic conditions in Mexico.

Any of these risks could interfere with the operation of this facility and result in reduced production, increased costs, or both. In the event that production capacity of this facility is reduced, we could fail to ship products on schedule and could face a reduction in future orders from dissatisfied customers. If our costs to operate this facility increase, our margins would decrease. Reduced shipments and margins would have an adverse effect on our financial results.

We face risks relating to currency fluctuations and currency exchange.

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

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

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

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

- ability of our selected channel partners to effectively sell our products to end customers;
- our ability to continue channel partner arrangements into the future since most are for a limited term and subject to mutual agreement to extend;
- a reduction in gross margins realized on sale of our products; and
- a diminution of contact with end customers which, over time, could adversely impact our ability to develop new products that meet customers evolving requirements.

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

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

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

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

Changes in accounting pronouncements can impact our business.

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

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

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

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

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

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

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

Item 6. EXHIBITS

Exhibit No.	*Description of Exhibit*
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: November 6, 2009

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