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

FORM 10-K

For the fiscal year ended December 31, 2009

of

ARRIS GROUP, INC.

A Delaware Corporation
IRS Employer Identification No. 58-2588724
SEC File Number 000-31254

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

Securities registered pursuant to Section 12(b) of the Act:
Common stock, \$0.01 par value — NASDAQ Global Market System
Preferred Stock Purchase Rights — NASDAQ Global Market System

ARRIS Group, Inc. is a well-known seasoned issuer.

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

Except as set forth in Item 10, ARRIS Group, Inc. is unaware of any delinquent filers pursuant to Item 405 of Regulation S-K.

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

ARRIS is not yet required to submit electronically and post on its corporate web site Interactive Data Files required to be submitted and posted pursuant to Rule 405 of regulation S-T.

The aggregate market value of ARRIS Group, Inc.'s Common Stock held by non-affiliates as of June 30, 2009 was approximately \$1.5 billion (computed on the basis of the last reported sales price per share of such stock of \$ \$12.17 on the NASDAQ Global Market System). For these purposes, directors, officers and 10% shareholders have been assumed to be affiliates.

As of January 31, 2010, 125,646,726 shares of ARRIS Group, Inc.'s Common Stock were outstanding.

Portions of ARRIS Group, Inc.'s Proxy Statement for its 2010 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I**Item 1. Business**

As used in this Annual Report, “we,” “our,” “us,” “the Company,” and “ARRIS” refer to ARRIS Group, Inc. and our consolidated subsidiaries.

General

Our principal executive offices are located at 3871 Lakefield Drive, Suwanee, Georgia 30024, and our telephone number is (678) 473-2000. We also maintain a website at www.arris.com. The information contained on this website is not part of, and is not incorporated by reference in this Form 10-K. On our website we provide links to copies of the annual, quarterly and current reports that we file with the Securities and Exchange Commission, any amendments to those reports, and all Company press releases. Investor presentations also frequently are posted on our website. Copies of our code of ethics and the charters of our board committees also are available on our website. We will provide investors copies of these documents in electronic or paper form upon request, free of charge.

Glossary of Terms

Below are commonly used acronyms in our industry and their meanings:

Acronym	Terminology
AdVOD	Linear and Demand Oriented Advertising
ARPU	Average Revenue Per User
Cable VoIP	Cable Voice over Internet Protocol
CAM	Cable Access Module
CBR	Constant Bit Rate
CLEC	Competitive Local Exchange Carrier
CMTS	Cable Modem Termination System
CPE	Customer Premises Equipment
CWDM	Coarse Wave Division Multiplexing
DBS	Digital Broadcast Satellite
DOCSIS®	Data Over Cable Service Interface Specification
DPI	Digital Program Insertion
DSG	DOCSIS Set-Top Gateway
DSL	Digital Subscriber Line
DVR	Digital Video Recorder
DWDM	Dense Wave Division Multiplexing
EBIF	Enhanced Binary Interface Format
EMTA	Embedded Multimedia Terminal Adapter
eQAM	Edge Quadrature Amplitude Modulator
FMC	Fixed Mobile Convergence
FPGA	Field Programmable Gate Arrays
FTTH	Fiber to the Home
FOTP	Fiber to the Premises
GAAP	Generally Accepted Accounting Principles
GHZ	Gigahertz
GPA	General Purchase Agreements
HDTV	High Definition Television
HFC	Hybrid Fiber-Coaxial

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<u>Acronym</u>	<u>Terminology</u>
IFRS	International Financial Reporting Standards
ILEC	Incumbent Local Exchange Carrier
IP	Internet Protocol
IPTV	Internet Protocol Television
Mbps	Megabits per Second
MPEG-2	Moving Picture Experts Group, Standard No. 2
MPEG-4	Moving Picture Experts Group, Standard No. 4
M-CMTS	Modular CMTS
MSO	Multiple Systems Operator
MTA	Multimedia Terminal Adapter
NGNA	Next Generation Network Architecture
nPVR	Network Personal Video Recorder
NSM	Network Service Manager
NIU	Network Interface Unit
OLT	Optical Line Termination
ONU	Optical Network Unit
PCS	Post Contract Support
PCT	Patent Convention Treaty
PON	Passive Optical Network
PSTN	Public-Switched Telephone Network
PVR	Personal Video Recorder
QAM	Quadrature Amplitude Modulation
QoS	Quality of Service
RF	Radio Frequency
RGU	Revenue Generating Unit
SCTE	Society of Cable Telecommunication Engineers
SDV	Switched Digital Video
SLA	Service Level Agreement
STB	Set Top Box
VAR	Value-Added Reseller
VOD	Video on Demand
VoIP	Voice over Internet Protocol
VPN	Virtual Private Network
VSOE	Vendor-Specific Objective Evidence

Overview

We are a global communications technology company, headquartered in Suwanee, Georgia. We operate in three business segments, Broadband Communications Systems, Access, Transport & Supplies, and Media & Communications Systems, specializing in integrated broadband network solutions that include products, systems and software for content and operations management (including video on demand, or VOD), and professional services. We are a leading developer, manufacturer and supplier of telephony, data, video, construction, rebuild and maintenance equipment for the broadband communications industry. In addition, we are a leading supplier of infrastructure products used by cable system operators to build-out and maintain hybrid fiber-coaxial ("HFC") networks. We provide our customers with products and services that enable reliable, high speed, two-way broadband transmission of video, telephony, and data.

Industry Overview

In recent years, the technology offered by cable system operators has evolved significantly. Historically, cable system operators offered only one-way analog video service. In order to increase revenues and better position themselves competitively, MSOs have aggressively upgraded their networks, spending over 100 billion dollars during the past decade, to support and deliver enhanced voice and video services and enhanced data services, such as high speed data, telephony, digital video and video on demand.

By offering bundled packages of broadband services, these MSOs are seeking to gain a competitive edge over telephone companies and Digital Broadcast Satellite (“DBS”) providers, and to create additional revenue streams. Delivery of enhanced services also has helped MSOs offset slowing basic video subscriber growth and reduce their subscriber chum. To compete effectively against the DBS providers and telephone companies, MSOs have been upgrading and rebuilding their networks to offer digital video, which enables them to provide more channels and better picture quality than analog video. These upgrades to digital video also allow MSOs to roll out High Definition Television (“HDTV”) and new interactive services such as Video on Demand (“VOD”). VOD services require video storage equipment and servers, systems to manage increasing amounts of various types of content and complementary devices capable of transporting, multiplexing and modulating signals to individual subscribers over a network. Additionally, the delivery of HDTV channels requires significantly more bandwidth than the equivalent number of standard definition digital channels. This demand for additional bandwidth is a key driver behind many of the changes being made to the cable operators’ network, and the MSO investment in the products provided by ARRIS.

Demand for high speed data bandwidth on cable systems is increasing as content providers (such as Google, Yahoo, YouTube, Hulu, MySpace, Facebook, Blockbuster, Netflix, ABC, CBS, NBC, movie and music studios, and gaming vendors) increasingly offer personalized content “over the top” over the Internet to multiple devices in addition to the secure video network of the MSOs. For example, broadcast network shows and user-generated content, such as video downloads, personalized web pages, and video and photo sharing, have become commonplace on the Internet. Likewise, cable operators are starting to offer their subscribers the option of accessing the video content that they have subscription via the Internet. They are also experimenting with offering more content through the use of network personal video recorders (“nPVRs”), which are expected to add more traffic to the networks. Another bandwidth intensive service being offered by a major cable operator allows cable video subscribers to re-start programs on demand if they miss the beginning of a television show (“time-shifted television”). Television today has thus become more interactive and personalized, thereby increasing the demand on a service provider’s network. Further, the Internet has raised the bar on personalization with viewers increasingly looking for “similar” experience across multiple screens — television, PC and phone, further increasing the challenges in delivering broadband content.

Cable operators are offering enhanced broadband services, including high definition television, digital video, interactive and on demand video services, high speed data and Voice over Internet Protocol (“VoIP”). As these enhanced broadband services continue to attract new subscribers, we expect that cable operators will continue to invest in their networks to re-purpose network capacity to support increased customer demand for personalized services. In the access portion, or “last-mile,” of the network, operators will need to upgrade headends, hubs, nodes, and radio frequency distribution equipment to support increased bandwidth allocated to narrowcast or personalized content distribution. Much of this upgrade includes driving fiber networks closer to the subscribers to better accommodate the technologies that support growing demand for subscriber specific content. While many domestic cable operators have substantially completed the initial network upgrades necessary to support existing enhanced broadband services, they will need to take a scalable approach to continue upgrades as new services are developed and deployed. In addition, many international cable operators have not yet completed the initial upgrades necessary to offer such enhanced broadband services and are expected to continue purchasing equipment to complete these upgrades.

Data and VoIP services provided by the MSOs are governed by a set of technical specifications promulgated by CableLabs® in North America and Cable Europe Labs® in Europe. While the specifications developed by these two bodies necessarily differ in a few details in order to accommodate the differences in HFC network architectures between North America and Europe, a significant feature set is common. The primary data standard specification

for cable operators in North America is entitled Data over Cable System Interface Specification (“DOCSIS®”). Release 3.0 of DOCSIS® is the current governing standard for data services in North America. The parallel release for European operators is Euro-DOCSIS® Release 3.0. DOCSIS® 3.0 builds upon the capabilities of DOCSIS® 2.0 and dramatically increases the bandwidth that can provide the subscriber in both the downstream and upstream directions. DOCSIS® is also a key enabler of Video over IP where multiple channels can now be used to deliver video over a common network infrastructure. MSOs are beginning to investigate Video over IP as an alternative and are engaging the vendor community, including ARRIS, in discussions. ARRIS designs and manufactures DOCSIS® CMTS, cable modems and EMTAs. In addition to the DOCSIS® standards that govern data transmission, CableLabs® has defined the PacketCable™ specifications for VoIP and multimedia over cable. These specifications define the interfaces between network elements such as cable modem termination systems, or CMTSs, multimedia terminal adapters, or MTAs, gateways and call management servers to provide high quality Internet protocol (“IP”) telephony and Video over IP services over the HFC network.

MSOs have benefited from the use of standard technologies like DOCSIS® 1.1, 2.0 and 3.0 and PacketCable™. One of the fastest growing services, based on DOCSIS® and PacketCable™ standards, offered by the MSOs has been cable telephony. Cable telephony allows MSOs to offer their customers local and long distance residential telephone service. Constant bit rate, or CBR, technology was the technology of choice for telephone services by MSOs until late 2004. Rapid maturation of VoIP technology in 2003 and 2004 resulted in PacketCable™ certified Internet protocol technology as the technology of choice for offering next-generation cable IP telephony services and, as a result, 2005 became a breakout year for the deployment of IP based voice services in the cable market. PacketCable™ certified Voice over IP, or Cable VoIP, permits cable operators to utilize the ubiquitous IP protocol to deliver toll-quality cable telephony services. The broad adoption of Cable VoIP by the MSOs has usurped the deployment of data-only cable modems, as the customer premises devices that support VoIP also offer high speed data access on the same equipment. We are a leading supplier of both headend and customer premises equipment for VoIP services over cable. The demand for single family residential Voice over IP subscriber devices (“EMTA”) has been robust since the technology was first introduced in 2003, and reached a steady state in 2009. Cable operators worldwide have adopted VoIP as the primary method to offer voice services. Price pressures are strong in this market and therefore revenue growth is not linear with unit growth. However, because of our current leadership position in this market, we expect to be able to maintain cost leadership and to lead in innovations which could expand the size of the market by creating demand in commercial, enterprise and multiple-dwelling unit applications. As penetration of enhanced bandwidth services increases the demand for DOCSIS3.0 devices, we believe a technology replacement cycle has started and is in its early stages.

A new, emerging service is Video over IP or “IPTV”. This service utilizes extremely fast Internet Protocol channels enabled by DOCSIS 3.0 and PacketCable™ 2.0 to deliver high quality video content to any IP-enabled device within the subscriber’s home and to mobile devices outside the home. ARRIS is collaborating with MSOs to develop headend and home gateway devices to cost effectively enable this new service.

Our Strategy

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

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

To fulfill our strategy, we develop technology, facilitate its implementation, and enable operators to put their subscribers in control of their entertainment, information, and communication needs. Through a set of business

solutions that respond to specific market needs, we are integrating our products, software, and services solutions to work with our customers as they address Internet Protocol telephony deployment, high speed data deployment, high definition television content expansion, on demand video rollout, operations management, network integration, and business services opportunities.

Specific aspects of our strategy include internal development effort, partnerships and acquisitions:

Providing a Comprehensive Line of Broadband Products. We offer a full range of high speed data, voice and video solutions including IP based headend and subscriber premises product, fiber optic transmission and radio frequency products. These solutions transmit both radio frequency and optical signals in both directions over HFC networks between “the headend and the home.”

Offering a Unified Video Platform for On Demand Services. We offer a Unified Video Delivery Platform that allows network operators to offer a full line of on demand services such as switched digital video, video on demand, dynamic digital advertising, video encoding and transcoding, and network based-personal video recorders, from a single server and software management system. Using open industry standards, we help network operators build new systems and transition existing facilities.

Providing Integrated Software Solutions to Enhance Content and Operations Management. Our applications-oriented IP software allows cable operators to automate and proactively manage their networks to maximize quality of service and return on investment. Cable operators need enhanced network visibility, flexibility, and scalability to provide the latest services to their customers. Our modular, interoperable applications provide network operators with the subscriber management, content management, and network optimization and service assurance tools needed to efficiently manage and operate their networks.

Integrating Products, Content and Operations Management Systems, and Services for End-to-End Solutions. We integrate our expertise in products, content and operations management systems, and professional services to offer customer-focused applications for expanding network capacity, combining video on demand programming with dynamic advertisements, coordinating management of network devices and services with technicians in the field, controlling network traffic and verifying subscriber usage levels, and managing the full lifecycle for deploying voice over Internet services.

Expansion via Strategic Acquisitions. To further our strategy, in 2009 we acquired EG Technologies, a manufacturer of video processing systems for the encoding, transcoding and transrating of IP-based digital video content. We also acquired Digeo, the maker of the Moxi Digital HD receiver/DVR. These acquisitions strengthen our portfolio of digital video technology and further our goal of enabling a completely converged solution to our customers. In December 2007 we acquired C-COR Incorporated (“C-COR”). As a result of these acquisitions, we have substantially increased our scale and critical mass, as well as achieved greater product breadth and enhanced customer diversity. As the cable system industry has continued to consolidate, supplier scale and product breadth have become increasingly important. We expect our increased product breadth and greater scale to be strategically relevant to our customers, thereby giving us an opportunity to capture a larger share of their spending. The ability to offer end-to-end solutions should enable us to optimize customer relationships and derive greater product pull through. We expect to regularly consider acquisition opportunities that could cost effectively expand our technology portfolio or strengthen our market presence or opportunities.

Our Principal Products

A broadband cable system consists of three principal components:

- *Headend.* The headend is a central point in the cable system where signals are received via satellite and other sources. High capacity routers connect the Internet and public switched telephone networks to the local cable access network in the headend. The headend organizes, processes and retransmits signals through the distribution network to subscribers. Larger networks include both primary headends and a series of secondary headends or hubs.
- *Distribution Network.* The distribution network consists of fiber optic and coaxial cables and associated optical and electronic equipment that take the combined signals from the headend and transmits them

throughout the cable system to optical nodes and ultimately the subscriber premises. The distribution network also collects requests and transmissions from subscribers and transports them back to the headend for processing and transmission.

- *Subscriber Premises.* Cable drops extend from multi taps to subscribers' homes and connect to a subscriber's television set, set-top box, telephony network interface device or high speed cable modem.

We provide cable system operators with a comprehensive product offering for the headend, distribution network and subscriber premises. We divide our product offerings into three segments:

Broadband Communications Systems ("BCS"):

- VoIP and High Speed Data products
 - CMTS Edge Router
 - 2-Line Residential EMTA
 - Multi-line EMTA for Residential and Commercial Services
 - Wireless Gateway EMTA
 - High speed data Cable Modems
- Video / IP products
 - CMTS Edge Router
 - Universal EdgeQAM
 - Whole Home DVR
- Video Processing products
 - Digital Video Encoders and Multiplexers
 - Transcoders, Transraters, and Statistical Multiplexers

Access, Transport & Supplies ("ATS"):

- HFC plant equipment products
 - Headend and Hub products
 - Optical Transmitters
 - Optical Amplifiers
 - Optical Repeaters
 - Optical Nodes
 - ePON Optical Network Units
 - ePON Optical Line Terminals
 - RF over Glass (RFOG) Optical Network Units
 - Radio Frequency products
- Infrastructure products for fiber optic or coaxial networks built under or above ground
 - Cable and strand
 - Vaults
 - Conduit
 - Drop materials
 - Tools

- Connectors
- Test equipment

Media & Communications Systems (“MCS”):

- Content and Operations management systems
 - Video on Demand
 - Ad Insertion
 - Digital Advertising
- Operations management systems
 - Service Assurance
 - Service Fulfillment
 - Mobile Workforce Management
- Fixed Mobile Convergence Network
 - Mobility Application Server (“MAS”) for continuity of services across wireless and PacketCable™ Networks
 - Voice Call Continuity (“VCC”) Application Server for continuity of services in IP Multimedia Subsystem (“IMS”) Networks

Broadband Communications Systems

Voice over IP and Data Products

Headend — The heart of a Voice over IP or data headend is a CMTS Edge Router. A CMTS, along with a call agent, a gateway, and provisioning systems, provides the ability to integrate the Public-Switched Telephone Network (“PSTN”), and high speed data services over a HFC network. The CMTS provides many of the same capabilities found in a Metro Router, with the addition of the cable-specific interface functions to provide IP capability over the HFC network. The CMTS is also responsible for initializing and monitoring all cable modems and EMTAs connected to the HFC network. We provide two Cable Edge Router products, the C4®CMTS and the C4c™ CMTS, used in the cable operator’s headend that provide VoIP, Video over IP, and high speed data services to residential or business subscribers. The CMTS is a highly complex, reliable, real-time sensitive element of a carrier-grade broadband network, responsible for ensuring the quality of the services provided.

During 2009, we introduced the C4c, a compact version of the C4 chassis which utilizes the same line cards as the large C4 CMTS. The C4c is an economical choice for smaller operators who want to upgrade to DOCSIS 3.0 wideband Edge Router services but do not need the density and capacity of the full C4.

Subscriber Premises — Subscriber premises equipment includes DOCSIS® certified cable modems for high speed data applications as well as Euro-DOCSIS® certified versions and PacketCable™ Certified EMTAs for VoIP applications in both DOCSIS® and Euro-DOCSIS® networks. The PacketCable™ solution builds on DOCSIS® and its quality of service enhancements to support lifeline telephony deployed over HFC networks. Our Touchstone® product line provides carrier-grade performance to enable operators to provide all data, telephony and video services on the same network using common equipment.

During 2009, we introduced the WBM760 DOCSIS Wideband Cable Modem capable of speeds up to 140Mbps and the TM722 DOCSIS Wideband Multimedia Terminal Adapter capable of speeds up to 160Mbps. Both units allow cable operators to compete favorably against telephone company fiber to the home services.

Our Moxi® Whole Home DVR and its companion Moxi-mate® are marketed directly to consumers. With the addition of a CableCard® provided from the consumer’s serving MSO, the Moxi provides a robust digital cable set-top box and video recording experience with extended capability to access video and audio content stored on other devices connected to the home network or available over the Internet. Moxi-mate extends this capability via the

home network to any TV in the home. In 2009, we introduced a three tuner version of the Moxi Whole Home DVR that enables recording and/or watching three live programs simultaneously.

Video/IP Products

Headend — Digital Video streams are bridged on to the HFC network using an edge multiplexer/modulator such as the D5™ Universal Edge QAM. The D5™ multiplexes digital video and IP data and modulates the signals for transmission on a cable service provider's HFC plant. The D5™ Universal Edge QAM is compatible with DOCSIS® cable modems as well as MPEG-2 and MPEG-4 set-top boxes. The D5™ Universal Edge QAM is ideal for service providers deploying video on demand and switched digital video (SDV) services where many unicast channels are required. During 2009 we introduced the QPM 8DX4 module for the D5.

Video Processing

Headend — We market a line of MPEG digital video encoders and processors under the Encore®, Quartet®, HEMi® and VIPr® brands. Encore is designed to provide very high quality MPEG-2 digital video encoding and multiplexing. Quartet is designed to provide good quality, economical MPEG-2 encoding for regional channel digitization. HEMi provides a means to digitally encode several local analog channels, multiplex them into an existing MPEG stream and modulate the stream for inclusion in a digital service to multiple dwelling units and small headends. The VIPr platform is a multipurpose video processor providing HD-to-SD transcoding, transrating, rate shaping, and up to 4:1 HD channel statistical multiplexing. All of our video processing products are IP-based and address advanced digital video services.

Access, Transport & Supplies

The traditional HFC network connects a headend to individual residential and or business users through a progression of fiber optic and coaxial cables and a variety of electrical and optical devices that modulate, transmit, receive, and amplify the radio frequency and optical signals as they move over the network. The local HFC network consists of three major components: the headend and hubs, optical nodes, and the radio frequency plant. We offer product lines for all three components. The optics platforms support both coarse wave division multiplexing (CWDM) and Dense Wave Division Multiplexing (DWDM), which provide more capacity per subscriber over existing infrastructures and provide state-of-the-art capacity for new networks.

Headend and Hubs

We offer a broad range of managed and scalable headend and hub equipment for domestic and international applications. The benchmark design of CHP™ 5000 converged headend platform with advanced CWDM and DWDM technologies that lower the capital costs of delivering more bandwidth per subscriber while enabling network operators to increase their network capacity for advanced services, such as video on demand, high definition television, high speed Internet, and voice over Internet Protocol.

Optical Transmission

Optical transport continues to migrate deeper into the networks, closer to the customer driven both by competition and improving economics around optical technologies. We have put specific focus into supporting this migration with the development of advanced, multi-wavelength optical transmitters, optical amplifiers and optical repeaters. These platforms allow the operators to rapidly and significantly multiply the capacity of their existing fiber infrastructures and leverage them closer to the end user. These components are also essential elements of the rapidly evolving Passive Optical Networks (PON) such as radio frequency over glass (RfOG) which leverages existing back office and customer premise equipment and ethernet passive optical networks (ePON) which provides gigabit data rates to commercial customers again utilizing existing optical infrastructures and DOCSIS® provisioning systems.

Optical Nodes

The general function of the optical node in the local hybrid fiber coax network is to convert information from optical signals to electronic signals for distribution to the home or business. Our node series offers the performance, service, segmentability, and cost efficiency required to meet the demands of the most advanced network architectures. Our nodes utilize scalable space and cost-saving technology that allows network operators to have a "pay-as-they-grow" approach in deploying their infrastructure, minimizing capital expenditures while maximizing network service availability and performance.

During 2009, we introduced the 1 GHz CORWave II C-Band downstream optics products. The CORWave II Optical Multiplexing Technology delivers more wavelengths over longer distances than the CWDM technology it complements with comparable performance. CORWave platforms support the essential delivery of HD SDV, On Demand and business services on existing MSO fiber networks with superior quality service levels. CORWave is an extension of the broadly deployed, field proven CHP CWDM optics that deliver more capacity over longer-link distances on existing fiber.

ePON Solutions

Commercial customers have gained increasing MSO focus in recent years as residential penetration has peaked. Commercial customers by their nature place greater demands on data networks than traditional residential customers; ePON solutions ideally address those demands. We have crafted its headend optical line terminations (OLT's) to be compatible with the widely deployed CHP platform. The optical wavelengths are designed to co-exist in existing residential networks. The customer premise, optical network units (ONU's) have been created with a flexible feature set to meet the variety of commercial requirements and enable commercial customers access to gigabit speed data rates. Finally, these solutions are managed with DOCSIS control interface thus enabling the MSO to use existing residential customer management and provisioning systems.

RFoG Solutions

Radio Frequency over Glass (RFoG) solutions utilize a subset of our headend and hub products, optical transmission products and newly available RFoG ONU's. These solutions allow the MSO to take fiber directly to the side of the customer premises while maintaining existing back office, headend and customer premise solutions. The ARRIS solution is also crafted to be compatible with an optical wave plan that allows it to co-exist in the same fiber infrastructure with traditional HFC and the newer ePON solutions.

Radio Frequency Products

The radio frequency products transmit information between the optical nodes and subscribers. These products are radio frequency amplifiers that come in various configurations such as trunks, bridgers, and line extenders to support both domestic and international markets. Representing one of the largest installed bases in the industry, our amplifiers use drop-in replacement modules to allow cost and time saving upgrades for the operators. Many of these amplifiers are complemented by optical nodes upgrade kits to provide a wide array of options for the operators to enhance the capacity of their networks.

Supplies

We offer a variety of products that are used by MSOs to build and maintain their cable plants. Our products are complemented by our extensive distribution infrastructure, which is focused on providing efficient delivery of products from stocking or drop-ship locations. We believe the strength of our product portfolio is our broad offering of trusted name-brand products, strategic proprietary product lines and our experience in distribution. Our name-brand products are manufactured to our specifications by manufacturing partners. These products include taps, line passives, house passives and premises installation equipment marketed under our Regal® brand name; MONARCH® aerial and underground plant construction products and enclosures; Digicon® premium F-connectors; and FiberTel fiber optic connectivity devices and accessories. Through our product selection, we are able to address substantially all broadband infrastructure applications, including fiber optics, outside plant construction, drop and premises installation, and signal acquisition and distribution.

We also resell products from vendors, which include widely recognized brands to small specialty manufacturers. Through our strategic suppliers, we also supply ancillary products like tools, safety equipment, testing devices and specialty electronics. Our customers benefit from our inventory management, fulfillment and logistics capabilities and services. These services range from just-in-time delivery, product "kitting," specialized electronic interfaces, and customized reporting, to more complex and comprehensive supply chain management solutions. These services complement our product offerings with advanced channel-to-market and logistics capabilities, extensive product bundling opportunities, and an ability to deliver carrier-grade infrastructure solutions in the passive transmission portions of the network. The depth and breadth of our inventory and service capabilities enable us to provide our customers with single supplier flexibility.

Media & Communications Systems

Our integrated, application-oriented IP solutions are designed to enable network operators to effectively deploy and manage revenue-generating, on demand entertainment and information services. Built on open industry standards, our solutions can be tailored to the operators' needs — from a bundled suite to a point-specific application. Our solutions provide for an efficient and cost-effective transition to Internet Protocol-oriented network services.

On Demand and Ad Insertion

Our Managed Content Delivery Network ("CDN") Platform eliminates the need for multiple hardware and software management systems to deliver and manage video on demand ("VOD"), linear and demand-oriented advertising ("AdVOD"), network-based digital video recording ("nPVR"), and switched digital video ("SDV") services. Also, this platform streams content and advertising to any device, whether mobile, personal computer, or standard, high definition and Internet Protocol television, all from a single server. Our content management system offers a set of management and technical business tools to help cable operators migrate networks to digital in order to efficiently allocate bandwidth and to lower operating costs. Our professional service personnel can add project management support for switched digital video implementation.

ConvergeMedia™ Video On Demand Management and Distribution

Our On Demand Management System lets network operators manage all aspects of video on demand — the system, the content, and the business — from a single, integrated platform that gives real-time control and visibility to achieve maximum revenue. ConvergeMedia Manager ("CMM"), which is at the heart of our managed content delivery network ("CDN") platform, supports a complete range of interactive television services and provides an open architecture for rapid development and delivery of future content delivery services. In addition, CMM eliminates unnecessary manual intervention, simplifies operations, and reduces costs through a single platform and an accompanying set of processes to manage on demand service delivery at corporate, regional, and local levels, all in real time and across different video on demand delivery systems.

During 2009 we introduced a new video server, the XMS™. Based on commercial off-the-shelf ("COTS") components, this next generation server delivers lowest cost performance over a wide range of customer applications. Future performance and cost improvements will take full advantage of the continual technological evolution of COTS components without the need for customized redesign.

ConvergeMedia™ Digital Advertising

Using our Digital Program Insertion ("DPI"), network operators can reach both digital and analog customers from one, cost-effective platform. This allows for a smooth, scalable transition from analog-only systems and helps raise revenues from a variety of advertising models, including high definition ad insertion with standard and high definition content, local and long form ads, and targeted advertising by geographic and demographic segment. Telescoping, a form of viewer selected advertising, puts the consumer in control by allowing users to seek successive levels of detail about a given product or service being advertised.

During 2009, we successfully completed a series of Advanced Advertising use cases at the CableLabs® Advanced Advertising Interop.

Operations Management Systems

We provide a unified operations support system (“OSS”) suite of products that allows customers to ensure high levels of service availability through offering visibility, analysis, and control to address their bandwidth management, network optimization and assurance, and automated workforce needs. This OSS suite provides a set of applications that support network operators’ business and engineering needs by reducing the cost and complexity of managing standards-based (DOCSIS®) and hybrid fiber coax networks while speeding deployment of new Internet Protocol services in cable networks.

Service Assurance

Customers can enhance and improve business processes with our Assurance applications (ServAssure™) by reducing time to repair outages, minimizing truck rolls, and automating management of revenue-generating services. We provide the tools for cable operators to have a 360°, real-time view of their networks. With over 20 million devices in subscribers’ homes being monitored worldwide, our Assurance applications help communicate network and device status across the entire network, proactively pinpointing outage locations and impact on subscribers, and forecasting and planning for maximum network capacity.

Service Fulfillment

Our Fulfillment application automates the effective utilization of bandwidth for delivering video on demand, Internet telephony, gaming, and a whole host of content applications available to consumers today. By ensuring standards-based quality of service (“QoS”), this tool lets network operators prioritize or de-prioritize specific data packets as needed, while providing an infrastructure for event-based billing based on bandwidth usage. The consumer is placed in control with tools to select from services on an as-needed, bandwidth on demand basis.

Mobile Workforce Management

Our suite of field service management tools combines browser-based business applications with real-time connectivity to the mobile workforce through wireless data connections and mobile computing devices. By managing service delivery and network integrity, we help network operators reduce operating expenses by minimizing the need to send technicians on service and maintenance calls while maximizing service quality and customer retention.

Fixed Mobile Convergence (“FMC”)

Our Mobility and Voice Call Continuity Application Servers provide a migration strategy for cable operators’ digital voice services, allowing them to evolve their existing landline voice service by degrees into a fully-converged landline and wireless offering.

Sales and Marketing

We are positioned to serve customers worldwide with a sales and sales engineering organization complemented by a skilled technical services team. We maintain sales offices in Colorado, Connecticut, Georgia, and Pennsylvania in the United States, and in Argentina, Brazil, Chile, Hong Kong, Japan, Korea, Mexico, The Netherlands, and Spain. Our sales engineering team assists customers in system design and specification and can promptly be onsite to resolve any problems that may arise during the course of a project. Our technical services team provides professional services through experienced and highly skilled personnel who work with network operators to design and keep their networks operating at peak performance. Core competencies include network engineering and design, project management for launching advanced applications over complex broadband networks, and solutions to move today’s sophisticated networks forward to Internet Protocol and digital services. Additionally, we provide 24x7 technical support, directly and through channel partners, as well as provide training for customers and channel partners, as required, both in our facilities and at our customers’ sites.

We have agreements in various countries and regions with Value Added Resellers (“VARs”), sales representatives and channel partners that extend our sales presence into markets without established sales offices. We

also maintain an inside sales group that is responsible for regular phone contact with the customer, prompt order entry, timely and accurate delivery, and effective sales administration.

Our marketing and product management teams focus on each of the various product categories and work with our engineers and various technology suppliers on new products and product enhancements. These teams are responsible for inventory levels, pricing, delivery requirements, market demand analysis, product positioning and advertising.

We are committed to providing superior levels of customer service by incorporating innovative customer-centric strategies and processes supported by business systems designed to deliver differentiating product support and value-added services. We have implemented advanced customer relationship management programs to bring additional value to our customers and provide significant value to our operations management. Through these information systems, we can provide our customers with product information ranging from operational manuals to the latest product updates. Through on-going development and refinement, these programs will help to improve our productivity and enable us to further improve our customer-focused services.

Customers

The vast majority of our sales are to cable system operators worldwide. As the U.S. cable industry continues a trend toward consolidation, the six largest MSOs control approximately 89.9% of the triple play RGUs within the U.S. cable market (according to Dataxis third quarter 2009), thereby making our sales to those MSOs critical to our success. Our sales are substantially dependent upon a system operator's selection of ARRIS' network equipment, demand for increased broadband services by subscribers, and general capital expenditure levels by system operators. Our two largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. From time-to-time, the affiliates included in our revenues from these customers have changed as a result of mergers and acquisitions. Therefore, the revenue for our customers for prior periods has been adjusted to include, on a comparable basis for all periods presented, the affiliates currently understood to be under common control. Our sales to these customers for the last three years were:

	Years ended December 31,		
	2009	2008	2007
	(in thousands)		
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 utilizes Standard Terms of Sale. These Standard Terms of Sale apply to all purchases except those to a few of our large customers with whom we have executed general purchase agreements ("GPAs"). These GPAs do not obligate the customer to a specific volume of business. The vast majority of our sales, whether to customers with GPAs or otherwise, result from periodic purchase orders. We have multiple agreements with our largest customers, such as Comcast and Time Warner, based upon their needs or as a result of prior acquisitions. We maintain these agreements in the normal course of our business.

International Operations

Our international revenue is generated primarily from Asia-Pacific, Europe, Latin America and Canada. The Asia-Pacific market includes China, Hong Kong, Japan, Korea, Singapore, and Taiwan. The European market includes Austria, Belgium, France, Germany, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Great Britain, Ireland, Turkey, Russia, Romania, Hungary and Israel. The Latin America market includes Argentina, Brazil, Chile, Colombia, Mexico, Peru, Puerto Rico, Ecuador, Honduras, Costa Rica, Panama, Jamaica and Bahamas. Revenues from international customers were approximately 26.5%, 29.1% and 27.0% of total revenues for 2009, 2008 and 2007, respectively.

We continue to strategically invest in worldwide marketing and sales efforts, which have yielded some promising results in several regions. We currently maintain international sales offices in Argentina, Brazil, Chile, Hong Kong, Japan, Korea, Mexico, The Netherlands, and Spain.

Research and Development

We operate in an industry that is subject to rapid changes in technology. Our ability to compete successfully depends in large part upon anticipating such changes. Accordingly, we engage in ongoing research and development activities in response to our customers' needs with the intention to advance existing product lines and/or develop new offerings. We are committed to rapid innovation and the development of new technologies in the evolving broadband market. New products are developed in our research and development laboratories in Beaverton, Oregon; Cork, Ireland; Kirkland, Oregon; Lisle, Illinois; Shenzhen, China; State College, Pennsylvania; Suwanee, Georgia; Wallingford, Connecticut; and Waltham, Massachusetts. We also form strategic alliances with world-class producers and suppliers of complementary technology to provide "best-in-class" technologies focused on "time-to-market" solutions.

In our Broadband Communications Systems business segment, we believe that our future success depends on our rapid adoption and implementation of broadband local access industry specifications, as well as rapid innovation and introduction of technologies that provide service and performance differentiation. To that end, we believe that the C4® CMTS Edge Router product line continues to lead the industry in areas such as fault tolerance, wire-speed throughput and routing, and density. With the introduction of DOCSIS® 3.0 capabilities on the C4 platform in 2008, we extended this leadership and increased worldwide market share. We introduced the C4c CMTS in 2009, which is designed for small to mid-size operators who are looking for a CMTS that delivers superior RF performance while occupying less space than the C4 for delivering high speed data services. Product development is focused on adding additional revenue-generating features, increasing, reducing power consumption, and cost reduction.

The Touchstone® product line offers a wide-range of DOCSIS®, Euro-DOCSIS® and PacketCable™ certified products, including Touchstone® Cable Modems, Touchstone® Telephony Modems and Touchstone® Telephony Ports. In addition to the introduction of several new cost-reduced versions, the Touchstone® product line was completely refreshed with the addition of DOCSIS® 3.0 capabilities. We also continued to add additional capabilities to the D5™ Universal Edge QAM, with the introduction of a new module enabling operators to increase their capacity with a simple plug-in card replacement, thus preserving their existing capital.

We augmented the technology we acquired in the EG Technology, Inc transaction to enhance the VIPr 2200 Advanced Video Processor, enabling more efficient spectrum utilization and significant QAM channel cost savings. We also introduced a new ad splicing feature enhancing our ConvergeMedia platform's Advanced Advertising capabilities. ARRIS now provides multi-format, multi-resolution video encoding of MPEG-2, MPEG-4, SD and HD channels.

We continued the development of the Moxi® whole home DVR with the introduction of a three tuner version enabling simultaneous recording or viewing on all three channels. We continue to develop new features for the Moxi platform including the Moxi-mate, an IP set-top unit allowing the subscriber to view live or recorded program from the main Moxi DVR on any TV in the home.

In our Access, Transport & Supplies business segment, our research and development has focused on 1 GHz optical access and PON products. We were the first to introduce a complete 1 GHz access platform in the industry. In particular, our CHP 5000 headend platform and OptoMax nodes provide a wide variety of options to the operator to extend the capacity of their existing infrastructures through service group segmentation or multi-wavelength optical transport. We continue to introduce innovative multiwavelength optical transmission products to allow MSOs to cost effectively expand the use of their existing installed fiber networks.

In our Media Communications Systems business segment, we have focused on developing the ConvergeMedia® Unified Video Platform supporting Video on Demand (VOD), Broadcast Linear and Advanced Advertising on a single platform. We continue to develop new features such as remote personal video recording allowing individual subscribers to store any program on the ConvergeMedia server for later viewing.

Research and development expenses in 2009, 2008, and 2007 were approximately \$124.6 million, \$112.5 million, and \$71.2 million, respectively. Research and development expenses as a percent of sales in 2009, 2008 and 2007 were approximately 11.3%, 9.8% and 7.2%, respectively. These costs include allocated common costs associated with information technologies and facilities.

Intellectual Property

We have an active patenting program for protecting our innovations. As of January 31, 2010, the patenting program consisted of maintaining our portfolio of approximately 460 issued patents (both U.S. and foreign) and pursuing patent protection on new inventions (currently approximately 400 U.S. and foreign patent applications). In our effort to pursue new patents, we have created a process whereby employees may submit ideas of inventions for review by management. The review process evaluates each submission for novelty, detectability, and commercial value. Patent applications are filed on the inventions that meet the criteria. In addition, we hold an exclusive license, for use in our field, of numerous patents relating to fiber optic and radio frequency transmission equipment and technology, and network management techniques and services.

Our patents and patent applications generally are in the areas of telecommunications hardware, software and related technologies. Our recent research and development has led to a number of patent applications in technology related to DOCSIS®. Through various acquisitions over the past several years, we have acquired patents related to a wide range of technologies, including CMTS, wide area networks, fiber and cable systems, video processing, set-top boxes and ad insertion.

For technology that is not owned by us, we have a program for obtaining appropriate licenses with the industry leaders to ensure that the strongest possible patents support the licensed technology. In addition, we have formed strategic relationships with leading technology companies that will provide us with early access to technology and will help keep us at the forefront of our industry. We also have a trademark program for protecting and developing trademarks. As of January 31, 2010, ARRIS has 45 registered or pending trademark registrations. Our trademark program includes procedures for the use of current trademarks and for the development of new trademarks. This program is designed to ensure that our employees properly use our registered trademarks and any new trademarks that are expected to develop strong brand loyalty and name recognition. The design of our trademark program is intended to protect our trademarks from dilution or cancellation. From time-to-time there are significant disputes with respect to the ownership of the technology used in our industry and patent infringements. See Part I, Item 3, "Legal Proceedings."

Product Sourcing and Distribution

Our product sourcing strategy for products other than Access and Transport products centers on the use of contract manufacturers to produce our products. Our largest contract manufacturers are Unihaan, Plexus Services Corporation, and Flextronics. The facilities operated by these contract manufacturers for the production of our products are located in China, Ireland, Mexico, and the United States.

We have contracts with each of these manufacturers. We provide these manufacturers with a 6-month or 12-month rolling, non-binding forecasts, and we typically have a minimum of 60 days of purchase orders placed with them for products. Purchase orders for delivery within 60 days are generally not cancelable. Purchase orders with delivery past 60 days may be cancelled with penalties in accordance with each vendor's terms. Each contract manufacturer provides a minimum 15-month warranty.

We manufacture our Access and Transport products in our own manufacturing facility in Tijuana, Mexico, which was acquired as part of our acquisition of C-COR. The factory is 89,400 square feet, and, as of December 31, 2009, we employed approximately 334 employees. Typical items purchased for the ARRIS manufactured products are fiber optic lasers, photo receivers, radio frequency hybrids, printed circuit boards, die cast aluminum housings, and other electronic components. Although some of the components we use are single sourced, generally there are alternate sources, if needed. We outsource the manufacture and repair of certain assemblies and modules where it is cost effective to do so or where there are advantages with respect to delivery times. Current outsourcing arrangements include European versions of amplifiers, certain power supplies, accessories, optical modules, digital return modules, circuit boards, repair services, and small-lot manufacturing.

We distribute a substantial number of products that are not produced by us in order to provide our customers with a comprehensive product offering. For instance, we distribute hardware and installation products that are distributed through regional warehouses in California, Japan, The Netherlands, and North Carolina and through drop shipments from our contract manufacturers located throughout the world.

We obtain key components from numerous third party suppliers. For example, Broadcom provides several DOCSIS® components in our CMTS product line. We also make extensive use of FPGA from Altera and Xilinx in our C4® CMTS, C3 CMTS, and D5 Universal Edge QAM. Texas Instruments and Broadcom provide components used in some of our customer premises equipment (CPE) (i.e., EMTAs and cable modems). Our agreements include technology licensing and component purchases. Several of our competitors have similar agreements for these components. In addition, we license software for operating network and security systems or sub-systems, and a variety of routing protocols from different suppliers.

Backlog

Our backlog consists of unfilled customer orders believed to be firm and long-term contracts that have not been completed. With respect to long-term contracts, we include in our backlog only amounts representing orders currently released for production or, in specific instances, the amount we expect to be released in the succeeding 12 months. The amount contained in backlog for any contract or order may not be the total amount of the contract or order. The amount of our backlog at any given time does not reflect expected revenues for any fiscal period.

Our backlog at December 31, 2009 was approximately \$144.4 million, at December 31, 2008 was approximately \$114.8 million, and at December 31, 2007 was approximately \$136.7 million. We believe that all of the backlog existing at December 31, 2009 will be shipped in 2010.

Anticipated orders from customers may fail to materialize and delivery schedules may be deferred or cancelled for a number of reasons, including reductions in capital spending by network operators, customer financial difficulties, annual capital spending budget cycles, and construction delays.

Competition

The broadband communication systems markets are dynamic and highly competitive and require companies to react quickly and capitalize on change. We must retain skilled and experienced personnel, as well as deploy substantial resources to meet the changing demands of the industry and must be nimble to be able to capitalize on change. We compete with national, regional and local manufacturers, distributors and wholesalers including some companies that are larger than we are. Our major competitors include:

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

Our products are marketed with emphasis on quality, advanced technology, differentiating features, flexibility, service, and business solutions, and are generally priced competitively with other manufacturers' product lines. Product reliability and performance, technological innovation, responsive customer service, breadth of product offering, and pricing are several of the key criteria for success over our competition.

One of the principal growth markets for us is the high speed data access market into which we sell a CMTS, the Edge Router for data and VoIP services. Cisco took an early lead in the initial deployment of data-only CMTS products and is expected to defend its position via both upgrades to existing products and the introduction of new products. Motorola also has been emphasizing routing and carrier-grade performance for its CMTS. In 2007, one of our major competitors in this market, BigBand Networks, exited the market. In the fourth quarter of 2009 according to Infonetics Research, *CMTS and Edge QAM Hardware and Subscribers Quarterly Worldwide and Regional Market Share, Size, and Forecasts, Fourth Quarter 2009*, we maintained number one worldwide market share at 44.9% in the CMTS Edge Router product category, for the third quarter in a row.

The customer premises business consists of voice over IP enabled modems (EMTAs) and cable modems. Motorola is the market leader in cable modems while ARRIS has been the market leader in the EMTA product category since its inception. We compete on price, product performance, our telephony experience, and integration capabilities. Cisco via its Scientific-Atlanta acquisition also has had success in the cable modem market and EMTA market. ARRIS has maintained number one EMTA market share throughout 2005, 2006, 2007, 2008 and had approximately 48% of the world market in the fourth quarter of 2009 according to Infonetics Research, *Broadband CPE Quarterly Worldwide Market Share and Forecasts for Third Quarter 2009*. VoIP deployments slowed in 2009 as compared to the same period in 2008 based on the Infonetics report. We believe this is the result of early VoIP market deployments slowing impacted by the weakening economic environment offset by growth in less mature markets including international operators.

Our content and operations management systems compete with several vendors offering on demand video and digital advertising insertion hardware and software, including Cisco, Concurrent Computer Corporation, Ericsson's TandbergTV Division, Motorola, SeaChange International Inc., as well as vendors offering network management, mobile workforce management, network configuration management, and network capacity management systems in the United States, some of which may currently have greater sales in these areas than we do. In some instances, our customers internally develop their own software for operations support systems. However, we believe that we offer a more integrated solution that gives us a competitive advantage in supporting the requirements of both today's HFC networks and the emerging all-digital, packet-based networks.

We also compete with Aurora Networks, Cisco, Hamonic, and Motorola for products within the Access, Transport & Supplies group. Various manufacturers, who are suppliers to us, also sell directly to our customers, as well as through other distributors, into the cable marketplace. In addition, because of the convergence of the cable, telecommunications and computer industries and rapid technological development, new competitors may enter the cable market.

In the supplies distribution business we compete with national distributors, such as Commscope and TVC Communications, Inc., and with several local and regional distributors. Product breadth, price, availability and service are the principal competitive advantages in the supply business. Our products in the supplies distribution business are competitively priced and are marketed with emphasis on quality. Product reliability and performance, superior offering responsive technical and administrative support, and breadth of product offerings are key criteria for competition. Technological innovations and speed to market are additional competitive factors.

Lastly, some of our competitors, notably Cisco and Motorola, are larger companies with greater financial resources and product breadth than us. This may enable them to bundle products or be able to market and price products more aggressively than we can.

Employees

As of January 31, 2010, we had 1,884 employees. ARRIS has no employees represented by unions within the United States. We believe that we have maintained a strong relationship with our employees. Our future success depends, in part, on our ability to attract and retain key personnel. Competition for qualified personnel in the cable

industry is intense, and the loss of certain key personnel could have a material adverse effect on us. We have entered into employment contracts with our key executive officers and have confidentiality agreements with substantially all of our employees. We also have long-term incentive programs that are intended to provide substantial incentives for our key employees to remain with us.

Item 1A. Risk Factors

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

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

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

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

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

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

- Aurora Networks;
- BigBand Networks;
- Casa Systems, Inc.;
- Cisco Systems, Inc.;
- Commscope, Inc.;
- Concurrent Computer Corporation;

- Ericsson (TandbergTV);
- Harmonic, Inc.;
- Motorola, Inc.;
- SeaChange, Inc.;
- SMC Networks;
- Technicolor, Inc.;
- TVC Communications, Inc.;
- Ubee Interactive, Inc

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

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

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

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

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

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

The cable television industry has gone through dramatic technological change resulting in MSOs rapidly migrating their business from a one-way television service to a two-way communications network enabling multiple services, such as high speed Internet access, residential telephony services, business telephony services and Internet access, video on demand and advertising services. New services that are, or may be offered by MSOs and other service providers, such as home security, power monitoring and control, high definition television, 3-D television, and a host of other new home services are also based on and will be characterized by rapidly evolving technology. The development of increasing transmission speed, density and bandwidth for Internet traffic has also enabled the provision of high quality, feature length video over the Internet. This so called over-the-top IP video

service enables content providers such as Netflix, Hulu, CBS and portals like Google to provide video services on-demand, by-passing traditional video service providers. As these service providers enhance their quality and scalability, MSOs are moving to match them and provide even more competitive services over their existing networks, as well as over-the-top for delivery not only to televisions but to the computers and wireless PDA devices in order to remain competitive. Our business is dependent on our ability to develop the products that enable current and new customers to exploit these rapid technological changes. We believe the growth of over-the-top video represents a shift in the traditional video delivery paradigm and we cannot predict the effect it will have on our business.

In addition, the cable industry has and will continue to demand a move toward open standards. The move toward open standards is expected to increase the number of MSOs that will offer new services, in particular, telephony. This trend is expected to increase the number of competitors and drive down the capital costs per subscriber deployed. These factors may adversely impact both our future revenues and margins.

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

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

We have substantial goodwill.

Our financial statements reflect substantial goodwill, approximately \$235.4 million as of December 31, 2009, that was recognized in connection with the acquisitions that we have made. We annually (and more frequently if changes in circumstances indicate that the asset may be impaired) review the carrying amount of our goodwill in order to determine whether it has been impaired for accounting purposes. In general, if the fair value of the corresponding reporting unit's goodwill is less than the carrying value of the goodwill, we record an impairment. The determination of fair value is dependent upon a number of factors, including assumptions about future cash flows and growth rates that are based on our current and long-term business plans. No goodwill impairment was recorded in 2009. We recorded a non-cash goodwill impairment charge of \$128.9 million and \$80.4 million related to the ATS and MCS reporting units, respectively, during the fourth quarter of 2008. As the ongoing expected cash flows and carrying amounts of our remaining goodwill are assessed, changes in the economic conditions, changes to our business strategy, changes in operating performance or other indicators of impairment could cause us to realize additional impairment charges in the future. For additional information, see the discussion under Critical Accounting Policies in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Our two largest customers (including their affiliates, as applicable) are Comcast and Time Warner Cable. For the year ended December 31, 2009, sales to Comcast accounted for approximately 31.9% and sales to Time Warner Cable accounted for approximately 20.8% of our total revenue. The loss of either of these customers, or one of our other large customers, or a significant reduction in the products or services provided to any of them would have a material adverse impact on our business. For each of these customers, we also are one of their largest suppliers. As a result, if from time-to-time customers elect to purchase products from our competitors in order to diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to

these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon our business.

We may have difficulty in forecasting our sales.

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

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

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

Products currently under development may fail to realize anticipated benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We utilize distributors, value-added resellers, system integrators, and manufacturers' representatives to sell our products to certain customers and in certain geographic regions to improve our access to these customers and

regions and to lower our overall cost of sales and post-sales support. Our sales through channel partners are subject to a number of risks, including:

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. *Unresolved Staff Comments*

As of December 31, 2009, there were no unresolved comments.

Item 2. *Properties*

We currently conduct our operations from 26 different locations; three of which we own, while the remaining 23 are leased. These facilities consist of sales and administrative offices and warehouses totaling approximately one million square feet. Our long-term leases expire at various dates through 2020. We believe that our current properties are adequate for our operations.

A summary of our principal leased properties (those exceeding 10,000 sq. ft.) that are currently in use is as follows:

<u>Location</u>	<u>Description</u>	<u>Area (sq. ft.)</u>	<u>Lease Expiration</u>	<u>Segment</u>
Suwanee, Georgia	Office space	129,403	April 14, 2012	All
Tijuana, Mexico	Manufacturing	89,400	March 1, 2011	(2)
Wallingford, Connecticut	Office space	82,155	December 31, 2014	(2)
Beaverton, Oregon	Office space/ Manufacturing	60,389	January 31, 2011	(3)
Ontario, California	Warehouse	59,269	March 31, 2014	All
Lisle, Illinois	Office space	56,008	November 1, 2013	(1)
Waltham, Massachusetts	Office space	21,033	February 15, 2011	(3)
Kirkland, Washington	Office space	38,554	January 30, 2011	(1)
Englewood, Colorado	Office space	32,240	March 31, 2011	All
Ontario, California	Warehouse	26,565	September 30, 2014	All
Cork, Ireland	Office space	11,135	October 28, 2020	(1)
Shenzhen, China	Office space	20,095	December 05, 2012	All

We own the following properties:

<u>Location</u>	<u>Description</u>	<u>Area (sq. ft.)</u>	<u>Segment</u>
Cary, North Carolina	Warehouse	151,500	All
State College, Pennsylvania	Office space	133,000	(2)(3)
Chicago, Illinois	Warehouse/Office space	18,000	(2)

Segment:

- (1) Broadband Communications Systems
 - (2) Access, Transport & Supplies
 - (3) Media & Communications Systems
- All All segments

Item 3. Legal Proceedings

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

Commencing in 2005, Rembrandt Technologies, LP filed a series of lawsuits against several MSO's alleging infringement of eight patents related to the cable systems operators' use of data transmission, video, cable modem, voice-over-internet, and other technologies and applications. On July 14, 2009 ARRIS negotiated a license agreement with Rembrandt for the asserted patents, making all ARRIS products licensed products under the agreement.

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

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

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

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

In February 2008, several former employees of a former subsidiary of C-COR, filed a class action Fair Labor Standards Act suit against the former subsidiary and C-COR alleging that the plaintiffs were not properly paid for overtime. The proposed class could have included 1,000 cable installers and field technicians. Conditional class certification was granted. Approximately 280 people have opted-in relative to C-COR. A similar suit was filed in Ohio, which has been merged with this suit and has been included in this settlement. The Parties appear to have reached a preliminary settlement but the final terms have not been concluded.

On March 11, 2009, ARRIS filed a declaratory judgment action against British Telecom (BT) seeking to invalidate the BT patents and seeking a declaration that neither the ARRIS products, nor their use by ARRIS'

customers infringe any of the BT patents. This action arose from the assertion by BT (via their agent, IPValue), that the ARRIS products or their use by ARRIS' customers infringed four BT patents.

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

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

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

During the fourth quarter of 2009, no matters were submitted to a vote of our company's security holders.

Item 4A. Executive Officers and Board Committees

Executive Officers of the Company

The following table sets forth the name, age as of February 26, 2010, and position of our executive officers.

Name	Age	Position
Robert J. Stanzione	62	Chief Executive Officer, Chairman of the Board
Lawrence A. Margolis	62	Executive Vice President, Administration, Legal, HR, and Strategy, Chief Counsel, and Secretary
David B. Potts	52	Executive Vice President, Chief Financial Officer and Chief Information Officer
John O. Caezza	52	President, Access, Transport & Supplies
Ronald M. Coppock	55	President, Worldwide Sales & Marketing
Bryant K. Isaacs	50	President, Media & Communications Systems
James D. Lakin	66	President, Advanced Technology & Services
Bruce W. McClelland	43	President, Broadband Communications Systems
Marc S. Geraci	56	Vice President, Treasurer

Robert J. Stanzione has been Chief Executive Officer since 2000. From 1998 through 1999, Mr. Stanzione was President and Chief Operating Officer of ARRIS. Mr. Stanzione has been a director of ARRIS since 1998 and has been the Chairman of the Board of Directors since 2003. From 1995 to 1997, he was President and Chief Executive Officer of Arris Interactive L.L.C. From 1969 to 1995, he held various positions with AT&T Corporation. Mr. Stanzione has served as a director of Symmetricom, Inc. since 2005. Mr. Stanzione also serves on the board of the National Cable Telecommunications Association.

Lawrence A. Margolis has been Executive Vice President, Strategic Planning, Administration, and Chief Counsel since 2004 and has served as the Secretary of ARRIS since 1992. Mr. Margolis was the Chief Financial Officer from 1992 to 2004. Prior to joining ARRIS, Mr. Margolis was Vice President, General Counsel and Secretary of Anixter, Inc., a global communications products distribution company, from 1986 to 1992 and General

Counsel and Secretary of Anixter from 1984 to 1986. Prior to 1984, he was a partner at the law firm of Schiff Hardin & Waite.

David B. Potts has been the Chief Financial Officer since 2004, and has been Chief Information Officer since the acquisition of Arris Interactive L.L.C. in August 2001. Prior to being named Chief Financial Officer in 2004, Mr. Potts was the Senior Vice President of Finance. Before joining ARRIS, he was Chief Financial Officer of Arris Interactive L.L.C. from 1995 to 2001. From 1984 to 1995, Mr. Potts held various executive management positions with Nortel Networks including Vice President and Chief Financial Officer of Bell Northern Research in Ottawa and Vice President of Mergers and Acquisitions in Toronto. Prior to Nortel Networks, Mr. Potts was with Touche Ross in Toronto. Mr. Potts is a member of the Institute of Chartered Accountants in Canada.

John O. Caezza was appointed President of ARRIS Access, Transport & Supplies in December 2007. He previously had held the position of President of C-COR's Access and Transport business unit. He is responsible for the Company's product development, production, and technical support across its Access, Transport & Supplies group. Prior to joining C-COR in 2001, Mr. Caezza was Vice President and General Manager of the Broadband Communications Division of ADC Telecommunications, Inc., with primary responsibilities for strategic product creation and promotion. Mr. Caezza also has had extensive management experience with Philips Broadband Networks, Inc., including the position of Vice President of Engineering and Associate Director of International Sales.

Ronald M. Coppock has been President of ARRIS Worldwide Sales since 2003. Prior to his current role, Mr. Coppock was President of International Sales since 1997 and was formerly Vice President International Sales and Marketing for TSX Corporation. Mr. Coppock has been in the cable television and satellite communications industry for over 20 years, having held senior management positions with Scientific-Atlanta, Pioneer Communications and Oak Communications. Mr. Coppock is an active member of the American Marketing Association, Kappa Alpha Order, Cystic Fibrosis Foundation Board, and the Auburn University Alumni Action Committee.

Bryant K. Isaacs was appointed President, Media & Communications Systems in December 2007 and was President of ARRIS New Business Ventures since 2002. Prior to his role as President, ARRIS New Business Ventures, he was President of ARRIS Network Technologies since 2000. Prior to joining ARRIS, he was Founder and General Manager of Lucent Technologies' Wireless Communications Networking Division in Atlanta from 1997 to 2000. From 1995 through 1997, Mr. Isaacs held the position of Vice President of Digital Network Systems for General Instrument Corporation where he was responsible for developing international business strategies and products for digital video broadcasting systems.

James D. Lakin was appointed President, Advanced Technology and Services in 2007. Prior to his current role he was President of ARRIS Broadband since the acquisition of Arris Interactive L.L.C. in 2001. From 2000 to August 2001, he was President and Chief Operating Officer of Arris Interactive L.L.C. From 1995 to 2000, Mr. Lakin was Chief Marketing Officer of Arris Interactive L.L.C. Prior to 1995, he held various executive positions with Compression Labs, Inc. and its successor General Instrument Corporation.

Bruce W. McClelland was appointed President Broadband Communications Systems in December 2007 and most recently had been Vice President & General Manager of the ARRIS Customer Premises Business Unit with responsibility for the development of a broad range of voice and data products. Prior to joining ARRIS in 1999 as Vice President of Engineering, he had eleven years of experience with Nortel Networks where he was responsible for development efforts on Nortel Networks' Signaling System 7 and the Class 4/5 DMS switching product line.

Marc S. Geraci has been Vice President, Treasurer of ARRIS since 2003 and has been with ARRIS since 1994. He began with ARRIS as Controller for the International Sales Group and in 1997 was named Chief Financial Officer of that group. Prior to joining ARRIS, he was a broker/dealer on the Pacific Stock Exchange in San Francisco for eleven years and, prior to that, in public accounting in Chicago for four years.

Board Committees

Our Board of Directors has four permanent committees: Audit, Compensation, Nominating & Corporate Governance, and Technology. The charters for all four committees are located on our website at www.arris.com. The Board believes that each of its members, with the exception of Mr. Stanzione, is independent, as defined by the

SEC and NASDAQ rules. The Board has identified John Petty as the lead independent director and audit committee financial expert, as defined by the SEC. Additionally, the Board has identified Matthew Kearney as an audit committee financial expert.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ARRIS' common stock is traded on the NASDAQ Global Select Market under the symbol "ARRS." The following table reports the high and low trading prices per share of the Company's common stock as listed on the NASDAQ Global Market System:

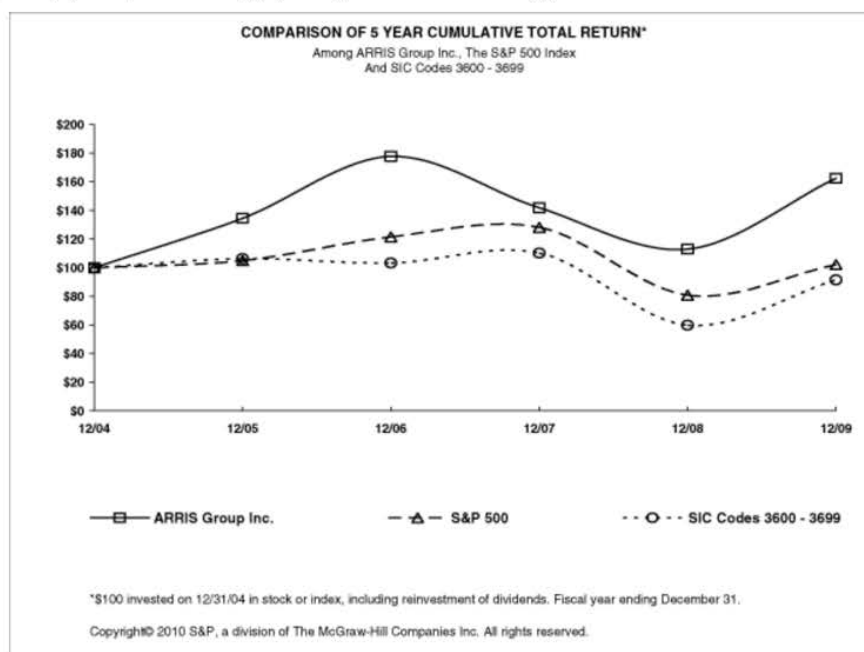
	<u>High</u>	<u>Low</u>
2008		
First Quarter	\$ 10.03	\$ 4.96
Second Quarter	10.39	5.84
Third Quarter	10.02	6.67
Fourth Quarter	8.05	4.47
2009		
First Quarter	\$ 8.28	\$ 5.81
Second Quarter	12.91	7.21
Third Quarter	13.75	10.87
Fourth Quarter	12.97	9.82

We have not paid cash dividends on our common stock since our inception. On October 3, 2002, to implement our shareholder rights plan, our board of directors declared a dividend consisting of one right for each share of our common stock outstanding at the close of business on October 25, 2002. Each right represents the right to purchase one one-thousandth of a share of our Series A Participating Preferred Stock and becomes exercisable only if a person or group acquires beneficial ownership of 15% or more of our common stock or announces a tender or exchange offer for 15% or more of our common stock or under other similar circumstances.

As of January 31, 2010, there were approximately 528 record holders of our common stock. This number excludes shareholders holding stock under nominee or street name accounts with brokers or banks.

Stock Performance Graph

Below is a graph comparing total stockholder return on the Company's stock from December 31, 2004 through December 31, 2009, with the Standard & Poor's 500 and the Index of NASDAQ U.S. Stocks of entities in the industry of electronics and electrical equipment and components, exclusive of computer equipment (SIC 3600-3699), prepared by the Research Data Group, Inc.



	12/04	12/05	12/06	12/07	12/08	12/09
ARRIS Group Inc.	100.00	134.52	177.70	141.76	112.93	162.36
S&P 500	100.00	104.91	121.48	128.16	80.74	102.11
SIC Codes 3600 — 3699	100.00	106.35	103.31	110.14	59.85	91.39

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(www.researchdatagroup.com/S&P.htm)

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act of 1933, or the Securities Exchange Act of 1934 that might incorporate future filings, including this Annual Report on Form 10-K, in whole or in part, the Performance Graph presented above shall not be incorporated by reference into any such filings.

Item 6. Selected Consolidated Historical Financial Data

The selected consolidated financial data as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 set forth below are derived from the accompanying audited consolidated financial statements of ARRIS, and should be read in conjunction with such statements and related notes thereto. The selected consolidated financial data as of December 31, 2007, 2006 and 2005 and for the years ended December 31, 2006 and 2005 is derived from audited consolidated financial statements that have not been included in this filing. The historical consolidated financial information is not necessarily indicative of the results of future operations and should be read in conjunction with ARRIS' historical consolidated financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document. See Note 20 of the Notes to the Consolidated Financial Statements for a summary of our quarterly consolidated financial information for 2009 and 2008 (in thousands, except per share data).

	2009	2008	2007	2006	2005
Consolidated Operating Data:					
Net sales	\$ 1,107,806	\$ 1,144,565	\$ 992,194	\$ 891,551	\$ 680,417
Cost of sales	645,043	751,436	718,312	639,473	489,703
Gross margin	462,763	393,129	273,882	252,078	190,714
Selling, general, and administrative expenses	148,403	143,997	99,879	87,203	74,308
Research and development expenses	124,550	112,542	71,233	66,040	60,135
Impairment of goodwill	—	209,297	—	—	—
Acquired in-process research and development charge	—	—	6,120	—	—
Amortization of intangible assets	37,361	44,195	2,278	632	1,212
Restructuring charges	3,702	1,211	460	2,210	1,331
Operating income (loss)	148,747	(118,113)	93,912	95,993	53,728
Interest expense	17,670	17,123	16,188	3,294	2,101
Loss (gain) on debt retirement	(4,152)	—	—	—	2,372
Gain related to terminated acquisition, net of expenses	—	—	(22,835)	—	—
Interest income	(1,409)	(7,224)	(24,776)	(11,174)	(3,100)
Other expense (income), net	2,731	(1,465)	418	(1,092)	421
Loss (gain) on investments and notes receivable	(711)	717	(4,596)	29	146
Income (loss) from continuing operations before income taxes	134,618	(127,264)	129,513	104,936	51,788
Income tax expense (benefit)	43,849	2,375	37,370	(35,682)	513
Net income (loss) from continuing operations	90,769	(129,639)	92,143	140,618	51,275
Discontinued Operations:					
Income from discontinued operations, net of tax	—	—	204	221	208
Net income (loss)	<u>\$ 90,769</u>	<u>\$ (129,639)</u>	<u>\$ 92,347</u>	<u>\$ 140,839</u>	<u>\$ 51,483</u>

	2009	2008	2007	2006	2005
Net income (loss) per common share:					
Basic:					
Income (loss) from continuing operations	\$ 0.73	\$ (1.04)	\$ 0.83	\$ 1.31	\$ 0.53
Income from discontinued operations	—	—	—	—	—
Net income (loss)	\$ 0.73	\$ (1.04)	\$ 0.83	\$ 1.31	\$ 0.53
Diluted:					
Income (loss) from continuing operations	\$ 0.71	\$ (1.04)	\$ 0.82	\$ 1.28	\$ 0.52
Income from discontinued operations	—	—	—	—	—
Net income (loss)	\$ 0.71	\$ (1.04)	\$ 0.82	\$ 1.28	\$ 0.52
Selected Balance Sheet Data:					
Total assets	\$ 1,475,616	\$ 1,350,321	\$ 1,557,193	\$ 1,012,040	\$ 529,403
Long-term obligations	\$ 295,696	\$ 297,238	\$ 300,469	\$ 243,555	\$ 18,230

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

In recent years, the technology used in cable systems has evolved significantly. Historically, cable systems offered only one-way analog video service. Due to technological advancements, these systems have evolved to become two-way broadband systems delivering high-volume, high speed, interactive services. MSOs have over the years aggressively upgraded their networks to cost-effectively support and deliver enhanced voice, video and data services. As a result, MSOs have been able to use broadband systems to increase their revenues by offering enhanced interactive subscriber services, such as high speed data, telephony, digital video and video on demand, and to effectively compete against other broadband communications technologies, such as DSL, local multipoint distribution service, DBS, FTTH, and fixed wireless. Delivery of enhanced services also has helped MSOs offset slowing basic video subscriber growth, reduce their subscriber churn and compete against alternative video providers, in particular, DBS and the telephone companies.

A key factor supporting the growth of broadband systems is the powerful growth of the Internet. Rapid growth in the number of Internet users, their desire for ever higher Internet access speeds, and more high-volume interactive services with growing customer control features have created demand for our products. Another key factor supporting the growth of broadband systems is the evolution of video services being offered to consumers. Video on demand, high definition television and switched digital video are three key video services expanding the use of MSOs' broadband systems. The increase in volume and complexity of the signals transmitted through the network and emerging competitive pressures from telephone companies with digital subscriber line and fiber to the premises offerings are pushing cable operators to deploy new technologies as they evolve. Further, cable operators are looking for products and technologies that are flexible, cost effective, easily deployable and scalable to meet future demand. Because the technologies are evolving and the services delivered are growing in complexity and volume, cable operators need equipment that provides the necessary technical capability at a reasonable cost at the time of initial deployment and the flexibility later to accommodate technological advances and network expansion.

Within the past several years, the rise of wideband data services (such as those enabled by the ARRIS C4[®] and C4c[®] CMTS and TM702 EMTA) and improvements in server technology have enabled a new competitive threat. So called Over-the-Top (OTT) entertainment, sports, and news video services such as those offered by Netflix, Hulu, NBC, ABC, CBS, ESPN and other content providers, has allowed delivery of video programming directly to consumers via the Internet bypassing the traditional service provider television services and the attendant subscription and advertising revenue it generates for the service providers. In addition, Google and other Internet

portals have made acquisitions and developed methods to provide advertising-supported video content which is linked directly to advertising buyers, increasing advertising effectiveness and reducing cost per impression. With the advent of these new OTT services, simple stand alone devices which enable the viewing of OTT video on any television in the home have appeared on the retail shelves, thus moving the Internet viewing experience from the PC in the den to the big screen TV in the living room. Recently consumer electronics manufacturers have begun to incorporate the network interfaces directly into their television sets and other entertainment devices.

OTT presents a new challenge to the MSOs, as consumers embrace these new services in lieu of the traditional linear programming provided by the service providers. Over-the Top services provide the consumer with a new paradigm in entertainment: availability of a wide range of high quality, feature length programming specific to their tastes when they want to view it. In today's fast paced society, immediacy is a major factor in consumer preference. To address the challenge presented by OTT, the MSOs are moving to provide their content in a more compelling on-demand format, utilizing many of the technologies used by the OTT providers, but with a better managed, higher quality, more secure service, which will enable consumers to receive any content on any screen, anytime, anywhere. With the emergence of OTT programming, advertising revenues are moving from the traditional linear programming to these new services. A key factor in the migration is the economics of advertising in an on-demand format. With the ability of advertisers to have immediate access to information regarding individual viewers' preferences, and to be able to correspond with that viewer in real time, the relevance of each ad impression is substantially improved and the cost per relevant impression is dramatically reduced. The MSOs are addressing this opportunity, incorporating advertising insertion servers into their networks and building a system behind these servers to enable advertisers to mount campaigns directly to consumers via the MSOs' networks.

Over the past decade, United States cable operators have spent over \$100 billion to upgrade their networks to deliver digital video and two-way services such as high speed data, video on demand, and telephony. As global cable operators maximize their investment in their networks, we believe that our business will be driven by the industry dynamics and trends outlined below.

Industry Conditions

Competition Between Cable Operators and Telephone Companies is Increasing.

Telephone companies are aggressively offering high speed data services and are making progress in offering video services to the residential market. AT&T Inc. and Verizon Communications have stated publicly that they will spend billions of dollars to equip their networks to offer video service, once a service offered only by cable and satellite providers. Likewise, telephone companies have been increasingly competitive on bandwidth and pricing for higher speed data services, again to compete with the cable companies. Counter balancing this, cable companies are providing Internet Protocol-based telephone service and DOCSIS 3.0-based ultra high speed data service. Comcast is now the fourth largest telephone company in the U.S and is offering 50 Mbps data service in many parts of its network.

Competition Between Cable Operators and Direct Broadcast Satellite Services is Increasing.

Direct Broadcast Satellite Services are aggressively offering many HDTV channels. DIRECTV and The Dish Network and multiple satellite services around the world are deploying significantly more HDTV channels including many local channels during 2009. Cable operators are responding by reclaiming spectrum through advanced technologies such as switched digital video and upgrading their networks to 1GHz to make more spectrum available for additional HDTV channels.

Personalized Programming is Becoming More Readily Available Across Multiple Platforms.

Increased demand for bandwidth by cable subscribers is developing as content providers (such as Google, Yahoo, YouTube, Hulu, MySpace, Facebook, Blockbuster, Netflix, ABC, CBS, NBC, movie and music studios, and gaming vendors) are offering personalized content across multiple venues. For example, broadcast network shows and user-generated ("UG") content, such as streaming video, personalized web pages, and video and photo sharing, have become commonplace on the Internet. Likewise, certain cable operators are experimenting with offering more content through the use of network personal video recorders ("nPVRs") which, once copyright issues are resolved,

will add more traffic to the networks. Another bandwidth intensive service being offered by major cable operators allows cable video subscribers to re-start programs on demand if they miss the beginning of a television show (time-shifted television). Television today has thus become more interactive and personal, further increasing the demands on the network. In addition, the Internet has set the bar on personalization with viewers increasingly looking for “similar” experiences across screens — television, PC and phone, further increasing the challenges in delivering broadband content.

Emerging Competition Between Cable Operators and Internet-based Services is a Major Market Disruption.

Over-the Top video services enabled by wideband data services, is increasingly providing the same content provided by MSOs in an on-demand, location independent format. In our fast paced world such immediacy is finding favor with consumers. MSOs are responding with enhanced on-demand location independent services of their own, providing immediate access to a wide array of content anytime, anywhere, on any screen.

Advertisers are moving to an interactive model siphoning advertising dollars away from linear programming.

Google, Yahoo, Microsoft and others have changed the face of advertising by providing an easy, interactive way for advertisers to mount advertising campaigns, measure results in real time, target individual consumers with ads specific to their preferences, and providing consumers with a way to respond to ads in real time. All of this has increased the relevance of this advertising while lowering its cost per relevant impression. MSOs are seeking to participate in this new advertising paradigm by incorporating next generation advertising insertion servers in their networks and jointly building an advanced advertising platform to allow cable companies to provide more innovative types of advanced ads on cable's growing digital platform with consistent technologies, metrics and interfaces across a national footprint.

Macroeconomic factors are Expected to Affect our Industry.

The current economic downturn, including but not limited to the ability of our customers to access capital, the severe decline in new household formations, the increase in unemployment and the resulting impact on consumer disposable income has and is expected to contract the amount of capital expenditures the MSOs will make in 2010.

Growth in Enhanced Broadband Services Requires Continued Upgrades and Maintenance by Domestic and International Cable Operators.

Cable operators are offering enhanced broadband services, including high definition television, digital video, interactive and on demand video services, high speed Internet and voice over Internet Protocol. As these enhanced broadband services continue to attract new subscribers, we expect that cable operators will be required to invest in their networks to expand network capacity and support increased customer demand for personalized services. In the access portion, or “last-mile,” of the network, operators will need to upgrade headends, hubs, nodes, and radio frequency distribution equipment. While many domestic cable operators have substantially completed initial network upgrades necessary to provide enhanced broadband services, they will need to take a scalable approach to continue upgrades as new services are deployed. In addition, many international cable operators have not yet completed the initial upgrades necessary to offer such enhanced broadband services. Finally, as more and more critical services are provided over the MSO network plant maintenance becomes a more important requirement. Operators must replace network components (such as amplifiers and lasers) as they approach the end of their useful lives.

Growing Demand for Bundled Services — Video, Voice, and Data.

In response to increased competition from telecommunication service providers and direct broadcast satellite operators, cable operators have not only upgraded their networks to cost effectively support and deliver enhanced video, voice, and data, but continue to invest significantly to offer a “triple play” bundle of these services. The ability to cost-effectively provide personalized, bundled services helps cable operators reduce subscriber turnover and increase revenue per subscriber. As a result, the focus on such services is driving cable operators to continue to

invest in network infrastructure, content management, digital advertising insertion, and back office automation tools.

Cable Operators are Demanding Advanced Network Technologies and Software Solutions. The increase in volume and complexity of the signals transmitted over broadband networks as a result of the migration to an all digital, on demand network is causing cable operators to deploy new technologies. For example, transport technologies based on Internet Protocol allow cable operators to more cost effectively deliver video, voice, and data across a common network infrastructure. Cable operators also are demanding sophisticated network and service management software applications that minimize operating expenditures needed to support the complexity of two-way broadband communications systems. As a result, cable operators are focusing on technologies and products that are flexible, cost effective, compliant with open industry standards, and scalable to meet subscriber growth and effectively deliver reliable, enhanced services.

Digital Video Recorders are Impacting the Advertising Business.

As the use of digital video recorders and other recording devices becomes more prevalent, advertisers face the need to develop new business models. Since personal recorders allow the viewer to skip over ads, network operators are looking for new ways to attract advertising dollars and deliver a meaningful ad experience to viewers. As a result, many network operators are implementing digital ad insertion, allowing them to transition from all analog to a mix of analog and digital and ultimately to all digital. One benefit is the ability to reallocate bandwidth. More importantly, digital advertising allows network operators to create a more dynamic and interactive experience between advertiser and viewer. Telephone companies are also planning for this transition.

Cable Operators are Developing Strategies to Offer Business Services.

Cable operators are leveraging their investment in existing fiber and coax networks by expanding beyond traditional residential customers to offer voice, video, and data services to commercial (small and medium size businesses), education, healthcare, and government clients. Using their experience in delivering data, cable operators can bundle both voice and data for commercial subscribers and effectively compete with the telephone companies who have typically focused on large enterprises. Business services are just one of several market segments where cable and telephone companies are trying to penetrate each others' markets.

Volatile Capital Market Conditions for Many Large Cable Operators.

In recent years, the telecommunications equipment industry has been impacted by several financial challenges, including bankruptcies. The financial challenges are further heightened as a result of the recent macroeconomic crisis. Many of our domestic and international customers accumulated significant levels of debt during the earlier part of this decade and have since undertaken reorganizations and financial restructurings to streamline their balance sheets. In 2009, Charter Communications restructured its balance sheet by entering and exiting a pre-packaged bankruptcy. Furthermore, it is also possible that continuing industry restructuring and consolidation will take place via mergers and or spin-offs. For example, in 2006 various Adelphia Communications properties were acquired by Comcast and Time-Warner Cable, two of the largest U.S. cable MSOs. Also in 2004, Cox Communications chose to go private. Regulatory issues, financial concerns, capital markets and business combinations among our customers are likely to significantly impact the overall industry capital spending plans potentially impacting our business. In addition, during the past 12 months many MSOs have experienced a significant decline in the value of their stocks. This in turn may lead to MSOs to invest less in their networks for the foreseeable future.

Consolidation of Vendors Has Occurred and May Continue.

In February 2006, Cisco Systems, Inc. acquired Scientific-Atlanta, Inc. Both Cisco and Scientific-Atlanta are key competitors of ARRIS. In February 2007, Ericsson purchased Tandberg Television. In July 2007, Motorola acquired Terayon Communication Systems. In December 2007, ARRIS acquired C-COR. In 2009 ARRIS acquired Digeo and EGT. It is also possible that other competitor consolidations may occur which could have an impact on future sales and profitability.

Our Strategy and Key Highlights

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

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

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

Below are some key highlights and trends:

Financial Highlights

- Sales in 2009 were \$1.108 billion, down only 3% or \$37 million from 2008 despite the depressed global economy. Notably, sales of our market leading CMTS were up while sales of our ATS products and EMTAs were down.
- Adjusted (non GAAP) earnings per diluted share in 2009 were \$1.01, up \$0.24 or 31% from 2008 as a result of the success of our CMTS edge router. GAAP earnings per diluted was \$0.71 in 2009 and compare to a loss of \$(1.04) in 2008, which included a goodwill impairment. See a reconciliation and discussion of non GAAP measures below.
- Gross margin percentage was 41.8% in 2009, up 7.5 percentage points from 2008 reflecting higher sales of our higher margin CMTS product line coupled with lower sales of lower margin EMTA and ATS products.
- We increased our expenditures on research and development in 2009, particularly in the area of video over IP. Research and development spending was \$124.5 million in 2009, up 11% from 2008.
- We ended 2009 with \$625.6 million of cash resources which compares to \$427.3 million at the end of 2008. We generated approximately \$241.0 million of cash from operating activities in 2009 as compared to \$189.1 million in 2008.
- We used \$10.6 million of cash in the first quarter of 2009 to retire \$15.0 million of the principal amount of our convertible debt, which represented a 29% discount. We also used \$22.7 million of cash in 2009 for the acquisitions of Digeo and EGT.
- We ended 2009 with an order backlog of approximately \$144.4 million and a book-to-bill ratio of 0.92 for the fourth quarter of 2009, which compares to \$114.8 million and 0.90 for the same period in 2008.

Product Line Highlights

• **Broadband Communications Systems**

Expanded Video Capability

Through two 2009 acquisitions ARRIS has expanded its expertise in video processing and multimedia video delivery systems for delivery of programming from multiple sources to a variety of consumer devices. The acquired expertise and talent will accelerate the introduction of next generation IP based consumer video products and services. The two acquisitions are:

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

In addition to the acquisitions, we increased internal development in the area of video over IP in 2009.

CMTS

- Downstream port shipments reached a record level of 135 thousand in 2009, as compared to 77 thousand in 2008
- Operators continue to focus on deploying DOCSIS 3.0 technology in order to increase overall capacity as well as compete aggressively with higher speed service tiers. The ARRIS solution has been adopted broadly across the industry, with strong domestic shipments and increased business internationally in Central and Latin America, Asia, and Europe.
- Achieved improvement in gross margins resulting from both customer and product mix (increased CMTS shipments).
- Ended 2009 with the #1 market share (source: Infonetics)

CPE

- Shipped approximately 4.7 million EMTAs in 2009 as compared to 5.9 million in 2008. Sales of EMTAs in 2009 were impacted by the global economy and the leveling off of MSO deployments.
- Ended 2009 with the #1 market share for EMTAs; the 18th consecutive quarter we held the leading share.
- Increased shipments of Multi-line and Wireless Gateways in 2009.
- DOCSIS 3.0 CPE shipments increased substantially in 2009. We expect a continuing transition from deployment of DOCSIS 2.0 to DOCSIS 3.0 CPE.

• **Access, Transport & Supplies**

- Business in 2009 was impacted by macro economic factors, which resulted in lower sales year over year.
- MSOs engaged in fewer upgrade projects in 2009 as a result of lower housing starts and the introduction of DOCSIS 3.0, which provides bandwidth efficiency improvements, allowing network investments to be delayed.
- CORWave multi-wavelength optical transport platforms gained traction with both domestic and international customers. These platforms will allow operators to multiply network capacity in support of narrowcast services at a fraction of traditional infrastructure upgrade costs. We expect these platforms to become more widely adopted as bandwidth demands continue to increase.
- Engaged in multiple field trials for RFoG and EPON in 2009. We expect these to continue to expand in quantity and scope.

- Product mix and lower volumes negatively impacted margins in 2009.

• **Media & Communications Systems**

- Successful deployments of WorkAssure™ for several MSOs.
- Launched new line of video servers: XMS.
- Launched ConvergeMedia Backoffice: CMM.
- Conducted production field trial of FMC at a major North America MSO.

Non GAAP Measures

As part of our ongoing review of financial information related to our business we regularly use Non-GAAP measures, in particular Adjusted (Non-GAAP) earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these Non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of Non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Below are tables for 2009, 2008 and 2007 which detail and reconcile GAAP and Adjusted (Non-GAAP) earnings per share:

	For the Year Ended December 31, 2009					
	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense	Net Income (Loss)
	(in thousands)					
GAAP	462,763	314,016	148,747	14,129	43,849	90,769
Stock compensation expense	1,446	(14,475)	15,921	—	—	15,921
Acquisition costs, restructuring, and integration costs	—	(3,977)	3,977	—	—	3,977
Amortization of intangible assets	—	(37,361)	37,361	—	—	37,361
Non-cash interest expense	—	—	—	(11,136)	—	11,136
Gain on repurchase of debt	—	—	—	4,152	—	(4,152)
Tax related to items above	—	—	—	—	22,305	(22,305)
Adjustments of income tax valuation allowances, R&D credits, and other discrete tax items	—	—	—	—	3,133	(3,133)
Non-GAAP	464,209	258,203	206,006	7,145	69,287	129,574
GAAP net income (loss) per share — diluted						\$ 0.71
Non-GAAP net income (loss) per share — diluted						\$ 1.01
GAAP weighted average common shares — diluted						128,085
Non-GAAP weighted average common shares — diluted						128,085

	For the Year Ended December 31, 2008					
	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense	Net Income (Loss)
	(in thousands)					
GAAP	393,129	511,242	(118,113)	9,151	2,375	(129,639)
Stock compensation expense	979	(10,298)	11,277	—	—	11,277
Acquisition costs, restructuring, and integration costs	—	(1,638)	1,638	—	—	1,638
Amortization of intangible assets	—	(44,195)	44,195	—	—	44,195
Goodwill impairment	—	(209,297)	209,297	—	—	209,297
Non-cash interest expense	—	—	—	(10,735)	—	10,735
Tax related to items above	—	—	—	—	24,078	(24,078)
Adjustments of tax related to goodwill impairment and certain provision to return adjustments	—	—	—	—	26,255	(26,255)
Non-GAAP	<u>394,108</u>	<u>245,814</u>	<u>148,294</u>	<u>(1,584)</u>	<u>52,708</u>	<u>97,170</u>
GAAP net income (loss) per share — diluted						\$ (1.04)
Non-GAAP net income (loss) per share — diluted						\$ 0.77
GAAP weighted average common shares — diluted						124,878 ⁽¹⁾
Non-GAAP weighted average common shares — diluted						126,277 ⁽²⁾

(1) GAAP net income for 2008 is a loss and, therefore, inclusion of options would be antidilutive.

(2) Non-GAAP net income for 2008 is positive and, therefore, the diluted shares used in this calculation include the effect of options.

	For the Year Ended December 31, 2007					
	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense	Net Income (Loss)
	(in thousands)					
GAAP	273,882	179,970	93,912	(35,805)	37,370	92,347
Write-off of discontinued inventory	1,046	—	1,046	—	—	1,046
Stock compensation expense	785	(10,118)	10,903	—	—	10,903
Gains related to previously written-off accts receivable	—	377	(377)	330	—	(707)
Write-off of IPR&D	—	(6,120)	6,120	—	—	6,120
Acquisition costs, restructuring, and integration costs	—	(1,836)	1,836	—	—	1,836
Amortization of intangible assets	—	(2,278)	2,278	—	—	2,278
Non-cash interest expense	—	—	—	(9,925)	—	9,925
Gain related to terminated acquisition, net of expenses	—	—	—	22,835	—	(22,835)
Gain on investments	—	—	—	4,864	—	(4,864)
Tax related to items above	—	—	—	—	(1,422)	1,422
Adjustments of income tax valuation allowances, R&D credits, and other discrete tax items	—	—	—	—	7,959	(7,959)
Non-GAAP	<u>275,713</u>	<u>159,995</u>	<u>115,718</u>	<u>(17,701)</u>	<u>43,907</u>	<u>89,512</u>
GAAP net income (loss) per share — diluted						\$ 0.82
Non-GAAP net income (loss) per share — diluted						\$ 0.79
GAAP weighted average common shares — diluted						113,027
Non-GAAP weighted average common shares — diluted						113,027

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items mentioned below is useful in understanding the trends and managing our operations. Historically, we have publicly presented these supplemental non-GAAP measures in

order to assist the investment community to see ARRIS through the “eyes of management,” and therefore enhance understanding of ARRIS’ operating performance. These adjustments consist of:

- Write-off of discontinued inventory — related to inventory of a product line that management decided to discontinue in 2007.
- Stock compensation expense — ARRIS records non-cash compensation expense related to grants of options and restricted stock. Depending upon the size, timing and the terms of the grants, this non-cash compensation expense may vary significantly.
- Write off of IPR&D — Due to the acquisition of C-COR, Inc., we acquired in process research and development of \$6.2 million which was written off during the fourth quarter 2007.
- The acquisition costs, restructuring, and integration costs reflect that, although they or similar items might recur, are of a nature and magnitude that identifying them separately provides investors with a greater ability to project ARRIS’ future performance.
- Amortization of intangibles — non-cash amortization of the intangibles related to our acquisitions.
- Non-cash interest expense — ARRIS records non-cash interest expense related to the 2013 convertible debt. Disclosing the non-cash piece provides investors with the information regarding interest that will not be paid out in cash.
- Gain on retirement of debt — during the first quarter of 2009, ARRIS repurchased a portion of their convertible debt and recognized a gain of approximately \$4.2 million.
- Gain related to terminated acquisition — in early 2007, ARRIS entered into a transaction agreement with TANDBERG Television ASA, in which ARRIS was to buy all the outstanding shares of TANDBERG. ARRIS was subsequently outbid by another buyer and the transaction agreement was terminated during the first quarter 2007. ARRIS recorded gains, net before tax, of \$22.8 million related to the termination of the transaction.
- Impairment of goodwill — during the fourth quarter 2008, ARRIS recorded a non-cash impairment on goodwill of \$209.3 million.
- Adjustments of income taxes valuation allowances, R&D credits, and other discrete tax items — In 2009, a tax expense of approximately \$1.3 million was recorded for state valuation allowances, research and development tax credits and provision to return differences resulting from filing of the 2008 tax return. Also in 2009, a tax benefit of approximately \$4.6 million was recorded for changes to foreign valuation allowances relating to historic net operating losses in the various jurisdictions.

In 2008, ARRIS recorded a net tax benefit of \$1.5 million related to provision to return differences resulting from the filing of the 2007 tax return. Also in 2008, we recorded a deferred tax adjustment of \$24.7 million related to the impairment of goodwill.

In 2007, a tax benefit of approximately \$3.5 million was recorded for a reversal of valuation allowances and research and development tax credits related to a tax credit study that was undertaken for prior years (2001 - 2006). The net termination fee related to TANDBERG resulted in a capital gain which provided greater access to prior tax capital losses that had previously been viewed as more likely than not unrealizable. As a result, net income tax valuation allowances totaling \$3.2 million were reversed in the first quarter 2007.

Results of Operations

Overview

As highlighted earlier, we have faced, and in the future will face, significant changes in our industry and business. These changes have impacted our results of operations and are expected to do so in the future. As a result, we have implemented strategies both in anticipation and in reaction to the impact of these dynamics. These strategies were outlined in the Overview to the MD&A.

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Below is a table that shows our key operating data as a percentage of sales. Following the table is a detailed description of the major factors impacting the year-over-year changes of the key lines of our results of operations.

Key Operating Data (as a percentage of net sales)

	Years Ended December 31,		
	2009	2008	2007
Net sales	100.0%	100.0%	100.0%
Cost of sales	58.2	65.7	72.4
Gross margin	41.8	34.3	27.6
Operating expenses:			
Selling, general, and administrative expenses	13.4	12.5	10.1
Research and development expenses	11.3	9.8	7.2
Impairment of goodwill	—	18.3	—
Acquired in-process research and development charge	—	—	0.6
Amortization of intangible assets	3.4	3.9	0.2
Restructuring charges	0.3	0.1	—
Operating income (loss)	13.4	(10.3)	9.5
Other expense (income):			
Interest expense	1.6	1.5	1.6
Gain on terminated acquisition, net of expenses	—	—	(2.3)
Gain on debt retirement	(0.4)	—	—
Loss (gain) on investments and notes receivable	(0.1)	0.1	(0.5)
Loss (gain) on foreign currency	0.3	(0.1)	—
Interest income	(0.1)	(0.6)	(2.5)
Other expense (income), net	(0.1)	(0.1)	0.1
Income (loss) before income taxes	12.2	(11.1)	13.1
Income tax expense	4.0	0.2	3.8
Net income (loss)	8.2%	(11.3)%	9.3%

Comparison of Operations for the Three Years Ended December 31, 2009

Net Sales

The table below sets forth our net sales for the three years ended December 31, 2009, 2008, and 2007, for each of our business segments described in Item 1 of this Form 10-K (in thousands, except percentages):

Segment:	Net Sales			Increase (Decrease) Between Periods			
	For the Years Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	\$	%	\$	%
BCS	\$ 852,852	\$ 822,816	\$ 859,164	\$ 30,036	3.7%	\$ (36,348)	(4.2)%
ATS	176,306	262,478	130,644	(86,172)	(32.8)%	131,834	100.9%
MCS	78,648	59,271	2,386	19,377	32.7%	56,885	2,384.1%
Total	\$ 1,107,806	\$ 1,144,565	\$ 992,194	\$ (36,759)	(3.2)%	\$ 152,371	15.4%

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The table below sets forth our domestic and international sales for the three years ended December 31, 2009, 2008, and 2007 (in thousands, except percentages):

	Net Sales			Increase (Decrease) Between Periods			
	For the Years Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	\$	%	\$	%
Domestic	\$ 814,357	\$ 811,823	\$ 724,065	\$ 2,534	0.3%	\$ 87,758	12.1%
International:							
Asia Pacific	56,091	50,435	41,997	5,656	11.2	8,438	20.1
Europe	93,078	127,102	98,575	(34,024)	(26.8)	28,527	28.9
Latin America	81,608	97,798	71,507	(16,190)	(16.6)	26,291	36.8
Canada	62,672	57,407	56,050	5,265	9.2	1,357	2.4
Total international	293,449	332,742	268,129	(39,293)	(11.8)%	64,613	24.1%
Total	\$ 1,107,806	\$ 1,144,565	\$ 992,194	\$ (36,759)	(3.2)%	\$ 152,371	15.4%

Broadband Communications Systems Net Sales 2009 vs. 2008

During the year ended December 31, 2009, sales of our BCS segment increased \$30.0 million or approximately 3.7%, as compared to 2008.

- Higher sales to multiple customers of our CMTS products, in particular Comcast, who accelerated its implementation of DOCSIS3.0 CMTS in 2009. Continued increased demand for bandwidth has driven increased demand for our CMTS products from our customers.
- The increase in our CMTS product sales was partially offset by an expected decrease in sales of EMTAs in 2009 as many of our customers have passed through the initial launch stage of telephony. In 2009, we shipped 4.7 million units as compared to 5.9 million units in 2008.
- We anticipate Comcast will purchase fewer CMTS in 2010, while other operators accelerate DOCSIS3.0 deployments.

Access, Transport & Supplies Net Sales 2009 vs. 2008

During the year ended December 31, 2009, Access, Transport & Supplies segment sales decreased \$86.2 million or approximately 32.8%, as compared to the same period in 2008.

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

Media & Communications Systems Net Sales 2009 vs. 2008

During the year ended December 31, 2009, Media & Communications Systems segment sales increased \$19.4 million or 32.7%, as compared to the same period in 2008.

- The increase in sales primarily reflects the recognition throughout 2008 of deferred revenue. The deferred revenue acquired from the C-COR acquisition in late 2007 was marked to fair value at the date of the acquisition and rebuilt throughout 2008, resulting in a lower level of recognition in 2008.

Broadband Communications Systems Net Sales 2008 vs. 2007

During the year ended December 31, 2008, sales of our BCS segment decreased \$36.3 million or approximately 4.2%, as compared to 2007. This decrease in BCS sales resulted from several components:

- Sales of our EMTA product decreased as many of our customers have passed through the initial launch stage of telephony. In 2008, we shipped 5.9 million units as compared to 7.1 million units in 2007. The majority of the decrease is due to lower EMTA sales to Comcast. This decrease was a result of Comcast awarding market share to one of our competitors in the fourth quarter of 2007. As a strategy, most of our customers utilize multiple vendors.
- Sales of our CMTS product increased reflecting higher sales to Time Warner Cable, and Kabel Deutschland. Sales to Comcast, Liberty Media International and other customers also increased in conjunction with the launch of our DOCSIS 3.0 product in the third quarter of 2008. Continued increased demand for bandwidth coupled with the launch of telephony has driven increased demand for our CMTS products from our customers.

Access, Transport & Supplies Net Sales 2008 vs. 2007

During the year ended December 31, 2008, Access, Transport & Supplies segment sales increased \$131.8 million or approximately 100.9%, as compared to the same period in 2007.

- The increase was the result of the acquisition of C-COR. In 2007, we estimate that C-COR, prior to being acquired, recorded sales associated within this segment of approximately \$216.3 million. The estimated combined sales of ARRIS and C-COR in 2007 for this segment were \$347.0 million which compares to \$262.5 million in 2008. The decline on a combined basis is the result of the slowdown of the US economy, and in particular new housing construction.
- Sales in 2007 for this segment consisted of sales of our Supplies products. Sales of our supply products decreased year over year as a result of lower purchases by MSOs for new plant and extension equipment reflecting the decline in new home construction in the U.S.

Media & Communications Systems Net Sales 2008 vs. 2007

During the year ended December 31, 2008, Media & Communications Systems segment sales increased \$56.9 million or approximately 2,384.1%, as compared to the same period in 2007.

- The increase was the result of the acquisition of C-COR. In 2007, we estimate that C-COR, prior to being acquired, recorded sales associated within this segment of approximately \$65.4 million. Sales of our Media & Communications Systems products as compared to the same sales by C-COR in the prior year is not directly comparable because we revalued C-COR's deferred revenue in connection with recording the acquisition.

Gross Margin

The table below sets forth our gross margin for the three years ended December 31, 2009, 2008, and 2007, for each of our business segments (in thousands, except percentages):

Business Segment:	Gross Margin \$			Increase (Decrease) Between Periods			
	For the Years Ended December 31,			2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	\$	%	\$	%
BCS	\$ 379,248	\$ 285,136	\$ 251,416	\$ 94,112	33.0%	\$ 33,720	13.4%
ATS	40,055	76,387	22,930	(36,332)	(47.6)%	53,457	233.1%
MCS	43,460	31,606	(464)	11,854	37.5%	32,070	6911.6%
Total	\$ 462,763	\$ 393,129	\$ 273,882	\$ 69,634	17.7%	\$ 119,247	43.5%

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The table below sets forth our gross margin percentages for the three years ended December 31, 2009, 2008, and 2007, for each of our business segments:

<i>Business Segment:</i>	<u>Gross Margin %</u>			<u>Percentage Point Increase (Decrease) Between Periods</u>	
	<u>For the Years Ended December 31,</u> <u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
BCS	44.5%	34.7%	29.3%	9.8	5.4
ATS	22.7%	29.1%	17.6%	(6.4)	11.5
MCS	55.3%	53.3%	(19.4)%	2.0	72.7
Total	41.8%	34.3%	27.6%	7.5	6.7

Our overall gross margins are dependent upon, among other factors, achievement of cost reductions, product mix, customer mix, product introduction costs, and price reductions granted to customers.

Broadband Communications Systems Gross Margin 2009 vs. 2008

The increase in the BCS segment gross margin dollars and the increase in gross margin percentage in 2009 as compared to 2008 were related to the following factors:

- The increase in gross margin dollars was primarily the result of higher sales of our higher margin CMTS products.
- The increase in gross margin percentage primarily reflects product mix, as we sold more CMTS products and fewer EMTA products during 2009 as compared to 2008. CMTS products carry higher gross margin percentage than the EMTA products.

Access, Transport & Supplies Gross Margin 2009 vs. 2008

The decrease in the ATS segment gross margin dollars and the decrease in gross margin percentage in 2009 as compared to 2008 were related to the following factors:

- The decrease in gross margin dollars was the result of a decrease in sales in 2009 as compared to 2008.
- The decrease in gross margin percentage was primarily the result of both a change in product mix and a decrease in sales. In 2009, Access and Transport sales decreased proportionally more than the Supplies sales decreased. In addition, our gross margin was negatively impacted by the decline in the overall volume resulting in a higher manufacturing cost per unit due to the allocation of fixed factory overhead costs as well as lower gross margin on certain headend optics gear.

Media & Communications Systems Gross Margin 2009 vs. 2008

The increase in the MCS segment gross margin dollars and the increase in gross margin percentage in 2009 as compared to 2008 are related to the following factors:

- Higher year-over-year sales resulted in the increase in both gross margin dollars and percentage.
- Performance in this segment is variable as revenue recognition is significantly tied to customer acceptances associated with multiple month and quarter projects, and non linear orders for licenses and hardware.

Broadband Communications Systems Gross Margin 2008 vs. 2007

The increase in the BCS segment gross margin dollars and the increase in gross margin percentage in 2008 as compared to 2007 were related to the following factors:

- Increases due to sales variations in product mix and increases achieved due to cost reductions. In particular, as compared to 2007 we sold more CMTS products and fewer EMTA products. CMTS products carry a higher gross margin percentage than the EMTA products.

Access, Transport & Supplies Gross Margin 2008 vs. 2007

The increase in the ATS segment gross margin dollars and the increase in gross margin percentage in 2008 as compared to 2007 were related to the following factors:

- As a result of the C-COR acquisition, revenues and gross margin dollars increased significantly year over year. The increase in gross margin percentage was a result of the addition of C-COR's higher margin Access and Transport products.
- The increase due to the C-COR acquisition was partially offset by a decrease in the Supplies gross margin dollars as a result of lower sales.

Media & Communications Systems Gross Margin 2008 vs. 2007

The increase in the MCS segment gross margin dollars and the increase in gross margin percentage in 2008 as compared to 2007 are related to the following factor:

- The increase is attributable to the higher margin VOD and OSS products we added to our portfolio as a result of the C-COR acquisition.

Operating Expenses

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

	Operating Expenses			Increase (Decrease)			
	For the Years Ended December 31,			Between Periods			
	2009	2008	2007	2009 vs. 2008		2008 vs. 2007	
	\$	\$	\$	\$	%	\$	%
Selling, general, & administrative	\$ 148,403	\$ 143,997	\$ 99,879	\$ 4,406	3.1%	\$ 44,118	44.2%
Research & development	124,550	112,542	71,233	12,008	10.7%	41,309	58.0%
Impairment of goodwill	—	209,297	—	(209,297)	(100.0)%	209,297	100.0%
Acquired in-process research & development	—	—	6,120	—	—	(6,120)	(100.0)%
Amortization of intangible assets	37,361	44,195	2,278	(6,834)	(15.5)%	41,917	1,840.1%
Restructuring	3,702	1,211	460	2,491	205.7%	751	163.3%
Total	<u>\$ 314,016</u>	<u>\$ 511,242</u>	<u>\$ 179,970</u>	<u>\$ (197,226)</u>	<u>(38.6)%</u>	<u>\$ 331,272</u>	<u>184.1%</u>

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

2009 vs. 2008

Several factors contributed to the \$4.4 million increase year over year:

- An increase in stock compensation expense of \$2.9 million as a result of the most recent annual grants covering a higher number of employees due to acquisitions.
- Higher variable compensation costs, in particular sales commissions and incentive accruals.
- Higher compensation costs associated with an increase in sales and marketing employees.
- An increase in legal expenses of \$1.6 million as a result of increased costs associated with various patent and other litigation matters (see Legal Proceedings).
- The above increases were partially offset by decreases in bad debt expense, travel & entertainment, and professional fees.

2008 vs. 2007

Several factors contributed to the \$44.1 million increase year over year:

- The inclusion of expenses associated with the former C-COR.
- The year-over-year SG&A expenses declined when comparing 2008 to the combined expenses of ARRIS and the former C-COR for 2007, reflecting synergies achieved as a result of the combination of the two companies.
- Legal expenses increased by approximately \$6.0 million year over year as a result of increased costs associated with various litigation matters, specifically patent related (see Legal Proceedings).

Research & Development, or R&D, Expenses

Included in our R&D expenses are costs directly associated with our development efforts (people, facilities, materials, etc.) and reasonable allocations of our information technology and facility costs.

2009 vs. 2008

We continue to aggressively invest in research and development. Our primary focus is on products that allow MSOs to capture new revenues and reduce operating costs. The increase of \$12.0 million year over year in research and development expense reflects:

- One quarter of incremental R&D expenses, approximately \$4.5 million, associated with Digeo Inc and EG Technology Inc, which were acquired in the fourth quarter of 2009.
- Higher compensation costs related to an increase in employees primarily focused on video development.
- Higher variable compensation costs, in particular incentive accruals.
- We anticipate that our 2010 R&D expenditures will be similar to our fourth quarter 2009 run rate.

2008 vs. 2007

Several factors contributed to the \$41.3 million increase year over year:

- The inclusion of expenses associated with the former C-COR.
- As planned, we increased our R&D spending as a combined company, particularly on Video on Demand and OSS products.

Acquired In-Process Research and Development Charge

During 2007, we recorded a \$6.1 million expense for acquired in-process R&D related to the C-COR acquisition.

Restructuring Charges

During 2009, 2008 and 2007, we recorded restructuring charges of \$3.7 million, \$1.2 million and \$0.5 million, respectively. The majority of the charges recorded in 2009 related to severance associated with a reduction of workforce within our ATS segment and changes in sublease assumptions related to idle leased space given the current market conditions. The majority of the charges recorded in 2008 relate to severance associated with the C-COR acquisition. We recorded charges in 2008 and 2007 related to changes in estimates related to real estate leases associated with the previous consolidation of certain facilities.

Impairment of Goodwill

Goodwill relates to the excess of cost over the fair value of net assets resulting from an acquisition. On an annual basis, our goodwill is tested for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired, in which case a test would be performed sooner. The annual tests were performed in the fourth quarters of 2009, 2008, and 2007, with a test date of October 1. No impairment resulted from

the reviews in 2007 and 2009. As a result of the review in 2008, we recognized a total noncash goodwill impairment loss of \$128.9 million and \$80.4 million in the ATS and MCS reporting units, respectively. See Critical Accounting Policies for further information.

Amortization of Intangibles

We recorded \$37.4 million of intangibles amortization expense in 2009. Our intangibles amortization expense in 2009 is related to the acquisitions of Digeo, Inc. in October 2009, EG Technology, Inc. in September 2009, Auspice Corporation in August 2008 and C-COR Incorporated in December 2007. Prior to 2008, other intangible assets were related to the existing technology acquired from Aris Interactive L.L.C., from Cadant, Inc., from Com21, and cXm Broadband LLC., all of which were fully amortized by the end of 2008.

Other Expense (Income)

The table below provides detail regarding our other expense (income) (in thousands):

	Other Expense (Income)			Increase (Decrease)	
	For the Years Ended			Between Periods	
	December 31,				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Interest expense	\$ 17,670	\$ 17,123	\$ 16,188	\$ 547	\$ 935
Gain related to terminated acquisition, net of expenses	—	—	(22,835)	—	22,835
Gain on debt retirement	(4,152)	—	—	(4,152)	—
Loss (gain) on investments	(711)	717	(4,596)	(1,428)	5,313
Loss (gain) on foreign currency	3,445	(422)	48	3,867	(470)
Interest income	(1,409)	(7,224)	(24,776)	5,815	17,552
Other expense (income)	(714)	(1,043)	370	329	(1,413)
Total expense (income)	\$ 14,129	\$ 9,151	\$ (35,601)	\$ 4,978	\$ 44,752

Interest Expense

Interest expense reflects the amortization of deferred finance fees and the non-cash interest component of our convertible subordinated notes, interest paid on the notes, capital leases and other debt obligations.

Gain Related to Terminated Acquisition of Tandberg Television ASA

In January 2007, we announced our intention to purchase the shares of TANDBERG Television for approximately \$1.2 billion. In February 2007, another party announced its intent to make a competing all cash offer for all of TANDBERG Television's outstanding shares at a higher price than our offer. Ultimately, the board of directors of TANDBERG Television recommended to its shareholders that they accept the other party's offer and our offer lapsed without being accepted. As part of the agreement with TANDBERG Television, we received a break-up fee of \$18.0 million. In conjunction with the proposed transaction, we incurred expenses of approximately \$7.5 million. We also realized a gain of approximately \$12.3 million on the sale of foreign exchange contracts we had purchased to hedge the transaction purchase price.

Gain on Debt Retirement

During the first quarter of 2009, we purchased and retired \$15.0 million of the face value of our convertible debt for approximately \$10.6 million. The Company also wrote off approximately \$0.2 million of deferred finance fees associated with the portion of the notes retired. The Company realized a gain of approximately \$4.2 million on the retirement of the convertible notes.

Loss (Gain) on Investments

From time to time, we hold certain investments in the common stock of publicly-traded companies, a number of non-marketable equity securities, and investments in rabbi trusts associated with our deferred compensation plans. For further discussion on the classification and the accounting treatment of these investments, see the Investments section within Financial Liquidity and Capital Resources contained herein. During the years ended December 31, 2009, 2008, and 2007, we recorded net (gains) losses related to these investments of \$(0.7) million, \$0.7 million, and \$(4.6) million, respectively.

Loss (Gain) on Foreign Currency

During 2009, 2008 and 2007, we recorded foreign currency losses (gains) related to our international customers whose receivables and collections are denominated in their local currency. We have implemented a hedging strategy to mitigate the monetary exchange fluctuations.

Interest Income

The income reflects interest earned on cash, cash equivalents and short term investments. Interest income was \$1.4 million in 2009 as compared to \$7.2 million in 2008. Although our cash, cash equivalents, and short-term investments increased to \$626 million at the end of 2009 from \$427 million at the end of 2008, interest rates in 2009 dropped significantly as a result in economic conditions resulting in reduced interest income.

Interest income was \$7.2 million in 2008 as compared to \$24.8 million in 2007. The decline is a result of a lower cash balance in 2008, which was significantly impacted by the use of approximately \$366 million for the C-COR acquisition, and lower interest rates on cash investment in 2008.

Income Tax Expense

Our annual provision for income taxes and determination of the deferred tax assets and liabilities require management to assess uncertainties, make judgments regarding outcomes, and utilize estimates. To the extent the final outcome differs from initial assessments and estimates, future adjustments to our tax assets and liabilities will be necessary.

In 2009, we recorded \$43.8 million of income tax expense for U.S. federal and state taxes and foreign taxes, which was 32.6% of our pre-tax income of \$134.6 million. The total income tax expense was favorably impacted by approximately \$3.1 million related to changes in valuation allowances associated with certain foreign and state deferred tax assets, primarily net operating losses.

In 2008, we recorded \$6.3 million of income tax expense for U.S. federal and state taxes and foreign taxes, which was (5.4)% of our pre-tax loss of \$116.9 million. Pre-tax income was negatively impacted by \$209.3 million as a result of our impairment of goodwill, which generated an unfavorable permanent difference between book and taxable income of \$144.6 million and an unfavorable timing difference between book and taxable income of \$64.7 million. The allocation of a portion of the total impairment of goodwill to tax deductible goodwill favorably impacted income tax expense by \$24.7 million. Excluding the impairment of goodwill and the related tax treatment of the impairment, pre-tax income and income tax expense would have been \$92.4 million and \$31.0 million, respectively. The 2008 effective tax rate, exclusive of the goodwill impairment, would have been approximately 33.5%. Also favorably impacting tax expense during 2008 were research and development tax credits of approximately \$4.6 million, and \$2.0 million of newly identified tax benefits arising from domestic manufacturing deductions.

In 2007, we recorded \$41.0 million of income tax expense for U.S. federal and state taxes and foreign taxes. The total tax expense was favorably impacted by two discrete events during 2007. Capital gains arising from the terminated Tandberg acquisition, along with other capital gains arising from the sale of investments, allowed the Company to reverse approximately \$5.3 million in valuation allowances. Additionally, upon finalizing our analysis of available research and development tax credits during the third quarter of 2007, we identified an additional \$4.0 million of tax credit benefits. These two favorable discrete events were partially offset by approximately

\$2.3 million of unfavorable tax impact arising from the C-COR in-process research and development charges during the fourth quarter.

We routinely benefit from U.S. research and development tax credits. Legislation pertaining to those credits expired at the end of 2009. As in previous years, most recently in 2008, we expect Congress to pass legislation to extend the availability of these credits effective to the beginning of 2010. Until such legislation is passed, our tax rate will be higher. We anticipate a tax rate in 2010 of approximately 38% without the availability of research and development tax credits, and approximately 35% with the availability of the credits.

Discontinued Operations

In 2007, we recorded income of \$0.2 million, related to our reserves for discontinued operations. These adjustments were the result of the resolution of various vendor liabilities, taxes and other costs. We did not record any expense for discontinued operations in 2009 or 2008.

Financial Liquidity and Capital Resources

Overview

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

Liquidity & Capital Resources Data

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except DSO and Turns)		
<i>Key Working Capital Items</i>			
Cash provided by operating activities	\$ 240,977	\$ 189,073	\$ 63,424
Cash, cash equivalents, and short-term investments	\$ 625,596	\$ 427,265	\$ 391,808
Accounts Receivable, net	\$ 143,708	\$ 159,443	\$ 166,953
- Days Sales Outstanding	50	52	48*
Inventory, net	\$ 95,851	\$ 129,752	\$ 131,792
- Turns	5.7	5.7	7.2*
<i>Key Debt Items</i>			
Convertible notes	\$ 261,050	\$ 276,000	\$ 276,000
C-COR convertible notes	\$ —	\$ —	\$ 35,000
<i>Key Shareholder Equity Items</i>			
Share Repurchases	\$ —	\$ 75,960	\$ —
Shares Issued for acquisitions	\$ —	\$ —	\$ 281,011
<i>Capital Expenditures</i>	\$ 18,663	\$ 21,352	\$ 15,072

* Full year excluding C-COR

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

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

Below is a description of key actions taken and an explanation as to their potential impact:

Accounts Receivable & Inventory

We use the number of times per year that inventory turns over (based upon sales for the most recent period, or turns) to evaluate inventory management, and days sales outstanding, or DSOs, to evaluate accounts receivable management.

Accounts receivable and DSOs decreased during the 2009 as compared to 2008 as a result of slightly lower sales and payment patterns of our customers. Looking forward, it is possible that our DSOs may increase dependent upon our customer mix and payment patterns.

Inventory decreased in 2009 as compared to 2008. The dollar value of the inventory currently on hand is lower due to mix changes (in particular lower sales of EMTAs and hence lower inventory requirements) and timing. Inventory turns have remained the same in 2009 as compared to 2008.

2009 Debt Redemption

During the first quarter of 2009, we purchased \$15.0 million of the face value of our convertible debt for approximately \$10.6 million.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately \$626 million of cash, cash equivalents, and short-term investments on hand as of December 31, 2009, together with the prospects for continued generation of cash from operating activities are adequate for our short- and medium-term business needs. We may in the future elect to repurchase additional shares of our common stock or additional principal amounts of our outstanding convertible notes. However, a key part of our overall long-term strategy may be implemented through additional acquisitions, and a portion of these funds may be used for that purpose. Should our available funds be insufficient for those purposes, it is possible that we will raise capital through private or public, share or debt offerings. Absent a major acquisition, we do not anticipate a need to access the capital markets in 2010.

Contractual Obligations

Following is a summary of our contractual obligations as of December 31, 2009:

Contractual Obligations	Payments due by period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(In thousands)				
Debt(4)	\$ 124	\$ —	\$ 261,050	\$ —	\$ 261,174
Operating leases, net of sublease income(1)	8,011	9,494	3,540	1,956	23,001
Purchase obligations(2)	103,072	—	—	—	103,072
Total contractual obligations(3)	<u>\$ 111,207</u>	<u>\$ 9,494</u>	<u>\$ 264,590</u>	<u>\$ 1,956</u>	<u>\$ 387,247</u>

- (1) Includes leases which are reflected in restructuring accruals on the consolidated balance sheets.
- (2) Represents obligations under agreements with non-cancelable terms to purchase goods or services. The agreements are enforceable and legally binding, and specify terms, including quantities to be purchased and the timing of the purchase.
- (3) Approximately \$17.0 million of uncertain tax position have been excluded from the contractual obligation table because we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities.
- (4) 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.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Cash Flow

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net cash provided by operating activities	\$ 240,977	\$ 189,073	\$ 63,424
Net cash provided by (used in) investing	(153,403)	9,778	(221,667)
Net cash provided by (used in) financing	3,097	(112,754)	20,422
Net increase (decrease) in cash and cash equivalents	<u>\$ 90,671</u>	<u>\$ 86,097</u>	<u>\$ (137,821)</u>

Operating Activities:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net income (loss)	\$ 90,769	\$ (129,639)	\$ 92,347
Adjustments to reconcile net income (loss) to cash provided by operating activities	85,283	281,912	4,951
Net income including adjustments	176,052	152,273	97,298
(Increase)/decrease in accounts receivable	21,704	8,579	(17,498)
(Increase)/decrease in inventory	38,906	4,023	(9,502)
Increase/(decrease) in accounts payable and accrued liabilities	3,588	38,800	(9,906)
Other, net	727	(14,602)	3,032
Net cash provided by operating activities	<u>\$ 240,977</u>	<u>\$ 189,073</u>	<u>\$ 63,424</u>

Net income (loss), including adjustments, increased \$23.8 million during 2009 as compared to 2008. In 2008, net income (loss) included a goodwill impairment of \$209.3 million and a related tax benefit of \$24.7 million arising from the allocation of a portion of the total impairment of goodwill to tax deductible goodwill. Net income in 2007 included gains of \$22.8 million associated with the terminated TANDBERG transaction.

Accounts receivable declined \$21.7 million in 2009 as a result of customer mix and payment patterns of customers. It is possible that both accounts receivable and DSOs may increase in future periods, particularly if we have an increase in international sales, which tend to have longer payment terms.

Inventory decreased by \$38.9 million in 2009. Inventory levels of our EMTA and ATS products (which have lower margins and hence higher inventory values) have been reduced as a result of lower sales volumes. Full year turns were relatively flat in 2009 as compared to 2008.

Accounts payable and accrued liabilities increased in 2008 as compared to 2007 by \$38.8 million. Deferred revenue increased by \$38.5 million. The increase was the result of the build-up of deferred revenue from the MCS segment during the year. The deferred revenue acquired from C-COR during the acquisition was marked to fair value at the date of the acquisition and rebuilt through 2008. Accounts payable increased in 2008 as compared to 2007 as a result of timing and more favorable terms we negotiated with certain vendors.

The change in other, net in 2008 is the result of an increase in deferred cost of sales in the MCS segment during the year. The deferred cost of sales has increased during the year along with the deferred revenue. Along with the deferred revenue, the deferred cost of sales was also marked to fair value at the date of acquisition.

Investing Activities:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital expenditures	\$ (18,663)	\$ (21,352)	\$ (15,072)
Acquisitions/other	(22,734)	(10,500)	(285,284)
Purchases of short-term investments	(216,704)	(113,734)	(356,366)
Sales of short-term investments	104,488	155,114	412,217
Cash proceeds from sale of property, plant and equipment	210	250	3
Proceeds from termination of TandbergTV acquisition, net of payments	—	—	22,835
Net cash provided by (used in) investing activities	<u>\$ (153,403)</u>	<u>\$ 9,778</u>	<u>\$ (221,667)</u>

Capital Expenditures — Capital expenditures are mainly for test equipment, laboratory equipment, and computing equipment. We anticipate investing approximately \$20 million in 2010.

Acquisitions/Other — This represents cash investments we have made in our various acquisitions.

Purchases and Disposals of Short-Term Investments — This represents purchases and sales of securities.

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

Proceeds from Termination of TandbergTV Acquisition, Net of Payments — This represents the cash proceeds we received from the breakup fee of the proposed acquisition, foreign exchange gains associated with the transaction, and related costs we incurred in association with the proposed transaction.

Financing Activities:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Repurchase of shares to satisfy employee tax withholdings	\$ (2,180)	\$ (1,035)	\$ (3,093)
Payment of debt and capital lease obligations	(10,714)	(35,864)	(19)
Repurchase of common stock	—	(75,960)	—
Fees and proceeds from issuance of common stock, net	12,984	49	14,377
Excess tax benefits from stock-based compensation plans	3,007	56	9,157
Net cash provided by (used in) financing activities	<u>\$ 3,097</u>	<u>\$ (112,754)</u>	<u>\$ 20,422</u>

Employer Repurchase of Shares to Satisfy Minimum Tax Withholdings — This represents the minimum shares withheld to satisfy the minimum tax withholding when restricted stock vests.

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

Repurchase of Common Stock — During the first quarter of 2008, we publicly announced that our Board of Directors had authorized a plan for the Company to purchase up to \$100 million of the Company's common stock. We repurchased 13 million shares at an average price of \$5.84 per share for an aggregate consideration of approximately \$76 million during the first quarter of 2008. The remaining authorized amount of \$24 million was not purchased.

During the first quarter of 2009, our Board of Directors authorized a new plan, which replaced the 2008 plan, for the Company to purchase up to \$100 million of the Company's common stock. We did not purchase any shares under the 2009 Plan during 2009.

Fees and Proceeds from Issuance of Common Stock, Net -

This represents expenses paid related to the issuance of stock for the C-COR acquisition, offset with cash proceeds related to the exercise of stock options by employees.

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

Income Taxes

In 2009, approximately \$2.1 million of U.S. federal and state tax benefits were obtained from tax deductions arising from equity-based compensation deductions, all of which resulted from 2009 exercises of non-qualified stock options and lapses of restrictions on restricted stock awards. During 2008, approximately \$0.5 million of U.S. federal tax benefits were obtained from tax deductions arising from equity-based compensation deductions, all of which resulted from 2008 exercises of non-qualified stock options and lapses of restrictions on restricted stock awards. During 2007, approximately \$6.9 million of U.S. federal tax benefits were obtained from tax deductions arising from equity-based compensation deductions, of which \$3.8 million resulted from 2007 exercises of non-qualified stock options and lapses of restrictions on restricted stock awards. The remaining \$3.1 million of U.S. federal tax benefits during 2007 were due to the utilization of prior year net operating losses, generated by equity-based compensation deductions, against 2007 taxable income.

Interest Rates

As of December 31, 2009, we did not have any floating rate indebtedness or outstanding interest rate swap agreements.

Foreign Currency

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

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

Financial Instruments

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

ARRIS executes letters of credit in favor of certain landlords and vendors to guarantee performance on lease and insurance contracts. Additionally, we have cash collateral account agreements with our financial institutions as security against potential losses with respect to our foreign currency hedging activities. The letters of credit and cash

collateral accounts are reported as restricted cash. As of December 31, 2009 and 2008, we had approximately \$4.5 million and \$5.7 million outstanding, respectively, of cash collateral.

Cash, Cash Equivalents, and Investments

Our cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) are primarily held in money market funds that pay either taxable or non-taxable interest. We hold investments consisting of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities consist primarily of commercial paper, certificates of deposits, and U.S. government agency financial instruments. Additionally, as of December 31, 2009, we had approximately \$5.0 million of a single auction rate security outstanding at fair value, classified as a short-term investment. Because it has failed at auction, we are uncertain of when we will be able to liquidate the security. However, the Company has been provided the option to sell the security to a major financial institution at par on June 30, 2010. The security is a single student loan issue rated AAA and is substantially guaranteed by the federal government. We analyzed the fair value of the security as of December 31, 2009. We have concluded that the fair value is approximately \$5.0 million (including the fair value of the put options), which compares to a face value of \$5.0 million. We will continue to evaluate the fair value of this security and mark it to market accordingly.

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

See Note 5 of Notes to the Consolidated Financial Statements for disclosures related to the fair value of our investments.

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

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

The Company also has a deferred retirement salary plan, which was limited to certain current or former officers of C-COR. We hold investments to cover the liability.

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

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. Capital expenditures were \$18.7 million in 2009 as compared to \$21.4 million in 2008 and \$15.1 million in 2007. We had no significant commitments for capital expenditures at December 31, 2009. Management expects to invest approximately \$20 million in capital expenditures for the year 2010.

Deferred Income Tax Assets — Including Net Operating Loss Carryforwards and Research and Development Credit Carryforwards, and Valuation Allowances

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax

planning strategies. If we conclude that deferred tax assets are more-likely-than-not to not be realized, then we record a valuation allowance against those assets. We continually review the adequacy of the valuation allowances established against deferred tax assets.

As of December 31, 2009, we had net operating loss, or NOL, carryforwards for U.S. federal, U.S. state, and foreign income tax purposes of approximately \$25.8 million, \$181.4 million, and \$47.3 million, respectively. The U.S. federal NOLs expire through 2023. Foreign NOLs related to our Irish subsidiary in the amount of \$21.8 million have an indefinite life. Other significant foreign NOLs arise from our Dutch subsidiaries (\$8.0 million, 10-year expiration), our French branch (\$6.6 million, no expiration), and our U.K. branch (\$7.0 million, no expiration). The net operating losses are subject to various limitations on how and when the losses can be used to offset against taxable income. Approximately \$0.6 million of U.S. federal NOLs, \$158.6 million of U.S. state NOLs, and \$9.2 million of the foreign NOLs are subject to valuation allowances because we do not believe the ultimate realization of the deferred tax assets associated with these U.S. federal and state NOLs is more-likely-than-not.

During 2009, we utilized approximately \$32.0 million of U.S. federal NOLs and \$37.6 million of U.S. state NOLs to offset against taxable income. We used approximately \$57.8 million of U.S. federal NOLs and \$67.2 million of U.S. state NOLs to reduce taxable income in 2008.

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

Valuation allowances increased by \$1.3 million, primarily due to increases in state deferred tax assets within legal entities that have experienced cumulative losses; offset by reversals of European valuation allowances from the settlements of tax audits.

Defined Benefit Pension 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. For 2009, the plan assets were comprised of approximately 56%, 39%, and 5% of equity, debt securities, and money market funds, respectively. For 2008, the plan assets were comprised of approximately 49%, 42%, and 9% of equity, debt securities, and money market funds, respectively. In 2010, the plan will target allocations of 55% equity and 45% debt securities. Liabilities or amounts in excess of these funding levels are accrued and reported in the consolidated balance sheets. The Company has established a rabbi trust 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.

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 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.

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 \$0.2 million and \$0.3 million for 2009 and 2008, respectively.

Critical Accounting Policies

The accounting and financial reporting policies of the Company are in conformity with U.S. generally accepted accounting principles. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of

assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has discussed the development and selection of the critical accounting estimates discussed below with the audit committee of the Company's Board of Directors and the audit committee has reviewed the Company's related disclosures.

a) 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 — We provide 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 — We sell internally developed software as well as software developed by outside third parties that does not require significant production, modification or customization. We recognize 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 we choose 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. We do 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, we seek 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 our 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, we analyze 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, we follow 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, we apply 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 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. We recognize 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 we do 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, 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.

b) 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.

Assumptions and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although ARRIS believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results. For example, an increase of 1% in the estimated discount rate could have resulted in additional impairment charges of approximately \$14 million and \$13 million for ATS and MCS, respectively.

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.

Intangible Assets

We test our 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, we group 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, we have made a "policy decision" to use pre-tax cash flows in our evaluation, which is consistently applied.

If we determine 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, we conducted a review of our long-lived assets, including amortizable intangible assets. This review did not indicate that an impairment existed. No review for impairment of long-lived assets was conducted in 2009 as the Company did not believe that indicators of impairment existed.

c) Allowance for Doubtful Accounts and Sales Returns

We establish a reserve for doubtful accounts based upon our historical experience and leading market indicators in collecting accounts receivable. A majority of our accounts receivable are from a few large cable system operators, either with investment rated debt outstanding or with substantial financial resources, and have very favorable payment histories. Unlike businesses with relatively small individual accounts receivable from a large number of customers, if we were to have a collection problem with one of our major customers, it is possible the reserve that we have established will not be sufficient. We calculate our reserve for uncollectible accounts using a