model that considers customer payment history, recent customer press releases, bankruptcy filings, if any, Dun & Bradstreet reports, and financial statement reviews. The Company's calculation is reviewed by management to assess whether additional research is necessary, and if complete, whether there needs to be an adjustment to the reserve for uncollectible accounts. The reserve is established through a charge to the provision and represents amounts of current and past due customer receivable balances of which management deems a loss to be both probable and estimable. In the past several years, two of our major customers encountered significant financial difficulty due to the industry downturn and tightening financial markets.

In the event that we are not able to predict changes in the financial condition of our customers, resulting in an unexpected problem with collectability of receivables and our actual bad debts differ from estimates, or we adjust estimates in future periods, our established allowances may be insufficient and we may be required to record additional allowances. Alternatively, if we provided more allowances than are ultimately required, we may reverse a portion of such provisions in future periods based on our actual collection experience. In the event we adjust our allowance estimates, it could materially affect our operating results and financial position.

We also establish a reserve for sales returns and allowances. The reserve is an estimate of the impact of potential returns based upon historic trends.

Our reserves for uncollectible accounts and sales returns and allowances were $2.2 million and $4.0 million as of December 31, 2009 and 2008, respectively.

d) Inventory Valuation

Inventory is reflected in our financial statements at the lower of average cost, approximating first-in, first-out, or market value.

We continuously evaluate future usage of product and where supply exceeds demand, we may establish a reserve. In reviewing inventory valuations, we also review for obsolete items. This evaluation requires us to estimate future usage, which, in an industry where rapid technological changes and significant variations in capital spending by system operators are prevalent, is difficult. As a result, to the extent that we have overestimated future usage of inventory, the value of that inventory on our financial statements may be overstated. When we believe that we have overestimated our future usage, we adjust for that overstatement through an increase in cost of sales in the period identified as the inventory is written down to its net realizable value. Inherent in our valuations are certain management judgments and estimates, including markdowns, shrinkage, manufacturing schedules, possible alternative uses and future sales forecasts, which can significantly impact ending inventory valuation and gross margin. The methodologies utilized by the Company in its application of the above methods are consistent for all periods presented.

The Company conducts annual physical inventory counts at all ARRIS locations to confirm the existence of its inventory.

e) Warranty

We offer warranties of various lengths to our customers depending on product specifics and agreement terms with our customers. We provide, by a current charge to cost of sales in the period in which the related revenue is recognized, an estimate of future warranty obligations. The estimate is based upon historical experience. The embedded product base, failure rates, cost to repair and warranty periods are used as a basis for calculating the estimate. We also provide, via a charge to current cost of sales, estimated expected costs associated with non-recurring product failures. In the event of a significant non-recurring product failure, the amount of the reserve may not be sufficient. In the event that our historical experience of product failure rates and costs of correcting product failures change, our estimates relating to probable losses resulting from a significant non-recurring product failure changes, or to the extent that other non-recurring warranty claims occur in the future, we may be required to record additional warranty reserves. Alternatively, if we provided more reserves than we needed, we may reverse a portion of such provisions in future periods. In the event we change our warranty reserve estimates, the resulting charge against future cost of sales or reversal of previously recorded charges may materially affect our operating results and financial position.

f) Stock-Based Compensation

All share-based payments to employees, including grants of employee stock options, are required to be recognized in the financial statements as compensation cost based on the fair value on the date of grant. In general, the Company determines fair value of such awards using the Black-Scholes option pricing model. The Black-Scholes option pricing model incorporates certain assumptions, such as risk-free interest rate, expected volatility, and expected life of options, in order to arrive at a fair value estimate. Because changes in assumptions can materially affect the fair value estimate, the Black-Scholes model may not provide a reliable single measure of the fair value of our share-based payment awards. For certain performance shares related to market conditions, the fair value of such awards is determined using a lattice model. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value of share-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact our fair value determination. If factors change and we employ different assumptions in determining the fair value in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period.

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 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. Any other statements in this document that are not statements about historical facts also 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, but instead are the risks that we currently perceive as potentially being material. 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 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

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

We have an investment portfolio of auction rate securities that are classified as "available-for-sale" securities. Although these securities have maturity dates of 15 to 30 years, they have characteristics of short-term investments as the interest rates reset every 28 or 35 days and we have the potential to liquidate them in an auction process. Due to the short duration of these investments, a movement in market interest rates would not have a material impact on our operating results. However, it is possible that a security will fail to reprice at the scheduled auction date. In these instances, we are entitled to receive a penalty interest rate above market and the auction rate security will be held until the next scheduled auction date. At December 31, 2007 ARRIS had $30.3 million invested in auction rate securities. During 2008, we successfully liquidated, at par, a net of $25.3 million of the auction rate securities. However, one auction rate security of approximately $5.0 million has continued to fail at auction, resulting in ARRIS continuing to hold this security. Due to the current market conditions and the failure of the auction rate security to reprice, beginning in the second quarter of 2008, we recorded changes in the fair value of the instrument as an impairment charge in the Statement of Operations in the gain (loss) on investment line. ARRIS may not be able to liquidate this security until a successful auction occurs, or alternatively, we have been provided the option to sell the security to a major financial institution at par on June 30, 2010. During the year ended December 31, 2009, we recorded changes in fair value of $61 thousand.

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

We have certain international customers who are billed in their local currency. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes. The euro is the predominant currency of the customers who are billed in their local currency. Taking into account the effects of foreign currency fluctuations of the euro and pesos versus the dollar, a hypothetical 10% weakening of the U.S. dollar (as of December 31, 2009) would provide a gain on foreign currency of approximately $1.6 million. Conversely, a hypothetical 10% strengthening of the U.S. dollar would provide a loss on foreign currency of approximately $1.6 million. As of December 31, 2009, we had no material contracts, other than accounts receivable, denominated in foreign currencies.

We regularly review our forecasted sales in euros and enter into option contracts when appropriate. In the event that we determine a hedge to be ineffective prior to expirations earnings may be effected by the change in the hedge value. As of December 31, 2009, we had option collars outstanding with notional amounts totaling 6.0 million euros, which mature through 2010. As of December 31, 2009, we had forward contracts outstanding with notional amounts totaling 9.0 million euros, which mature through 2010. The fair value of these option collars and forward contracts was approximately a loss of $0.5 million.

Item 8. *Consolidated Financial Statements and Supplementary Data*

The report of our independent registered public accounting firm and consolidated financial statements and notes thereto for the Company are included in this Report and are listed in the Index to Consolidated Financial Statements.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

N/A

Item 9A. *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 Rule 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.

Item 9B. *Other Information*

N/A

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

ARRIS' management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Under management's supervision, an evaluation of the design and effectiveness of ARRIS' internal control over financial reporting was conducted based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that ARRIS' internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of ARRIS' internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm retained as auditors of ARRIS Group, Inc.'s financial statement, as stated in their report which is included herein.

/s/ R J STANZIONE

Robert J. Stanzione
Chief Executive Officer, Chairman

/s/ DAVID B, POTTS

David B. Potts
Executive Vice President, Chief Financial Officer,
Chief Accounting Officer,
and Chief Information Officer

February 26, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of ARRIS Group, Inc.

We have audited ARRIS Group, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ARRIS Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ARRIS Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ARRIS Group, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 26, 2010

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of ARRIS Group, Inc.

We have audited the accompanying consolidated balance sheets of ARRIS Group, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of ARRIS' management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARRIS Group, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 16 and 14 to the Consolidated Financial Statements, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109, Accounting for Income Taxes* (codified in ASC Topic 740), in 2007 and adopted FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion* (codified in ASC Topic 470-20, *Debt with Conversion and Other Options*), in 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ARRIS Group, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 26, 2010

ARRIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
	(in thousands except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 500,565	$ 409,894
Short-term investments, at fair value	125,031	17,371
Total cash, cash equivalents and short-term investments	625,596	427,265
Restricted cash	4,475	5,673
Accounts receivable (net of allowances for doubtful accounts of $2,168 in 2009 and $3,988 in 2008)	143,708	159,443
Other receivables	6,113	4,749
Inventories (net of reserves of $22,151 in 2009 and $18,811 in 2008)	95,851	129,752
Prepaids	11,675	8,004
Current deferred income tax assets	35,994	44,004
Other current assets	18,896	19,782
Total current assets	942,308	798,672
Property, plant and equipment (net of accumulated depreciation of $106,744 in 2009 and $100,313 in 2008)	57,195	59,204
Goodwill	235,388	231,684
Intangible assets (net of accumulated amortization of $190,722 in 2009 and $153,362 in 2008)	204,572	227,348
Investments	20,618	14,681
Noncurrent deferred income tax assets	6,759	12,157
Other assets	8,776	6,575
	$ 1,475,616	$1,350,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 53,979	$ 75,863
Accrued compensation, benefits and related taxes	36,936	27,024
Accrued warranty	4,265	5,652
Deferred revenue	47,044	44,461
Current portion of long-term debt	124	146
Current deferred income tax liabilities	—	1,059
Other accrued liabilities	46,203	25,410
Total current liabilities	188,551	179,615
Long-term debt, net of current portion	211,248	211,870
Accrued pension	16,408	18,820
Noncurrent income taxes payable	14,815	9,607
Noncurrent deferred income tax liabilities	37,204	41,598
Other noncurrent liabilities	16,021	15,343
Total liabilities	484,247	476,853
Stockholders' equity:		
Preferred stock, par value $1.00 per share, 5.0 million shares authorized; none issued and outstanding	—	—
Common stock, par value $0.01 per share, 320.0 million shares authorized; 125.6 million and 123.1 million shares issued and outstanding in 2009 and 2008, respectively	1,388	1,362
Capital in excess of par value	1,183,872	1,159,097
Treasury stock at cost, 13 million shares in 2009 and 2008	(75,960)	(75,960)
Accumulated deficit	(111,734)	(202,503)
Unrealized gain (loss) on marketable securities	28	(274)
Unfunded pension liability, including income tax impact of $1,169 and $2,778 in 2009 and 2008, respectively	(6,041)	(8,070)
Cumulative translation adjustments	(184)	(184)
Total stockholders' equity	991,369	873,468
	$ 1,475,616	$1,350,321

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2009	2008	2007
	(in thousands, except per share data)		
Net sales:			
Products	$ 998,734	$ 1,064,837	$ 950,013
Services	109,072	79,728	42,181
Total net sales	1,107,806	1,144,565	$ 992,194
Cost of sales:			
Products	594,133	709,657	695,119
Services	50,910	41,779	23,193
Total cost of sales	645,043	751,436	718,312
Gross margin	462,763	393,129	273,882
Gross margin%	41.8%	34.3%	27.6%
Operating expenses:			
Selling, general, and administrative expenses	148,403	143,997	99,879
Research and development expenses	124,550	112,542	71,233
Impairment of goodwill	—	209,297	—
Acquired in-process research and development charge	—	—	6,120
Amortization of intangible assets	37,361	44,195	2,278
Restructuring charges	3,702	1,211	460
Total operating expenses	314,016	511,242	179,970
Operating income (loss)	148,747	(118,113)	93,912
Other expense (income):			
Interest expense	17,670	17,123	16,188
Gain on terminated acquisition, net of expenses	—	—	(22,835)
Gain on debt retirement	(4,152)	—	—
Loss (gain) on investments and notes receivable	(711)	717	(4,596)
Loss (gain) on foreign currency	3,445	(422)	48
Interest income	(1,409)	(7,224)	(24,776)
Other expense (income), net	(714)	(1,043)	370
Income (loss) from continuing operations before income taxes	134,618	(127,264)	129,513
Income tax expense	43,849	2,375	37,370
Net income (loss) from continuing operations	90,769	(129,639)	92,143
Income from discontinued operations	—	—	204
Net income (loss)	$ 90,769	$ (129,639)	$ 92,347
Net income (loss) per common share — basic:			
Income (loss) from continuing operations	$ 0.73	$ (1.04)	$ 0.83
Income (loss) from discontinued operations	—	—	—
Net income (loss)	$ 0.73	$ (1.04)	$ 0.83
Net income (loss) per common share — diluted:			
Income (loss) from continuing operations	$ 0.71	$ (1.04)	$ 0.82
Income (loss) from discontinued operations	—	—	—
Net income (loss)	$ 0.71	$ (1.04)	$ 0.82
Weighted average common shares — basic	124,716	124,878	110,843
Weighted average common shares — diluted	128,085	124,878	113,027

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2009	2008	2007
		(in thousands)	
Operating activities:			
Net income (loss)	$ 90,769	$ (129,639)	$ 92,347
Depreciation	20,862	20,915	10,852
Amortization of intangible assets	37,361	44,195	2,278
Amortization of deferred finance fees	728	760	764
Goodwill impairment	—	209,297	—
Deferred income tax provision	13,052	7,963	825
Deferred income tax related to goodwill impairment	—	(24,725)	—
Stock compensation expense	15,921	11,277	10,903
Provision for doubtful accounts	(1,280)	819	279
Gain related to previously written off receivables	—	—	(377)
Gain on debt retirement	(4,152)	—	—
Non cash interest expense	11,136	10,736	9,925
Loss on disposal of fixed assets	428	14	182
Loss (gain) on investments and notes receivable	(711)	717	(4,604)
Income from discontinued operations	—	—	(204)
Gain related to terminated acquisition, net of expenses	—	—	(22,835)
Acquired in-process research and development charge	—	—	6,120
Excess income tax benefits from stock-based compensation plans	(3,007)	(56)	(9,157)
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:			
Accounts receivable	21,704	8,579	(17,498)
Other receivables	(2,383)	(471)	(1,774)
Inventories	38,906	4,023	(9,502)
Accounts payable and accrued liabilities	4,707	38,800	(9,906)
Other, net	(3,064)	(14,131)	4,806
Net cash provided by operating activities	240,977	189,073	63,424
Investing activities:			
Purchases of short-term investments	(216,704)	(113,734)	(356,366)
Sales of short-term investments	104,488	155,114	412,217
Purchases of property, plant and equipment	(18,663)	(21,352)	(15,072)
Cash proceeds from sale of property, plant, and equipment	210	250	3
Cash paid for acquisition, net of cash acquired	(22,734)	(10,500)	(285,284)
Cash paid for hedge related to terminated acquisition	—	—	(26,469)
Cash proceeds from hedge related to terminated acquisition	—	—	38,750
Cash received related to terminated acquisition, net of payments	—	—	10,554
Net cash provided by (used in) investing activities	(153,403)	9,778	(221,667)

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Financing activities:			
Proceeds from issuance of common stock	$ 12,984	$ 49	$ 14,377
Repurchase of common stock	—	(75,960)	—
Payment of debt and capital lease obligations	(10,714)	(35,864)	(19)
Excess income tax benefits from stock-based compensation plans	3,007	56	9,157
Repurchase of shares to satisfy employee tax withholdings	(2,180)	(1,035)	(3,093)
Net cash provided by (used in) financing activities	3,097	(112,754)	20,422
Net increase (decrease) in cash and cash equivalents	90,671	86,097	(137,821)
Cash and cash equivalents at beginning of year	409,894	323,797	461,618
Cash and cash equivalents at end of year	$ 500,565	$ 409,894	$ 323,797
Supplemental investing activity information:			
Net tangible assets acquired, excluding cash	$ 2,383	$ 23,108	$ 11,645
Intangible assets acquired, including goodwill and adjustments	20,351	(12,608)	582,847
Prior investment in acquired company	—	—	(5,973)
Equity issued for acquisition, including fair value of assumed stock options	—	—	(303,235)
Cash paid for acquisition, net of cash acquired	$ 22,734	$ 10,500	$ 285,284
Landlord funded leasehold improvements	$ 50	$ —	$ 85
Supplemental cash flow information:			
Interest paid during the year	$ 5,483	$ 5,800	$ 6,182
Income taxes paid during the year	$ 30,878	$ 19,834	$ 22,687

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Deficit	Unrealized (Loss) Gain on Marketable Securities	Unfunded Pension Liability	Unrealized Gain (Loss) on Derivatives	Cumulative Translation Adjustments	Total
					(In thousands)				
Balance, January 1, 2007	$1,089	$ 814,599	$ —	$(164,716)	$ 1,297	$(4,462)	$ (551)	$ (184)	$ 647,072
Comprehensive income:									
Net income	—	—	—	92,347	—	—	—	—	92,347
Unrealized loss on marketable securities	—	—	—	—	(1,277)	—	—	—	(1,277)
Unrealized gain on derivative instruments	—	—	—	—	—	—	551	—	551
Change in unfunded pension liability, net of $665 of income tax impact	—	—	—	—	—	1,104	—	—	1,104
Comprehensive income									92,725
Compensation under stock award plans	—	10,903	—	—	—	—	—	—	10,903
Adoption of FIN 48	—	—	—	(65)	—	—	—	—	(65)
Income tax benefit related to exercise of stock options	—	8,987	—	—	—	—	—	—	8,987
Fair value of stock options related to C-COR acquisition	—	22,797	—	—	—	—	—	—	22,797
Issuance of common stock related to C-COR acquisition	251	280,759	(572)	—	—	—	—	—	280,438
Issuance of common stock and other	16	8,552	—	—	—	—	—	—	8,568
Balance, December 31, 2007	1,356	1,146,597	(572)	(72,434)	20	(3,358)	—	(184)	1,071,425
Comprehensive income (loss):									
Net loss	—	—		(129,639)	—	—	—	—	(129,639)
Unrealized loss on marketable securities	—	—	—	—	(294)			—	(294)
Change in unfunded pension liability, net of $2,778 of income tax impact	—	—	—	—	—	(4,712)	—	—	(4,712)
Comprehensive loss									(134.645)
Service cost, interest cost, and expected return on plan assets for Oct 1 — Dec 31, 2008	—	—	—	(310)	—	—	—	—	(310)
Amortization of prior service cost for Oct 1 — Dec 31, 2008	—	—	—	(120)	—	—	—	—	(120)
Compensation under stock award plans	—	11,277	—	—	—	—	—	—	11,277
Issuance of common stock and other	6	1,692	572	—	—	—	—	—	2,270
Repurchase of common stock	—	—	(75,960)	—	—	—	—	—	(75,960)
Income tax benefit related to exercise of stock options	—	(469)	—	—	—	—	—	—	(469)
Balance, December 31, 2008	1,362	1,159,097	(75,960)	(202,503)	(274)	(8,070)	—	(184)	873,468
Comprehensive income (loss):									
Net income	—	—	—	90,769	—	—	—	—	90,769
Unrealized gain on marketable securities	—	—	—	—	302			—	302
Change in unfunded pension liability, net of $1,169 of income tax impact	—	—	—	—	—	2,029	—	—	2,029
Comprehensive income									93,100
Compensation under stock award plans	—	15,921	—	—	—	—	—	—	15,921
Issuance of common stock and other	26	10,827	—	—	—	—	—	—	10,853
Impact of debt redemption, net of deferred taxes		(2,127)	—	—	—	—	—	—	(2,127)
Income tax benefit related to exercise of stock options		154	—	—	—	—	—	—	154
Balance, December 31, 2009	$1,388	$1,183,872	$(75,960)	$(111,734)	$ 28	$(6,041)	$ —	$ (184)	$ 991,369

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. ARRIS specializes 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, we are 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.

Note 2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned foreign and domestic subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash, Cash Equivalents, and Investments

ARRIS' 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. The Company holds investments consisting of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities consist primarily of commercial paper, auction rate securities, certificates of deposits, and U.S. government agency financial instruments. Auction rate securities, paying either taxable or non-taxable interest, generally have long-term maturities beyond three months but are priced and traded as short-term or long-term instruments. These investments are on deposit with major financial institutions.

From time to time, the Company has held certain investments in the common stock or preferred stock of publicly-traded and private companies, which were classified as available-for-sale or cost-method investments. As of December 31, 2009 and 2008, the Company's holdings in these investments were immaterial. Changes in the market value of the auction rate securities are typically recorded in other comprehensive income (loss) and gains or losses on related sales of these securities are recognized in income (loss). These securities are also subject to a periodic impairment review, which requires significant judgment. During the years ended December 31, 2009 and December 31, 2008, the Company recognized (gains) losses of approximately $(0.7) million and $0.7 million, respectively, related to sales of our available-for-sale investments. As of December 31, 2009 and 2008, ARRIS had unrealized gains (losses) related to available-for-sale securities of approximately $0 and $(0.3) million, respectively, included in accumulated other comprehensive income (loss).

The Company has a deferred compensation plan that does not qualify under Section 401(k) of the Internal Revenue Code, which was available to certain current and former officers and key executives of C-COR Incorporated (C-COR). During 2008, this plan was merged into a new non-qualified deferred compensation plan which is also available to key executives of the Company. Employee compensation deferrals and matching contributions are held in a rabbi trust, which is a funding vehicle used to protect the deferred compensation from various events (but not from bankruptcy or insolvency).

We previously offered a deferred compensation arrangement, which allowed certain employees to defer a portion of their earnings and defer the related income taxes. As of December 31, 2004, the plan was frozen and no further contributions are allowed. The deferred earnings are invested in a rabbi trust.

The Company also has a deferred retirement salary plan, which was limited to certain current or former officers of C-COR. The present value of the estimated future retirement benefit payments is being accrued over the estimated service period from the date of signed agreements with the employees. ARRIS holds an investment to cover its liability.

(d) Inventories

Inventories are stated at the lower of average cost, approximating first-in, first-out, or market. The cost of work-in-process and finished goods is comprised of material, labor, and overhead.

(e) Revenue recognition

ARRIS generates revenue as a result of varying activities, including the delivery of stand-alone equipment, custom design and installation services, and bundled sales arrangements inclusive of equipment, software and services. The revenue from these activities is recognized in accordance with applicable accounting guidance and their related interpretations.

Revenue is recognized when all of the following criteria have been met:

- *When persuasive evidence of an arrangement exists.* Contracts and customer purchase orders are used to determine the existence of an arrangement.
- *Delivery has occurred.* Shipping documents, proof of delivery and customer acceptance (when applicable) are used to verify delivery.
- *The fee is fixed or determinable.* Pricing is considered fixed and determinable at the execution of a customer arrangement, based on specific products and quantities to be delivered at specific prices. This determination includes a review of the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment or future discounts.
- *Collectability is reasonably assured.* We assess the ability to collect from our customers based on a number of factors that include information supplied by credit agencies, analyzing customer accounts, reviewing payment history and consulting bank references. Should we have a circumstance arise where a customer is deemed not creditworthy, all revenue related to the transaction will be deferred until such time that payment is received and all other criteria to allow us to recognize revenue have been met.

Revenue is deferred if any of the above revenue recognition criteria is not met as well as when certain circumstances exist for any of our products or services, including, but not limited to:

- When undelivered products or services that are essential to the functionality of the delivered product exist, revenue is deferred until such undelivered products or services are delivered as the customer would not have full use of the delivered elements.
- When required acceptance has not occurred.
- When trade-in rights are granted at the time of sale, that portion of the sale is deferred until the trade-in right is exercised or the right expires. In determining the deferral amount, management estimates the expected trade-in rate and future value of the product upon trade-in. These factors are periodically reviewed and updated by management, and the updates may result in either an increase or decrease in the deferral.

Equipment — The Company provides cable system operators with equipment that can be placed within various stages of a broadband cable system that allows for the delivery of cable telephony, video and high speed data as well as outside plant construction and maintenance equipment. For equipment sales, revenue recognition is generally established when the products have been shipped, risk of loss has transferred, objective evidence exists that the product has been accepted, and no significant obligations remain relative to the transaction. Additionally, based on historical experience, ARRIS has established reliable estimates related to sales returns and other allowances for discounts. These estimates are recorded as a reduction to revenue at the time the revenue is initially recorded.

Software — The Company sells internally developed software as well as software developed by outside third parties that does not require significant production, modification or customization. The Company recognizes software and any associated system product revenue where software is more than an incidental component, in accordance with the applicable guidance. Our products that contain more than incidental software include: CMTS, ARRIS Spectrum Analyzer ("ASA"), D5, UCTS, Commercial Services Aggregator ("CSA") 9000, CXM Gateway, Video On Demand ("VOD"), and Advertising Insertion.

Services — Service revenue consists of customer support and maintenance, installation, training, on-site support, network design and inside plant activities. A number of our products are sold in combination with customer support and maintenance services, which consist of software updates and product support. Software updates provide customers with rights to unspecified software updates that the Company chooses to develop and to maintenance releases and patches that the Company chooses to release during the period of the support period. Product support services include telephone support, remote diagnostics, email and web access, access to on-site technical support personnel and repair or replacement of hardware in the event of damage or failure during the term of the support period. Maintenance and support service fees are generally billed in advance of the associated maintenance contract term. Maintenance and support service fees collected are recorded as deferred revenue and recognized ratably under the straight-line method over the term of the contract, which is generally one year. The Company does not record receivables associated with maintenance revenues without a firm, non-cancelable order from the customer. Installation services and training services are also recognized in service revenues when performed. Pursuant to the accounting requirements, the Company seeks to establish appropriate vendor-specific objective evidence ("VSOE") of the fair value for all service offerings. VSOE of fair value is determined based on the price charged when the same element is sold separately and based on the prices at which customers have renewed their customer support and maintenance. For elements that are not yet being sold separately, the price established by management, if it is probable that the price, once established, will not change before the separate introduction of the element into the marketplace is used to measure VSOE of fair value for that element.

Incentives — Customer incentive programs that include consideration, primarily rebates/credits to be used against future product purchases and certain volume discounts, have been recorded as a reduction of revenue when the shipment of the requisite equipment occurs.

Multiple Element Arrangements — Certain customer transactions may include multiple deliverables based on the bundling of equipment, software and services. When a multiple-element arrangement exists, the fee from the arrangement should be allocated to the various deliverables, to the extent appropriate, so that the proper amount can be recognized as revenue as each element is delivered. Based on the composition of the arrangement, the Company analyzes the provisions of the accounting guidance to determine the appropriate model that should be applied towards accounting for the multiple-element arrangement. If the arrangement includes a combination of elements that fall within different applicable guidance, the Company follows the provisions of the hierarchal literature to separate those elements from each other and apply the relevant guidance to each.

For multiple element arrangements that include software or have a software-related element that is more than incidental but that does not involve significant production, modification or customization, the Company applies the provisions of the relevant accounting guidance. If the arrangement includes multiple elements, the fee should be allocated to the various elements based on VSOE of fair value. If sufficient VSOE of fair value does not exist for the allocation of revenue to all the various elements in a multiple element arrangement, all revenue from the arrangement is deferred until the earlier of the point at which such sufficient VSOE is established or all elements within the arrangement are delivered. If VSOE of fair value exists for all undelivered elements, but does not exist for one or more delivered elements, the arrangement consideration should be allocated to the various elements of the arrangement using the residual method of accounting. Under the residual method, the amount of the arrangement consideration allocated to the delivered elements is equal to the total arrangement consideration less the aggregate fair value of the undelivered elements. Using this method, any potential discount on the arrangement is allocated entirely to the delivered elements, which ensures that the amount of revenue recognized at any point in time is not overstated. Under the residual method, if VSOE exists for the undelivered element, generally PCS, the fair value of the undelivered element is deferred and recognized ratably over the term of the PCS contract, and the remaining portion of the arrangement is recognized as revenue upon delivery, which generally occurs upon delivery of the product or implementation of the system. License revenue allocated to software products, in certain circumstances, is recognized upon delivery of the software products.

Similarly, for multiple element arrangements that include software or have a software-related element attached that is more than incidental and does involve significant production, modification or customization, revenue is recognized using the contract accounting guidelines by applying the percentage of completion or completed contract method. The Company recognizes software license and associated professional services revenue for its mobile workforce management software license product installations using the percentage-of-completion method of accounting as we believe that our estimates of costs to complete and extent of progress toward completion of such contracts are reliable. For certain software license arrangements where professional services are being provided and are deemed to be essential to the functionality or are for significant production, modification, or customization of the software product, both the software and the associated professional service revenue are recognized using the completed-contract method if the Company does not have the ability to reasonably estimate contract costs at the inception of the contracts. Under the completed-contract method, revenue is recognized when the contract is complete, and all direct costs and related revenues are deferred until that time. The entire amount of an estimated loss on a contract is accrued at the time a loss on a contract is projected. Actual profits and losses may differ from these estimates.

For all other multiple element arrangements, the deliverables are separated into more than one unit of accounts when the following criteria are met: (i) the delivered element(s) have value to the customer on a stand-alone basis, (ii) objective and reliable evidence of fair value exists for the undelivered element(s), and (iii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Revenue is then allocated to each unit of accounting based on the relative fair value of each accounting unit or by using the residual method if objective evidence of fair value does not exist for the delivered element(s). If any of the criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

ARRIS employs the sell-in method of accounting for revenue when using a Value Added Reseller (VAR) as our channel to market. Because product returns are restricted, revenue under this method is recognized at the time of shipment to the VAR provided all criteria for recognition are met.

(f) Shipping and Handling Fees

Shipping and handling costs for the years ended December 31, 2009, 2008, and 2007 were approximately $4.0 million, $4.6 million and $5.4 million, respectively, and are classified in net sales and cost of sales.

(g) Depreciation of Property, Plant and Equipment

The Company provides for depreciation of property, plant and equipment on the straight-line basis over estimated useful lives of 10 to 40 years for buildings and improvements, 2 to 10 years for machinery and equipment, and the shorter of the term of the lease or useful life for leasehold improvements. Included in depreciation expense is the amortization of landlord funded tenant improvements which amounted to $0.4 million in 2009 and 2008. Depreciation expense, including amortization of capital leases, for the years ended December 31, 2009, 2008, and 2007 was approximately $20.9 million, $20.9 million and $10.9 million respectively.

(h) Goodwill and Long-Lived Assets

Goodwill relates to the excess of cost over the fair value of net assets resulting from an acquisition. On an annual basis, the Company's goodwill is tested for impairment, or more frequently if events or changes in circumstances indicate that the asset is more likely than not impaired, in which case a test would be performed sooner. The impairment testing is a two-step process. The first step is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount. ARRIS has determined that its reporting units are the reportable segments based on the organizational structure, the financial information that is provided to and reviewed by segment management and aggregation criteria of its component businesses that are economically similar. The estimates of fair value of a reporting unit are determined based on a discounted cash flow analysis and guideline public company analysis. A discounted cash flow analysis requires the Company to make various judgmental assumptions, including assumptions about future cash flows, growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the current and long-term business plans of each reporting unit. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. If necessary, the second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a similar manner as the determination of goodwill recognized in a business combination. As part of management's review process of the fair values assumed for the reporting units, the Company reconciled the combined fair value of the reporting units to the market capitalization of ARRIS and concluded that the fair values used were reasonable.

The annual tests were performed in the fourth quarters of 2009, 2008, and 2007, with a test date of October 1. No impairment was indicated as a result of the review in 2007. During step one of the impairment analysis in 2008, the Company concluded that the fair values of its ATS and MCS reporting units were less than their respective carrying values. As a result, ARRIS performed step two of the goodwill impairment test to determine the implied fair value of the goodwill of the ATS and MCS reporting units. The Company concluded that the implied fair value of the goodwill was less than its carrying value and recognized a total noncash goodwill impairment loss of $128.9 million and $80.4 million related to the ATS and MCS reporting units, respectively, during the fourth quarter of 2008. This expense has been recorded in the impairment of goodwill line on the consolidated statements of operations. The fair value of the BCS reporting unit exceeded its carrying value, and therefore, no impairment charge was necessary. In 2009, the results indicated that the implied fair values of the Company's goodwill exceeded the carrying amount, and therefore, the assets were not impaired.

As of December 31, 2009, the Company had remaining goodwill of $235.4 million, of which $37.1 million related to the ATS reporting unit, $156.3 million related to the BCS reporting unit, and $42.0 million related to the MCS reporting unit.

Other intangible assets represent purchased intangible assets, which include purchased technology, customer relationships, covenants not-to-compete, and order backlog. Amounts allocated to other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Purchased technology	4 - 10 years
Customer relationships	2 - 8 years
Non-compete agreements	2 years
Trademarks	2 years
Order backlog	1/2 year

As of December 31, 2009, the financial statements included intangible assets of $204.6 million, net of accumulated amortization of $190.7 million. As of December 31, 2008, the financial statements included intangible assets of $227.3 million, net of accumulated amortization of $153.4 million. The valuation process to determine the fair market values of the existing technology by management included valuations by an outside valuation service. The values assigned were calculated using an income approach utilizing the cash flow expected to be generated by these technologies.

For reasons similar to those described above, the Company also conducted a review of its long-lived assets in 2008, including amortizable intangible assets. This review did not indicate that an impairment existed as of

December 31, 2008. No review for impairment of long-lived assets was conducted in 2009 as the Company did not believe that indicators of impairment existed.

See Note 13 of Notes to the Consolidated Financial Statements for further information on goodwill and other intangibles.

(i) Advertising and Sales Promotion

Advertising and sales promotion costs are expensed as incurred. Advertising expense was approximately $0.6 million, $0.8 million and $0.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(j) Research and Development

Research and development ("R&D") costs are expensed as incurred. ARRIS' research and development expenditures for the years ended December 31, 2009, 2008 and 2007 were approximately $124.6 million, $112.5 million and $71.2 million, respectively. The expenditures include compensation costs, materials, other direct expenses, and allocated costs of information technology, telecommunications, and facilities.

(k) Warranty

ARRIS provides warranties of various lengths to customers based on the specific product and the terms of individual agreements. For further discussion, see Note 7 Guarantees.

(l) Income Taxes

ARRIS uses the liability method of accounting for income taxes, which requires recognition of temporary differences between financial statement and income tax bases of assets and liabilities, measured by enacted tax rates. In 2001, a valuation allowance was calculated and recorded to offset all of the net deferred tax assets held by the Company. The valuation allowance is required to be established and maintained when it is more-likely-than-not that all or a portion of deferred income tax assets will not be realized. At the end of the fourth quarter of 2006, ARRIS determined that it was more-likely-than-not to realize the benefits of a significant portion of its U.S. federal and state income deferred income tax assets and subsequently reversed most of the related valuation allowance. During 2007, the Company reversed additional valuation allowance related to certain U.S. federal capital losses as capital gains were generated. However, the valuation allowance was subsequently increased because of the acquisition of C-COR on December 14, 2007, since the Company concluded that it was not more-likely-than-not to realize certain benefits arising from C-COR's U.S. state deferred income tax assets and foreign deferred income tax assets. As of December 31, 2009, the Company has $17.0 million of valuation allowances. The Company continually reviews the adequacy of its valuation allowances to reassess whether it is more-likely-than-not to realize its various deferred income tax assets. See Note 16 of Notes to the Consolidated Financial Statements for further discussion.

(m) Foreign Currency Translation

A significant portion of the Company's products are manufactured or assembled in Mexico, Taiwan, China, Ireland, and other foreign countries. Sales into international markets have been and are expected in the future to be an important part of the Company's 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.

Certain international customers are billed in their local currency. The Company uses a hedging strategy and enters 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.

As of December 31, 2009, the Company had option collars outstanding with notional amounts totaling 6.0 million euros, which mature through 2010. As of December 31, 2009, the Company had forward contracts outstanding with notional amounts totaling 9.0 million euros, which mature through 2010. The fair value of option and forward contracts as of December 31, 2009 and 2008 were loss (gain) of approximately $0.5 million and $(0.4) million. During the years ended December 31, 2009, 2008 and 2007, the Company recognized net losses of $3.0 million, $0.5 million and $1.3 million, respectively, related to option contracts. During the year ended December 31, 2007, the Company also recognized loss of $66 thousand on effective hedges that were recorded with the corresponding sales. There were no such losses recognized in 2009 and 2008.

ARRIS ceased using hedge accounting in March 2007. The last hedge considered effective expired in January 2007. Currently, all foreign currency hedges are recorded at fair value and the gains or losses are included in other expense/ (income) on the Consolidated Statements of Operations.

(n) Stock-Based Compensation

See Note 18 of Notes to the Consolidated Financial Statements for further discussion of the Company's significant accounting policies related to stock based compensation.

(o) Concentrations of Credit Risk

Financial instruments that potentially subject ARRIS to concentrations of credit risk consist principally of cash, cash equivalents and short-term investments, and accounts receivable. ARRIS places its temporary cash investments with high credit quality financial institutions. Concentrations with respect to accounts receivable occur as the Company sells primarily to large, well-established companies including companies outside of the United States. The Company's credit policy generally does not require collateral from its customers. ARRIS closely monitors extensions of credit to other parties and, where necessary, utilizes common financial instruments to mitigate risk or requires cash on delivery terms. Overall financial strategies and the effect of using a hedge are reviewed periodically. When deemed uncollectible, accounts receivable balances are written off against the allowance for doubtful accounts.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

- *Cash, cash equivalents, and short-term investments:* The carrying amounts reported in the consolidated balance sheets for cash, cash equivalents, and short-term investments approximate their fair values.
- *Accounts receivable and accounts payable:* The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair values. The Company establishes a reserve for doubtful accounts based upon its historical experience in collecting accounts receivable.
- *Marketable securities:* The fair values for trading and available-for-sale equity securities are based on quoted market prices.
- *Non-marketable securities:* Non-marketable equity securities are subject to a periodic impairment review; however, there are no open-market valuations, and the impairment analysis requires significant judgment. This analysis includes assessment of the investee's financial condition, the business outlook for its products and technology, its projected results and cash flow, recent rounds of financing, and the likelihood of obtaining subsequent rounds of financing.
- *Long-term debt:* The fair value of the Company's convertible subordinated debt is based on its quoted market price and totaled approximately $258.1 million and $176.6 million at December 31, 2009 and 2008, respectively.
- *Foreign exchange contracts:* The fair values of the Company's foreign currency contracts are estimated based on dealer quotes, quoted market prices of comparable contracts adjusted through interpolation where necessary, maturity differences or if there are no relevant comparable contracts on pricing models or

formulas by using current assumptions. As of December 31, 2009, the company had option collars outstanding with notional amounts totaling 6.0 million euros, which mature through 2010. As of December 31, 2009, the Company had forward contracts outstanding with notional amounts totaling 9.0 million euros, which mature through 2010. The fair value of option contracts as of December 31, 2009 and 2008 resulted in losses (gains) of approximately $0.5 million and ($0.4) million.

(p) Computer Software

The Company capitalizes costs associated with internally developed and/or purchased software systems for internal use that have reached the application development stage and meet recoverability tests. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software and payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project. Capitalization of such costs begins when the preliminary project stage is complete and ceases no later than the point at which the project is substantially complete and ready for its intended purpose. These capitalized costs are amortized on a straight-line basis over periods of two to seven years, beginning when the asset is ready for its intended use. Capitalized costs are included in property, plant, and equipment on the consolidated balance sheets. The carrying value of the software is reviewed regularly and impairment is recognized if the value of the estimated undiscounted cash flow benefits related to the asset is less than the remaining unamortized costs.

Research and development costs are charged to expense as incurred. ARRIS generally has not capitalized any such development costs because the costs incurred between the attainment of technological feasibility for the related software product through the date when the product is available for general release to customers has been insignificant.

(q) Comprehensive Income (Loss)

The components of comprehensive income (loss) include net income (loss), unrealized gains (losses) on derivative instruments, foreign currency translation adjustments, unrealized gains (losses) on available-for-sale securities, and change in unfunded pension liability, net of tax, if applicable. Comprehensive income (loss) is presented in the consolidated statements of stockholders' equity.

Note 3. Impact of Recently Issued Accounting Standards

In June 2009, the FASB issued authoritative guidance regarding the consolidation of variable interest entities. This update was effective and implemented on January 1, 2010. It is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management's best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products' essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for ARRIS in the first quarter of 2011; however, early adoption is permitted. The Company will adopt these new accounting standards in the first quarter of 2010 using the prospective method and the adoption is not expected to have a material impact on its consolidated financial statements.

Note 4. Investments

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

	Fair Value	
	As of December 31, 2009	As of December 31, 2008
Current Assets:		
Trading securities	$ 4,970	$ —
Available-for-sale securities	120,061	17,371
	125,031	17,371
Noncurrent Assets:		
Trading securities	—	4,909
Available-for-sale securities	16,618	5,772
Cost method investments	4,000	4,000
Total classified as non-current assets	20,618	14,681
Total	$ 145,649	$ 32,052

ARRIS' investments in debt and marketable equity securities are categorized as trading or available-for-sale. The Company currently does not hold any held-to-maturity securities. Realized and unrealized gains and losses on trading securities and realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses on available-for-sale securities are included in our consolidated balance sheet as a component of accumulated other comprehensive income (loss). The unrealized losses in total and by individual investment as of December 31, 2009 and 2008 were not material. The amortized cost basis of the Company's investments approximates fair value.

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

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

Note 5. Fair Value Measurements

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 assets measured at fair value on a recurring basis as of December 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Current investments	$ 60,001	$ 60,060	$ —	$ 120,061
Noncurrent investments	336	16,282	—	16,618
Auction rate securities	—	—	4,970	4,970
Foreign currency contracts	178	—	—	178
Total	$ 60,515	$ 76,342	$ 4,970	$ 141,827

The majority of the Company's short and long-term investments instruments are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, market prices for similar securities, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include the Company's investment in money market funds, U.S. government notes and bills and mutual funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include the Company's variable rate demand notes, cash surrender value of company owned life insurance, corporate obligations and certificates of deposit. Such instruments are classified within Level 2 of the fair value hierarchy. See Note 4 for further information on the Company's investments.

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

	Level 3
Estimated fair value January 1, 2009	$ 4,909
2009 change in fair value	61
Estimated fair value December 31, 2009	$ 4,970

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

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

Note 6. Derivative Instruments and Hedging Activities

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

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

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange contracts	Other current assets	$ 178	Other accrued liabilities	$ 727

Prior to January 1, 2009, the Company recorded its derivative instruments on a net basis on the Consolidated Balance Sheet. As of December 31, 2008, the fair value of the instruments was recorded as a net asset of $0.4 million, comprised of an asset of $1.1 million offset with a liability of $0.7 million.

The change in the fair values of ARRIS' derivative instruments recorded in the Consolidated Statements of Operations during the years ended December 31, 2009, 2008, and 2007 were as follows (in thousands):

		Years Ended December 31,		
	Statement of Operations Location	2009	2008	2007
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange contracts	Loss (gain) on foreign currency	$ 3,016	$ (1,608)	$ (10,946)(1)

(1) Includes a gain of approximately $12.3 million related to foreign exchange contracts purchased to hedge against a potential acquisition, which later was terminated.

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 against the warranty liability. ARRIS evaluates its warranty obligations on an individual product basis.

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

Information regarding the changes in ARRIS' aggregate product warranty liabilities for the years ending December 31, 2009 and 2008 were as follows (in thousands):

	2009	2008
January 1,	$ 10,184	$ 14,370
Accruals related to warranties (including changes in estimates)	1,532	5,445
Settlements made (in cash or in kind)	(4,037)	(8,769)
C-COR warranty reserves acquired, including purchase price adjustments	—	(862)
Balance at December 31,	$ 7,679	$ 10,184

Note 8. Business Acquisitions

Acquisition of Digeo, Inc. and Vulcan Ventures, Inc.

On October 1, 2009, ARRIS Group, Inc. ("ARRIS") acquired substantially all of the assets of Digeo, Inc. ("Digeo") and intellectual property that was related to Digeo's business but that was owned by Vulcan Ventures, Inc. ("Vulcan"), the majority stockholder of Digeo. The purchase price was approximately $20 million in cash and certain assumed liabilities of Digeo. Payment of $4 million of the aggregate purchase price is being deferred until the first anniversary of the closing of the transaction. This transaction was accounted for as a business combination. The transaction provides ARRIS with substantial technical expertise in video networking and an innovative multimedia services delivery platform. The engineering talent and intellectual property acquired as part of these transactions will be combined with ARRIS' internal development efforts to accelerate the introduction of next-generation IP-based consumer video products and services. The goodwill and intangible assets resulting from this acquisition are recorded in the BCS segment.

Acquisition of EG Technology, Inc.

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

Acquisition of Auspice Corporation

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

Acquisition of C-COR Incorporated

On December 14, 2007, ARRIS acquired 100% of the outstanding shares of C-COR Incorporated ("C-COR"). Pursuant to the Agreement and Plan of Merger, each issued and outstanding share of C-COR common stock, other than shares held in treasury or by ARRIS, were converted into the right to receive either (i) $13.75 in cash or (ii) 1.0245 shares of ARRIS common stock and $0.688 in cash. This transaction was accounted for as a business combination. ARRIS paid approximately $366 million in cash and issued 25.1 million shares of common stock valued at $281 million in the merger. In addition, all outstanding options to acquire shares of C-COR common stock were converted into options to acquire shares of ARRIS common stock and the number of shares underlying such options and the exercise price thereof were adjusted accordingly. The vesting of the unvested outstanding options was accelerated as a result of the merger. The goodwill and intangible assets resulting from this acquisition are recorded in the ATS and MCS segments.

Note 9. 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.

The *Access, Transport & Supplies* segment's product lines cover all components of a HFC 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 years ended December 31 (in thousands):

	Broadband Communications Systems	Access, Transport & Supplies	Media & Communications Systems	Total
December 31, 2009				
Net sales	$ 852,852	$ 176,306	$ 78,648	$ 1,107,806
Gross margin	379,248	40,055	43,460	462,763
Amortization of intangible assets	415	22,550	14,396	37,361
December 31, 2008				
Net sales	$ 822,816	$ 262,478	$ 59,271	$ 1,144,565
Gross margin	285,136	76,387	31,606	393,129
Amortization of intangible assets	—	24,772	19,423	44,195
Impairment of goodwill	—	128,884	80,413	209,297
December 31, 2007				
Net sales	$ 859,164	$ 130,644	$ 2,386	$ 992,194
Gross margin	251,416	22,930	(464)	273,882
Amortization of intangible assets		1,086	1,192	2,278
Impairment of intangible assets	—	—	58	58
Write-off of in-process research and development	—	1,320	4,800	6,120

The following table summarizes the Company's net intangible assets and goodwill by reportable segment as of December 31, 2009 and 2008 (in thousands):

	Broadband Communications Systems	Access, Transport & Supplies	Media & Communications Systems	Total
December 31, 2009				
Goodwill	$ 156,335	$ 37,074	$ 41,979	$ 235,388
Intangible assets, net	14,170	115,833	74,569	204,572
December 31, 2008				
Goodwill	$ 150,569	$ 38,366	$ 42,749	$ 231,684
Intangible assets, net	—	138,384	88,964	227,348

The Company's two largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. Over the past year, certain customers' beneficial ownership may have changed as a result of mergers and acquisitions. Therefore the revenue for ARRIS' customers for prior periods has been adjusted to include the affiliates under common control. A summary of sales to these customers for 2009, 2008, and 2007 is set forth below (in thousands):

	Years ended December 31,		
	2009	2008	2007
Comcast and affiliates	$ 353,658	$ 300,934	$ 366,894
% of sales	31.9%	26.3%	37.0%
Time Warner Cable and affiliates	$ 230,211	$ 235,405	$ 106,376
% of sales	20.8%	20.6%	10.7%

ARRIS sells its products primarily in the United States. The Company's international revenue is generated from Asia Pacific, Europe, Latin America and Canada. The Asia Pacific market primarily includes China, Hong Kong, Japan, Korea, Singapore, and Taiwan. The European market primarily includes Austria, Belgium, France, Germany, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Great Britain, Ireland, Turkey, Russia, Romania, Hungry and Israel. The Latin American market primarily includes Argentina, Brazil, Chile, Columbia, Mexico, Peru, Puerto Rico, Ecuador, Honduras, Costa Rica, Panama, Jamaica, and Bahamas. Sales to international customers were approximately 26.5%, 29.1% and 27.0% of total sales for the years ended December 31, 2009, 2008 and 2007, respectively. International sales for the years ended December 31, 2009, 2008 and 2007 were as follows (in thousands):

	Years Ended December 31,		
	2009	2008	2007
Asia Pacific	$ 56,091	$ 50,435	$ 41,997
Europe	93,078	127,103	98,575
Latin America	81,608	97,798	71,507
Canada	62,672	57,406	56,050
Total	$ 293,449	$ 332,742	$ 268,129

The following table summarizes ARRIS' international long-lived assets by geographic region as of December 31, 2009 and 2008 (in thousands):

	As of December 31,	
	2009	2008
Asia Pacific	$ 991	$ 1,222
Europe	1,630	1,884
Latin America Latin America	249	169
Canada	3	3
Total	$ 2,873	$ 3,278

Note 10. Restructuring Charges

During the first quarter of 2004, ARRIS consolidated two facilities in Georgia, giving the Company the ability to house many of its core technology, marketing, and corporate headquarters functions in a single building. This consolidation resulted in a restructuring charge of approximately $6.2 million in 2004 related to lease commitments and the write-off of leasehold improvements and other fixed assets. The restructuring plan was completed in the third quarter of 2009.

	(In thousands)
Balance as of December 31, 2008	$ 545
2009 payments	(672)
2009 adjustments to accrual	127
Balance as of December 31, 2009	$ —

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

	(In thousands)
Balance as of December 31, 2008	$ 211
2009 payments	(218)
2009 adjustments to accrual	7
Balance as of December 31, 2009	$ —

Additionally, ARRIS acquired remaining restructuring accruals of approximately $0.7 million representing C-COR contractual obligations that related to excess leased facilities and equipment. These payments will be paid over their remaining lease terms through 2014, unless terminated earlier. In the fourth quarter of 2009, an adjustment of $1.5 million was made related to the sublease assumption for 2010-2014 given the current real estate market conditions.

	(in thousands)
Balance as of December 31, 2008	$ 494
2009 payments	(372)
2009 adjustments to accrual	1,768
Balance as December 31, 2009	$ 1,890

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

	(in thousands)
Second quarter 2009 charge	$ 212
2009 payments	(168)
2009 adjustments to accrual	9
Balance as of December 31, 2009	$ 53

During the fourth quarter of 2009, the Company implemented a restructuring initiative to align its workforce and operating costs with current business opportunities within the ATS segment. The restructuring affected 33 employees.

	(in thousands)
Fourth quarter 2009 charge	$ 1,341
2009 payments	(523)
2009 adjustments to accrual	17
Balance as of December 31, 2009	$ 835

Note 11. Inventories

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

	December 31, 2009	December 31, 2008
Raw material	$ 14,665	$ 19,247
Work in process	3,480	4,814
Finished goods	77,706	105,691
Total inventories	$ 95,851	$ 129,752

Note 12. Property, Plant and Equipment

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

	December 31, 2009	December 31, 2008
Land	$ 2,612	$ 2,612
Buildings and leasehold improvements	22,304	20,048
Machinery and equipment	139,023	136,857
	163,939	159,517
Less: Accumulated depreciation	(106,744)	(100,313)
Total property, plant and equipment, net	$ 57,195	$ 59,204

Note 13. Goodwill and Intangible Assets

Goodwill

Goodwill relates to the excess of cost over the fair value of net assets resulting from an acquisition. On an annual basis, the Company's goodwill is tested for impairment, or more frequently if events or changes in circumstances indicate that the asset is more likely than not impaired, in which case a test would be performed sooner. For purposes of impairment testing, the Company has determined that its reporting units are the reportable segments based on our organizational structure, the financial information that is provided to and reviewed by segment management and aggregation criteria of its component businesses that are economically similar. The impairment testing is a two-step process. The first step is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount. The Company concluded that a taxable transaction approach should be used. The Company determined the fair value of each of its reporting units using a combination of an income approach using discounted cash flow analysis and a market approach comparing actual market transactions of businesses that are similar to those of the Company. In addition, market multiples of publicly traded guideline companies were also considered. The discounted cash flow analysis requires the Company to make various judgmental assumptions, including assumptions about future cash flows, growth rates and weighted average cost of capital (discount rate). The assumptions about future cash flows and growth rates are based on the current and long-term business plans of each reporting unit. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. If necessary, the second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a similar manner as the determination of goodwill recognized in a business combination.

2007 Impairment Analysis —

The 2007 annual impairment test was performed as of October 1, 2007. The results indicated that the fair values of the Company's goodwill exceeded the carrying amount, and therefore, the assets were not impaired.

2008 Impairment Analysis —

During the 2008 annual impairment testing, as a result of the current and continuing decline in the market value of communications equipment suppliers in general, coupled with the volatile macroeconomic conditions, ARRIS determined that the fair values of the ATS and MCS reporting units were less than their respective carrying values. As a result, the Company proceeded to step two of the goodwill impairment test to determine the implied fair value of the ATS and MCS goodwill. ARRIS concluded that the implied fair value of the goodwill was less than its carrying value and recorded an impairment charge as of October 1, 2008. During the fourth quarter of 2008, ARRIS experienced a continued decline in market conditions, especially as a result of the housing market, with respect to its ATS reporting unit. As a result, the Company determined that it was possible that the future cash flows and growth rates for the ATS reporting unit had declined since the impairment test date of October 1, 2008. Further, the

Company considered whether the continued volatility in capital markets between October 1, 2008 and December 31, 2008 could result in a change in the discount rate, potentially resulting in further impairment. As a result of these factors, the Company performed an interim test as of December 31, 2008 for the ATS and MCS reporting units. The Company did not perform an interim test for the BCS reporting unit as it did not believe that an event occurred or circumstances changed that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The Company concluded that its remaining ATS and MCS goodwill was further impaired and recorded an incremental goodwill impairment charge. This expense has been recorded in the goodwill impairment line on the consolidated statements of operations. The fair value of the BCS reporting unit exceeded its carrying value, and therefore, no impairment charge was necessary. As part of management's review process of the fair values assumed for the reporting units, the Company reconciled the combined fair value to its market capitalization and concluded that the fair values used were reasonable.

2009 Impairment Analysis —

The 2009 annual impairment test was performed as of October 1, 2009. The results indicated that the implied fair values of the Company's goodwill exceeded the carrying amount, and therefore, the assets were not impaired.

Following is a summary of the Company's goodwill (in thousands):

	BCS	ATS	MCS	Total
Balance as of December 31, 2007	$ 150,569	$ 179,827	$ 124,956	$ 455,352
Purchase accounting adjustments — C-COR acquisition	—	(12,577)	(5,123)	(17,700)
Acquisition of Auspice Corporation	—	—	3,329	3,329
Impairment	—	(128,884)	(80,413)	(209,297)
Balance as of December 31, 2008	150,569	38,366	42,749	231,684
Acquisition of EG Technology, Inc.	3,745	—	—	3,745
Acquisition of Digeo, Inc.	2,021	—	—	2,021
Adjustment to deferred tax assets — C-COR acquisition	—	(1,292)	(770)	(2,062)
Balance as of December 31, 2009	$ 156,335	$ 37,074	$ 41,979	$ 235,388

Intangibles

ARRIS tests its property, plant and equipment and amortizable intangible assets for recoverability when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Examples of such circumstances include, but are not limited to, operating or cash flow losses from the use of such assets or changes in our intended uses of such assets. To test for recovery, the Company groups assets (an "Asset Group") in a manner that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The carrying amount of a long-lived asset or an asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. In determining future undiscounted cash flows, the Company has made a "policy decision" to use pre-tax cash flows in our evaluation, which is consistently applied.

If the Company determines that an asset or asset group is not recoverable, then we would record an impairment charge if the carrying value of the asset or asset group exceeds its fair value. Fair value is based on estimated discounted future cash flows expected to be generated by the asset or asset group. The assumptions underlying cash flow projections would represent management's best estimates at the time of the impairment review.

As of December 31, 2008, for reasons similar to those described above, the Company conducted a review of our long-lived assets in 2008, including amortizable intangible assets. This review did not indicate that an impairment existed. No review for impairment of long-lived assets was conducted in 2007 or 2009 as the Company did not believe that indicators of impairment existed.

Separable intangible assets that are not deemed to have an indefinite life are amortized over their useful lives. The Company's intangible assets have an amortization period of six months to ten years. The gross carrying amount and accumulated amortization of the Company's intangible assets, other than goodwill, as of December 31, 2009 and December 31, 2008 are as follows (in thousands):

	December 31, 2009				December 31, 2008			
	Gross Amount	Accumulated Amortization	Net Book Value	Weighted Average Remaining Life (Years)	Gross Amount	Accumulated Amortization	Net Book Value	Weighted Average Remaining Life (Years)
Customer relationships	$328,359	$ 163,129	$ 165,230	5.9	$327,459	$ 135,253	$ 192,206	6.9
Developed technology	53,568	14,470	39,098	5.8	40,141	7,496	32,645	4.9
Trademarks & patents	317	73	244	1.7	60	12	48	1.6
Order backlog	7,940	7,940	—	—	7,940	7,940	—	—
Non-compete agreements	5,110	5,110	—	—	5,110	2,661	2,449	0.9
Total	$395,294	$ 190,722	$ 204,572		$380,710	$ 153,362	$ 227,348	

Amortization expense recorded on the intangible assets listed in the above table for the years ended December 31, 2009, 2008, and 2007 was $37.4 million, $44.2 million and $2.3 million, respectively. The estimated total amortization expense for each of the next five fiscal years is as follows (in thousands):

2010	$ 35,957
2011	35,755
2012	35,586
2013	35,324
2014	28,923

Note 14. Long-Term Obligations

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

	December 31, 2009	December 31, 2008
2.00% convertible senior notes (net of discount of $49,802 in 2009 and $64,267 in 2008)	$ 211,248	$ 211,733
2.00% Pennsylvania Industrial Development Authority debt, net of current portion	—	137
Total long-term debt	211,248	211.870
Other long-term liabilities:		
Deferred compensation	5,673	4,896
Accrued warranty	3,413	4,532
Deferred revenue	2,969	2,671
Landlord funded leasehold improvements	900	1,308
Other long-term liabilities	3,066	1,936
Total other long-term liabilities	16,021	15,343
Total long-term obligations	$ 227,269	$ 227,213

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 an initial conversion rate, subject to adjustment, of 62.1504 shares per $1,000 principal amount (which represents an initial conversion price of approximately $16.09 per share of our common stock), into cash up to the principal amount and, if applicable, shares of the Company's common stock, cash or a combination thereof. The notes may be converted during any calendar quarter in which the closing price of ARRIS' common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect at that time (which, based on the current conversion price, would be $19.31) and upon the occurrence of certain other events. Upon conversion, the holder will receive the principal amount in cash and an additional payment, in either cash or stock at the option of the Company. The additional payment will be based on a formula which calculates the difference between the initial conversion rate ($16.09) and the market price at the date of the conversion. As of February 25, 2010, 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 15, 2013.

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

The Company paid approximately $7.8 million of finance fees related to the issuance of the notes. Of the $7.8 million, approximately $2.5 million was attributed to the equity component of the convertible debt instrument. The portion related to the debt issuance costs are being amortized over seven years. The remaining balance of unamortized financing costs from these notes as of December 31, 2009 and 2008 was $2.8 million, and $3.7 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables present the effect on the Company's affected financial statement line items for the two years ended December 31, 2007 and 2008 (in thousands, except per share data):

	For the year Ended December 31, 2007			For the year Ended December 31, 2008		
	As Originally Reported	As Adjusted	Increase (Decrease)	As Originally Reported	As Adjusted	Increase (Decrease)
Statement of Operations:						
Interest expense	$ 6,614	$ 16,188	$ 9,574	$ 6,740	$ 17,123	$ 10,383
Income (loss) from continuing operations before income taxes	139,087	129,513	(9,574)	(116,881)	(127,264)	(10,383)
Income tax expense	40,951	37,370	(3,581)	6,258	2,375	(3,883)
Net income (loss)	98,340	92,347	(5,993)	(123,139)	(129,639)	(6,500)
Basic net income (loss) per share:						
Income (loss) from continuing operations before income taxes	$ 1.25	$ 1.17	$ (0.08)	$ (0.94)	$ (1.02)	$ (0.08)
Basic net income (loss) per share	$ 0.89	$ 0.83	$ (0.06)	$ (0.99)	$ (1.04)	$ (0.05)
Diluted net income per (loss) share:						
Income (loss) from continuing operations before income taxes	$ 1.23	$ 1.15	$ (0.08)	$ (0.94)	$ (1.02)	$ (0.08)
Diluted net income (loss) per share	$ 0.87	$ 0.82	$ (0.05)	$ (0.99)	$ (1.04)	$ (0.05)

	As of December 31, 2008		
	As Originally Reported	As Adjusted	Increase (Decrease)
Balance Sheet:			
Noncurrent deferred income tax assets	$ 11,514	$ 12,157	$ 643
Other assets	8,294	6,575	(1,719)
Long-term debt, net of current portion	276,137	211,870	(64,267)
Noncurrent deferred income tax liabilities	17,565	41,598	24,033
Capital in excess of par value	1,105,998	1,159,097	53,099
Accumulated deficit	(188,562)	(202,503)	(13,941)

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

The Company has not paid cash dividends on its common stock since its inception. In 2002, to implement its shareholder rights plan, the Company's board of directors declared a dividend consisting of one right for each share of its common stock outstanding. Each right represents the right to purchase one one-thousandth of a share of its Series A Participating Preferred Stock and becomes exercisable only if a person or group acquires beneficial ownership of 15% or more of its common stock or announces a tender or exchange offer for 15% or more of its common stock or under other similar circumstances.

Note 15. Earnings Per Share

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

	For the Years Ended December 31, 2009	2008	2007
Basic:			
Income (loss) from continuing operations	$ 90,769	$ (129,639)	$ 92,143
Income from discontinued operations	—	—	204
Net income (loss)	$ 90,769	$ (129,639)	$ 92,347
Weighted average shares outstanding	124,716	124,878	110,843
Basic earnings (loss) per share	$ 0.73	$ (1.04)	$ 0.83
Diluted:			
Income (loss) from continuing operations	$ 90,769	$ (129,639)	$ 92,143
Income from discontinued operations	—	—	204
Net income (loss)	$ 90,769	$ (129,639)	$ 92,347
Weighted average shares outstanding	124,716	124,878	110,843
Net effect of dilutive shares	3,369	—	2,184
Total	128,085	124,878	113,027
Diluted earnings (loss) per share	$ 0.71	$ (1.04)	$ 0.82

In November 2006, the Company issued $276.0 million of convertible senior notes. Upon conversion, ARRIS will satisfy at least the principal amount in cash, rather than common stock. This reduced the potential earnings dilution to only include the conversion premium, which is the difference between the conversion price per share of common stock and the average share price. The average share price in 2009, 2008 and 2007 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 3.8 million, 8.8 million and 2.7 million shares as of December 31, 2009, 2008 and 2007, respectively. These exclusions are made if the exercise prices of these options are greater than the average market price of the common stock for the period, or if we have net losses, both of which have an anti-dilutive effect.

Note 16. Income Taxes

Income tax expense (benefit) consisted of the following (in thousands):

	Years Ended December 31,		
	2009	2008	2007
Current — Federal	$ 26,586	$ 13,492	$ 31,044
State	3,867	5,903	5,269
Foreign	344	(258)	233
	30,797	19,137	36,546
Deferred — Federal	11,856	(12,007)	4,744
State	4,450	(798)	463
Foreign	(3,254)	(74)	(802)
	13,052	(12,879)	4,405
	$ 43,849	$ 6,258	$ 40,951

A reconciliation of the statutory federal income tax rate of 35% and the effective income tax rates is as follows:

	Years Ended December 31,		
	2009	2008	2007
Statutory federal income tax expense (benefit)	35.0%	(35.0)%	35.0%
Effects of:			
State income taxes, net of federal benefit	5.2%	4.4%	2.8%
Differences between U.S. and foreign income tax rates	0.5%	(1.0)%	(0.7)%
Impairment of goodwill	—	43.3%	—
Domestic manufacturing deduction	(2.0)%	(1.7)%	—
Decrease in valuation allowance	(3.6)%	(0.1)%	(3.8)%
Federal tax exempt interest	(0.1)%	(0.3)%	(2.1)%
Acquired in-process research and development	—	—	1.6%
Research and development tax credits	(3.5)%	(4.0)%	(4.3)%
Other, net	1.1%	(0.2)%	1.0%
	32.6%	5.4%	29.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of ARRIS' net deferred income tax assets (liabilities) were as follows (in thousands):

	December 31, 2009	December 31, 2008
Current deferred income tax assets:		
Inventory costs	$ 11,124	$ 10,504
Federal research and development credits	679	3,000
Federal/state net operating loss carryforwards	7,457	11,703
Foreign net operating loss carryforwards	100	69
Warranty reserve	804	2,840
Deferred revenue	12,945	11,844
Other, principally operating expenses	6,926	5,995
Total current deferred income tax assets	40,035	45,955
Noncurrent deferred income tax assets:		
Federal/state net operating loss carryforwards	8,870	15,464
Federal capital loss carryforwards	124	163
Foreign net operating loss carryforwards	10,015	13,242
Federal alternative minimum tax ("AMT") credit	2,224	2,224
Federal research and development credits	7,719	16,649
Pension and deferred compensation	7,272	8,372
Equity compensation	8,943	6,728
Warranty reserve	852	—
Other, principally operating expenses	5,314	2,932
Total noncurrent deferred income tax assets	51,333	65,774
Total deferred income tax assets	91,368	111,729
Current deferred income tax liabilities:		
Other, principally operating expenses	(954)	(1,059)
Total current deferred income tax liabilities	(954)	(1,059)
Non-current deferred income tax liabilities:		
Property, plant and equipment, depreciation and basis differences	(1,623)	(833)
Other noncurrent liabilities	(1,730)	(512)
Convertible debt	(18,704)	(24,036)
Goodwill and Intangibles	(45,828)	(56,103)
Total noncurrent deferred income tax liabilities	(67,885)	(81,484)
Total deferred income tax liabilities	(68,839)	(82,543)
Net deferred income tax assets	22,529	29,186
Valuation allowance	(16,979)	(15,718)
Net deferred income tax assets	$ 5,550	$ 13,468

The valuation allowance for deferred income tax assets of $17.0 million and $15.7 million at December 31, 2009 and 2008, respectively, relates to the uncertainty surrounding the realization of certain deferred income tax assets in various jurisdictions. A valuation allowance should be established and maintained when it is more-likely-than-not that all or a portion of deferred income tax assets will not be realized. The $1.3 million increase in valuation allowance in 2009 was predominantly due to increases in state deferred tax assets within legal entities experiencing cumulative losses, offset by releases of valuation allowances in Europe due to settlements of income tax audits. The Company continually reviews the adequacy of its valuation allowances by reassessing whether it is more-likely-than-not to realize its various deferred income tax assets.

As of December 31, 2009 and December 31, 2008, ARRIS had $25.8 million and $57.8 million, respectively, of U.S. Federal net operating losses available to offset against future ARRIS taxable income. The U.S. Federal net operating losses may be carried forward for twenty years. The available acquired U.S. Federal net operating losses as of December 31, 2009, will expire between the years 2013 and 2023. As of December 31, 2009, ARRIS also had $181.4 million of U.S. state net operating loss carryforwards in various states. The amounts available for utilization vary by state due to the apportionment of the Company's taxable income and state law governing the expiration of these net operating losses. U.S. state net operating loss carryforwards of approximately $27.8 million relate to the exercise of employee stock options and restricted stock ("equity compensation"). Any future cash benefit resulting from the utilization of these U.S. state net operating losses attributable to this portion of equity compensation will be credited directly to paid in capital during the year in which the cash benefit is realized. Additionally, ARRIS has foreign net operating loss carryforwards available, as of December 31, 2009, of approximately $47.3 million with varying expiration dates. Approximately $23.5 million of the available foreign net operating loss carryforwards were acquired from C-COR, and approximately $21.8 million of the total foreign net operating loss carryforwards relate to ARRIS' Irish subsidiary and have an indefinite life.

ARRIS' ability to use U.S. Federal and state net operating loss carryforwards to reduce future taxable income, or to use research and development tax credit carryforwards to reduce future income tax liabilities, is subject to restrictions attributable to equity transactions that resulted in a change of ownership during prior tax years, as defined in Internal Revenue Code Sections 382 and 383. All of the tax attributes (net operating losses carried forward and tax credits carried forward) acquired from the C-COR Incorporated transaction are subject to restrictions arising from equity transactions, including transactions that created ownership changes within C-COR prior to its acquisition by ARRIS. With the exception of $0.6 million of its U.S federal net operating loss carryforwards and $158.6 million of its U.S. state net operating loss carryforwards, ARRIS does not expect that the limitations placed on its net operating losses and research and development tax credits as a result of applying these and other rules will result in the expiration of its net operating loss and research and development tax credit carryforwards. However, future equity transactions could further limit the utilization of these tax attributes.

During the past several years, ARRIS has identified and reported U.S. federal research and development tax credits in the amount of $45.5 million, and domestic state research and development tax credits in the amount of $5.1 million. During the tax years ending December 31, 2009, and 2008, we utilized $19.3 million and $12.1 million, respectively, to offset against U.S. federal and state income tax liabilities. As of December 31, 2009, ARRIS has $6.2 million of available domestic federal research and development tax credits and $2.7 million of available domestic state research and development tax credits carried forward from 2008. The remaining unutilized domestic federal research and development tax credits can be carried back one year and carried forward twenty years. The domestic state research and development tax credits carry forward and will expire pursuant to the various applicable domestic state rules.

ARRIS intends to indefinitely reinvest the undistributed earnings of its foreign subsidiaries. Accordingly, no deferred income taxes have been recorded for the difference between its financial and tax basis investment in its foreign subsidiaries. If these earnings were distributed to the U.S. in the form of dividends, or otherwise, ARRIS would have additional U.S. taxable income and, depending on the company's tax posture in the year of repatriation, may have to pay additional U.S. income taxes. Withholding taxes may also apply to the repatriated earnings. Determination of the amount of unrecognized income tax liability related to these permanently reinvested and undistributed foreign subsidiary earnings is currently not practicable. However, we expect that the income tax liability from a repatriation of these earnings would not be material since almost all of ARRIS' undistributed earnings are held by legal entities that file income tax returns in the United States.

Tabular Reconciliation of Unrecognized Tax Benefits (in thousands):

	December 31, 2009	December 31, 2008
Beginning balance	$ 16,620	$ 9,873
Gross increases — tax positions in prior period	24	8
Gross decreases — tax positions in prior period	(2,235)	—
Gross increases — current-period tax positions	2,867	5,206
Increases from acquired businesses	—	1,888
Decreases relating to settlements with taxing authorities	—	(355)
Ending balance	$ 17,276	$ 16,620

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2001. The Company and its subsidiaries are currently under income tax audit in only three jurisdictions (the state of Florida, the state of California, and the state of Illinois) and they have not received notices of any planned or proposed income tax audits. During 2009, the Company reached a settlement agreement with the Netherlands for tax years through 2009. The Company also concluded its tax audit with French taxing authorities with no change to the tax returns as originally filed. The Company has no outstanding unpaid income tax assessments for prior income tax audits.

At the end of 2009, the Company's total tax liability related to uncertain net tax positions totaled approximately $16.9 million, all of which would cause the effective income tax rate to change upon the recognition ARRIS does not currently anticipate that the total amount of unrecognized tax benefits will materially increase or decrease within the next twelve months. The Company reported approximately $0.8 million and $0.4 million, respectively, of interest and penalty accrual related to the anticipated payment of these potential tax liabilities as of December 31, 2009 and 2008. The Company classifies interest and penalties recognized on the liability for uncertain tax positions as income tax expense. During 2009 and 2008, the Company reported $0.4 million and $0.2 million, respectively, of income tax expense arising from accruals of interest and penalties associated with uncertain tax provisions.

Note 17. Commitments

ARRIS leases office, distribution, and warehouse facilities as well as equipment under long-term leases expiring at various dates through 2023. Included in these operating leases are certain amounts related to restructuring activities; these lease payments and related sublease income are included in restructuring accruals on the consolidated balance sheets. Future minimum operating lease payments under non-cancelable leases at December 31, 2009 were as follows (in thousands):

	Operating Leases
2010	$ 8,154
2011	5,860
2012	3,658
2013	2,445
2014	1,096
Thereafter	1,955
Less sublease income	(167)
Total minimum lease payments	$ 23,001

Total rental expense for all operating leases amounted to approximately $9.1 million, $9.0 million and $5.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

As of December 31, 2009, the Company had approximately $4.5 million of restricted cash. Of the total restricted cash, $2.5 million related to outstanding letters of credit that were cash collateralized and $2.0 million is security for hedge transactions. Additionally, the Company had contractual obligations of approximately $103.1 million under agreements with non-cancelable terms to purchase goods or services over the next year. All contractual obligations outstanding at the end of prior years were satisfied within a 12 month period, and the obligations outstanding as of December 31, 2009 are expected to be satisfied in 2010.

Note 18. Stock-Based Compensation

ARRIS grants stock options under its 2008 Stock Incentive Plan ("2008 SIP"), 2007 Stock Incentive Plan ("2007 SIP") and 2004 Stock Incentive Plan ("2004 SIP") and issues stock purchase rights under its Employee Stock Purchase Plan ("ESPP"). Upon approval of the 2004 SIP by stockholders on May 26, 2004, all shares available for grant under the 2002 Stock Incentive Plan ("2002 SIP") and the 2001 Stock Incentive Plan ("2001 SIP") were cancelled. However, those shares subject to outstanding stock awards issued under the 2002 SIP and the 2001 SIP that are forfeited, cancelled, or expire unexercised; shares tendered (either actually or through attestation) to pay the option exercise price of such outstanding awards; and shares withheld for the payment of withholding taxes associated with such outstanding awards return to the share reserve of the 2002 SIP and 2001 SIP and shall be available again for issuance under those plans. All options outstanding as of May 26, 2004 under the 2002 SIP and 2001 SIP remained exercisable. These plans are described below.

In 2008, the Board of Directors approved the 2008 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2008 SIP may be in the form of stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, and dividend equivalent rights. A total of 12,300,000 shares of the Company's common stock may be issued pursuant to this plan. The Plan has been designed to allow for flexibility in the form of awards; however, awards denominated in shares of common stock other than stock options and stock appreciation rights will be counted against the Plan limit as 1.58 shares for every one share covered by such an award. The vesting requirements for issuance under this plan may vary; however, awards generally are required to have a minimum three-year vesting period or term.

In 2007, the Board of Directors approved the 2007 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2007 SIP may be in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, and dividend equivalent rights. A total of 5,000,000 shares of the Company's common stock may be issued pursuant to this plan. The vesting requirements for issuance under this plan may vary.

In 2004, the Board of Directors approved the 2004 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2004 SIP may be in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 6,000,000 shares of the Company's common stock may be issued pursuant to this plan. The vesting requirements for issuance under this plan may vary.

In 2002, the Board of Directors approved the 2002 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2002 SIP may be in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 2,500,000 shares of the Company's common stock were originally reserved for issuance under this plan. The vesting requirements for issuance under this plan vary.

In 2001, the Board of Directors approved the 2001 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2001 SIP may be in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 9,580,000 shares of the Company's common stock were originally reserved for issuance under this plan. The vesting requirements for issuance under this plan vary.

In 2001, the Board of Directors approved a proposal to grant truncated options to employees and board members having previous stock options with exercise prices more than 33% higher than the market price of the Company's stock at $10.20 per share. The truncated options to purchase stock of the Company pursuant to the Company's 2001 SIP, have the following terms: (a) one fourth of each option shall be exercisable immediately and an additional one fourth shall become exercisable or vest on each anniversary of this grant; (b) each option shall be exercisable in full after the closing price of the stock has been at or above the target price as determined by the agreement for twenty consecutive trading days (the "Accelerated Vesting Date"); (c) each option shall expire on the earliest of (i) the tenth anniversary of grant, (ii) six months and one day from the accelerated vesting date, (iii) the occurrence of an earlier expiration event as provided in the terms of the options granted by 2000 stock option plans. No compensation was recorded in relation to these options.

In connection with the Company's reorganization on August 3, 2001, the Company froze additional grants under other prior plans, which were the 2000 Stock Incentive Plan ("2000 SIP"), the 2000 Mid-Level Stock Option Plan ("MIP"), the 1997 Stock Incentive Plan ("SIP"), the 1993 Employee Stock Incentive Plan ("ESIP"), the Director Stock Option Plan ("DSOP"), and the TSX Long-Term Incentive Plan ("LTIP"). All options granted under the previous plans are still exercisable. The Board of Directors approved the prior plans to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under these plans were in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 2,500,000 shares of the Company's common stock were originally reserved for issuance under this plan. Options granted under this plan vest in fourths on the anniversary date of the grant beginning with the first anniversary and terminate ten years from the date of grant. Vesting requirements for issuance under the prior plans varied, as did the related date of termination.

Stock Options

ARRIS grants stock options to certain employees. Upon stock option exercise the Company issues new shares. Stock options generally vest over three or four years of service and have either seven or ten year contractual terms. The exercise price of an option is equal to the fair market value of ARRIS' stock on the date of grant. Upon adoption of SFAS No. 123R on July 1, 2005, ARRIS elected to continue to use the Black-Scholes model and engages an independent third party to assist the Company in determining the Black-Scholes valuation of its equity awards. The volatility factors are based upon a combination of historical volatility over a period of time and estimates of implied volatility based on traded option contracts on ARRIS common stock. The expected term of the awards granted are based upon a weighted average life of exercise activity of the grantee population. The risk-free interest rate is based upon the U.S. treasury strip yield at the grant date, using a remaining term equal to the expected life. The expected dividend yield is 0%, as the Company has not paid cash dividends on its common stock since its inception. In calculating the stock compensation expense, ARRIS applies an estimated pre-vesting forfeiture rate based upon historical rates. The stock compensation expense is amortized over the vesting period using the straight-line method.

A summary of activity of ARRIS' options granted under its stock incentive plans is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Beginning balance, January 1, 2009	10,245,338	$ 10.21		
Grants	10,000	5.95		
Exercised	(1,704,211)	6.47		
Forfeited	(17,757)	13.07		
Expired	(618,861)	22.67		
Ending balance, December 31, 2009	7,914,509	10.03	2.84	$ 27,705
Exercisable at December 31, 2009	7,086,744	9.68	3.14	$ 19,151

The weighted average assumptions used in this model to value ARRIS' stock options during 2009, 2008 and 2007 were as follows: risk-free interest rates of 1.5%, 2.5% and 4.4%, respectively; a dividend yield of 0%; volatility factor of the expected market price of ARRIS' common stock of 0.53, 0.51 and 0.52, respectively; and a weighted average expected life of 4.0 years, 4.0 years and 4.4 years, respectively. The weighted average grant-date fair value of options granted during 2009, 2008, and 2007 were $5.95, $9.11and $6.28, respectively. The total intrinsic value of options exercised during 2009, 2008, and 2007 was approximately $8.6 million, $0.6 million, $12.3 million, respectively.

Restricted Stock (Non-Performance) and Stock Units

ARRIS grants restricted stock and stock units to certain employees and its non-employee directors. The Company records a fixed compensation expense equal to the fair market value of the shares of restricted stock granted on a straight-line basis over the requisite services period for the restricted shares. The Company applies an estimated post-vesting forfeiture rate based upon historical rates.

The following table summarizes ARRIS' unvested restricted stock (excluding performance-related) and stock unit transactions during the year ending December 31, 2009:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2009	2,550,491	$ 6.66
Granted	2,854,247	7.66
Vested	(731,507)	7.32
Forfeited	(85,419)	7.02
Unvested at December 31, 2009	4,587,812	7.17

Restricted Shares — Subject to Performance Targets

ARRIS grants to certain employees restricted shares, in which the number of shares is dependent upon performance targets. The number of shares which could potentially be issued ranges from zero to 150% of the target award. Compensation expense is recognized using the graded method and is based upon the fair market value of the shares estimated to be earned. The fair value of the restricted shares is estimated on the date of grant using the same valuation model as that used for stock options and other restricted shares.

The following table summarizes ARRIS' unvested performance-related restricted stock transactions during the year ending December 31, 2009:

	Shares		Weighted Average Grant Date Fair Value
Unvested at January 1, 2009	438,204	$	9.63
Granted	—		—
Vested	(143,985)		10.48
Forfeited	—		—
Unvested at December 31, 2009	294,219		9.21

Restricted Shares — Subject to Comparative Market Performance

ARRIS grants to certain employees restricted shares, in which the number of shares is dependent upon the Company's total shareholder return as compared to the shareholder return of the NASDAQ composite over a three year period. The number of shares which could potentially be issued ranges from zero to 200% of the target award. Compensation expense is recognized on a straight-line basis over three year measurement period and is based upon the fair market value of the shares estimated to be earned. The fair value of the restricted shares is estimated on the date of grant using a lattice model.

The following table summarizes ARRIS' unvested market-related restricted stock transactions during the year ending December 31, 2009:

	Shares		Weighted Average Grant Date Fair Value
Unvested at January 1, 2009	—	$	—
Granted(1)	190,429	$	7.69
Vested	—	$	—
Forfeited	—	$	—
Unvested at December 31, 2009	190,429	$	7.69

(1) The final payout of these restricted shares will not be determined until December 31, 2011. Based on our current expectation, we are estimating a payout of 135% of the target award.

The total intrinsic value of restricted shares, including both non-performance and performance-related shares, vested and issued during 2009, 2008 and 2007 was $6.4 million, $2.9 million and $9.3, respectively.

Employee Stock Purchase Plan ("ESPP")

ARRIS offers an ESPP to certain employees. The plan complies with Section 423 of the U.S. Internal Revenue Code, which provides that employees will not be immediately taxed on the difference between the market price of the stock and a discounted purchase price if it meets certain requirements. Participants can request that up to 10% of their base compensation be applied toward the purchase of ARRIS common stock under ARRIS' ESPP. Purchases by any one participant are limited to $25,000 (based upon the fair market value) in any one year. The exercise price is the lower of 85% of the fair market value of the ARRIS common stock on either the first day of the purchase period or the last day of the purchase period. A plan provision which allows for the more favorable of two exercise prices is commonly referred to as a "look-back" feature. Any discount offered in excess of five percent generally will be considered compensatory and appropriately is recognized as compensation expense. Additionally, any ESPP offering a look-back feature is considered compensatory. ARRIS uses the Black-Scholes option valuation model to value shares issued under the ESPP. The valuation is comprised of two components; the 15% discount of a share of common stock and 85% of a six month option held (related to the look-back feature). The weighted average assumptions used to estimate the fair value of purchase rights granted under the ESPP for 2009, 2008, and 2007 were as follows: risk-free interest rates of 0.2%, 2.1%, and 4.4%, respectively; a dividend yield of 0%; volatility factor of the expected market price of ARRIS' common stock of 0.41, 0.67 and 0.41, respectively; and a weighted average expected life of 0.5 year for each. The Company recorded stock compensation expense related to the ESPP of approximately $0.8 million, $0.6 million and $0.4 million for the years ended December 31, 2009, 2008, and 2007, respectively.

Unrecognized Compensation Cost

As of December 31, 2009, there was approximately $29.0 million of total unrecognized compensation cost related to unvested share-based awards granted under the Company's incentive plans. This compensation cost is expected to be recognized over a weighted-average period of 2.7 years.

Treasury Stock

During the first quarter of 2008, we acquired approximately 13 million shares at a cost of $76 million. The repurchased shares are held as treasury stock on the Consolidated Balance Sheet as of December 31, 2008.

Note 19. Employee Benefit Plans

The Company sponsors a qualified and a non-qualified non-contributory defined benefit pension plan that cover certain U.S. employees. As of January 1, 2000, the Company froze the qualified defined pension plan benefits for its participants. These participants elected to enroll in ARRIS' enhanced 401(k) plan. Due to the cessation of plan accruals for such a large group of participants, a curtailment was considered to have occurred.

The U.S. pension plan benefit formulas generally provide for payments to retired employees based upon their length of service and compensation as defined in the plans. ARRIS' investment policy is to fund the qualified plan as required by the Employee Retirement Income Security Act of 1974 ("ERISA") and to the extent that such contributions are tax deductible.

The investment strategies of the plans place a high priority on benefit security. The plans invest conservatively so as not to expose assets to depreciation in adverse markets. The plans' strategy also places a high priority on earning a rate of return greater than the annual inflation rate along with maintaining average market results. The plan has targeted asset diversification across different asset classes and markets to take advantage of economic environments and to also act as a risk minimizer by dampening the portfolio's volatility. The following table summarizes the weighted average pension asset allocations as December 31, 2009 and 2008, and the expected rate of return by asset category:

	Weighted Average Allocation		
	Target	Actual	
	2009	2009	2008
Equity securities	60%	56%	49%
Debt securities	30%	39%	42%
Cash and cash equivalents	10%	5%	9%
	100%	100%	100%

The following table summarizes the Company's pension plan assets by category and by level (as described in Note 5 of the Notes to the Consolidated Financial Statements) as of December 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents(1)	$ 923	$ —	$ —	$ 923
Equity securities:(2)				
U.S. large cap	—	5,249	—	5,249
U.S. mid cap	—	2,745	—	2,745
U.S. small cap	—	2,160	—	2,160
International	—	1,423	—	1,423
Fixed income securities:				
U.S. government bonds(3)	—	8,172	—	8,172
Total	$ 923	$ 19,749	$ —	$ 20,672

(1) Cash and cash equivalents, which are used to pay benefits and administrative expenses, are held in a money market fund.

(2) Equity securities consist of common and preferred stock, mutual funds, and common trust funds. Investments in common and preferred stocks are valued using quoted market prices multiplied by the number of shares owned. Investments in mutual funds and common trust funds are valued at the net asset value per share multiplied by the number of shares held.

(3) Fixed income securities consist of U.S. government securities in mutual funds, and are valued at the net asset value per share multiplied by the number of shares held.

The Company has established a rabbi trust and to fund the pension obligations of the Chief Executive Officer under his Supplemental Retirement Plan including the benefit under the Company's non-qualified defined benefit plan. In addition, the Company has established a rabbi trust for certain executive officers to fund the Company's pension liability to those officers under the non-qualified plan.

Summary data for the non-contributory defined benefit pension plans is as follows:

	Years Ended December 31, 2009	2008
	(in thousands)	
Change in Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 34,337	$ 29,687
Service cost	981	1,027
Interest cost	2,119	2,316
Actuarial loss	570	2,199
Benefit payments	(752)	(892)
Projected benefit obligation at end of year	$ 37,255	$ 34,337
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 15,351	$ 19,188
Actual return on plan assets	3,955	(4,096)
Company contributions	2,118	1,151
Expenses and benefits paid from plan assets	(752)	(892)
Fair value of plan assets at end of year(1)	$ 20,672	$ 15,351
Funded Status:		
Funded status of plan	$ (16,583)	$ (18,986)
Unrecognized actuarial loss	6,725	9,461
Unamortized prior service cost	261	722
Net amount recognized	$ (9,597)	$ (8,803)

(1) In addition to the pension plan assets, ARRIS has established two rabbi trusts to further fund the pension obligations of the Chief Executive Officer and certain other executives. The balance of these assets as of December 31, 2009 was approximately $9.7 million and are included in Investments on the Consolidated Balance Sheets.

Amounts recognized in the statement of financial position consist of:

	Years Ended December 31, 2009	2008
	(in thousands)	
Current liabilities	$ (175)	$ (166)
Noncurrent liabilities	(16,407)	(18,820)
Accumulated other comprehensive income(1)	6,985	10,183
Total	$ (9,597)	$ (8,803)

(1) The total unfunded pension liability on the Consolidated Balance Sheets as of December 31, 2009 and 2008 included a related income tax effect of $(0.9) million and $(2.1) million, respectively.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) are as follows:

	Years Ended December 31, 2009	2008
	(in thousands)	
Net (gain) loss	$ (2,259)	$ 8,088
Amortization of net loss	(477)	—
Amortization of prior service cost	(462)	(598)
Total recognized in other comprehensive income (loss)	$ (3,198)	$ 7,490

The following table summarizes the amounts in other comprehensive income (loss) expected to be amortized and recognized as a component of net periodic benefit cost in 2010 (in thousands):

Amortization of net loss	$280
Amortization of prior service cost	260

Information for defined benefit plans with accumulated benefit obligations in excess of plan assets is as follows:

	December 31, 2009	2008
	(In thousands)	
Accumulated benefit obligation	$ 36,489	$ 33,125
Projected benefit obligation	$ 37,255	$ 34,337
Plan assets	$ 20,672	$ 15,351

Net periodic pension cost for 2009, 2008 and 2007 for pension and supplemental benefit plans includes the following components (in thousands):

	2009	2008	2007
Service cost	$ 981	$ 1,027	$ 558
Interest cost	2,119	2,316	1,648
Return on assets (expected)	(1,126)	(1,792)	(1,277)
Amortization of net actuarial loss	477	—	102
Amortization of prior service cost(1)	462	597	477
Net periodic pension cost(2)	$ 2,913	$ 2,148	$ 1,508

(1) Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

(2) For 2008, this represents 15 months of expense as a result of changing the measurement date from September 30 to December 31. Of the total net periodic pension cost of $2,148 thousand, approximately $1,718 thousand was included in pension expense in the Consolidated Statements of Operations and $430 thousand was reflected as an adjustment to retained earnings in the Consolidated Balance Sheet.

The weighted-average actuarial assumptions used to determine the benefit obligations for the three years presented are set forth below:

	2009	2008	2007
Assumed discount rate for non-qualified plan participants	5.75%	6.25%	6.25%
Assumed discount rate for qualified plan participants	5.75%	6.25%	6.25%
Rate of compensation increase	3.75%	3.75%	3.75%

The weighted-average actuarial assumptions used to determine the net periodic benefit costs are set forth below:

	2009	2008	2007
Assumed discount rate for non-qualified plan participants	6.25%	6.25%	5.75%
Assumed discount rate for qualified plan participants	6.25%	6.25%	5.75%
Rate of compensation increase	3.75%	3.75%	3.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	8.00%

The expected long-term rate of return on assets is derived using the building block approach which includes assumptions for the long term inflation rate, real return, and equity risk premiums.

No minimum funding contributions are required in 2010 for the plan; however, the Company may make a voluntary contribution.

As of December 31, 2009, the expected benefit payments related to the Company's defined benefit pension plans during the next ten years are as follows (in thousands):

2010	$ 977
2011	972
2012	1,096
2013	13,555
2014	1,399
2015 – 2019	7,896

Other Benefit Plans

ARRIS has established defined contribution plans pursuant to the Internal Revenue Code Section 401(k) that cover all eligible U.S. employees. ARRIS contributes to these plans based upon the dollar amount of each participant's contribution. ARRIS made matching contributions to these plans of approximately $4.4 million, $4.1 million and $2.1 million in 2009, 2008, and 2007, respectively.

The Company has a deferred compensation plan that does not qualify under Section 401(k) of the Internal Revenue Code, which was available to certain current and former officers and key executives of C-COR. During 2008, this plan was merged into a new non-qualified deferred compensation plan which is also available to key executives of the Company. Employee compensation deferrals and matching contributions are held in a rabbi trust. The total of net employee deferrals and matching contributions, which is reflected in other long-term liabilities, was $1.4 million and $0.8 million at December 31, 2009 and 2008, respectively. Total expenses included in continuing operations for the matching contributions were approximately $74 thousand in 2009. The match is contributed on a one year lag, and therefore, no expenses were recorded in 2008 as this was the year the plan was established.

The Company previously offered a deferred compensation arrangement, which allowed certain employees to defer a portion of their earnings and defer the related income taxes. As of December 31, 2004, the plan was frozen and no further contributions are allowed. The deferred earnings are invested in a rabbi trust. The total of net employee deferral and matching contributions, which is reflected in other long-term liabilities, was $2.4 million and $1.9 million at December 31, 2009 and 2008, respectively.

The Company also has a deferred retirement salary plan, which was limited to certain current or former officers of C-COR. The present value of the estimated future retirement benefit payments is being accrued over the estimated service period from the date of signed agreements with the employees. The accrued balance of this plan, the majority of which is included in other long-term liabilities, was $2.0 million and $2.3 million at December 31, 2009 and 2008, respectively. Total expenses included in continuing operations for the deferred retirement salary plan were approximately $204 thousand and $284 thousand for 2009 and 2008, respectively.

Note 20. Summary Quarterly Consolidated Financial Information (unaudited)

The following table summarizes ARRIS' quarterly consolidated financial information (in thousands, except per share data):

	Quarters in 2009 Ended			
	March 31,	June 30,	September 30,	December 31,
Net sales	$ 253,518	$ 278,521	$ 275,772	$ 299,995
Gross margin(1)	95,510	117,280	115,473	134,500
Operating income(2)	22,389	38,154	38,899	49,305
Income from continuing operations	12,882	22,909	21,699	33,279
Net income(3)(4)	$ 12,882	$ 22,909	$ 21,699	$ 33,279
Net income per basic share:				
Income from continuing operations	$ 0.10	$ 0.18	$ 0.17	$ 0.26
Net income	$ 0.10	$ 0.18	$ 0.17	$ 0.26
Net income per diluted share:				
Income from continuing operations	$ 0.10	$ 0.18	$ 0.17	$ 0.26
Net income	$ 0.10	$ 0.18	$ 0.17	$ 0.26

	Quarters in 2008 Ended			
	March 31,	June 30,	September 30,	December 31,
Net sales	$ 273,506	$ 281,110	$ 297,551	$ 292,398
Gross margin(1)	85,248	92,884	106,134	108,863
Operating income (loss)(2)	6,485	15,547	36,301	(176,446)
Income (loss) from continuing operations	3,829	7,829	22,434	(163,731)
Net income (loss)(3)(4)	$ 3,829	$ 7,829	$ 22,434	$ (163,731)
Net income (loss) per basic share:				
Income (loss) from continuing operations	$ 0.03	$ 0.06	$ 0.18	$ (1.33)
Net income (loss)	$ 0.03	$ 0.06	$ 0.18	$ (1.33)
Net income (loss) per diluted share:				
Income (loss) from continuing operations	$ 0.03	$ 0.06	$ 0.18	$ (1.33)
Net income (loss)	$ 0.03	$ 0.06	$ 0.18	$ (1.33)

(1) During each quarter in 2009 and 2008, the Company recognized stock compensation expense of approximately $0.3 million and $0.2 million respectively in cost of goods sold which impacted gross margins.

(2) In addition to (1) above, the following items impacted operating income (loss):

— During the first, second, third and fourth quarters of 2009, the Company recognized stock compensation expense (included in operating expenses) of approximately $3.1 million, $3.7 million, $3.9 million and $3.8 million, respectively. During the first, second, third and fourth quarters of 2008, the Company recognized stock compensation expense (included in operating expenses) of approximately $2.4 million, $2.6 million, $2.6 million and $2.7 million, respectively.

— During the first, second, third and fourth quarters of 2009, the Company recorded restructuring reserve adjustments of $0.1 million, $0.6 million, $0.1 million, and $2.9 million, respectively. During the first, second, third and fourth quarters of 2008, the Company recorded restructuring reserve adjustments of $0.4 million, $0.2 million, $0.2 million, and $0.4 million, respectively. The adjustments predominantly related to changes in estimates related to real estate leases.

— During the first quarter of 2008, the Company recorded expenses of approximately $0.4 million related to the integration of C-COR into ARRIS following the December 2007 acquisition.

— During the first, second, third and fourth quarters of 2009, the Company recognized amortization of intangible assets of approximately $9.3 million, $9.3 million, $9.3 million and $9.5 million, respectively. During the first, second, third and fourth quarters of 2008, the Company recognized amortization of intangible assets of approximately $13.3 million, $12.5 million, $9.1 million and $9.3 million, respectively.

— During the fourth quarter 2008, ARRIS recorded goodwill impairment charges of $209.3 million with respect to the goodwill testing.

(3) During each quarter in 2009 and 2008, the Company recognized non cash interest expense of approximately $2.8 million and $2.7 million respectively in other income / expense.

During the first quarter of 2009, the Company recorded a gain of $4.2 million related to the repurchase of a portion of the convertible debt.

(4) During the first and third quarter of 2009, the Company recorded an income tax expense of $1.3 million for state valuation allowances, research & development tax credits and provision to return differences resulting from filing of the 2008 tax return.

During the fourth quarter of 2009, the Company recorded a tax benefit of $4.6 million for changes to foreign valuation allowances relating to historic net operating losses in the various jurisdictions.

During the third quarter of 2008, the Company recorded an income tax benefit of $1.5 million related to certain provision to return adjustments.

During the fourth quarter of 2008, ARRIS recorded an income tax adjustment of approximately $24.7 million related to the deferred tax impacts associated with the goodwill impairment.

Note 21. Subsequent Events

The Company has evaluated whether any subsequent events have occurred through the time of filing of these financial statements with the SEC that would require disclosure in these financial statements and concluded that there were none.

PART III

Item 10. *Directors, Executive Officers, and Corporate Governance*

Information relating to directors and officers of ARRIS, the Audit Committee of the board of directors and stockholder nominations for directors is set forth under the captions entitled "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Committees of the Board of Directors and Meeting Attendance" in the Company's Proxy Statement for the 2009 Annual Meeting of Stockholders to be held in 2010 and is incorporated herein by reference. Certain information concerning the executive officers of the Company is set forth in Part I of this document under the caption entitled "Executive Officers of the Company".

ARRIS' code of ethics and financial code of ethics (applicable to our CEO, senior financial officers, and all finance, accounting, and legal managers) are available on our website at www.arrisi.com under Investor Relations, Corporate Governance. The website also will disclose whether there have been any amendments or waivers to the Code of Ethics and Financial Code of Ethics. ARRIS will provide copies of these documents in electronic or paper form upon request to Investor Relations, free of charge.

ARRIS' board of directors has identified Matthew Kearney and John Petty, both members of the Audit Committee, as our audit committee financial experts, as defined by the SEC.

Item 11. *Executive Compensation*

Information regarding compensation of officers and directors of ARRIS is set forth under the captions entitled "Executive Compensation," "Compensation of Directors," "Employment Contracts and Termination of Employment and Change-In-Control Arrangements," "Committees of the Board of Directors and Meeting Attendance — Compensation Committee," and "Compensation Committee Report" in the Proxy Statement and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners, Management and Related Stockholders Matters*

Information regarding ownership of ARRIS common stock is set forth under the captions entitled "Equity Compensation Plan Information," "Security Ownership of Management" and "Security Ownership of Principal Stockholders" in the Proxy Statement and is incorporated herein by reference.

Item 13. *Certain Relationships, Related Transactions, and Director Independence*

Information regarding certain relationships, related transactions with ARRIS, and director independence is set forth under the captions entitled "Compensation of Directors," "Certain Relationships and Related Party Transactions," and "Election of Directors" in the Proxy Statement and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

Information regarding principal accountant fees and services is set forth under the caption "Relationship with Independent Registered Public Accounting Firm" in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) (1) Financial Statements

The following Consolidated Financial Statements of ARRIS Group, Inc. and Report of Ernst & Young LLP, Independent Registered Public Accounting Firm are filed as part of this Report.

(a) (2) Financial Statement Schedules

The following consolidated financial statement schedule of ARRIS is included in this item pursuant to paragraph (b) of Item 15:

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are not applicable, and therefore have been omitted.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charge to Expenses(1)	Deductions(2)	Balance at End of Period
		(In thousands)		
YEAR ENDED DECEMBER 31, 2009				
Reserves and allowance deducted from asset accounts:				
Allowance for doubtful accounts	$ 3,988	$ (1,836)	$ (16)	$ 2,168
Reserve for obsolete and excess inventory(3)	$ 18,811	$ 11,413	$ 8,073	$ 22,151
Income tax valuation allowance(4)	$ 15,718	$ 7,178	$ 5,917	$ 16,979
YEAR ENDED DECEMBER 31, 2008				
Reserves and allowance deducted from asset accounts:				
Allowance for doubtful accounts	$ 2,826	$ 1,151	$ (11)	$ 3,988
Reserve for obsolete and excess inventory(3)	$ 12,848	$ 12,815	$ 6,852	$ 18,811
Income tax valuation allowance(4)	$ 23,494	$ —	$ 7,776	$ 15,718
YEAR ENDED DECEMBER 31, 2007				
Reserves and allowance deducted from asset accounts:				
Allowance for doubtful accounts	$ 3,576	$ 279	$ 1,029	$ 2,826
Reserve for obsolete and excess inventory(3)	$ 13,245	$ 3,397	$ 3,794	$ 12,848
Income tax valuation allowance(4)	$ 9,393	$ 19,294	$ 5,193	$ 23,494

(1) In the year ended December 31, 2009, the charge to expense for the allowance for doubtful accounts primarily represents an adjustment for a change in estimate related to uncollectible accounts. In the year ended December 31, 2007, the charge to expense for income tax valuation allowances primarily represents an adjustment to goodwill for the acquired allowances from C-COR.

(2) Represents: a) Uncollectible accounts written off, net of recoveries and write-offs, b) Net change in the sales return and allowance account, and c) Disposal of obsolete and excess inventory, and d) Release and correction of valuation allowances.

(3) The reserve for obsolescence and excess inventory is included in inventories.

(4) The income tax valuation allowance is included in current and noncurrent deferred income tax assets.

(a) (3) Exhibit List

Each management contract or compensation plan required to be filed as an exhibit is identified by an asterisk (*).

Exhibit Number	Description of Exhibit	The filings referenced for incorporation by reference are ARRIS (formerly known as Broadband Parent, Inc.) filings unless otherwise noted
3.1	Amended and Restated Certificate of Incorporation	Registration Statement #333-61524, Exhibit 3.1
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation	August 3, 2001 Form 8-A, Exhibit 3.2
3.3	By-laws	April 15, 2009 Form 8-K, Exhibit 3.1
4.1	Form of Certificate for Common Stock	Registration Statement #333-61524, Exhibit 4.1
4.2	Rights Agreement dated October 3, 2002	October 3, 2002 Form 8-K, Exhibit 4.1
4.3	Indenture dated November 13, 2006	November 16, 2006 Form 8-K, Exhibit 4.5
10.1(a)*	Amended and Restated Employment Agreement with Robert J. Stanzione, dated August 6, 2001	September 30, 2001 Form 10-Q, Exhibit 10.10(c)
10.1(b)*	Supplemental Executive Retirement Plan for Robert J. Stanzione, effective August 6, 2001	September 30, 2001 Form 10-Q, Exhibit 10.10(d)
10.1(c)*	Amendment to Employment Agreement with Robert J. Stanzione, dated December 8, 2006	December 12, 2006 Form 8-K, Exhibit 10.7
10.1(d)*	Second Amendment to Amended and Restated Employment Agreement with Robert J. Stanzione, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.8
10.1(e)*	First Amendment to the Robert Stanzione Supplemental Executive Retirement Plan, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.9
10.2(a)*	Amended and Restated Employment Agreement with Lawrence A. Margolis, dated April 29, 1999	June 30, 1999 Form 10-Q, Exhibit 10.33, filed by ANTEC Corp
10.2(b)*	Amendment to Employment Agreement with Lawrence Margolis, dated December 8, 2006	December 12, 2006 Form 8-K, Exhibit 10.6
10.2(c)*	Second Amendment to Amended and Restated Employment Agreement with Lawrence Margolis, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.7
10.3(a)*	Employment Agreement with David B. Potts dated December 8, 2006	December 12, 2006 Form 8-K, Exhibit 10.4
10.3(b)*	First Amendment to Employment Agreement with David B. Potts, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.6

Exhibit Number	Description of Exhibit	The filings referenced for incorporation by reference are ARRIS (formerly known as Broadband Parent, Inc.) filings unless otherwise noted
10.4(a)*	Employment Agreement with Ronald M. Coppock, dated December 8, 2006	December 12, 2006 Form 8-K, Exhibit 10.1
10.4(b)*	First Amendment to Employment Agreement with Ronald M. Coppock, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.3
10.5(a)*	Employment Agreement with James D. Lakin, dated December 8, 2006	December 12, 2006 Form 8-K, Exhibit 10.2
10.5(b)*	First Amendment to Employment Agreement with James D. Lakin, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.5
10.6(a)*	Employment Agreement with Bryant K. Isaacs, dated December 8, 2006	December 12, 2006 Form 8-K, Exhibit 10.3
10.6(b)*	First Amendment to Employment Agreement with Bryant K. Isaacs, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.4
10.7*	Employment Agreement with Bruce McClelland, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.2
10.8*	Employment Agreement with John Caezza, dated November 26, 2008	November 28, 2008 Form 8-K, Exhibit 10.1
10.9*	Management Incentive Plan	July 2, 2001 Appendix IV of Proxy Statement filed as part of Registration Statement #333-61524, filed by Broadband Parent Corporation
10.10*	2001 Stock Incentive Plan	July 2, 2001 Appendix III of Proxy Statement filed as part of Registration Statement #333-61524, files by Broadband Parent Corporation
10.11*	2004 Stock Incentive Plan	Appendix B of Proxy Statement filed on April 20, 2004
10.12*	2007 Stock Incentive Plan	June 30, 2007, Form 10-Q Exhibit 10.15
10.13*	2008 Stock Incentive Plan	June 30, 2008, Form 10-Q Exhibit 10.15
10.14*	Form of Stock Options Grant under 2001 and 2004 Stock Incentive Plans	March 31, 2005 Form 10-Q, Exhibit 10.20
10.15*	Form of Restricted Stock Grant under 2001 and 2004 Stock Incentive Plans	March 31, 2005 Form 10-Q, Exhibit 10.21
10.16*	Form of Incentive Stock Option Agreement	September 30, 2007, Form 10-Q Exhibit 10.1

Exhibit Number	Description of Exhibit	The filings referenced for incorporation by reference are ARRIS (formerly known as Broadband Parent, Inc.) filings unless otherwise noted
10.17*	Form of Nonqualified Stock Option Agreement	September 30, 2007, Form 10-Q Exhibit 10.2
10.18*	Form of Restricted Stock Award Agreement	September 30, 2007, Form 10-Q Exhibit 10.3
10.19*	Form of Nonqualified Stock Options Agreement	April 11,2008, Form 8-K Exhibit 10.1
10.20*	Form of Restricted Stock Grant	April 11,2008, Form 8-K Exhibit 10.2
10.21*	Form of Restricted Stock Unit Grant	April 11,2008, Form 8-K Exhibit 10.3
10.22	Solectron Manufacturing Agreement and Addendum	December 31, 2001 Form 10-K, Exhibit 10.15
10.23	Mitsumi Agreement	December 31, 2001 Form 10-K, Exhibit 10.16
10.24*	Form of Restricted Stock Agreement	March 31, 2009, Form 10-Q, Exhibit 10.24
10.25*	Form of Restricted Stock Unit	March 31, 2009, Form 10-Q, Exhibit 10.24
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Ernst & Young LLP	Filed herewith.
24	Powers of Attorney	Filed herewith.
31.1	Section 302 Certification of the Chief Executive Officer	Filed herewith.
31.2	Section 302 Certification of the Chief Financial Officer	Filed herewith.
32.1	Section 906 Certification of the Chief Executive Officer	Filed herewith.
32.2	Section 906 Certification of the Chief Financial Officer	Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of 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 and
Chief Accounting Officer

Dated: February 26, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ R J STANZIONE Robert J. Stanzione	Chief Executive Officer and Chairman of the Board of Directors	February 26, 2010
/s/ DAVID B. POTTS David B. Potts	Executive Vice President, Chief Financial Officer and Chief Accounting Officer	February 26, 2010
/s/ ALEX B. BEST* Alex B. Best	Director	February 26, 2010
/s/ HARRY L. BOSCO* Harry L. Bosco	Director	February 26, 2010
/s/ JOHN A. CRAIG* John A. Craig	Director	February 26, 2010
/s/ MATTHEW B. KEARNEY* Matthew B. Kearney	Director	February 26, 2010
/s/ WILLIAM H. LAMBERT* William H. Lambert	Director	February 26, 2010
/s/ JOHN R. PETTY* John R. Petty	Director	February 26, 2010
/s/ DAVID A. WOODLE* David A. Woodle	Director	February 26, 2010
/s/ JAMES A. CHIDDIX* James A. Chiddix	Director	February 26, 2010

*By: /s/ LAWRENCE A. MARGOLIS
Lawrence A. Margolis
(as attorney in fact
for each person indicated)