

# ARRIS GROUP INC (ARRS)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filed on 08/05/2011

Filed Period 06/30/2011

THOMSON REUTERS ACCELUS™



THOMSON REUTERS

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

---

**FORM 10-Q**

For the quarter ended June 30, 2011

of

**ARRIS GROUP, INC.**

A Delaware Corporation

IRS Employer Identification No. 58-2588724

SEC File Number 000-31254

**3871 Lakefield Drive  
Suwanee, GA 30024  
(678) 473-2000**

ARRIS Group, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

ARRIS Group, Inc. is a large accelerated filer and is not a shell company.

ARRIS is required to submit electronically and post on its corporate web site Interactive Data Files required to be submitted and posted pursuant to Rule 405 of regulation S-T.

As of July 31, 2011, 119,358,933 shares of the registrant's Common Stock, \$0.01 par value, were outstanding.

---

---

**ARRIS GROUP, INC.**  
**FORM 10-Q**  
**For the Three and Six Months Ended June 30, 2011**  
**INDEX**

	Page
<b><u>Part I. Financial Information</u></b>	
<b><u>Item 1. Condensed Financial Statements (unaudited)</u></b>	
a) <u>Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010</u>	2
b) <u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010</u>	3
c) <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010</u>	4
d) <u>Notes to the Condensed Consolidated Financial Statements</u>	5
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	14
<b><u>Item 4. Controls and Procedures</u></b>	28
<b><u>Part II. Other Information</u></b>	29
<b><u>Item 1. Legal Proceedings</u></b>	29
<b><u>Item 1A. Risk Factors</u></b>	31
<b><u>Item 6. Exhibits</u></b>	37
<b><u>Signatures</u></b>	37
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

---

**PART I. FINANCIAL INFORMATION**

**Item 1. CONDENSED FINANCIAL STATEMENTS (unaudited)**

**ARRIS GROUP, INC.**

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data) (unaudited)

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 360,281	\$ 353,121
Short-term investments, at fair value	231,254	266,981
Total cash, cash equivalents and short-term investments	591,535	620,102
Restricted cash	3,646	4,937
Accounts receivable (net of allowances for doubtful accounts of \$1,532 in 2011 and \$1,649 in 2010)	152,436	125,933
Other receivables	406	6,528
Inventories (net of reserves of \$16,369 in 2011 and \$16,316 in 2010)	113,020	101,763
Prepays	10,272	9,237
Current deferred income tax assets	22,681	19,819
Other current assets	25,216	33,054
Total current assets	919,212	921,373
Property, plant and equipment (net of accumulated depreciation of \$120,513 in 2011 and \$109,267 in 2010)	57,100	56,306
Goodwill	233,440	234,964
Intangible assets (net of accumulated amortization of \$244,567 in 2011 and \$226,679 in 2010)	150,728	168,616
Investments	34,237	31,015
Noncurrent deferred income tax assets	9,839	6,293
Other assets	5,878	5,520
	<u>\$1,410,434</u>	<u>\$ 1,424,087</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 27,825	\$ 50,736
Accrued compensation, benefits and related taxes	20,832	28,778
Accrued warranty	3,300	2,945
Deferred revenue	47,166	31,625
Other accrued liabilities	17,805	18,847
Total current liabilities	116,928	132,931
Long-term debt, net of current portion	208,336	202,615
Accrued pension	17,730	17,213
Noncurrent income tax liability	21,844	17,702
Noncurrent deferred income tax liabilities	24,808	29,151
Other noncurrent liabilities	17,367	15,406
Total liabilities	<u>407,013</u>	<u>415,018</u>
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; 119.2 million and 120.8 million shares issued and outstanding in 2011 and 2010, respectively	1,443	1,409
Capital in excess of par value	1,228,729	1,206,157
Treasury stock at cost, 24.8 million and 19.8 million shares in 2011 and 2010, respectively	(202,933)	(145,286)
Accumulated deficit	(19,351)	(47,606)
Unrealized gain on marketable securities (net of accumulated tax effect of \$878 and \$224 in 2011 and 2010, respectively)	1,530	392
Unfunded pension liability (net of accumulated tax effect of \$662 in 2011 and 2010)	(5,813)	(5,813)
Cumulative translation adjustments	(184)	(184)
Total stockholders' equity	<u>1,003,421</u>	<u>1,009,069</u>
	<u>\$1,410,434</u>	<u>\$ 1,424,087</u>

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales:				
Products	\$ 228,635	\$ 248,179	\$ 463,581	\$ 488,321
Services	37,164	32,176	69,654	58,731
Total net sales	265,799	280,355	533,235	547,052
Cost of sales:				
Products	140,259	151,873	293,014	291,693
Services	18,642	15,204	36,377	29,570
	158,901	167,077	329,391	321,263
Gross margin	106,898	113,278	203,844	225,789
Operating expenses:				
Selling, general and administrative expenses	35,868	34,458	72,706	69,576
Research and development expenses	36,629	35,538	72,669	69,903
Restructuring charges	—	21	—	73
Amortization of intangible assets	8,944	9,022	17,888	18,043
Total operating expenses	81,441	79,039	163,263	157,595
Operating income	25,457	34,239	40,581	68,194
Other expense (income):				
Interest expense	4,180	4,765	8,405	9,195
Loss (gain) on investments	(334)	114	(757)	(31)
Interest income	(886)	(696)	(1,664)	(1,070)
Loss on foreign currency	79	457	967	189
Gain on debt retirement	—	(115)	—	(115)
Other income, net	(419)	(131)	(532)	(173)
Income from operations before income taxes	22,837	29,845	34,162	60,199
Income tax expense	6,147	10,071	5,908	21,434
Net income	\$ 16,690	\$ 19,774	\$ 28,254	\$ 38,765
Net income per common share:				
Basic	\$ 0.14	\$ 0.16	\$ 0.23	\$ 0.31
Diluted	\$ 0.13	\$ 0.15	\$ 0.23	\$ 0.30
Weighted average common shares:				
Basic	121,800	126,584	122,047	126,277
Diluted	123,711	129,717	124,720	129,848

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
<b>Operating activities:</b>		
Net income	\$ 28,254	\$ 38,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,668	11,056
Amortization of intangible assets	17,888	18,043
Stock compensation expense	11,209	10,273
Deferred income tax provision (benefit)	(11,403)	(2,341)
Amortization of deferred finance fees	326	357
Provision for doubtful accounts	—	292
Gain on investments	(757)	(31)
Loss on disposal of fixed assets	33	32
Excess income tax benefits from stock-based compensation plans	(3,247)	(2,647)
Non-cash interest expense	5,721	5,767
Gain on debt retirement	—	(115)
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	(26,503)	3,743
Other receivables	6,117	(1,170)
Inventories	(11,257)	17,021
Income taxes payable and recoverable	12,591	(3,008)
Accounts payable and accrued liabilities	(15,480)	(19,623)
Prepays and other, net	2,649	6,993
Net cash provided by operating activities	27,809	83,407
<b>Investing activities:</b>		
Purchases of property, plant and equipment	(12,547)	(10,265)
Cash proceeds from sale of property, plant and equipment	43	243
Purchases of short-term investments	(142,841)	(231,086)
Sales of short-term investments	179,431	55,154
Net cash provided by (used in) investing activities	24,086	(185,954)
<b>Financing activities:</b>		
Payment of debt obligations	—	(74)
Early redemption of long-term debt	—	(4,800)
Repurchase of common stock	(57,647)	(23,685)
Excess income tax benefits from stock-based compensation plans	3,247	2,647
Repurchase of shares to satisfy tax withholdings	(8,245)	(6,425)
Proceeds from issuance of common stock, net	17,910	5,251
Net cash used in financing activities	(44,735)	(27,086)
Net increase (decrease) in cash and cash equivalents	7,160	(129,633)
Cash and cash equivalents at beginning of period	353,121	500,565
Cash and cash equivalents at end of period	<u>\$ 360,281</u>	<u>\$ 370,932</u>

See accompanying notes to the consolidated financial statements.

**ARRIS GROUP, INC.****NOTES TO THE CONDENSED 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 a global 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 condensed 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 for 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, 2010, as filed with the United States Securities and Exchange Commission ("SEC").

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

In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance regarding the presentation of comprehensive income. This guidance requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective on a retrospective basis for the interim and annual periods ending on or after December 15, 2011. The adoption of this guidance will not have a significant impact on the Company's consolidated financial statements.

In May 2011, FASB issued amendments to some fair value measurement principles and disclosure requirements for fair value measurements. The provisions of this guidance are effective for the interim and annual periods ending on or after December 15, 2011. The adoption of this guidance will not have a significant impact on the Company's consolidated financial statements.

**Note 3. Investments**

ARRIS' investments as of June 30, 2011 and December 31, 2010 consisted of the following (in thousands):

	As of June 30, 2011	As of December 31, 2010
<b>Current Assets:</b>		
Available-for-sale securities	\$ 231,254	\$ 266,981
<b>Noncurrent Assets:</b>		
Available-for-sale securities	30,237	27,015
Cost method investments	4,000	4,000
	34,237	31,015
<b>Total</b>	<b>\$ 265,491</b>	<b>\$ 297,996</b>

ARRIS' investments in debt and marketable equity securities are categorized as available-for-sale. The Company currently does not hold any held-to-maturity securities. Realized gains and losses on trading securities and

## [Table of Contents](#)

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 accumulated other comprehensive income (loss). The total gains included in the accumulated other comprehensive income related to available-for-sale securities were \$2.4 million and \$0.6 million as of June 30, 2011 and December 31, 2010, respectively. The amortized cost basis of the Company's investments approximates fair value.

As of June 30, 2011 and December 31, 2010, 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 2010, the private company raised additional financing at the same price and terms on which ARRIS had invested. As of June 30, 2011, 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. 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-sale 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 Measurement**

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

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

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

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

The following table presents the Company's investment assets measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current investments	\$ 15,000	\$ 216,254	\$ —	\$ 231,254
Noncurrent investments	7,705	22,532	—	30,237
Foreign currency contracts — asset position	64	—	—	64
Foreign currency contracts — liability position	1,530	—	—	1,530

All of the Company's short-term investments and long-term investments instruments are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, market prices for similar securities, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include the Company's investment in money market funds, mutual funds, U.S. government bonds and investments in public companies. 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 cash surrender value of company owned life insurance, corporate obligations and bonds, commercial paper and certificates of deposit. Such instruments are classified within Level 2 of the fair value hierarchy. See Note 3 and Note 5 for further information on the Company's investments and derivative instruments.

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



[Table of Contents](#)

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 that are billed in their local currency. Changes in the monetary exchange rates may affect the Company's results of operations and financial condition. When deemed appropriate, ARRIS enters into various derivative transactions to enhance its ability to manage the volatility relating to these foreign exchange exposures. The Company does not hold or issue derivative instruments for trading or other speculative purposes. The Company's derivative instruments are recorded in 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 currently less than 12 months. Derivative instruments that are subject to master netting arrangements are not offset in the Consolidated Balance Sheets.

The fair values of ARRIS' derivative instruments recorded in the Consolidated Balance Sheet as of June 30, 2011 and December 31, 2010 were as follows (in thousands):

	As of June 30, 2011		As of December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives Not Designated as Hedging Instruments:</b>				
Foreign exchange contracts — asset derivatives	Other current assets	\$ 64	Other current assets	\$ 607
Foreign exchange contracts — liability derivatives	Other accrued liabilities	\$ 1,530	Other accrued liabilities	\$ 828

The change in the fair values of ARRIS' derivative instruments recorded in the Consolidated Statements of Operations during the three and six months ended June 30, 2011 and 2010 were as follows (in thousands):

	Statement of Operations Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
<b>Derivatives Not Designated as Hedging Instruments:</b>					
Foreign exchange contracts	Loss (gain) on foreign currency	\$ 881	\$ (1,384)	\$ 3,014	\$ (1,993)

**Note 6. Pension Benefits**

*Components of Net Periodic Pension Cost (in thousands):*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	\$ 77	\$ 68	\$ 156	\$ 136
Interest cost	536	529	1,071	1,057
Expected gain on plan assets	(406)	(380)	(812)	(760)
Amortization of prior service cost	—	65	—	130
Amortization of net loss	72	70	144	140
Net periodic pension cost	\$ 279	\$ 352	\$ 559	\$ 703

## [Table of Contents](#)

### *Employer Contributions*

No minimum funding contributions are required in 2011 under the Company's defined benefit plan. However, the Company made voluntary contributions to the plan of approximately \$21 thousand and \$42 thousand for the three and six months ended June 30, 2011, respectively. Additionally, the Company has established two rabbi trusts to fund the Company's pension obligations under the non-qualified plan of the Chief Executive Officer and certain executive officers. The balance of these rabbi trust assets as of June 30, 2011 was approximately \$13.9 million and is included in Investments on the Consolidated Balance Sheets.

### **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.

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

Information regarding the changes in ARRIS' aggregate product warranty liabilities for the six months ended June 30, 2011 was as follows (in thousands):

Balance at December 31, 2010	\$	5,340
Accruals related to warranties (including changes in estimates)		1,352
Settlements made (in cash or in kind)		(1,015)
Balance at June 30, 2011	\$	<u>5,677</u>

### **Note 8. Restructuring Charges**

ARRIS has restructuring accruals representing contractual obligations that relate to excess leased facilities and equipment. Payments will be made over their remaining lease terms through 2014, unless terminated earlier.

	(in thousands)	
Balance as of December 31, 2010	\$	1,517
Q1 2011 payments		(93)
Q2 2011 payments		(94)
Balance as of June 30, 2011	\$	<u>1,330</u>

### **Note 9. Inventories**

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

## [Table of Contents](#)

	June 30, 2011	December 31, 2010
Raw materials	\$ 20,841	\$ 19,053
Work in process	3,437	4,176
Finished goods	88,742	78,534
Total inventories, net	<u>\$ 113,020</u>	<u>\$ 101,763</u>

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

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

	June 30, 2011	December 31, 2010
Land	\$ 2,612	\$ 2,612
Building and leasehold improvements	24,599	23,580
Machinery and equipment	150,402	139,381
	177,613	165,573
Less: Accumulated depreciation	(120,513)	(109,267)
Total property, plant and equipment, net	<u>\$ 57,100</u>	<u>\$ 56,306</u>

### **Note 11. Convertible Senior Notes**

In 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 a conversion rate, subject to adjustment, of 62.1504 shares per \$1,000 principal amount (which represents a 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 for any excess. 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 conversion rate (\$16.09) and the market price at the date of the conversion. As of August 5, 2011, 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. There are no significant financial covenants related to the notes.

During 2010, ARRIS acquired \$24.0 million principal amount of the notes, which had a book value, net of debt discount, of \$20.0 million for approximately \$23.3 million. The Company allocated \$0.1 million to the reacquisition of the equity component of the notes. The Company also wrote off approximately \$0.2 million of deferred finance fees associated with the notes acquired. As a result, the Company realized a gain of approximately \$0.4 million on the retirement of the notes in 2010.

ARRIS accounts for the liability and equity components of the notes separately. The Company is accreting the debt discount related to the equity component to non-cash interest expense over the estimated seven year life of the convertible notes, which represents the first redemption date of November 13, 2013 when the Company may redeem the notes at its election or the note holders may require their redemption. The equity and liability components related to the notes were as follows (in thousands):

[Table of Contents](#)

	June 30, 2011	December 31, 2010
Carrying amount of the equity component	\$ 48,527	\$ 48,527
Principal amount of the liability component	\$ 237,050	\$ 237,050
Unamortized discount	(28,714)	(34,435)
Net carrying amount of the liability component	\$ 208,336	\$ 202,615

The following table presents the contractual interest coupon and the amortization of the discount on the equity component related to the notes during the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Contractual interest recognized	\$ 1,185	\$ 1,296	\$ 2,371	\$ 2,601
Amortization of discount	2,888	2,884	5,720	5,768

The effective annual interest rate on the debt component is 7.93%.

The Company paid approximately \$7.8 million of finance fees related to the issuance of the notes. Of the \$7.8 million, approximately \$5.3 million was attributed to the debt component and \$2.5 million was attributed to the equity component of the convertible debt instrument. The portion related to the debt component is being amortized over seven years. The remaining balance of unamortized financing costs from these notes as of June 30, 2011 and December 31, 2010 was \$1.6 million and \$1.9 million, respectively.

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

**Note 12. Comprehensive Income**

Total comprehensive income represents the net change in stockholders' equity during a period from sources other than transactions with stockholders. For ARRIS, the components of comprehensive income include the unrealized gain on marketable securities. The components of comprehensive income for the three and six months ended June 30, 2011 and 2010 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 16,690	\$ 19,774	\$ 28,254	\$ 38,765
Changes in the following equity accounts:				
Unrealized gain on marketable securities	286	214	1,138	188
Comprehensive income	\$ 16,976	\$ 19,988	\$ 29,392	\$ 38,953

**Note 13. Segment Information**

The "management approach" has been used to present the following 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 *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.

## [Table of Contents](#)

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

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

The table below presents information about the Company's reporting segments for the three and six months ended June 30, 2011 and 2010 (in thousands):

	BCS	ATS	MCS	Total
<b>Three Months Ended June 30, 2011:</b>				
Net sales	\$ 201,844	\$ 46,870	\$ 17,085	\$ 265,799
Gross margin	85,812	11,332	9,754	106,898
<b>Three Months Ended June 30, 2010:</b>				
Net sales	\$ 217,090	\$ 48,336	\$ 14,929	\$ 280,355
Gross margin	92,805	13,149	7,324	113,278
<b>Six Months Ended June 30, 2011:</b>				
Net sales	\$ 408,474	\$ 92,492	\$ 32,269	\$ 533,235
Gross margin	162,869	22,316	18,659	203,844
<b>Six Months Ended June 30, 2010:</b>				
Net sales	\$ 425,745	\$ 90,578	\$ 30,729	\$ 547,052
Gross margin	187,479	22,851	15,459	225,789

The Company's gross intangible assets and goodwill by reportable segment as of June 30, 2011 has not materially changed from December 31, 2010.

### **Note 14. Sales Information**

The Company's two largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. Over the past year, certain customers' beneficial ownership may have changed as a result of mergers and acquisitions. Therefore the revenue for ARRIS' customers for prior periods has been adjusted to include the affiliates that are now under common control. A summary of sales to these customers for the three and six month periods ended June 30, 2011 and 2010 are set forth below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Comcast and affiliates	\$ 67,314	\$ 65,679	\$ 140,247	\$ 111,286
% of sales	25.3%	23.4%	26.3%	20.3%
Time Warner Cable and affiliates	\$ 27,648	\$ 52,896	\$ 70,383	\$ 93,961
% of sales	10.4%	18.9%	13.2%	17.2%

ARRIS sells its products primarily in the United States. The Company's international revenue is generated in 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, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Great Britain, Ireland, Turkey, Russia, Romania, Hungary and Israel. The Latin American market primarily includes Argentina, Brazil, Chile,

[Table of Contents](#)

Columbia, Mexico, Peru, Puerto Rico, Ecuador, Honduras, Costa Rica, Panama, Jamaica, and Bahamas. Sales to international customers were approximately \$84.3 million, or 31.7% of total sales, for the three months ended June 30, 2011. International sales during the same period in 2010 were \$92.6 million, or 33.0% of total sales. For the six months ended June 30, 2011 and 2010 sales to international customers were \$161.9 million and \$201.4 million, or 30.4% and 36.8%, respectively.

**Note 15. Earnings Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
<b>Basic:</b>				
Net income	\$ 16,690	\$ 19,774	\$ 28,254	\$ 38,765
Weighted average shares outstanding	121,800	126,584	122,047	126,277
Basic earnings per share	\$ 0.14	\$ 0.16	\$ 0.23	\$ 0.31
<b>Diluted:</b>				
Net income	\$ 16,690	\$ 19,774	\$ 28,254	\$ 38,765
Weighted average shares outstanding	121,800	126,584	122,047	126,277
Net effect of dilutive equity awards	1,911	3,133	2,673	3,571
Total	123,711	129,717	124,720	129,848
Diluted earnings per share	\$ 0.13	\$ 0.15	\$ 0.23	\$ 0.30

(1) EPS may not recalculate directly due to rounding.

The Company has \$237.1 million of convertible senior notes outstanding at June 30, 2011. 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 in 2011 and 2010 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 5.5 million shares and 3.8 million shares for the three and six months ended June 30, 2011, respectively. During the same periods in 2010, approximately 4.4 million shares and 3.6 million shares, respectively, were excluded from the dilutive securities above. These exclusions are made since the exercise price of these options is greater than the average market price of the common stock for the period, or if the Company has net losses, both of which have an anti-dilutive effect.

During the six months ended June 30, 2011, the Company issued 3.4 million shares of its common stock related to stock option exercises and the vesting of restricted shares, as compared to 2.0 million shares for the twelve months ended December 31, 2010.

**Note 16. Income Taxes**

In the first half of 2011 and 2010, the Company recorded income tax expense of \$5.9 million and \$21.4 million, respectively. Below is a summary of the components of the tax expense for the three and six month periods ended June 30, 2011 and 2010 (in thousands, except for percentages):

	For the Three Months Ended June 30						For the Six Months Ended June 30					
	2011			2010			2011			2010		
	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate
Non-discrete Items	\$ 22,837	\$ 6,147	26.9%	\$ 29,845	\$ 10,422	34.9%	\$ 34,162	\$ 9,490	27.7%	\$ 60,199	\$ 20,563	34.1%
Discrete tax events — valuation allowances, uncertain tax positions	—	—	—	—	(351)	—	—	(3,582)	—	—	871	—
Total	\$ 22,837	\$ 6,147	26.9%	\$ 29,845	\$ 10,071	33.7%	\$ 34,162	\$ 5,908	17.2%	\$ 60,199	\$ 21,434	35.6%

## [Table of Contents](#)

- During the first quarter of 2011, the Company identified \$4.0 million of discrete tax benefits relating to the release of valuation allowances against state deferred tax assets, which was partially offset by \$0.4 million of additional liabilities related to uncertain tax positions attributable to AMT credits.
- During the first quarter of 2010, the Company identified \$1.2 million of discrete tax adjustments relating to state deferred tax assets. During the second quarter of 2010, the Company recorded a \$0.3 million discrete tax benefit attributable to Federal deferred tax assets.

### **Note 17. Repurchases of ARRIS Common Stock**

The table below sets forth the purchases of ARRIS common stock for the quarter ended June 30, 2011 (in thousands, except per share data):

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share<sup>(1)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(1)(2)</sup></b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs<sup>(1)(2)</sup></b>
April 2011	1,533	\$ 12.43	1,533	\$ 11,617
May 2011	1,358	\$ 11.18	1,358	\$ 146,426
June 2011	2,178	\$ 10.75	2,178	\$ 123,027

- (1) In March, 2009, the Company's Board of Directors had authorized a plan for ARRIS to repurchase up to \$100 million of our common stock. The Company did not repurchase any shares under the plan during 2009. During the fiscal year 2010, ARRIS repurchased and retired 6.8 million shares of its common stock at an average price of \$10.24 per share for an aggregate purchase price of \$69.3 million. ARRIS did not purchase any shares under the plan in the first quarter of 2011. In May 2011, the share repurchase authorization amount under the 2009 plan was exhausted.
- (2) In May 2011, the Company's Board of Directors authorized a new plan for the Company to purchase up to \$150 million of the Company's common stock. During the second quarter of 2011, ARRIS repurchased approximately 5.1 million shares of the Company's common stock at an average price of \$11.37 per share for an aggregate consideration of approximately \$57.6 million. Unless terminated earlier by a Board resolution, the Program will expire when we have used all authorized funds for repurchase. The remaining authorized amount for stock repurchases under this program was \$123.0 million as of June 30, 2011.

### **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. It is not possible to reasonably estimate the probability of an adverse outcome or the potential loss associated with any such items. See Part II, Item 1, "Legal Proceedings."

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

### **Overview**

We are a global communications technology company, headquartered in Suwanee, Georgia. We operate in three business segments, Broadband Communications Systems ("BCS"), Access, Transport & Supplies ("ATS"), and 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, 2010. We specialize 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. We are a leading developer, manufacturer and supplier of telephony, data, video, construction, rebuild and maintenance equipment for the broadband communications industry. In addition, we are a leading supplier of infrastructure products used by cable system operators to build-out and maintain hybrid fiber-coaxial ("HFC") networks. We provide our customers with products and services that enable reliable, high speed, two-way broadband transmission of video, telephony, and data.

### **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 debt (which is likely to be required to be repaid in 2013), 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 these strategies.

To fulfill our strategy, we develop 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, high definition television content expansion, on demand video rollout, operations management, network integration, and business services opportunities.

Below are some key highlights relative to our second quarter and first half of 2011:

#### *Financial Highlights*

- Sales in the second quarter and first half of 2011 were \$265.8 million and \$533.2 million, respectively, down slightly from \$280.4 million and \$547.1 million in the same periods in 2010
- Gross margin percentage was 40.2% in the second quarter 2011, which compares to 40.4% in the second quarter 2010 and 36.3% in the first quarter 2011. The sequential increase in margin reflects the introduction of our CMTS line card capacity upgrade, which have higher margins.
- Total operating expenses (excluding amortization of intangible assets) in the second quarter of 2011 were \$72.5 million, up \$2.5 million year over year. Research and development expenses increased \$1.1 million as a result of prototypes and incremental start up costs related to new product development. Selling, general, and administrative expenses increased \$1.4 million as a result of higher variable compensation costs and higher legal costs. We anticipate our operating expenses to modestly increase in the third quarter of 2011 as a result of higher prototype and start up costs related to new product introductions and variable compensation costs.
- We ended the second quarter 2011 with \$591.5 million of cash, cash equivalents and short-term investments. We generated approximately \$31.4 million and \$35.2 million of cash from operating activities in the second quarters of 2011 and 2010, respectively. During the first half of 2011, we generated approximately \$27.8 million of cash from operating activities as compared to \$83.4 million during the first half of 2010.
- In the first half of 2011, we repurchased 5.1 million shares of our common stock at an average price of \$11.37 per share for an aggregate consideration of approximately \$57.6 million.



## [Table of Contents](#)

### *Product Line Highlights*

- Broadband Communications Systems
  - o CMTS
    - In second quarter 2011 we began to sell new software license that enables operators to purchase incremental downstream capacity on existing deployed line cards.
    - Downstream port shipments in second quarter 2011 (including both new hardware and software licenses) increased to 79 thousand ports. Year-to-date downstream port shipments were 142 thousand ports.
    - The introduction of the downstream software license capability enabled lower pricing at improved gross margins, enhancing both competitiveness and profitability.
    - Good progress on development of new double-density upstream line card.
    - Good progress on development of next generation Converged Edge Router CMTS product that will enable smooth transition of legacy video networks to IP
  - o Video Processing
    - Release of a new video processing platform supporting MPEG4 encoding, transcoding, and adaptive streaming for IP-based video distribution
  - o Whole House Solution
    - Commercial launch of new Home Media Gateway solution with lead customers, with first product revenue recognized in the second quarter of 2011.
  - o CPE
    - Approximately 1.3 million and 2.7 million CPE units were shipped in the second quarter of 2011 and in the first six months of 2011, respectively. Shipments of DOCSIS 3.0 CPE increased to 36% of the total unit shipments as compared to 29% in the first quarter of 2011.
    - Maintained number one EMTA market share for 26 consecutive quarters (source: Infonetics)
- Access, Transport & Supplies
  - o Increasing demand in the ATS business unit as a result of higher Professional Services and Access product opportunities.
  - o Professional Services growth related to activities in Cell Tower Backhaul, Metro-E and Telco Solutions
  - o MSOs increasing investments in node segmentation as a cost effective vehicle to provide more capacity per subscriber
    - Multi-wavelength optics continue to gain traction in support of these MSO investments
    - Investments by ARRIS to take advantage of technology improvements and component cost reductions continue to position us well with the MSO's
- Media & Communications Systems
  - o Continued wins in the Ad insertion segment in North America with key trials of Linear Addressable Advertising underway with major MSOs
  - o Storage upgrades to our XMS VOD server platform with key North American customers
  - o Good wins for Assurance products in CALA.
  - o Announcement of ServAssure™ 3.3 which includes support for IPV6.
  - o New trials of FMC with major North American and international operators kicked off.

### **Non-GAAP Measures**

As part of our ongoing review of financial information related to our business, we regularly use Non-GAAP measures, in particular Non-GAAP earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these Non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of Non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in

[Table of Contents](#)

accordance with GAAP. Below are tables for the three and six months ended June 30, 2011 and 2010 that detail and reconcile GAAP and Non-GAAP earnings per share:

<b>For the Three Months Ended June 30, 2011</b>						
(in thousands, except per share data)	<b>Gross Margin</b>	<b>Operating Expense</b>	<b>Operating Income</b>	<b>Other (Income) Expense</b>	<b>Income Tax Expense</b>	<b>Net Income</b>
GAAP	\$ 106,898	\$ 81,441	\$ 25,457	\$ 2,620	\$ 6,147	\$ 16,690
Stock compensation expense	557	(5,368)	5,925	—	—	5,925
Amortization of intangible assets	—	(8,944)	8,944	—	—	8,944
Non-cash interest expense	—	—	—	(2,889)	—	2,889
Tax related to items above	—	—	—	—	4,915	(4,915)
Non-GAAP	<u>\$ 107,455</u>	<u>\$ 67,129</u>	<u>\$ 40,326</u>	<u>\$ (269)</u>	<u>\$ 11,062</u>	<u>\$ 29,533</u>

GAAP net income per share — diluted	<u>\$ 0.13</u>
Non-GAAP net income per share — diluted	<u>\$ 0.24</u>

GAAP weighted average common shares — diluted	<u>123,711</u>
Non-GAAP weighted average common shares — diluted	<u>123,711</u>

<b>For the Six Months Ended June 30, 2011</b>						
(in thousands, except per share data)	<b>Gross Margin</b>	<b>Operating Expense</b>	<b>Operating Income</b>	<b>Other (Income) Expense</b>	<b>Income Tax Expense</b>	<b>Net Income</b>
GAAP	\$ 203,844	\$163,263	\$ 40,581	\$ 6,419	\$ 5,908	\$ 28,254
Stock compensation expense	994	(10,215)	11,209	—	—	11,209
Amortization of intangible assets	—	(17,888)	17,888	—	—	17,888
Non-cash interest expense	—	—	—	(5,721)	—	5,721
Tax related to items above	—	—	—	—	9,939	(9,939)
Adjustments of income tax valuation allowances, R&D credits, and other discrete tax items	—	—	—	—	3,583	(3,583)
Non-GAAP	<u>\$ 204,838</u>	<u>\$135,160</u>	<u>\$ 69,678</u>	<u>\$ 698</u>	<u>\$ 19,430</u>	<u>\$ 49,550</u>

GAAP net income per share — diluted	<u>\$ 0.23</u>
Non-GAAP net income per share — diluted	<u>\$ 0.40</u>

GAAP weighted average common shares — diluted	<u>124,720</u>
Non-GAAP weighted average common shares — diluted	<u>124,720</u>

[Table of Contents](#)

(in thousands, except per share data)	For the Three Months Ended June 30, 2010					
	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense	Net Income
GAAP	\$ 113,278	\$ 79,039	\$ 34,239	\$ 4,394	\$ 10,071	\$ 19,774
Stock compensation expense	481	(5,272)	5,753	—	—	5,753
Acquisition costs, restructuring, and integration costs	—	(21)	21	—	—	21
Amortization of intangible assets	—	(9,022)	9,022	—	—	9,022
Non-cash interest expense	—	—	—	(2,884)	—	2,884
Gain on repurchase of debt	—	—	—	115	—	(115)
Tax related to items above	—	—	—	—	6,170	(6,170)
Adjustments of income tax valuation allowances, R&D credits, and other discrete tax items	—	—	—	—	351	(351)
Non-GAAP	\$ 113,759	\$ 64,724	\$ 49,035	\$ 1,625	\$ 16,592	\$ 30,818
GAAP net income per share — diluted						\$ 0.15
Non-GAAP net income per share — diluted						\$ 0.24
GAAP weighted average common shares — diluted						129,717
Non-GAAP weighted average common shares — diluted						129,717

(in thousands, except per share data)	For the Six Months Ended June 30, 2010					
	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense	Net Income
GAAP	\$ 225,789	\$ 157,595	\$ 68,194	\$ 7,995	\$ 21,434	\$ 38,765
Stock compensation expense	914	(9,360)	10,274	—	—	10,274
Acquisition costs, restructuring, and integration costs	—	(73)	73	—	—	73
Amortization of intangible assets	—	(18,043)	18,043	—	—	18,043
Non-cash interest expense	—	—	—	(5,767)	—	5,767
Gain on repurchase of debt	—	—	—	115	—	(115)
Tax related to items above	—	—	—	—	11,675	(11,675)
Adjustments of income tax valuation allowances, R&D credits, and other discrete tax items	—	—	—	—	(871)	871
Non-GAAP	\$ 226,703	\$ 130,119	\$ 96,584	\$ 2,343	\$ 32,238	\$ 62,003
GAAP net income per share — diluted						\$ 0.30
Non-GAAP net income per share — diluted						\$ 0.48
GAAP weighted average common shares — diluted						129,848
Non-GAAP weighted average common shares — diluted						129,848

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items is useful in understanding the trends and managing our operations. We provide these supplemental non-GAAP measures in order to assist the investment community to see ARRIS through the "eyes of management," and therefore enhance understanding of ARRIS' operating performance. These adjustments consist of:

- Stock compensation expense — ARRIS records non-cash compensation expense related to grants of options and restricted stock. Depending upon the size, timing and the terms of the grants, this non-cash compensation expense may vary significantly.
- Acquisition costs, restructuring, and integration costs — although these items or similar items might recur, they are of a nature and magnitude that identifying them separately provides investors with a greater ability to project ARRIS' future performance.
- Amortization of intangibles — non-cash amortization of the intangibles related to our acquisitions.
- Non-cash interest expense — ARRIS records non-cash interest expense related to the convertible debt. Disclosing the non-cash component provides investors with the information regarding interest that will not be paid out in cash.

## Table of Contents

- Adjustments of income taxes valuation allowances, R&D credits, and other discrete tax items — During the first quarter of 2011, a net tax benefit of approximately \$3.6 million was recorded for state valuation allowances. During the first quarter of 2010, ARRIS recorded a discrete tax expense of \$1.2 million related to state deferred tax assets. Included in the second quarter of 2010 was a net discrete tax benefit of \$0.3 million attributable to certain federal deferred tax assets.

### Significant Customers

The Company's two largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. Over the past year, certain customers' beneficial ownership may have changed as a result of mergers and acquisitions. Therefore the revenue for ARRIS' customers for prior periods has been adjusted to include the affiliates that are now under common control. A summary of sales to these customers for the three and six month periods ended June 30, 2011 and 2010 are set forth below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Comcast and affiliates	\$ 67,314	\$ 65,679	\$ 140,247	\$ 111,286
% of sales	25.3%	23.4%	26.3%	20.3%
Time Warner Cable and affiliates	\$ 27,648	\$ 52,896	\$ 70,383	\$ 93,961
% of sales	10.4%	18.9%	13.2%	17.2%

### Comparison of Operations for the Three and Six Months Ended June 30, 2011 and 2010

#### Net Sales

The table below sets forth our net sales for the three and six months ended June 30, 2011 and 2010, for each of our segments (in thousands):

	Net Sales				Increase (Decrease) Between 2011 and 2010				
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30		
	2011	2010	2011	2010	\$	%	\$	%	
<i>Business Segment:</i>									
BCS	\$ 201,844	\$ 217,090	\$ 408,474	\$ 425,745	\$ (15,246)	(7.0)%	\$ (17,271)	(4.1)%	
ATS	46,870	48,336	92,492	90,578	(1,466)	(3.0)%	1,914	2.1%	
MCS	17,085	14,929	32,269	30,729	2,156	14.4%	1,540	5.0%	
Total sales	\$ 265,799	\$ 280,355	\$ 533,235	\$ 547,052	\$ (14,556)	(5.2)%	\$ (13,817)	(2.5)%	

The table below sets forth our domestic and international sales for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Net Sales				Increase (Decrease) Between 2011 and 2010			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010	\$	%	\$	%
Domestic	\$ 181,468	\$ 187,742	\$ 371,333	\$ 345,647	\$ (6,274)	(3.3)%	\$ 25,686	7.4%
International	84,331	92,613	161,902	201,405	(8,282)	(8.9)%	(39,503)	(19.6)%
Total sales	\$ 265,799	\$ 280,355	\$ 533,235	\$ 547,052	\$ (14,556)	(5.2)%	\$ (13,817)	(2.5)%

## [Table of Contents](#)

### *Broadband Communication Systems Net Sales 2011 vs. 2010*

During the three and six months ended June 30, 2011, sales of our Broadband Communications Systems segment products decreased by approximately 7.0% and 4.1%, respectively, as compared to the same periods in 2010. Although we continue to experience strong demand for our CMTS products, we have reduced pricing on these products in order to remain competitive, resulting in lower revenue. In the second quarter of 2011, we began selling our new CMTS higher density downstream line cards and upgrade licenses, resulting in overall improvement in gross margin from the first quarter of 2011 to the second quarter of 2011.

### *Access, Transport & Supplies Net Sales 2011 vs. 2010*

Sales in our Access, Transport and Supplies segment decreased by approximately 3.0% during the three months ended June 30, 2011, but increased by approximately 2.1% during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. The change is immaterial.

### *Media & Communication Systems Net Sales 2011 vs. 2010*

During the three and six months ended June 30, 2011, sales in our Media & Communications Systems segment increased by approximately 14.4% and 5.0%, respectively, as compared to the same periods in 2010. Revenue in this segment varies as it is tied to customer acceptances and non linear orders.

### **Gross Margin**

The table below sets forth our gross margin for the three and six months ended June 30, 2011 and 2010, for each of our reporting segments (in thousands):

	Gross Margin \$				Increase (Decrease) Between 2011 and 2010				
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30		
	2011	2010	2011	2010	\$	%	\$	%	
<b>Business Segment:</b>									
BCS	\$ 85,812	\$ 92,805	\$ 162,869	\$ 187,479	\$ (6,993)	(7.5)%	\$ (24,610)	(13.1)%	
ATS	11,332	13,149	22,316	22,851	(1,817)	(13.8)%	(535)	(2.3)%	
MCS	9,754	7,324	18,659	15,459	2,430	33.2%	3,200	20.7%	
Total	<u>\$ 106,898</u>	<u>\$ 113,278</u>	<u>\$ 203,844</u>	<u>\$ 225,789</u>	<u>\$ (6,380)</u>	<u>(5.6)%</u>	<u>\$ (21,945)</u>	<u>(9.7)%</u>	

The table below sets forth our gross margin percentages for the three and six months ended June 30, 2011 and 2010, for each of our business segments:

	Gross Margin %				Increase (Decrease) Between 2011 and 2010				
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30		
	2011	2010	2011	2010	Percentage Points				
<b>Business Segment:</b>									
BCS	42.5%	42.7%	39.9%	44.0%	(0.2)				(4.1)
ATS	24.2%	27.2%	24.1%	25.2%	(3.0)				(1.1)
MCS	57.1%	49.1%	57.8%	50.3%	8.0				7.5
Total	40.2%	40.4%	38.2%	41.3%	(0.2)				(3.1)

### *Broadband Communications Systems Gross Margin 2011 vs. 2010*

Broadband Communications Systems segment gross margin percentage decreased during the three and six months ended June 30, 2011 as compared to the same periods in 2010. The gross margin in the first quarter of 2011 was 37.3% as compared to 45.4% in the first quarter of 2010. The decrease was the result of pricing reduction and product mix. In the second quarter of 2011, gross margin increased to 42.5% as compared to 37.3% in the first

## [Table of Contents](#)

quarter of 2011. The increase was the result of the introduction of CMTS downstream capacity software licenses which have higher margins.

### *Access, Transport & Supplies Gross Margin 2011 vs. 2010*

The Access, Transport & Supplies segment gross margin dollars and percentage decreased for the three and six month periods ended June 30, 2011, as compared to the same periods in 2010. Contributing to the decreases were the lower volume in the quarter, as well as product mix and pricing pressure associated with Supplies which were partially offset by improved margins associated with professional services during the first half of 2011.

### *Media & Communications Systems Gross Margin 2011 vs. 2010*

Media & Communications Systems segment gross margin dollars and percentage increased year over year. The increase reflects higher Assurance product sales which have higher gross margins.

### **Operating Expenses**

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

	Operating Expenses				Increase (Decrease) Between 2011 and 2010			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010	\$	%	\$	%
SG&A	\$ 35,868	\$ 34,458	\$ 72,706	\$ 69,576	\$ 1,410	4.1%	\$ 3,130	4.5%
Research & development	36,629	35,538	72,669	69,903	1,091	3.1%	2,766	4.0%
Restructuring charges	—	21	—	73	(21)	(100)%	(73)	(100)%
Amortization of intangibles	8,944	9,022	17,888	18,043	(78)	(0.9)%	(155)	(0.9)%
Total	\$ 81,441	\$ 79,039	\$ 163,263	\$ 157,595	\$ 2,402	3.0%	\$ 5,668	3.6%

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

The year over year increase in SG&A expense reflects higher variable compensation costs and higher legal costs.

### *Research & Development Expenses*

The year over year increase in R&D expenses reflects incremental start up costs related to new product and increased headcount, as we continued to aggressively invest in R&D.

### *Restructuring Charges*

On a quarterly basis, we review our existing restructuring accruals and make adjustments if necessary. For the three and six month periods ending June 30, 2011, we did not have any restructuring charges. For the three and six month periods ending June 30, 2010, restructuring charges were \$21 thousand and \$73 thousand, respectively.

### *Amortization of Intangibles*

Intangibles amortization expense for the three months ended June 30, 2011 and 2010 was \$8.9 million and \$9.0 million, respectively. For the six months ended June 30, 2011 and 2010, intangible amortization expense was \$17.9 million and \$18.0 million, respectively. Our intangible expense is related to the acquisitions of Digeo, Inc. in October 2009, EG Technologies in September 2009, Auspice Corporation in August 2008 and C-COR Inc. in December 2007.

### *Goodwill Impairment*

Goodwill relates to the excess of cost over the fair value of net assets resulting from an acquisition. Our goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that

## [Table of Contents](#)

the asset is more likely than not impaired. During the three and six months ended June 30, 2011 and 2010, no indicators of impairment existed and, therefore, no impairment charges were recorded.

Based on our most recent annual goodwill impairment assessment performed as of October 1, 2010, we determined that our BCS, ATS, and MCS reporting units were not at risk of failing step one of the goodwill impairment test. However, our MCS reporting unit valuation included assumptions and estimates of cash flows, including probability weighted cash flows conditional upon favorable outcome of litigation we are currently pursuing against another company (see Part II, Item 1, "Legal Proceedings"). Excluding the discrete contingent cash flows, our MCS reporting unit was at risk of failing step one of the goodwill impairment test, and is therefore at risk of a future impairment in the event of significant unfavorable changes in the forecasted cash flows or the key assumptions used in our analysis, including the weighted average cost of capital (discount rate) and growth rates utilized in the discounted cash flow analysis. Further, upon a favorable settlement and recovery or an unfavorable outcome with no settlement proceeds, no future value would exist related to such contingent cash flows, and as a result the MCS reporting unit may be at risk of failing step one of the impairment test. As of June 30, 2011, the litigation had yet to be resolved.

The following table sets forth the information regarding our MCS reporting unit as of October 1, 2010 (annual goodwill impairment testing date), including key assumptions (dollars in thousands):

	Key Assumptions		% Fair Value Exceeds Carrying Value as of October 1, 2010		Goodwill as of October 1, 2010	
	Discount Rate	Terminal Growth Rate	Inclusive of contingent cash flows	Excluding contingent cash flows	Amount	Percent of Total Assets
MCS	16.0%	3.0%	27.1%	4.2%	\$ 41,875	16.2%

Assumptions and estimates about future cash flows and discount rates are complex and often subjective. They are sensitive to changes in underlying assumptions and can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Our assessment includes significant estimates and assumptions including the timing and amount of future discounted cash flows, the discount rate and the perpetual growth rate used to calculate the terminal value.

Our discounted cash flow analysis included projected cash flows over a ten-year period, using our three-year business plans plus an additional seven years of projected cash flows based on the most recent three-year plan. These forecasted cash flows took into consideration management's outlook for the future and were compared to historical performance to assess reasonableness. A discount rate was applied to the forecasted cash flows. The discount rate considered market and industry data, as well as the specific risk profile of the reporting unit. A terminal value was calculated, which estimates the value of annual cash flow to be received after the discrete forecast periods. The terminal value was based upon an exit value of annual cash flow after the discrete forecast period in year ten.

Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of the reporting unit may include such items as the following:

- a prolonged decline in capital spending for constructing, rebuilding, maintaining, or upgrading broadband communications systems;
- rapid changes in technology occurring in the broadband communication markets which could lead to the entry of new competitors or increased competition from existing competitors that would adversely affect our sales and profitability;
- the concentration of business we receive from several key customers, the loss of which would have a material adverse effect on our business;
- continued consolidation of our customers base in the telecommunications industry could result in delays or reductions in purchases of our products and services, if the acquirer decided not to continue using us as a supplier;

## [Table of Contents](#)

- new products and markets currently under development may fail to realize anticipated benefits;
- changes in business strategies affecting future investments in businesses, products and technologies to complement or expand our business could result in adverse impacts to existing business and products;
- volatility in the capital (equity and debt) markets, resulting in a higher discount rate; and
- legal proceeding settlements and/or recoveries, and its affect on future cash flows.

As a result, there can be no assurance that the estimates and assumptions made for purposes of the annual goodwill impairment test will prove to be accurate predictions of the future. Although management believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results. The table below provides sensitivity analysis related to the impact of each of the key assumptions, on a standalone basis, on the resulting percentage change in fair value of our MCS reporting unit as of October 1, 2010:

	Percentage Reduction in Fair Value (excluding contingent cash flows)		
	Assuming Hypothetical 10% Reduction in cash flows	Assuming Hypothetical 1% increase in Discount Rate	Assuming Hypothetical 1% decrease in Terminal Growth Rate
MCS	-6.0%	-6.2%	-2.2%

### ***Other Expense (Income)***

#### *Interest Expense*

Interest expense for the three months ended June 30, 2011 and 2010 was \$4.2 million and \$4.8 million respectively. For the six months ended June 30, 2011 and 2010, interest expense was \$8.4 million and \$9.2 million respectively. Interest expense reflects the amortization of deferred finance fees and the non-cash interest component of our convertible subordinated notes, interest paid on the notes, capital leases and other debt obligations.

#### *Interest Income*

Interest income during the three months ended June 30, 2011 and 2010 was \$0.9 million and \$0.7 million, respectively. During the six months ended June 30, 2011 and 2010, interest income was \$1.7 million and \$1.1 million, respectively. The income reflects interest earned on cash, cash equivalents and short-term investments.

#### *Loss in Foreign Currency*

During the three months and six months ended June 30, 2011, we recorded a foreign currency loss of approximately \$0.1 million and \$1.0 million, respectively. During the three months and six months ended June 30, 2010, we recorded a foreign currency loss of approximately \$0.5 million and \$0.2 million, respectively. We have certain international customers who are billed in their local currency, primarily the euro. To mitigate the volatility related to fluctuations in the foreign exchange rates, we may enter into various foreign currency contracts. The loss (gain) on foreign currency is driven by the fluctuations in the foreign currency exchanges rates, primarily the euro.

#### *Other Expense (Income)*

Other income for the three months ended June 30, 2011 and 2010 was \$0.4 million and \$0.1 million, respectively. For the six months ended June 30, 2011 and 2010, other income was \$0.5 million and \$0.2 million, respectively.

#### *Income Taxes*

In the three and six months ended June 30, 2011, we recorded income tax expense of \$6.1 million and \$5.9 million, respectively, as compared to \$10.1 million and \$21.4 million, respectively in the same periods in 2010. In the first quarter of 2011, the Company implemented certain legal entity changes to reduce complexity and simplify our corporate organizational structure and tax accounting provision process. As a result, approximately



## [Table of Contents](#)

\$3.6 million of valuation allowances related to state deferred tax assets, generated primarily from net operating losses, were reversed as we concluded it was more likely than not that we will now be able to utilize the deferred tax assets in future periods. In the first half of 2010, adjustments to certain Federal and State deferred tax assets, mostly attributable to state net operating losses, resulted in a net discrete tax expense of \$0.9 million.

The Company anticipates that the effective income tax rate for full year 2011, excluding discrete items, will be slightly below 30%.

### Financial Liquidity and Capital Resources

#### Overview

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

#### Liquidity & Capital Resources Data

	Six Months Ended June 30,	
	2011	2010
	(in thousands, except DSO and turns)	
<b>Key Working Capital Items</b>		
Cash provided by operating activities	\$ 27,809	\$ 83,407
Cash, cash equivalents, and short-term investments	\$ 591,535	\$ 663,353
Accounts receivable, net	\$ 152,436	\$ 139,673
Days Sales Outstanding ("DSOs")	48	47
Inventory	\$ 113,020	\$ 78,830
Inventory turns	6.1	7.4
Convertible notes at face value	\$ 237,050	\$ 256,050
Convertible notes at book value	\$ 208,336	\$ 212,914
Capital Expenditures	\$ 12,547	\$ 10,265

In managing our liquidity and capital structure, we have been and are focused on key goals, and we have and will continue in the future to implement actions to achieve them. They include:

- Liquidity — ensure that we have sufficient cash resources or other short term liquidity to manage day to day operations
- Growth — implement a plan to ensure that we have adequate capital resources, or access thereto, to fund internal growth and to execute acquisitions while retiring our convertible notes in a timely fashion.
- Share repurchases — opportunistically repurchase our common stock.

#### 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 increased and DSOs remained relatively flat during the first six months of 2011 as compared to 2010 as a result of payment patterns of our customers. Looking forward, it is possible that our DSOs may increase dependent upon our customer mix and payment patterns, particularly if international sales increase.

Inventory at the end of the second quarter 2011 was \$34.2 million higher than the end of the second quarter in 2010. Inventory turns in the first six months of 2011 were 6.1 as compared to 7.4 in the same period of 2010.

## [Table of Contents](#)

The increase in inventory was primarily related to an increase in BCS inventory levels to ensure adequate supply and as a result of the introduction of our Media Gateway.

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

We believe our current liquidity position, where we have approximately \$591.5 million of cash, cash equivalents, and short-term investments on hand as of June 30, 2011, together with the prospects for continued generation of cash from operations are adequate for our short- and medium-term business needs. We may in the future elect to repurchase additional shares of our common stock or convertible notes. In addition, a key part of our overall long-term strategy may be implemented through additional acquisitions, and a portion of these funds may be used for that purpose. Should our available funds be insufficient for those purposes, it is possible that we will raise capital through private, or public, share or debt offerings.

During the first quarter of 2009, ARRIS' Board of Directors authorized a plan for the Company to repurchase up to \$100 million of the Company's common stock. The Company did not repurchase any shares under the plan during 2009. In 2010, ARRIS repurchased 6.8 million shares of the Company's common stock at an average price of \$10.24 per share for an aggregate consideration of approximately \$69.3 million.

In May 2011, the share repurchase authorization amount under the 2009 plan was exhausted. In the second quarter of 2011, the Board authorized a new plan for the Company to purchase up to \$150 million of the Company's common stock. During the quarter, ARRIS repurchased approximately 5.1 million shares of the Company's common stock at an average price of \$11.37 per share for an aggregate consideration of approximately \$57.6 million.

As of June 30, 2011, the remaining authorized amount for future repurchases was \$123.0 million.

### *Commitments*

Our contractual obligations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010. There has been no material change to our contractual obligations during the first six months of 2011.

### *Off-Balance Sheet Arrangements*

We do not have any material off-balance sheet arrangements.

### *Cash Flow*

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

	For the Six Months Ended June 30,	
	2011	2010
Cash provided by operating activities	\$ 27,809	\$ 83,407
Cash provided by (used in) investing activities	24,086	(185,954)
Cash used in financing activities	(44,735)	(27,086)
Net increase (decrease) in cash	\$ 7,160	\$ (129,633)

### Operating Activities:

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

	For the Six Months Ended June 30,	
	2011	2010
Net income	\$ 28,254	\$ 38,765
Adjustments to reconcile net income to cash provided by operating activities	31,438	40,686
Net income including adjustments	59,692	79,451
(Increase) decrease in accounts receivable	(26,503)	3,743
(Increase) decrease in inventory	(11,257)	17,021
Decrease in accounts payable and accrued liabilities	(15,480)	(19,623)
All other — net	21,357	2,815
Cash provided by operating activities	\$ 27,809	\$ 83,407

## [Table of Contents](#)

### *Net Income Including Adjustments*

Net income, including adjustments, decreased \$19.8 million during the first six months of 2011 as compared to 2010. Our net income before adjustments to net income decreased approximately \$10.5 million in the first six months of 2011 as compared to 2010, primarily reflecting lower sales and gross margin year over year. The adjustments to reconcile net income to cash provided by operating activities in total remained relatively the same year over year but had one primary difference within the total. Net deferred tax assets increased by \$11.4 million during the first six months of 2011 as compared to a net increase in the net deferred tax assets of \$2.3 million during the first six months of 2010.

### *Change in Accounts Receivable*

Accounts receivable increased by \$26.5 million in the first six months of 2011. This increase was primarily related to our billing pattern during the quarter, in which higher billing occurred toward the end of the period. Account receivable decreased by \$3.7 million in the first six months of 2010.

### *Change in Inventory*

Inventory increased by \$11.3 million in the first six months of 2011. The increase was due primarily to an effort to ensure supply of our BCS product offerings. Inventory decreased by \$17.0 million in the first six months of 2010. The decrease was due primarily to timing of purchases and an effort to reduce our inventory levels.

### *Change in Accounts Payable and Accrued Liabilities*

Declines in accounts payable and accrued liabilities in both years reflect the payment of annual bonuses in the first quarter coupled with normal timing variations associated with payment of accounts payable.

### *All Other — Net*

All other — net includes the changes in other receivables, income taxes payable (recoverable), and prepaids and other, net. The other receivables represent amounts due from our contract manufacturers for material used in the assembly of our finished goods. The change in our income taxes recoverable account 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.

### Investing Activities:

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

	For the Six Months Ended	
	2011	2010
Capital expenditures	(12,547)	\$ (10,265)
Cash proceeds from sale of property, plant and equipment	43	243
Purchases of short-term investments	(142,841)	(231,086)
Sales of short-term investments	179,431	55,154
Cash provided by (used in) investing activities	\$ 24,086	\$ (185,954)

## Table of Contents

*Capital Expenditures* — Capital expenditures are mainly for test equipment, manufacturing equipment, leasehold improvements, computer equipment, and business application software. We anticipate investing approximately \$25 million in fiscal year 2011.

*Cash Proceeds from Sale of Property, Plant and Equipment* — This represents the cash proceeds we received from the sale of property, plant and equipment.

*Purchases and Sales of Short-Term Investments*— These represent purchases and disposals of short-term securities.

### Financing Activities:

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

	For the Six Months Ended	
	2011	2010
Payment of debt obligations	\$ —	\$ (74)
Early redemption of long-term debt	—	(4,800)
Repurchase of common stock	(57,647)	(23,685)
Excess income tax benefits from stock-based compensation plans	3,247	2,647
Repurchase of shares to satisfy employee tax withholdings	(8,245)	(6,425)
Fees and proceeds from issuance of common stock, net	17,910	5,251
Cash used in financing activities	\$ (44,735)	\$ (27,086)

*Payment of Debt Obligation* — This represents the payment of the short term loan to the Pennsylvania Industrial Development Authority (PIDA) for the cost of expansion of the facility in State College, Pennsylvania. The debt was repaid in 2010.

*Early Redemption of Long-Term Debt* — During the second quarter of 2010, we purchased \$5.0 million of face value of the convertible debt for approximately \$4.8 million. The Company also wrote off approximately \$49 thousand of deferred finance fees associated with the portion of the notes acquired. As a result, the Company realized a gain of approximately \$115 thousand on the retirement of the notes.

*Repurchase of Common Stock* — During the first quarter of 2009, ARRIS' Board of Directors authorized a plan for the Company to repurchase up to \$100 million of the Company's common stock. The Company did not repurchase any shares under the plan during 2009. During the first six months of 2010, ARRIS repurchased 2.2 million shares of the Company's common stock at an average price of \$10.99 per share for an aggregate consideration of approximately \$23.7 million.

ARRIS did not purchase any shares in the first quarter of 2011. In May 2011, the share repurchase authorization amount under the 2009 plan was exhausted. In the second quarter of 2011, the Board authorized a new plan for the Company to purchase up to \$150 million of the Company's common stock. During the second quarter of 2011, ARRIS repurchased approximately 5.1 million shares of the Company's common stock at an average price of \$11.37 per share for an aggregate consideration of approximately \$57.6 million.

As of June 30, 2011, the remaining authorized amount for future repurchases was \$123.0 million.

*Excess Income Tax Benefits from Stock-Based Compensation Plans* — This represents the cash that otherwise would have been paid for income taxes if increases in the value of equity instruments also had not been deductible in determining taxable income.

*Repurchase of Shares to Satisfy Employee Tax Withholdings* -This represents the minimum shares withheld to satisfy the tax withholding when restricted stock vests.

*Fees and Proceeds from Issuance of Common Stock, Net* — Represents cash proceeds related to the exercise of stock options, offset by expenses paid related to issuance of common stock.

## [Table of Contents](#)

### *Interest Rates*

As of June 30, 2011, 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. Our sales into international markets have been and are expected in the future to be an important part of our business. These foreign operations are subject to the usual risks inherent in conducting business abroad, including risks with respect to currency exchange rates, economic and political destabilization, restrictive actions and taxation by foreign governments, nationalization, the laws and policies of the United States affecting trade, foreign investment and loans, and foreign tax laws.

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

### *Financial Instruments*

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

ARRIS executes letters of credit in favor of certain landlords and vendors to guarantee performance on lease and insurance contracts. Additionally, we have cash collateral account agreements with our financial institutions as security against potential losses with respect to our foreign currency hedging activities. The letters of credit and cash collateral accounts are reported as restricted cash. As of June 30, 2011 and December 31, 2010, we had approximately \$3.6 million and \$4.9 million outstanding, respectively, of cash collateral.

### *Cash, Cash Equivalents, and Short-Term 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.

From time to time, we held certain investments in the common stock of publicly-traded companies, which were classified as available-for-sale. As of June 30, 2011 and December 31, 2010 our holdings in these investments were \$7.3 million and \$5.8 million, respectively. Changes in the market value of these securities are recorded in other comprehensive income and gains or losses on related sales of these securities are recognized in income (loss).

ARRIS holds an investment in a private company. This investment is recorded using the cost method, which was \$4.0 million as of June 30, 2011 and December 31, 2010. Due to the fact the investment is in a private company, we are 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. Each quarter, we evaluate our investment for any other-than-temporary impairment, by reviewing the current revenues, bookings and long-term plan of the private company.

We have 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 our key executives. 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, we previously offered a deferred compensation arrangement to certain senior 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.

## [Table of Contents](#)

We also have a deferred retirement salary plans, which were limited to certain current or former officers of C-COR. We hold investments to cover the liability.

ARRIS also funds its nonqualified defined benefit plan for certain executives in a rabbi trust.

### *Capital Expenditures*

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS' capital expenditures were \$12.5 million in the first six months of 2011 as compared to \$10.3 million in the first six months of 2010. Management expects to invest approximately \$25 million in capital expenditures for the fiscal year 2011.

### **Critical Accounting Policies and Estimates**

The accounting and financial reporting policies of ARRIS are in conformity with U.S. generally accepted accounting principles, which 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 in our Form 10-K for the year ended December 31, 2010, as filed with the SEC. Our critical accounting estimates have not changed in any material respect during the six months ended June 30, 2011.

### **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, constitute 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 4. CONTROLS AND PROCEDURES**

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

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

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

From time to time, ARRIS is involved in claims, disputes, litigation or legal proceedings incidental to the ordinary course of its business, such as intellectual property disputes, contractual disputes, employment matters and environmental proceedings. Also, suits may be brought against ARRIS' customers that, in turn, may ask ARRIS for indemnification. 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.

**Pragmatus VOD LLC v. MSOs.** Case 1:11-cv-00070-UNA, District of Delaware. In January 2011, Pragmatus filed suit against most MSOs alleging infringement of two US patents, nos. 5,581,479 and 5,636,139, related to VOD products and services. The complaint has been served on several of our customers, and certain of the defendants have requested that we provide indemnification. We are in the process of reviewing the patents. The complaint requests unspecified damages, although to-date no evidence of damages has been introduced. 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 MSOs, pay royalties and/or cease utilizing certain technology.

**Ceres Comm. v. MSOs, Telcos, and others.** Case 1:99-mc-09999, District of Delaware. In August and December 2010, Ceres filed suit against 23 and 13 companies, respectively, which included the major MSOs, Telcos and others, alleging infringement of two US patents, nos. 5,774,526 and 7,149,252. Certain of our customers that are defendants have requested that we provide indemnification. The complaint requests unspecified damages, although to-date no evidence of damages has been introduced. The parties held a scheduling conference in April 2011, and Skype Inc. recently moved to disqualify the plaintiff's attorney. 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 MSOs, pay royalties and/or cease utilizing certain technology.

**PACid v. BestBuy et al.** Civil Action No. 10-cv-00370, Eastern District of Texas. In July 2010, PACid filed suit against 87 companies, including ARRIS, alleging infringement of two US patents, nos. 5963646 and 6049612, related to methods of encryption. ARRIS has been dismissed from this case on 24<sup>th</sup> of May, 2011.

**ARRIS v. British Telecom & British Telecom v. Cox and Cable One.** 1:09-CV-0671, U.S. District Court, Northern District of Georgia; C.A. No. 10-658 (SLR), U.S. District Court, District of Delaware; 1:11-CV-01231, U.S. District Court, Northern District of Georgia. In March 2009, ARRIS filed a complaint for Declaratory Judgment against British Telecom (BT) seeking to invalidate four BT patents, nos. 5,142,532, 5,526,350, 6,538,989 and 6,665,264, and seeking a declaration that neither ARRIS' products, nor their use by ARRIS' customers, infringe the four BT patents related to various network features. This suit was in response to the assertion by BT (via its agent, IPValue), that ARRIS' products and/or their use by ARRIS' customers infringed the four BT patents. On appeal of a ruling regarding standing, ARRIS prevailed at the Federal Circuit, resulting in the Georgia case moving forward. In August 2010, BT sued Cox and Cable One in Delaware alleging infringement of the four BT patents. Cox and Cable One have requested ARRIS (and other suppliers) to provide indemnification. The BT complaint requests unspecified damages. On June 10, 2011, Cox and CableOne sought a stay of the Delaware case pending the outcome of the Georgia case. In April, 2011, ARRIS filed a second complaint in the Northern District of Georgia for Declaratory Judgment against BT seeking a finding of non-infringement or invalidity on four additional BT patents, nos. 5,790,643, 5,923,247, 6,205,216 and 6,473,742. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Cable One and Cox, pay royalties and/or cease utilizing certain technology.

**ARRIS v. SeaChange Int.** (previously *nCube v. SeaChange*). CA No. 01-011 (JJF). U.S. District Court, District of Delaware. In July 2009, ARRIS filed a motion for contempt against SeaChange International seeking sanctions and the enforcement of the permanent injunction previously entered by the Court with respect to certain infringing SeaChange Video-on-Demand products. The original finding of infringement was affirmed by the Federal Circuit in 2006, and the asserted patent claims (with one exception) were affirmed as patentable by the U.S. Patent Office in a re-examination process initiated by SeaChange. In response to ARRIS' motion, in August 2009, SeaChange filed suit seeking a declaratory judgment that its products are non-infringing with respect to the patent. To date, ARRIS has introduced evidence of infringement and sanctions based on SeaChange's sales of accused products since 2002, and ARRIS has requested that enhanced sanctions be awarded if the Court determines that the infringement is willful. (In 2002, the Court held that the infringement in the original jury trial was willful and

[Table of Contents](#)

doubled the jury's damages award). The declaratory judgment action has been stayed and a hearing on the appropriateness of a contempt proceeding was held in March 2011. The parties have completed discovery as well as pre-hearing and post-hearing briefing and are awaiting action by the Court.

**Multiservice Solutions v. MSOs** Civil Action No. 6:11-cv-00114, Eastern District of Texas. In March 2011, Multiservice Solutions filed suit against 4 service operators alleging infringement of one US patent by all parties to the suit, no. 5,774,527, and another US patent by one party to the suit, no. 5,774,527. Certain of our customers have requested that we provide indemnification. The complaint requests unspecified damages for past and future infringement. To date, no evidence of damages has been introduced. It is premature to assess the likelihood of a favorable outcome.

**Olympic Developments AG v. MSOs** Civil Action No. 2:11-cv-00612, Central District of California. In January 2011, Olympic Developments AG filed suit against 9 cable and satellite service operators alleging infringement of two US patents, nos. 5,475,585 and 6,246,400. Certain of our customers have requested that we provide indemnification. The Court is currently awaiting an answer to be filed by Comcast, and will thereafter set a scheduling conference. The complaint requests unspecified damages for past infringement and an injunction against future infringement. To date, no evidence of damages has been introduced. It is premature to assess the likelihood of a favorable outcome.

From time to time third parties demand that we or our customers enter into a license agreement with respect to patents owned, or allegedly owned, by the third parties. Such demands cause us to dedicate time to study the patents and enter into discussions with the third parties regarding the merits and value, if any, of the patents. These discussions, may materialize into license agreements or patent claims asserted against us or our customers. If asserted against our customers, our customers may request indemnification from us. It is not possible to determine the impact of any such demands and the related discussions on ARRIS' business, results of operations or financial condition.



## Item 1A. Risk Factors

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

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

- general economic conditions;
- customer specific financial or stock market conditions;
- availability and cost of capital;
- governmental regulation;
- demands for network services;
- competition from other providers of broadband and high speed services;
- acceptance of new services offered by our customers; and
- 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, may impact their access to capital in the future. Even if the financial health of our customers remains intact, these customers may not purchase new equipment at levels we have seen in the past or expect in the future. We cannot predict the impact if any of the recent financial market turmoil, or of specific customer financial challenges on our customer's expansion 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 systems are extremely competitive and dynamic, requiring the companies that compete in these markets to react quickly and capitalize on change. This requires us to retain skilled and experienced personnel as well as to deploy substantial resources toward meeting the ever-changing demands of the industry. We compete with national and international manufacturers, distributors and wholesalers including many companies that are larger than we are. Our major competitors include:

- Aurora Networks
- BigBand Networks
- Casa Systems, Inc.
- Cisco Systems, Inc.
- Commscope, Inc.
- Concurrent Computer Corporation
- Ericsson (TandbergTV)
- Harmonic, Inc.
- Motorola, Inc.
- SeaChange, Inc.
- SMC Networks
- Technicolor, Inc.
- TVC Communications, Inc.
- Ubee Interactive, 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,

## [Table of Contents](#)

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, sustained reduction in capital spending by customers. 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. 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. 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.

***Our business is highly concentrated in the cable television portion of the telecommunications industry which is significantly impacted by technological change.***

The cable television industry has gone through dramatic technological change resulting in MSOs rapidly migrating their business from a one-way television service to a two-way communications network enabling multiple services, such as high speed Internet access, residential telephony services, business telephony services and Internet access, video on demand and advertising services. New services that are, or may be offered by MSOs and other service providers, such as home security, power monitoring and control, high definition television, 3-D television, and a host of other new home services also are based on and will be characterized by rapidly evolving technology. The development of increasing transmission speed, density and bandwidth for Internet traffic has also enabled the provision of high quality, feature length video over the Internet. This so called over-the-top IP video service enables content providers such as Netflix, Hulu, CBS and portals like Google to provide video services on-demand, by-passing traditional video service providers. As these service providers enhance their quality and scalability, MSOs are moving to match them and provide even more competitive services over their existing networks, as well as over-the-top for delivery not only to televisions but to the computers, tablets, and telephones in order to remain competitive. Our business is dependent on our ability to develop the products that enable current and new customers to exploit these rapid technological changes. We believe the growth of over-the-top video represents a shift in the traditional video delivery paradigm and we cannot predict the effect it will have on our business.

In addition, 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. This trend is expected to increase the number of competitors and drive down the capital costs per subscriber deployed. These factors may adversely impact both our future revenues and margins.

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

Our two largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. For the six months ended June 30, 2011, sales to Comcast accounted for approximately 26.3% and sales to Time Warner Cable accounted for approximately 13.2% of our total revenue. The loss of either of these customers, or one of our other large customers, or a significant reduction in the products or services provided to any of them, would have a material adverse impact on our business. For each of these customers, we also are one of their largest suppliers. As a result, if from time-to-time customers elect to purchase products from our competitors in order to

## [Table of Contents](#)

diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon our business.

### ***We may 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 \$233.4 million as of June 30, 2011, 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's goodwill is less than the carrying value of the goodwill, we record an impairment charge. The determination of fair value is dependent upon a number of factors, including assumptions about future cash flows and growth rates that are based on our current and long-term business plans. No goodwill impairment was recorded in 2009, 2010, or the first six months of 2011. 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. 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. For additional information, see the discussion under Critical Accounting Policies in Item 7 in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the United States Securities and Exchange Commission ("SEC").

### ***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, 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 than they have historically. This has made it even more difficult for us to forecast sales and other financial measures, which can result in us maintaining inventory levels that are too high or too low for our ultimate needs.

### ***Our business has and is expected to have higher levels of software sales which may result in greater volatility in our operating results.***

The level of our Media & Communications Systems sales fluctuates significantly quarter to quarter which 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.

The level of software sales in our BCS segment is expected to increase. In the second quarter of 2011, we began to deliver software upgrades for our CMTS line cards.

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.

## [Table of Contents](#)

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

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

- 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.***

## [Table of Contents](#)

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 stock price has been and may continue to be volatile.***

Our common stock is currently traded on The NASDAQ Global Select Market. The trading price of our common stock has been and may continue to be subject to large fluctuations. Our stock price may increase or decrease in response to a number of events and factors including:

- future announcements concerning us, key customers or competitors;

## [Table of Contents](#)

- quarterly variations in operating results;
- changes in financial estimates and recommendations by securities analysts;
- developments with respect to technology or litigation;
- the operating and stock price performance of our competitors; and
- acquisitions and financings

Fluctuations in the stock market, generally, also impact the volatility of our stock price. General stock market movements may adversely affect the price of our common stock, regardless of our operating performance.

### ***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 Part II, Item 1, "Legal Proceedings".

### ***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. However, the plan could make it more difficult for a third party to acquire us or may delay that process.

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

Our common shares may be subordinate to classes of preferred shares issued in the future in the payment of dividends and other distributions made with respect to common shares, including distributions upon liquidation or dissolution. Our 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.

[Table of Contents](#)

**Item 6. EXHIBITS**

<i>Exhibit No.</i>	<i>Description of Exhibit</i>
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
101.INS	XBRL Instant Document, filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document, filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document, filed herewith
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document, filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document, filed herewith

**SIGNATURES**

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

ARRIS GROUP, INC.

/s/ David B. Potts

David B. Potts

Executive Vice President, Chief Financial

Officer, Chief Accounting Officer, and

Chief Information Officer

Dated: August 5, 2011



**Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002**

I, Robert J. Stanzione, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ARRIS Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ RJ Stanzione  
Robert J. Stanzione  
Chief Executive Officer, Chairman

**Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002**

I, David B. Potts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ARRIS Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ David B. Potts

David B. Potts

Executive Vice President, Chief Financial Officer, Chief

Accounting Officer, and Chief Information Officer

**Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)**

The undersigned, as the chief executive officer of ARRIS Group, Inc., certifies that to the best of his knowledge the Quarterly Report on Form 10-Q for the period ended June 30, 2011, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of ARRIS Group, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose.

Dated this 5th day of August, 2011

/s/ RJ Stanzione

Robert J. Stanzione

Chief Executive Officer, Chairman

---

**Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)**

The undersigned, as the chief financial officer of ARRIS Group, Inc., certifies that to the best of his knowledge the Quarterly Report on Form 10-Q for the period ended June 30, 2011, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of ARRIS Group, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose.

Dated this 5th day of August, 2011

/s/ David B. Potts

David B. Potts

Executive Vice President, Chief Financial Officer, Chief

Accounting Officer, and Chief Information Officer