ARRIS GROUP INC
Form 10-Q
May 09, 2008

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

FORM 10-Q
For the quarter ended March 31, 2008
of
ARRIS GROUP, INC.
A Delaware Corporation
IRS Employer Identification No. 58-2588724
SEC File Number 000-31254
3871 Lakefield Drive
Suwanee, GA 30024
(678) 473-2000

ARRIS Group, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
ARRIS Group, Inc. is a large accelerated filer and is not a shell company.
As of April 30, 2008, 122,571,371 shares of the registrant s Common Stock, $0.01 par value, were outstanding.

ARRIS GROUP, INC.
FORM 10-Q
For the Three Months Ended March 31, 2008
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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 243,515	$ 323,797
Short-term investments, at fair value	49,513	68,011
Total cash, cash equivalents and short-term investments	293,028	391,808
Restricted cash	7,186	6,977
Accounts receivable (net of allowances for doubtful accounts of $3,124 in 2008 and $2,826 in 2007)	159,881	166,953
Other receivables	6,074	4,330
Inventories	125,105	131,792
Prepaids	5,680	5,856
Current deferred income tax assets	47,051	44,939
Other current assets	8,209	4,841
Total current assets	652,214	757,496
Property, plant and equipment (net of accumulated depreciation of $88,615 in 2008 and $83,644 in 2007)	60,747	59,156
Goodwill	453,454	455,352
Intangible assets (net of accumulated amortization of $122,421 in 2008 and $109,167 in 2007)	257,029	269,893
Investments, at fair value	10,200	6,412
Noncurrent deferred income tax assets	3,688	3,459
Other assets	12,624	10,181
	$ 1,449,956	$ 1,561,949
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 60,490	$ 58,852
Accrued compensation, benefits and related taxes	14,397	26,177
Accrued warranty	13,365	14,370
Deferred revenue	19,901	8,474
Current portion of long-term debt	310	35,305
Other accrued liabilities	27,980	42,121
Total current liabilities	136,443	185,299
Long-term debt, net of current portion	276,686	276,765
Accrued pension	10,905	10,455

Noncurrent income taxes payable	6,487	6,322
Noncurrent deferred income tax liabilities	47,090	45,255
Other long-term liabilities	14,258	12,086
Total liabilities	491,869	536,182
Stockholders equity:		
Preferred stock, par value $1.00 per share, 5.0 million shares authorized; none issued and outstanding		
Common stock, par value $0.01 per share, 320.0 million shares authorized; 122.4 million and 132.4 million shares issued and outstanding in 2008 and 2007, respectively	1,357	1,356
Capital in excess of par value	1,095,716	1,093,498
Treasury stock at cost, 13 million shares in 2008 and 51 thousand shares in 2007	(76,007)	(572)
Accumulated deficit	(59,588)	(64,993)
Unrealized gain on marketable securities	151	20
Unfunded pension losses	(3,358)	(3,358)
Cumulative translation adjustments	(184)	(184)
Total stockholders equity	958,087	1,025,767
	$ 1,449,956	$ 1,561,949

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	**2007**
Net sales	$ 273,506	$ 235,253
Cost of sales	188,258	166,506
Gross margin	85,248	68,747
Gross margin %	31.2%	29.2%
Operating expenses:		
Selling, general, and administrative expenses	36,982	24,175
Research and development expenses	28,122	18,096
Restructuring and impairment charges	405	421
Amortization of intangible assets	13,254	58
Total operating expenses	78,763	42,750
Operating income	6,485	25,997
Other expense (income):		
Interest expense	1,504	1,668
Loss on investments	2	19
Loss (gain) on foreign currency	(990)	322
Interest income	(2,685)	(6,483)
Gain related to terminated acquisition, net of expenses		(22,835)
Other expense (income), net	(36)	65
Income from continuing operations before income taxes	8,690	53,241
Income tax expense	3,285	15,597
Net income	$ 5,405	$ 37,644
Net income per common share:		
Basic	$ 0.04	$ 0.35
Diluted	$ 0.04	$ 0.34
Weighted average common shares:		
Basic	130,763	108,467
Diluted	131,981	110,988

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	**2007**
Operating activities:		
Net income	$ 5,405	$ 37,644
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,963	2,497
Amortization of intangibles	13,254	58
Stock compensation expense	2,551	2,656
Deferred income tax provision (benefit)	(506)	4,702
Amortization of deferred finance fees	279	279
Provision for doubtful accounts	205	371
Gain related to previously written off receivables		(377)
Loss on investments	2	19
Gain related to terminated acquisition, net of expenses		(22,835)
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	7,502	(10,823)
Other receivables	(1,744)	(7,332)
Inventory	7,501	16,040
Income taxes payable	81	1,293
Accounts payable and accrued liabilities	(10,294)	(24,842)
Excess tax benefits from stock-based compensation plans		(4,855)
Prepaids and other, net	1,316	1,470
Net cash provided by (used in) operating activities	30,515	(4,035)
Investing activities:		
Purchases of property, plant and equipment	(6,429)	(2,287)
Cash paid for acquisition, net of cash acquired	(4,192)	
Cash proceeds from sale of property, plant & equipment	224	
Cash received related to terminated acquisition, net of expenses paid		10,881
Cash paid for hedge related to terminated acquisition		(26,469)
Cash proceeds from hedge related to terminated acquisition		38,750
Purchases of short-term investments	(16,887)	(128,135)
Disposals of short-term investments	30,500	81,100
Net cash provided by (used in) investing activities	3,216	(26,160)
Financing activities:		
Payment of debt and capital lease obligations	(35,097)	
Repurchase of common stock	(75,960)	

Excess tax benefits from stock-based compensation plans		4,855
Employer repurchase of shares to satisfy minimum tax withholdings	(239)	
Fees and proceeds from issuance of common stock, net	(2,717)	5,039
Net cash provided by (used in) financing activities	(114,013)	9,894
Net decrease in cash and cash equivalents	(80,282)	(20,301)
Cash and cash equivalents at beginning of period	323,797	461,618
Cash and cash equivalents at end of period	$ 243,515	$ 441,317

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Noncash investing and financing activities:

	Three Months Ended March 31,	
	2008	2007
Net tangible assets acquired, excluding cash	5,700	
Intangible assets acquired, including goodwill	(1,508)	
Prior investment in acquired company		
Equity issued for acquisition, including fair value of assumed stock options		
Cash paid for acquisition, net of cash acquired	4,192	

See accompanying notes to the consolidated financial statements.

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

Note 1. Organization and Basis of Presentation

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

The consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of the consolidated financial statements for the periods shown. Additionally, certain prior period amounts have been reclassified to conform to the 2008 financial statement presentation. Interim results of operations are not necessarily indicative of results to be expected from a twelve-month period. These financial statements should be read in conjunction with the Company s most recently audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the United States Securities and Exchange Commission (SEC).

Note 2. Impact of Recently Issued Accounting Standards

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

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.* Effective for the fiscal year ending 2006, the Company was required to fully recognize the funded status of its defined benefit plans and provide required disclosures. Effective for the fiscal year ending 2008, the Company will be required to measure each plan s assets and liabilities as of the end of the fiscal year instead of the Company s current measurement date of September 30. Based on the initial analysis, the Company estimates that the impact of changing the measurement date for plan assets and liabilities from September 30 to December 31 will be a one-time addition to annual net periodic expense of approximately $0.4 million for 2008 which will be charged directly to retained earnings in the fourth quarter of 2008.

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

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As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

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

The majority of the Company s cash and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, market prices for similar securities, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets, include the Company s money market funds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include the Company s U.S. government agency notes, corporate bonds and commercial paper. Such instruments are classified within Level 2 of the fair value hierarchy. See Note 3 for further information on the Company s investments and fair value measurements.

Proposed Accounting Standards

In July 2007, the FASB approved issuance for comment of a proposed FASB Staff Position (Proposed FSP) addressing convertible instruments that may be settled in cash upon conversion (including partial cash settlement). This would address instruments commonly referred as Instrument C from EITF Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion.* Those instruments essentially require the issuer to settle the principal amount in cash and the conversion spread in cash or net shares at the issuer s option. Based on decisions made by the FASB in the first quarter of 2008 after considering comment letters that it had received on the Proposed FSP, the FASB is expected to issue final guidance under the Proposed FSP in 2008; this guidance is expected to be effective for fiscal periods beginning after December 15, 2008, not to permit early application and to be applied retrospectively to all periods presented (retroactive restatement) pursuant to the guidance in FASB Statement No. 154, *Accounting Changes and Error Corrections*. We have not yet fully evaluated and computed the effects of the Proposed FSP on our net income and net income per common share. Based on our initial review, however, this Proposed FSP would change the accounting treatment of our outstanding 2% convertible senior notes due 2026 and would (1) shift a material portion of our 2% convertible senior notes due 2026 balances to additional paid-in capital on our consolidated balance sheets, (2) create a discount on the 2% convertible senior notes due 2026 that would be amortized as materially higher interest expense over the life of the 2% convertible senior notes due 2026, (3) cause us to show materially lower net income on our consolidated statements of operations, and (4) reduce our basic and diluted net income per common share as disclosed on our consolidated statements of operations.

Note 3. Investments

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

	Fair Value	
	As of March 31, 2008 (unaudited)	**As of December 31, 2007**
Commercial paper	$ 3,982	$ 11,833
Auction rate securities	22,145	30,270
Certificates of deposit	7,310	9,807

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	Fair Value	
	As of March 31, 2008 (unaudited)	As of December 31, 2007
U.S. Government agency bonds	9,588	9,574
International Government agency bonds	12	
Corporate obligations	3,479	3,447
Asset-backed securities	2,995	2,974
Equity securities	2	106
Total classified as current assets	$ 49,513	$ 68,011
Cash surrender value of company owned life insurance	$ 2,977	$ 3,075
Auction rate securities	5,000	
Mutual funds	2,185	3,230
Money market funds	2	70
Corporate obligations	36	37
Total classified as non-current assets	$ 10,200	$ 6,412
Total	$ 59,713	$ 74,423

The unrealized gains and losses at March 31, 2008 and 2007 were not material.

At March 31, 2008 ARRIS had $27.1 million invested in auction rate securities. In April 2008, the Company successfully liquidated, at par, $22.1 million of the auction rate securities. However, on April 18, 2008, an auction rate security of approximately $5.0 million failed to reprice for the second time, resulting in ARRIS continuing to hold this security. This particular security was held as of March 31, 2008 as a long term investment. As a result of the unsuccessful auction, the reset interest rate was increased to above market and the next auction is scheduled for May 23, 2008. The Company may not be able to liquidate this security until a successful auction occurs. This security is a single student loan issue rated AAA and is guaranteed by the federal government. As a result, the Company concluded that the value of this investment is not impaired at this time. ARRIS will continue to evaluate the fair value of its investments in auction rate securities for a potential other-than-temporary impairment if a decline in fair value occurs. As of March 31, 2008, there were no active markets for this auction rate security or comparable securities due to current market conditions. Therefore, until such a market becomes active, the auction rate security is classified as Level 3 within the fair value hierarchy.

Fair Value Measurement

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

	March 31, 2008 (unaudited)			
	Level 1	Level 2	Level 3	Total
Commercial paper	$ 3,982	$	$	$ 3,982
Certificates of deposit		7,310		7,310
U.S. government agency bonds	9,588			9,588
International government agency bonds	12			12

Corporate obligations		3,515		3,515
Asset-backed securities		2,995		2,995
Equity securities	2			2
Auction rate securities		22,145	5,000	27,145
Cash surrender value of company owned life insurance		2,977		2,977
Mutual funds	2,185			2,185
Money market funds	2			2
Total	$ 15,771	$ 38,942	$ 5,000	$ 59,713

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The Company periodically reviews its investment securities classified as available-for-sale for potential impairment and records impairment in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. This includes a review of the fair value of each investment security in relation to its book value, the current grade of the security, and other significant events. Based on management s review, no investment securities were determined to be other than temporarily impaired and, as a result, no impairment charges were recorded in the quarters ended March 31, 2008 and 2007.

Note 4. Pension Benefits

Components of Net Periodic Pension Cost

	Three Months Ended March 31,	
	2008	2007
	(in thousands) (unaudited)	
Service cost	$ 190	$ 140
Interest cost	470	412
Expected return on plan assets	(355)	(319)
Amortization of prior service cost	119	119
Amortization of net loss		25
Net periodic pension cost	$ 424	$ 377

Employer Contributions

No minimum funding contributions are required in 2008 under the Company s defined benefit plan. However, the Company made voluntary contributions to the plan of approximately $29 thousand and $19 thousand for the three month periods ended March 31, 2008 and 2007, respectively.

Note 5. Guarantees

Warranty

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

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

Information regarding the changes in ARRIS aggregate product warranty liabilities for the three months ended March 31, 2008 was as follows (in thousands):

Balance at December 31, 2007	$ 14,370
Accruals related to warranties (including changes in estimates)	1,628
Settlements made (in cash or in kind)	(2,633)

Balance at March 31, 2008 (unaudited)	$ 13,365

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Note 6. Business Acquisitions

Acquisition of C-COR Incorporated

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

Presented below is unaudited supplemental pro forma information for the Company and C-COR to give effect to the transaction. This summary unaudited information is derived from the historical financial statements of the Company and C-COR. This information assumes the transactions were consummated at the beginning of the applicable period. This information is presented for illustrative purposes only and does not purport to represent what the financial position or results of operations of the Company and C-COR or the combined entity would actually have been had the transactions occurred at the applicable date, or to project the Company s, C-COR s, or the combined entity s results of operations for any future period or date. Pro forma results are not presented for the first quarter of 2008 as the actual results of C-COR are included in the Company s operations from January 1, 2008 to March 31, 2008.

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

	Three Months Ended March 31, 2007 (unaudited)
Net sales	$ 308.3
Net income from continuing operations	$ 32.6
Income from continuing operations per common share:	
Basic	$ 0.24
Diluted	$ 0.23

Preliminary Purchase Price Allocation

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

Total purchase consideration cash and equity	$	646.6
Prior investment in acquired company		6.0
Fair value of assumed stock options		22.8
Acquisition-related transaction costs		5.5
Total preliminary purchase price	$	680.9
Net tangible assets	$	99.6
Identifiable intangible assets:		
Acquired technology		38.8

Order backlog		7.9
Customer relationships		220.5
Non-compete agreements		5.1
Acquired in-process research and development		6.1
Goodwill		302.9
Allocation of preliminary purchase price	$	680.9

Fair Value of Assets and Liabilities

Under the purchase method of accounting, the purchase price, as shown in the table above, is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price was allocated using the information currently available, and ARRIS may adjust the purchase price allocation after obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions of estimates. The purchase price allocation will be finalized within one year of the acquisition date, or by December 14, 2008. The excess of the total purchase price over the net of the amounts assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill.

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Note 7. Restructuring and Impairment Charges

During the first quarter of 2004, ARRIS consolidated two facilities in Georgia, giving the Company the ability to house many of its core technology, marketing, and corporate headquarters functions in a single building. This consolidation resulted in a restructuring charge of approximately $6.2 million in 2004 related to lease commitments and the write-off of leasehold improvements and other fixed assets. As of March 31, 2008, approximately $1.9 million related to the lease commitments remained in the restructuring accrual to be paid. ARRIS expects the remaining payments to be made by the second quarter of 2009, which is the end of the lease.

		(in thousands)
Balance as of December 31, 2007	$	2,121
Q1 2008 payments		(396)
Q1 2008 adjustments to accrual		159
Balance as of March 31, 2008 (unaudited)	$	1,884

In the fourth quarter of 2007, the Company initiated a restructuring plan related to its acquisition of C-COR. The plan focuses on the rationalization of personnel, facilities and systems across the entire organization. The restructuring affected approximately 60 employees. The plan also includes contractual obligations related to change of control provisions included in certain C-COR employment contracts. The total estimated cost of this restructuring plan was approximately $8.6 million, of which approximately $0.5 million was recorded as severance expense during the fourth quarter of 2007 and $8.1 million was assumed liabilities related to employee severance and termination benefits which were accounted for as an adjustment to the allocation of the original purchase price for C-COR upon acquisition. As of March 31, 2008, the total liability remaining for this restructuring plan was approximately $1.9 million, the majority of which is expected to be paid in 2008.

		(in thousands)
Balance as of December 31, 2007	$	8,622
Q1 2008 payments		(6,663)
Q1 2008 adjustments to accrual		(44)
Balance as of March 31, 2008 (unaudited)	$	1,915

Additionally, ARRIS acquired remaining restructuring accruals of approximately $0.7 million representing C-COR contractual obligations that related to excess leased facilities. As of March 31, 2008, the total liability remaining for this restructuring plan was approximately $0.6 million. These payments will be paid over their remaining lease terms through 2014, unless terminated earlier.

		(in thousands)
Balance as of December 31, 2007	$	642
Q1 2008 payments		(32)
Balance as of March 31, 2008 (unaudited)	$	610

Note 8. Inventories

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

	March 31, 2008 (unaudited)	December 31, 2007
Raw material	$ 20,010	$ 20,004
Work in process	1,720	2,533
Finished goods	103,375	109,255
Total net inventories	$ 125,105	$ 131,792

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Note 9. Property, Plant and Equipment

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

	March 31, 2008 (unaudited)	December 31, 2007
Land	$ 2,612	$ 2,612
Building and leasehold improvements	19,531	19,432
Machinery and equipment	127,219	120,756
	149,362	142,800
Less: Accumulated depreciation	(88,615)	(83,644)
Total property, plant and equipment, net	$ 60,747	$ 59,156

Note 10. Long-Term Obligations

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

	March 31, 2008 (unaudited)	December 31, 2007
2.00% convertible senior notes due 2026	$ 276,000	$ 276,000
2.00% Pennsylvania Industrial Development Authority debt, net of current portion	234	271
9.26% equipment financing obligations, net of current portion	452	494
Other long-term liabilities	14,258	12,086
Total long term debt and other long-term liabilities	$ 290,944	$ 288,851

On November 6, 2006, the Company issued $276.0 million of 2% convertible senior notes due 2026. The notes are convertible, at the option of the holder, based on an initial conversion rate, subject to adjustment, of 62.1504 shares per $1,000 base amount (which represents an initial conversion price of approximately $16.09 per share of our common stock), into cash up to the principal amount and, if applicable, shares of the Company s common stock, cash or a combination thereof. The notes may be converted during any calendar quarter in which the closing price of ARRIS common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect at that time (which, based on the current conversion price would be $19.31) and upon the occurrence of certain other events. Upon conversion, the holder will receive the principal amount in cash and an additional payment, in either cash or stock at the option of the Company. The additional payment will be based on a formula which calculates the difference between the initial conversion rate ($16.09) and the market price at the date of the conversion. As of May 9, 2008, the notes could not be converted by the holders thereof. Interest is payable on May 15 and November 15 of each year. The Company may redeem the notes at any time on or after November 15, 2013, subject to certain conditions. As of March 31, 2008 and December 31, 2007, there were $276.0 million of the notes outstanding. Additionally, we paid approximately $7.8 million of finance fees related to the issuance of the notes. These costs are being amortized over seven years. The remaining balance of unamortized financing costs from these notes as of March 31, 2008, and 2007 was $6.3 million, and $7.4 million, respectively.

In conjunction with the acquisition of C-COR, the Company assumed certain debt obligations, including unsecured convertible notes (Notes) and financing related to equipment purchases and property expansion. On December 14, 2007, the Company gave notice to the Note holders that it was calling all of the Notes and that redemption would occur on January 14, 2008. The Notes were subsequently redeemed on January 14, 2008. As of December 31, 2007, the Notes were included in current liabilities on the Consolidated Balance Sheet.

As of March 31, 2008, the Company had approximately $14.3 million of other long-term liabilities, which included $7.2 million related to its deferred compensation obligations, $4.2 million related to long-term deferred revenue, $1.6 million related to landlord funded leasehold improvements, and $1.3 million related to other long-term

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liabilities. As of December 31, 2007, the Company had approximately $12.1 million of other long-term liabilities, which included $9.0 million related to its deferred compensation obligations, $1.7 million related to landlord funded leasehold improvements, and $1.4 million related to other long-term liabilities.

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

Note 11. Comprehensive Income

Total comprehensive income represents the net change in stockholders equity during a period from sources other than transactions with stockholders. For ARRIS, the components of total comprehensive income include the unrealized gain on marketable securities, unrealized gain on derivative instruments qualifying for hedge accounting, and foreign currency translation adjustments. The components of comprehensive income for the three months ended March 31, 2008 and 2007 are as follows (in thousands):

	Three Months Ended March 31, (unaudited)	
	2008	**2007**
Net income	$ 5,405	$ 37,644
Changes in the following equity accounts:		
Unrealized gain on marketable securities	131	48
Unrealized gain on derivative instruments		551
Comprehensive income	$ 5,536	$ 38,243

Note 12. Segment Information

The management approach required under SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, has been followed in order to present our segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker for evaluating segment performance and deciding how to allocate resources to segments.

Prior to fiscal year 2007, the Company reported its results of operations as one operating segment. In connection with the acquisition of C-COR on December 14, 2007, the Company realigned its organizational structure for the new combined business. Under the new organizational structure, the Company manages its business under three segments: Broadband Communications Systems (BCS), Access, Transport & Supplies (ATS), and Media & Communications Systems (MCS). A detailed description of each segment is contained in our December 31, 2007 Form 10-K under Item 1 in Our Principal Products.

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

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

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

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The table below presents information about the Company s reporting segments for the three months ended March 31, 2008 and 2007 (in thousands) (unaudited):

	BCS	ATS	MCS	Total
Quarter Ended March 31, 2008				
Net sales	$189,637	$72,894	$10,975	$273,506
Gross margin	57,991	21,876	5,381	85,248
Amortization of intangible assets		6,852	6,402	13,254
Quarter Ended March 31, 2007				
Net sales	$199,000	$36,006	$ 247	$235,253
Gross margin	62,451	6,426	(130)	68,747
Amortization of intangible assets			58	58

The Company s net intangible assets and goodwill by reportable segment as of March 31, 2008 has not materially changed from December 31, 2007.

The Company s three largest customers (including their affiliates, as applicable) are Charter, Comcast and Time Warner Cable. Over the past year, certain customers beneficial ownership may have changed as a result of mergers and acquisitions. Therefore, the revenue for ARRIS customers for prior periods has been adjusted to include the affiliates under common control. A summary of sales to these customers for the three month periods ended March 31, 2008 and 2007 are set forth below (in thousands):

	Three Months Ended March 31, (unaudited)	
	2008	2007
Charter	$29,018	$16,676
% of sales	10.6%	7.1%
Comcast	$34,224	$82,514
% of sales	12.5%	35.1%
Time Warner Cable	$70,961	$22,380
% of sales	25.9%	9.5%

No other customer provided more than 10% of total sales for the three month periods ended March 31, 2008 or 2007.

ARRIS sells its products primarily in United States. The Company s international revenue is generated from Asia Pacific, Europe, Latin America and Canada. The Asia Pacific market primarily includes China, Hong Kong, Japan, Korea, Singapore and Taiwan. The European market primarily includes Austria, Belgium, France, Germany, the Netherlands, Poland, Portugal, Spain and Switzerland. The Latin American market primarily includes Argentina, Brazil, Chile, and Puerto Rico. Sales to international customers were approximately $84.8 million, or 31.0% of total sales, for the three months ended March 31, 2008. International sales during the same period in 2007 were $60.5 million, or 25.7% of total sales.

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Note 13. Earnings Per Share

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

	Three Months Ended March 31, (unaudited)	
	2008	**2007**
Basic:		
Net income	$ 5,405	$ 37,644
Weighted average shares outstanding	130,763	108,467
Basic earnings per share	$ 0.04	$ 0.35
Diluted:		
Net income	$ 5,405	$ 37,644
Weighted average shares outstanding	130,763	108,467
Net effect of dilutive equity awards	1,218	2,521
Total	131,981	110,988
Diluted earnings per share	$ 0.04	$ 0.34

Excluded from the dilutive securities described above are employee stock options to acquire approximately 8.1 million shares and 2.1 million shares for the three months ended March 31, 2008 and 2007, respectively. These exclusions were made because they were antidilutive.

Note 14. Income Taxes

In the first quarters of 2008 and 2007, the Company recorded income tax expense of $3.3 million and $15.6 million, respectively. Below is a summary of the components of the tax expense in each period (in millions, except for percentages):

	Three Months Ended March 31,					
	2008 (unaudited)			**2007 (unaudited)**		
	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate
Non-Discrete Items	$8.7	$3.3	37.8%	$30.4	$10.1	33.3%
Discrete Accounting Events				22.8	8.7	38.0%
Discrete Tax Events - Valuation Allowances / FIN 48 Reserves					(3.2)	
Total	$8.7	$3.3	37.8%	$53.2	$15.6	29.3%

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

In the first quarter of 2007, the Company considered the net gain related to the termination of the TANDBERG Television acquisition to be discrete in nature in accordance with the guidance of APB Opinion 28, *Interim Financial Reporting* and FIN 18, *Accounting for Income Taxes in Interim Periods*. As a result, income tax expense was recorded at a discrete rate of 38.0%.

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

The Company anticipates that the effective tax rate for full year 2008 will be approximately 35%. Achieving this rate is dependent upon Congress enacting legislation, applied retroactively, related to the continuation of credits for Qualified Research Expenditures. If such legislation is not passed or is not retroactively applied, the Company believes the effective tax rate will be approximately 38%.

Note 15. Termination of Proposed Acquisition

In January 2007, ARRIS announced its 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 ARRIS offer. Ultimately, the board of directors of TANDBERG Television recommended to their shareholders that they accept the other party s bid, and our bid lapsed without being accepted.

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As part of the agreement with TANDBERG, ARRIS received a break-up fee of $18.0 million. In conjunction with the proposed transaction, the Company incurred expenses of approximately $7.5 million. ARRIS also realized a gain of approximately $12.3 million on the sale of foreign exchange contracts the Company purchased to hedge the transaction purchase price.

Note 16. Contingencies

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

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

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

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

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

In 2007, the Company received correspondence from attorneys for the Adelphia Recovery Trust (Trust), that the Company may have received transfers from Adelphia Cablevision, LLC (Cablevision), one of the Adelphia

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

In January and February 2008, Verizon Services Corp. filed separate lawsuits against the Cox Companies and the Charter companies, in the District Courts for the Eastern District of Virginia and for the Eastern District of Texas, respectively, alleging infringement of eight patents. ARRIS anticipates that it may be asked to indemnify the respective defendants or cooperate with the defense costs. ARRIS, various MSOs and suppliers have begun to consider the cases. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, pay royalties and/or cease utilizing certain technology.

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

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

Acacia Media Technologies Corp. has sued Charter and Time Warner Cable, Inc. for allegedly infringing U.S. Patent Nos. 5,132,992; 5,253,275; 5,550,863; and 6,144,702. Both customers requested C-COR s, as well as other vendors , support under the indemnity provisions of the purchase agreements (related to video-on-demand products). We are reviewing the patents and analyzing the extent to which these patents may relate to our products. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, pay royalties and /or cease using certain technology.

V-Tran Media Technologies has filed a number of lawsuits against 21 different parties, including suits against Comcast, Charter, Verizon, Time Warner and numerous smaller MSOs for infringement on two patents related to television broadcast systems for selective transmission. Both patents will expire in June of this year. ARRIS is reviewing the patents and our products and analyzing the extent to which these patents may relate to our products. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, or pay royalties. Given that the patents expire soon, it is unlikely that the case will result in injunctions or ceasing the use of the technology.

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

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

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Note 17. Purchases of Common Stock

The following table presents information with respect to purchases of common stock of the Company made during the three months ended March 31, 2008, by the Company or any affiliated purchaser of the Company as defined in Rule 10b-18(a)(3) under the Exchange Act of 1934 (unaudited).

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan[2]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan
February 1 - 29, 2008	8,053,883	$ 5.93	8,053,883	
March 1 - 31, 2008	4,948,341	$ 5.70	4,948,341	
Total	13,002,224	$ 5.84	13,002,224	$ 24,000,000

(1) The total number of shares purchased pursuant to the 2008 Plan as described in footnote 2 below.

(2) On February 19, 2008, ARRIS publicly announced that its Board of Directors had authorized a plan (the 2008 Plan) for the Company to purchase up to $100 million of the Company s common stock.

Total shares outstanding as of April 30, 2008 was 122.6 million.

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

Overview

We are a global communications technology company specializing in integrated broadband network solutions that include products, systems and software for content and operations management, and professional services. We develop, manufacture and supply cable telephony, video and high-speed data equipment. In addition, we are a leading supplier of infrastructure products used by cable system operators to build-out and maintain HFC networks. We provide products and equipment principally to cable system operators and, more specifically, to MSOs. Our products allow MSOs and other broadband service providers to deliver a full range of integrated voice, video and high-speed data services to their subscribers. Our core strategy is to lead network operators through the transition to Internet Protocol-based networks by leveraging our extensive global installed base of products and experienced workforce to deliver network solutions that meet the business needs of our customers.

Our Strategy and Key Highlights

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

Transition to IP with an Everything IP, Everywhere philosophy and build on current market successes;

Leverage our current voice, video, and data businesses;

Expand our existing product/services portfolio through internal developments, partnerships and acquisitions; and

Maintain and improve an already strong capital and expense structure.

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

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

We have successfully leveraged our existing market position and industry experience to continue to generate robust demand for both EMTA and CMTS products. Further, we have leveraged the market position we acquired as a result of the purchase of C-COR in December 2007 to increase sales of new products, notably Video on Demand, Operations Support Software, Access, and Transport.

As expected, sales to Comcast for all products were down significantly in the first quarter. We expect sales to Comcast to increase in future quarters.

We experienced increased sales to other customers, notably Time Warner, Charter and certain international customers.

We expect strong demand for CMTS products to continue in future periods as new services and competition between our customers and their competitors intensifies the need to provide ever faster download speeds requiring added CMTS capacity and features. In the second half of 2008, a new generation of CMTS products based upon the DOCSIS 3.0 standard is expected to be introduced. It is possible that customers may reduce their short term purchases of DOCSIS 2.0 CMTS products in anticipation of the new product.

We introduced our Universal EdgeQAM D5 late in 2007. Our expectation, based on customer input, was that demand for this product would be robust in the first quarter of 2008 driven by Switched Digital Video

(SDV) requirements. However, customers, in particular Comcast, have since delayed purchasing decisions. We have expanded our marketing and development efforts to include other applications including Modular CMTS, Broadcast and Video on Demand. We expect that sales of this new product will ramp up through 2008 but at a slower rate than initially expected. Initial margins on this product will be low until cost reductions can be implemented later in 2008

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

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

We continue to invest significantly in research and development.

We have made significant investments through our research and development efforts in new products and expansion of our existing products. Our primary focus has been on products and services that will enable MSOs to build and operate high-availability, fault-tolerant networks, which allow them to generate greater revenue by offering high-speed data, IP telephony and digital video. This success-based capital expenditure is becoming an increasing portion of the cable operators total capital spending. In addition, some MSOs have expressed interest in offering bundled wireless telephony as part of their product offering. This product, known as Fixed Mobile Convergence (FMC), will allow cable subscribers to use mobile phones in their homes, connecting to the MSOs VoIP network in the home, and to roam from the home VoIP network to the cellular network outside of the home and back seamlessly. We are developing products to support this new offering. With our late 2007 acquisition of C-COR, our research and development was significantly expanded to include Access and Transport, Video on Demand, Ad Insertion and OSS products. In the first quarter of 2008, we spent approximately $28.1 million on research and development, or 10.2% of revenue, which compares to $18.1 million or 7.7% of revenue in the same period last year. We expect to continue to spend similar or slightly higher amounts on research and development in the future. We anticipate we may modestly increase our development efforts on Video on Demand and OSS products.

Key research and development accomplishments in the first quarter 2008 included:

- Initial lab trials of DOCSIS 3.0 C4 CMTS and TM702 EMTA with lead customers.
- EMTA and Data Modem submitted to Cablelabs for DOCSIS 3.0 certification.
- Added support to the D5 Universal EdgeQAM for multiple additional switched digital video (SDV) and Video on Demand (VOD) network. architectures, as well as development of M-CMTS features.
- Transition to lower cost 600-series EMTA.
- Release of CORWave multi-wavelength optics platform which provides increased network capacity over existing infrastructure for residential and business applications.
- Release of first of its kind, segmentable optical node design specifically for the European market.

- Release of upgrade kit to allow conversion of existing amplifier deployments to optical nodes in support of fiber deep push and targeted service areas.

- Product enhancements for our Assurance/OSS product line.

- Product enhancements for our nABLE video backoffice platform.

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At the end of the first quarter, we had cash, cash equivalents and short term investments of approximately $293 million. In the quarter we repurchased 13 million shares, and redeemed $35 million of convertible debt.

In the first quarter 2008 we announced a share buyback program of up to $100 million. In the quarter we repurchased 13 million shares at an average price of $5.84 per share for an aggregate consideration of approximately $76 million.

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

We generated $30.5 million of cash from operating activities in the first quarter 2008.

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

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

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

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

	Three Months Ended March 31,		
	ARRIS	ARRIS	C-COR
	2008	2007	2007 (1) (2)
Sales	273.5	235.3	73.0
Gross margin - $	85.2	68.7	32.7
Gross margin - %	31.2%	29.2%	44.8%
SG&A	37.0	24.2	14.9
R&D	28.1	18.1	8.7
Restructuring & impairment	0.4	0.4	0.2
Amortization of intangibles	13.2		0.8
Operating income	6.5	26.0	8.1

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

(2) C-COR gross margin and SG&A have been adjusted to conform to

ARRIS accounting policies with respect to freight billed to customers.

In the first quarter of 2007 we recorded a net gain of $22.8 million related to the termination of the proposed TANDBERG acquisition. We did not experience a similar event in 2008. In the first quarter of 2007 we recorded a tax expense of $15.6 million, which equates to an effective tax rate of 29.3%. Included in the tax expense are discrete items, per the guidance of Accounting Principles Board (APB) Opinion 28, *Interim Financial Reporting*, related to the terminated TANDBERG transaction. The foreign exchange gain, break-up fee and deal expenses were considered discrete items and were recorded at a marginal tax rate of 38.0%. The break-up fee and expenses are considered to be capital in nature versus ordinary income. As a result, we reversed a net $3.2 million of deferred tax valuation allowances as we viewed it as more likely than not that we would be able to utilize the capital gain NOLs to offset the capital gain recorded as a result of the TANDBERG break-up fee net of expenses. In the first quarter of 2008, we recorded a tax expense of $3.3 million which equates to an effective tax rate of 37.8%. We did not have any discrete items in the first quarter of 2008. We anticipate that our average tax rate for 2008 will be approximately 35%. Achieving this rate is dependent on Congress passing legislation associated with the continuation of Qualified Research Expenditures. If such legislation is not passed or is not retroactively applied, we believe the effective tax rate will be approximately 38%.

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

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

We repurchased approximately 13 million shares as part of our share buyback program in the first quarter of 2008.

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Significant Customers

The vast majority of our sales are to cable system operators worldwide. As the U.S. cable industry continued a trend toward consolidation, the six largest MSOs controlled approximately 89.2% of the revenue generating units (RGUs) within the U.S. cable market (according to Dataxis in the third quarter 2007), thereby making our sales to those MSOs critical to our success. Our sales are substantially dependent upon a system operator s selection of ARRIS network equipment, demand for increased broadband services by subscribers, and general capital expenditure levels by system operators. Our three largest customers (including their affiliates, as applicable) are Charter, Comcast, and Time Warner Cable. From time-to-time, the affiliates included in our revenues from these customers have changed as a result of mergers and acquisitions. Therefore, the revenue for our customers for prior periods has been adjusted to include, on a comparable basis for all periods presented, the affiliates currently understood to be under common control. A summary of sales to these customers for the three month periods ended March 31, 2008 and 2007 are set forth below (in thousands):

	Three Months Ended March 31, (unaudited)	
	2008	**2007**
Charter	$29,018	$16,676
% of sales	10.6%	7.1%
Comcast	$34,224	$82,514
% of sales	12.5%	35.1%
Time Warner Cable	$70,961	$22,380
% of sales	25.9%	9.5%

Comparison of Operations for the Three Months Ended March 31, 2008 and 2007

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

Net Sales

The table below sets forth our net sales for the three months ended March 31, 2008 and 2007, for each of our segments (in millions):

	Net Sales			
	Three Months Ended March 31, (unaudited)		Increase (decrease) 2008 vs. 2007	
	2008	2007	$	%
Business Segment:				
Broadband Communications Systems	$ 189.6	$ 199.0	$ (9.4)	(4.7)%
Access, Transport & Supplies	72.9	36.0	36.9	102.5%
Media & Communications Systems	11.0	0.3	10.7	3566.7%
Total sales	$ 273.5	$ 235.3	$ 38.2	16.2%

The table below sets forth our domestic and international sales for the three months ended March 31, 2008 and 2007 (in millions):

	Net Sales	
		Increase

	Three Months Ended March 31, (unaudited)		2008 vs. 2007	
	2008	2007	$	%
Domestic sales	$ 188.7	$ 174.8	$ 13.9	8.0%
International sales	84.8	60.5	24.3	40.2%
Total sales	$ 273.5	$ 235.3	$ 38.2	16.2%

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Broadband Communication Systems Net Sales 2008 vs. 2007

During the first quarter of 2008, sales of our BCS segment products decreased by approximately 4.7% as compared to the first quarter of 2007. This decrease in sales resulted from:

As expected, we had lower sales to Comcast of both CMTS and EMTAs. Sales to Comcast of EMTAs are expected to increase in the second quarter of 2008. Sales of CMTS to Comcast are expected to increase in conjunction with the launch of our DOCSIS 3.0 product in the third quarter 2008.

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

Access, Transport and Supplies Net Sales 2008 vs. 2007

Access, Transport and Supplies segment revenue increased by approximately 102.5% in the first quarter of 2008, as compared to the first quarter of 2007:

The increase was the result of the acquisition of C-COR. In 2007 we estimate that C-COR recorded sales of approximately $57 million associated with this segment.

2007 sales in this segment represent sales of our Supplies products. Year over year sales of these products modestly declined primarily as a result of lower purchases by Comcast.

Media & Communication Systems Net Sales 2008 vs. 2007

Media & Communication Systems revenue increased in the first quarter of 2008, as compared to the first quarter of 2007. This increase is attributable to the C-COR acquisition.

Gross Margin

The table below sets forth our gross margin for the three months ended March 31, 2008 and 2007, for each of our reporting segments (in millions):

	Gross Margin $			
	Three Months Ended March 31, (unaudited)		**Increase (decrease) 2008 vs. 2007**	
	2008	2007	$	%
Business Segment:				
Broadband Communications Systems	$ 58.0	$ 62.4	$ (4.4)	(7.1)%
Access, Transport and Supplies	21.9	6.4	15.5	242.2%
Media & Communications Systems	5.4	(0.1)	5.5	5500.0%
Total	$ 85.3	$ 68.7	$ 16.6	24.2%

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

	Gross Margin %		
	Three Months Ended March 31, (unaudited)		**Percentage Point Increase (Decrease)**
	2008	2007	2008 vs. 2007
Business Segment:			
Broadband Communications Systems	30.6%	31.4%	(0.8)
Access, Transport and Supplies	30.0%	17.8%	12.2
Media & Communications Systems	49.0%	(52.6)%	101.6

Total	31.2%	29.2%	2.0

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Broadband Communications Systems Gross Margin 2008 vs. 2007

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

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

The reduction in gross margin percentage reflects product mix.

Access, Transport and Supplies Gross Margin 2008 vs. 2007

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

The increase in revenues year-over-year significantly impacted gross margin dollars.

The increase in gross margin percentage was the result of the addition of higher margin Access and Transport products which we added to our portfolio as part of the C-COR acquisition.

Media & Communications Systems Gross Margin 2008 vs. 2007

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

The increases are attributable to the Video on Demand 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 millions):

	Operating Expenses			
	Three Months Ended March 31,		Increase (Decrease) 2008 vs. 2007	
	2008	2007	$	%
Selling general and administrative	$ 37.0	$ 24.2	$ 12.8	52.9%
Research and development	28.1	18.1	10.0	55.2%
Restructuring & impairment	0.4	0.4	0.0	0.0%
Amortization of intangibles	13.3	0.1	13.2	13200.0%
Total	$ 78.8	$ 42.8	$ 36.0	84.1%

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

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

The inclusion of expenses associated with the former C-COR. In the first quarter of 2007, we estimate that C-COR spent approximately $14.9 million for SG&A expenses.

We estimate that we have achieved approximately $2 million of SG&A synergies associated with the C-COR acquisition in the first quarter.

Research & Development Expenses

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

The inclusion of expenses associated with the former C-COR. In the first quarter 2007 we estimate that C-COR spent approximately $8.7 million for R&D expenses.

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

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Restructuring and Impairment Charges

On a quarterly basis, we review our existing restructuring accruals and make adjustments if necessary. For the first three months of 2008 and 2007, we recorded $0.4 million. The $0.4 million recorded in the first quarter 2008 related to severance for the C-COR acquisition and changes in estimates associated with real estate leases. The $0.4 million recorded in the first quarter of 2007 related to changes in estimates associated with real estate leases. These adjustments were required due to changes to the initial estimates used.

Amortization of Intangibles

Intangibles amortization expense for the three months ended March 31, 2008 and 2007 was $13.3 million and $0.1 million, respectively. Our intangible expense for 2008 represents the amortization of intangible assets acquired as a result of the C-COR acquisition in December of 2007. Our intangible expense for 2007 represents the amortization of existing technology acquired as a result of the cXm Broadband acquisition in the second quarter of 2005, which were fully amortized by the end of 2007.

Other Expense (Income)

Interest Expense

Interest expense for the first quarter 2008 and 2007 was $1.5 million and $1.7 million, respectively. Interest expense reflects interest and the amortization of deferred finance fees primarily associated with our $276.0 million 2% convertible subordinated notes.

Loss (Gain) in Foreign Currency

During the first quarter 2008, we recorded a foreign currency gain of approximately $1.0 million. During the first quarter 2007, we recorded a foreign currency loss of approximately $0.3 million. The gains and losses are primarily driven by the fluctuation of the value of the euro, as compared to the U.S. dollar, as we had several European customers whose receivables and collections are denominated in euros. We have implemented a hedging strategy to mitigate the monetary exchange fluctuations from the time of invoice to the time of payment, and have occasionally entered into forward contracts based on a percentage of expected foreign currency receipts.

Interest Income

Interest income during the first quarter of 2008 and 2007 was $2.7 million and $6.5 million, respectively. The income reflects interest earned on cash, cash equivalents and short term investments. Interest income decreased year over year as result of: 1) having less cash on hand due to the use of $289 million of cash to partially fund the C-COR acquisition, $76 million to fund share repurchases, and $35 million to redeem the convertible notes and 2) lower interest rates earned in 2008 as compared to 2007.

Gains Related to Terminated Acquisition, Net of Expenses

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

Other Expense (Income)

Other expense (income) for the three months ended March 31, 2008 and 2007 was ($0.0) million and $0.1 million, respectively, and relates primarily to bank fees.

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Income Taxes

In the first quarters of 2008 and 2007, we recorded income tax expense of $3.3 million and $15.6 million, respectively. Below is a summary of the components of the tax expense in each period (in millions, except for percentages):

	Three Months Ended March 31,					
	2008 (unaudited)			2007 (unaudited)		
	Income Before Tax	Income Tax Expense	Effective Tax Rate	Income Before Tax	Income Tax Expense	Effective Tax Rate
Non-Discrete Items	$8.7	$3.3	37.8%	$30.4	$10.1	33.3%
Discrete Accounting Events				22.8	8.7	38.0%
Discrete Tax Events - Valuation Allowances / FIN 48 Reserves					(3.2)	
Total	$8.7	$3.3	37.8%	$53.2	$15.6	29.3%

In the first quarter of 2007, we considered the net gain related to the termination of the proposed TANDBERG Television acquisition to be discrete in nature in accordance with the guidance of APB Opinion 28 and FIN 18 *Accounting for Income Taxes in Interim Periods*. As a result, income tax expense was recorded at a discrete rate of 38.0%.

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

We anticipate that the effective tax rate for full year 2008 will be approximately 35%. Achieving this rate is dependent upon Congress passing legislation, applied retroactively, related to the continuation of credits for Qualified Research Expenditures. If such legislation is not passed or is not retroactively applied, we believe the effective tax rate will be approximately 38%.

Financial Liquidity and Capital Resources

Overview

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

Liquidity & Capital Resources Data

	Three Months Ended March 31, (unaudited)	
	2008	2007
	(in millions, except DSO and turns)	
Key Working Capital Items		
Cash provided by (used in) operating activities	$ 30.5	$ (4.0)
Cash, cash equivalents, and short-term investments	$ 293.0	$ 575.9
Accounts receivable, net	$ 159.9	$ 125.8
Days Sales Outstanding (DSOs)	55	47

Inventory	$ 125.1	$ 78.2
Inventory turns	5.9	7.7

Inventory & Accounts Receivable

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

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Accounts receivable increased quarter-over-quarter. As part of ongoing commercial discussions with certain customers, we have in some instances granted longer payment terms and, as result, our DSOs increased in the first quarter of 2008 as compared to the same quarter in 2007. Additionally, the growth in our international sales has resulted in higher DSOs as international customers typically have longer payment terms. Looking forward, it is possible that our DSOs may modestly increase dependent upon our customer mix.

Inventory increased in the first quarter of 2008 as compared to 2007, primarily the result of the C-COR acquisition. We acquired approximately $28.1 million of inventory upon closing of the transaction in December 2007 as a result of the C-COR acquisition. Inventory turns decreased in 2008 as compared to 2007. Inventory turns may modestly improve in the future.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately $293 million of cash, cash equivalents, and short-term investments on hand as of March 31, 2008, together with the prospects for continued generation of cash from operations are adequate for our short- and medium-term business needs. However, a key part of our overall long-term strategy may be implemented through additional acquisitions, and a portion of these funds may be used for that purpose. Should our available funds be insufficient for those purposes, it is possible that we will raise capital through private, or public, share or debt offerings.

Commitments

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

Cash Flow

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

	For the Three Months Ended March 31, (unaudited)	
	2008	2007
Cash provided by (used in) operating activities	$ 30.5	$ (4.0)
Cash provided by (used in) investing activities	3.2	(26.2)
Cash provided by (used in) financing activities	(114.0)	9.9
Net decrease in cash	$ (80.3)	$(20.3)

Operating Activities:

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

	For the Three Months Ended March 31, (unaudited)	
	2008	2007
Net income	$ 5.4	$ 37.6
Adjustments to reconcile net income to cash provided by (used in) operating activities	20.8	(17.4)
Net income including adjustments	26.2	20.2
Decrease/(Increase) in accounts receivable	7.5	(10.8)
Decrease in inventory	7.5	16.0
Increase in accounts payable and accrued liabilities	(10.3)	(24.8)
All other net	(0.4)	(4.6)
Cash provided by (used in) operating activities	$ 30.5	$ (4.0)

Net income including adjustments increased $6.0 million during the first quarter in 2008 as compared to 2007. Our net income before depreciation and amortization decreased approximately $16.6 million in the first quarter 2008 as compared to 2007. However, net income in the first quarter of 2007 included gains of $22.8 million associated with the failed TANDBERG transaction. Taking these gains in consideration, the adjusted net income increased $6.3 million quarter over quarter.

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Accounts receivable decreased in the first quarter 2008 as a result of lower sales during the quarter as compared to the fourth quarter of 2007 on a combined basis (including the pre-acquisition sales of C-COR). Accounts receivable increased in the first quarter of 2007 as a result of higher sales in comparison to the fourth quarter of 2006. Declines in accounts payable and accrued liabilities in both years reflect the payment of annual bonuses in the first quarter coupled with normal timing variations associated with payment of accounts payable.

Investing Activities:

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

	Three Months Ended March 31, (unaudited)	
	2008	**2007**
Capital expenditures	$ (6.4)	$ (2.3)
Proceeds from termination of TANDBERGTV acquisition, net of payments		23.1
Cash paid for acquisition	(4.2)	
Cash proceeds from sale of property, plant & equipment	0.2	
Purchases of short-term investments	(16.9)	(128.1)
Disposals of short-term investments	30.5	81.1
Cash provided by (used in) investing activities	$ 3.2	$ (26.2)

Capital Expenditures

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

Proceeds from Termination of 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.

Cash Paid for Acquisition

This represents the cash payments made during the quarter related to the C-COR acquisition, net of cash acquired.

Purchases and Disposals of Short-Term Investments

This represents purchases and disposals of short-term securities.

Financing Activities:

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

	For the Three Months Ended March 31, (unaudited)	
	2008	**2007**
Payment of debt and capital lease obligations	$ (35.1)	$
Repurchase of common stock	(76.0)	
Excess tax benefits from stock-based compensation plans		4.9
Employer repurchase of shares to satisfy minimum tax withholdings	(0.2)	
Fees and proceeds from issuance of common stock, net	(2.7)	5.0
Cash provided by (used in) financing activities	$(114.0)	$ 9.9

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Payment of Debt and Capital Lease Obligation

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

Repurchase of Common Stock

As announced on February 19, 2008, our Board of Directors approved the repurchase of up to $100 million of our common stock. As of March 31, 2008, we had acquired approximately 13 million shares at a cost of $76 million. The unexpended portion of the original authorization is $24 million. See Part II, Item 2(c). Unregistered Sales of Equity Securities and Use of Proceeds.

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.

Employer Repurchase of Shares to Satisfy Minimum Tax Withholding

This represents the minimum shares withheld to satisfy the minimum tax withholdings when restricted stock vests.

Fees and Proceeds from Issuance of Common Stock, Net

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

Interest Rates

As of March 31, 2008, we did not have any floating rate indebtedness or outstanding interest rate swap agreements.

Foreign Currency

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

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

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 March 31, 2008 and December 31, 2007, we had approximately $7.2 million and $7.0 million outstanding, respectively, of cash collateral.

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

Our cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) are primarily held in money market funds that pay either taxable or non-taxable interest. We hold short-term investments consisting of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities consist primarily of commercial paper, auction rate securities, certificates of deposits, and U.S. government agency financial instruments. Auction rate securities, paying either taxable or non-taxable interest, generally have long-term maturities beyond three months but are priced and traded as short-term instruments. At December 31, 2007, ARRIS had $30.3 million invested in auction rate securities, all of which were classified as short-term investments. As of March 31, 2008, we had approximately $27.1 million of auction rate securities outstanding, of which $22.1 million was classified as short-term investments and $5.0 million was classified as long-term investments. The short-term auction rate securities of $22.1 million were all successfully liquidated at par in April 2008. As of May 9, 2008, we are uncertain of when we will be able to liquidate the remaining $5.0 million of auction rate securities because they have failed at auction twice. Therefore ARRIS has classified the investment as long-term. These securities are a single student loan issue rated AAA and is guaranteed by the federal government. As a result, we have concluded that the investment is not impaired at this time. We will continue to evaluate the fair value of the remaining investments in auction rate securities for a potential other-than-temporary impairment if a decline in fair value occurs.

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 March 31, 2008 and December 31, 2007 our holdings in these investments were immaterial. Changes in the market value of these securities are typically recorded in other comprehensive income and gain or losses on related sales of these securities are recognized in income.

We previously offered a deferred compensation arrangement, which allowed certain employees to defer a portion of their earnings and defer the related income taxes. As of December 31, 2004, the plan was frozen and no further contributions are allowed. The deferred earnings are invested in a rabbi trust, and are accounted for in accordance with Emerging Issues Task Force Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested*. A rabbi trust is a funding vehicle used to protect the deferred compensation from various events (but not from bankruptcy or insolvency). Upon the acquisition of C-COR, we also acquired rabbi trust assets related to a C-COR deferred compensation plan. As of December 31, 2007 the plan was frozen and no further contributions are allowed. At December 31, 2007 and March 31, 2008, ARRIS had an accumulated unrealized gain related to the rabbi trusts of approximately $20 thousand and $151 thousand, respectively, included in other comprehensive income.

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS capital expenditures were $6.4 million in the first quarter 2008 as compared to $2.3 million in the first quarter 2007. The increase is the result of the acquisition of C-COR. ARRIS had no significant commitments for capital expenditures at March 31, 2008. Management expects to invest approximately $25 million in capital expenditures for the fiscal year 2008.

Critical Accounting Estimates

The accounting and financial reporting policies of the ARRIS are in conformity with U.S. generally accepted accounting principles. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has discussed the development and selection of the Company s critical accounting estimates with the audit committee of the Company s Board of Directors and the audit committee has reviewed the Company s related disclosures. Our critical accounting policies and estimates are disclosed extensively in our Form 10-K for the year ended December 31, 2007, as filed with the SEC. Our critical accounting estimates have not changed in any material respect during the three months ended March 31, 2008.

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Forward-Looking Statements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We have an investment portfolio of auction rate securities, both taxable and non-taxable, that are classified as available-for-sale securities. Although these securities have maturity dates of 15 to 30 years, they have characteristics of short-term investments as the interest rates reset every 7, 28, or 35 days and we have the potential to liquidate them in an auction process. Due to the short duration of these investments, a movement in market interest rates would not have a material impact on our operating results. However, it is possible that a security will fail to reprice at the scheduled auction date. In these instances, we are entitled to receive a penalty interest rate above market and the auction rate security will be held until the next scheduled auction date. At March 31, 2008 ARRIS had $27.1 million invested in auction rate securities. In April we successfully liquidated at par $22.1 million of the auction rate securities. However, on April 18, 2008, an auction rate security of approximately $5.0 million failed to reprice for the second time, resulting in ARRIS continuing to hold this security as of March 31, 2008. As a result of the unsuccessful auction, the reset interest rate was increased to above market and the next auction is scheduled for May 23, 2008. We may not be able to access these funds until a successful auction occurs. We will continue to evaluate the fair value of its investments in auction rate securities for a potential other-than-temporary impairment if a decline in fair value occurs. This investment is on deposit with a major financial institution.

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

We have certain international customers who are billed in their local currency. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes. The euro and the yen are the predominant currencies of those customers who are billed in their local currency. Taking into account the effects of foreign currency fluctuations of the euro and the yen versus the dollar, a hypothetical 10% weakening of the U.S. dollar (as of December 31, 2007) would provide a gain on foreign currency of approximately $1.6 million. Conversely, a hypothetical 10% strengthening of the U.S. dollar would provide a loss on foreign currency of approximately $1.6 million. There were no material changes in this market risk since December 31, 2007. The actual impact of foreign exchange rate changes will depend on, among other factors, the timing of rate changes and changes in the volume and mix of the our business. As of March 31, 2008, we had no material contracts, other than accounts receivable, denominated in foreign currencies.

We regularly review our forecasted sources and uses of foreign currencies and enter into option contracts when appropriate. As of March 31, 2008, we had option collars outstanding with notional amounts totaling 11.5 million euros, which mature through 2008.

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Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

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

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

In connection with our acquisition of C-COR, Inc., ARRIS on October 31, 2007, was named as the defendant in a suit entitled CIBC World Market Corp. vs. ARRIS Group, Inc., Action No. 603605/2007, in the Supreme Court of the State of New York, New York County. In the suit CIBC asserts that it is entitled to a $4.0 million fee plus expenses (fee) at the closing of the proposed acquisition. We do not believe that any fee is due to CIBC in

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connection with this acquisition. ARRIS s position is that its June 1, 2005, engagement with CIBC, pursuant to which CIBC asserts its claim, was terminated and that no fee is due under the engagement. Independent of that termination, CIBC was conflicted from representing ARRIS in the transaction, provided no services to ARRIS in connection with the transaction, and otherwise is estopped from asserting that it is entitled to a fee. ARRIS intends to contest the entitlement to a fee asserted by CIBC vigorously.

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

In January and February 2008, Verizon Services Corp. filed separate lawsuits against the Cox Companies and the Charter companies, in the District Courts for the Eastern District of Virginia and for the Eastern District of Texas respectively, alleging infringement of eight patents. ARRIS anticipates that it may be asked to indemnify the respective defendants or cooperate with the defense costs. ARRIS, various MSOs and suppliers have begun to consider the cases. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, pay royalties and/or cease utilizing certain technology.

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

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

Acacia Media Technologies Corp. has sued Charter and Time Warner Cable, Inc. for allegedly infringing U.S. Patent Nos. 5,132,992; 5,253,275; 5,550,863; and 6,144,702. Both customers requested C-COR s, as well as other vendors , support under the indemnity provisions of the purchase agreements (related to video-on-demand products). We are reviewing the patents and analyzing the extent to which these patents may relate to our products. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, pay royalties and /or cease using certain technology.

V-Tran Media Technologies has filed a number of lawsuits against 21 different parties, including suits against Comcast, Charter, Verizon, Time Warner and numerous smaller MSOs for infringement on two patents related to television broadcast systems for selective transmission. Both patents will expire in June of this year. ARRIS is reviewing the patents and our products and analyzing the extent to which these patents may relate to our products. It is premature to assess the likelihood of a favorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the defendants, or pay royalties. Given that the patents expire soon, it is unlikely that the case will result in injunctions or ceasing the use of the technology.

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

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

Item 1A. RISK FACTORS

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

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

general economic conditions;

customer specific financial or stock market conditions;

availability and cost of capital;

governmental regulation;

demands for network services;

competition from other providers of broadband and high speed services;

acceptance of new services offered by our customers; and

real or perceived trends or uncertainties in these factors.

Several of our customers have accumulated significant levels of debt. These high debt levels, coupled with the current turbulence and uncertainty in the capital markets, have affected the market values of domestic cable operators and may impact their access to capital in the future. Even if the financial health of our customers remains intact, we cannot assure you that these customers will be in a position to purchase new equipment at levels we have seen in the past or expect in the future.

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

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

Ambit Microsystems;
Aurora Networks;
Big Band Networks;

Cisco Systems, Inc.;

Commscope, Inc;

Concurrent Computer Corporation;

Ericsson (TandbergTV);

Harmonic, Inc.;

Motorola, Inc.;

SeaChange, Inc.;

Thomson; and

TVC Communications, Inc.

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

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

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

The telecommunications industry has experienced the consolidation of many industry participants, and this trend may continue. For instance, in July 2006, Adelphia sold its assets to Comcast and Time Warner. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, thereby possibly resulting in an immediate or future elimination of sales opportunities for us or our competitors, depending upon who had the business initially. Consolidations also could result in delays in purchasing decisions by the merged businesses. The purchasing decisions of the merged companies could have a material adverse effect on our business.

Mergers among the supplier base also have increased, and this trend may continue. For example, in February 2006, Cisco Systems, Inc. acquired Scientific-Atlanta, Inc.; in April 2007, Ericsson acquired TANDBERG Television ASA; and in July 2007, Motorola, Inc. acquired Terayon, Inc. Larger combined companies with pooled capital resources may be able to provide solution alternatives with which we would be put at a disadvantage to compete. The larger breadth of product offerings by these consolidated suppliers could result in customers electing to trim their supplier base for the advantages of one-stop shopping solutions for all of their product needs. Consolidation of the supplier base could have a material adverse effect on our business.

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

In the past, we have made acquisitions of and investments in businesses, products, and technologies to complement or expand our business. While we have no announced plans for additional acquisitions, future acquisitions are part of our strategic objectives and may occur. If we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition or integrate the acquired businesses, products, or technologies with our existing business and products. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization expenses, and substantial goodwill.

We may fail to realize the anticipated revenue and earnings growth and other benefits expected from our recently completed acquisition of C-COR, which could adversely affect the value of our shares.

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

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

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

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

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

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

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

Our three largest customers (including their affiliates, as applicable) are Charter, Comcast, and Time Warner Cable. For the quarter ended March 31, 2008, sales to Charter accounted for approximately 10.6%, sales to Comcast accounted for approximately 12.5%, and sales to Time Warner Cable accounted for approximately 25.9% of our total revenue. The loss of any of these customers, or one of our other large customers, or a significant reduction in the products or services provided to any of them would have a material adverse impact on our business. For each of these customers, we also are one of their largest suppliers. A consequence of that, if from time-to-time customers elect to purchase products from our competitors in order to diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon or business.

We may have difficulty in forecasting our sales.

For instance, the recently announced reduction in purchases by Comcast will affect our business. In addition, more so than historically, in recent years our customers have submitted their purchase orders less evenly over the course of each quarter and year and with shorter lead times. This has made it more difficult for us to forecast sales and other financial measures and plan accordingly.

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

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

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

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

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

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

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

Products currently under development may fail to realize anticipated benefits.

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

increasingly higher levels of performance and reliability. However, we may not be able to successfully develop or introduce these products if our products:

- are not cost-effective;

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are not brought to market in a timely manner;

fail to achieve market acceptance; or

fail to meet industry certification standards.

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

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

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

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

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

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

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

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

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

In addition, as a result of our acquisition of C-COR, we acquired a manufacturing facility located in Tijuana, Mexico. This operation is exposed to certain risks as a result of its location, including:

changes in international trade laws, such as the North American Free Trade Agreement, affecting our import and export activities;

changes in, or expiration of, the Mexican government s Maquiladora program, which provides economic benefits to us;

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changes in labor laws and regulations affecting our ability to hire and retain employees;

fluctuations of foreign currency and exchange controls;

potential political instability and changes in the Mexican government;

potential regulatory changes; and

general economic conditions in Mexico.

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

We face risks relating to currency fluctuations and currency exchange.

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

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

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

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

ability of our selected channel partners to effectively sell our products to end customers;

our ability to continue channel partner arrangements into the future since most are for a limited term and subject to mutual agreement to extend;

a reduction in gross margins realized on sale of our products; and

diminution of contact with end customers which, over time, could adversely impact our ability to develop new products that meet customers evolving requirements.

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

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

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

Our future success depends in part upon our proprietary technology, product development, technological expertise and distribution channels. We cannot predict whether we can protect our technology or whether competitors can develop similar technology independently. We have received, directly or indirectly, and may continue to receive from third parties, including some of our competitors, notices claiming that we, or our customers using our products, have infringed upon third-party patents or other proprietary rights. We are a defendant in proceedings (and other proceedings have been threatened) in which our customers were sued for patent infringement and sued us and several

other suppliers for indemnification, and we may become involved in similar litigation involving these and other customers in the future. These claims, regardless of their merit, result in costly litigation, divert

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the time, attention and resources of our management, delay our product shipments, and, in some cases, require us to enter into royalty or licensing agreements. If a claim of product infringement against us is successful and we fail to obtain a license or develop non-infringing technology, our business and operating results could be materially and adversely affected. In addition, the payment of any necessary licensing fees or indemnification costs associated with a patent infringement claim could also materially adversely affect our operating results. See Legal Proceedings.

Changes in accounting pronouncements can impact our business.

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

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

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

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

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

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

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

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Item 2(c). Stock Repurchase

The following table presents information with respect to purchases of common stock of the Company made during the three months ended March 31, 2008, by the Company or any affiliated purchaser of the Company as defined in Rule 10b-18(a)(3) under the Exchange Act of 1934 (unaudited).

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan[2]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan
February 19 - 29, 2008	8,053,883	$ 5.93	8,053,883	
March 1 - 11, 2008	4,948,341	$ 5.70	4,948,341	
Total	13,002,224	$ 5.84	13,002,224	$ 24,000,000

(1) The total number of shares purchased pursuant to the 2008 Plan as described in footnote 2 below.

(2) On February 19, 2008, we publicly announced that our Board of Directors had authorized a plan (the 2008 Plan) for the Company to purchase up to $100 million of the Company s common stock.

Item 6. EXHIBITS

Exhibit No.	*Description of Exhibit*
31.1	Section 302 Certification of Chief Executive Officer, filed herewith
31.2	Section 302 Certification of Chief Financial Officer, filed herewith

32.1	Section 906 Certification of Chief Executive Officer, filed herewith
32.2	Section 906 Certification of Chief Financial Officer, filed herewith

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SIGNATURES

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

ARRIS GROUP, INC.

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

Dated: May 9, 2008