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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OF

ARRIS GROUP, INC.

(Formerly named Broadband Parent Corporation and successor registrant to ANTEC Corporation)

A DELAWARE CORPORATION

IRS EMPLOYER IDENTIFICATION NO. 58-2588724

SEC FILE NUMBER 001-16631

11450 TECHNOLOGY CIRCLE

DULUTH, GA 30097

(678) 473-2000

ARRIS Group's Common Stock is registered pursuant to Section 12(g) of the Act. ARRIS Group (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.

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is contained in a definitive proxy statement, portions of which are incorporated by reference in Part III of this Form 10-K.

The aggregate market value of ARRIS Group's Common Stock (computed on the basis of the last reported sales price per share \$8.48 of such stock on the Nasdaq National Market System) held by non-affiliates as of February 28, 2002 was approximately \$303,897,124. As of February 28, 2002, 80,518,266 shares of the registrant's Common Stock were outstanding. For these purposes, directors, officers and 10% shareholders have been assumed to be affiliates.

Portions of ARRIS Group's Proxy Statement for its 2002 Annual Meeting of Stockholders are incorporated by reference into Part III.

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## PART I

## ITEM 1. BUSINESS

As used in this Annual Report, "we", "our", "us", "the Company", and "ARRIS" refer to Arris Group, Inc. and our consolidated subsidiaries, unless the context otherwise requires.

## GENERAL

ARRIS, the successor to ANTEC Corporation, develops and supplies equipment and technology for cable system operators and other broadband service providers. We specialize in developing advanced cable telephony equipment enabling the delivery of converged services, (voice, video and data) through broadband local access networks and designing and engineering hybrid fiber-coax architectures. Our complete solutions for internet protocol ("IP") and optical transport allow broadband service providers to deliver a full range of integrated voice, video and data services to their subscribers.

## INDUSTRY OVERVIEW

The demand for broadband access has increased significantly in recent years due to the powerful growth of the internet facilitated by the widespread use of the world wide web for communicating and accessing information. Rapid growth in the number of internet users and the demand for high-speed, high-volume interactive services has strained existing communication networks. Increasingly, the high-speed internet access experienced at work is being demanded at home. The increase in volume and complexity of the signals transmitted through the network has continually pushed broadband system operators to deploy new technologies as they evolve. Additionally, system operators are looking for products and technology that is flexible, cost effective, easily deployable and scalable to meet future demand and mix of services. Because the technologies are evolving and the signals are growing in complexity and volume, broadband system operators need equipment that provides the necessary technical capacity at a reasonable cost at the time of initial deployment and the flexibility to accommodate expansion and technological advances. There also is a need to customize equipment to allow for different types and combinations of services. Our product offerings position us well to meet these industry challenges, offering a full range of end-to-end solutions.

A broadband system consists of three principal segments.

- Headend. The headend is where the cable system operator receives television signals via satellite and other sources and interfaces with the internet and public switched networks, such as traditional telephone systems. The headend facility organizes, processes and retransmits those signals through the distribution network to subscribers.
- Distribution Network. The distribution network consists of fiber optic and coaxial cables and associated optical and electronic equipment that take the original signal from the headend and transmits it throughout the cable system to nodes.
- Drop. Drops extend from nodes to subscribers' homes and connect to a subscriber's television set, converter box, voice port device or computer modem. A converter box may be addressable or non-addressable. An addressable converter box permits the delivery of premium cable services, including pay-per-view programming, by enabling the cable operator to control the subscriber services through the headend. A non-addressable converter box is one in which premium channels are activated or eliminated by traps installed in the drop system outside the home.

Historically, cable systems offered one-way video only service. As a result of technological advancements throughout the communications industry, these

systems are going through dramatic changes:

- to compete against other communications technologies, including digital subscriber lines, local multipoint distribution service and direct broadcast satellite technologies, cable operators are upgrading their networks to two-way, interactive broadband networks providing new and improved services,

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- to increase share value through higher revenue growth, cable operators are offering enhanced subscriber services such as high-speed data, telephony, digital video, and video on demand which present incremental revenue sources), and
- to provide greater bandwidth, service capacity, and reduced operating expenses, cable operators must increase and deepen their utilization of fiber optic technology, including dense wavelength division multiplexing (a process by which more information is transmitted over a fiber optic line than previously could be transmitted) products.

Traditionally, cable systems used coaxial cable and a series of radio frequency, or RF amplifiers throughout a distribution network. Today, almost every substantial upgrade or rebuild replaces elements of the traditional system with fiber optic technology. The use of fiber optic technology enables operators to transmit higher bandwidth signals greater distances and with less signal degradation than in a traditional coaxial system. In addition, fiber optic cable's capacity to transmit a wider bandwidth over greater distances than coaxial cable allows for the transmission of more video, data and telephony services to subscribers' premises. The use of fiber optic technology also reduces the need for overall maintenance costs associated with active electronic components. In a fiber optic network, optical signals are transmitted throughout the distribution system along a fiber optic cable from the headend to the node, where the signal is received and converted to RF electronic signals, and transferred via coaxial cable to the subscriber premises.

The most recent significant advancements in cable technology have occurred in cable telephony. Historically, cable telephone service was provided using constant bit rate, or CBR technology, which utilizes the switched-circuit technology currently used in traditional phone networks. Cable telephony using CBR technology is an established cable telephony solution deployed in approximately twenty-six countries and designed to provide telephone services, including all of the custom calling features, to subscribers' home or office over a hybrid fiber-coax network. This is a proven carrier-class telephony solution that enables operators to directly compete with incumbent telephone carriers with voice services and class-features, which include caller ID, call-waiting and three-party conferencing. At the end of 2001, ARRIS Cornerstone(R) CBR cable telephone products served over 2.2 million subscriber lines with more than thirty operators worldwide.

A new technology is telephony using internet protocol, or IP. This technology, called voice over IP, or VoIP, permits cable operators to provide toll-quality cable telephony at costs substantially below those associated with CBR technology. VoIP technology has been deployed by several system operators throughout the world and is being tested in trials being conducted by other system operators.

Data and voice over IP services are governed by a set of technical standards promulgated by CableLabs(R) in North America and TComLabs(R) in Europe, two industry trade associations. While the standards set out by these two bodies necessarily differ in some ways to accommodate the differences in hybrid fiber-coax network architectures between North America and Europe, they have a great deal of commonality. The primary data standard specification for North America is entitled "Data Over Cable Service Interface Specification", or DOCSIS. Release 1.1 of this specification currently is the governing standard for data services in North America. The "EuroDOCSIS" standard Release 1.1 is the same for Europe. A new version of the standard, DOCSIS 2.0, recently has been

released which, will probably not be implemented until 2003. DOCSIS 2.0 builds upon the capabilities of DOCSIS 1.0 and DOCSIS 1.1 and adds throughput in the upstream portion of the cable plant -from the consumer out to the Internet. In addition to the DOCSIS standards which govern data transmission, CableLabs(R) has defined the PacketCable(R) standard for Voice over IP. This standard defines the interfaces among network elements such as cable modem termination systems, terminal devices, and servers to provide a high quality IP telephony service over the hybrid fiber-coax network.

## OUR PRINCIPAL PRODUCTS

We provide cable system operators with a comprehensive product offering that meets their end-to-end needs, from headend to subscriber premises. We divide our product offerings into three categories:

Broadband.....	CBR and VoIP products, including headend and subscriber premises equipment. This category also includes our state-of-the-art Operations, Administration, Maintenance, and Provisioning software and our systems integration services.
Transmission, Optical and Outside Plant.....	Fiber optic related transmission products, including optical transmission products, radio frequency transmission products, and interconnectivity products.
Supplies and Services.....	Infrastructure products for fiber optic or coaxial networks built under or above ground, including cable and strand, vaults, conduit, drop materials, tools, and test equipment.

## BROADBAND

### Constant Bit Rate Products

Headend -- We market our headend equipment under the brand name Cornerstone(R) Voice. Cornerstone Voice products for CBR technology include host digital terminals, or HDT. An HDT is the device that interfaces between public-switched networks and the hybrid fiber-coax network. Because the Cornerstone Voice system is easy to implement, economical and scaleable, network operators can offer telephony at a low penetration level and expand as customer demand increases. ARRIS designs its equipment to meet the strict performance reliability specifications and demanding environmental requirements expected of a lifeline, carrier-class residential telephone service. This reliability and robust design enables ARRIS' Cornerstone customers to compete at parity with the incumbent local telephone company.

Subscriber Premises -- The key equipment at subscriber premises is a network interface unit, or NIU. We market our NIUs under the brand name Voice Port(TM). Voice Port(TM)s are the most widely deployed CBR network interface units. Voice Ports work with the Cornerstone HDT to provide cable telephony and pass through video signals. Operators who are deploying Cornerstone Data (high-speed data) will deploy cable modems inside the home or work premises and overlay the signal on to the same hybrid fiber-coax network as the Cornerstone Voice application. This combination of product solutions provides subscribers with voice and high-speed data functionality from the same operator. The Voice Port portfolio includes a two-line single-family residence Voice Port NIU, a two-line integrated indoor Voice Port NIU, a four-line Voice Port NIU, and a twenty-four-line Voice Port NIU.

### Voice over IP and Data Products

Headend -- The heart of a voice over IP headend is a "cable modem

termination system", or CMTS. A CMTS, along with a call agent and a gateway, provide the ability to integrate a public-switched network, the Internet and a hybrid fiber-coax network. The CMTS provides format conversion between the formats used in the Internet and the formats used in the hybrid coax-networks. It also is responsible for initializing and monitoring all cable modems connected to the hybrid fiber-coax network. ARRIS provides two products that are used in the cable operator's headend to provide voice over IP and high-speed data services to residential subscribers. These are the Cornerstone Data CMTS 1500 and the Cadant C4 CMTS:

- The Cornerstone(R) Data CMTS 1500 is DOCSIS 1.1 and EuroDOCSIS 1.0 qualified. It is a scaleable headend solution, providing high-speed data and VoIP services in headends from several thousand to 50,000 subscribers. We also provide a modular redundant chassis to enable CMTS 1500's to be

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grouped together with a 4:1 redundant architecture providing the requisite reliability for telephony operation.

- The Cadant(R) C4(TM) CMTS is a highly dense, chassis-based product that provides built-in redundancy for carrier-grade performance. It is DOCSIS 1.1 qualified and will support recently released DOCSIS 2.0 and PacketCable standards. Each chassis supports up to 32 downstream channels and 128 upstream channels making it one of the highest density scaleable headend products currently available. It will provide high-speed data and VoIP services in headends from 10,000 to hundreds of thousands of subscribers.

Subscriber Premises -- This subscriber premises equipment includes cable modems (DOCSIS 1.0 and 1.1 certified) for high-speed data applications and embedded multimedia terminal adapters, or E-MTA for high-speed data and telephony applications. We produce the Touchstone(TM) E-MTA line for deployments in DOCSIS 1.1 hybrid fiber-coax networks. The Touchstone product line consists of the Touchstone telephony modem for indoor applications and the Touchstone telephony port for outdoor deployments. These E-MTAs support enhanced services of IP telephony and high-speed data on the same network to residential and business subscribers. The Touchstone product line complies with both DOCSIS and PacketCable standards. The Touchstone telephony modem is DOCSIS 1.1 certified. The Touchstone telephony port is based on the same design as the modem but has not been submitted for certification. The PacketCable solution builds on DOCSIS 1.1 and its quality of service enhancements to support lifeline telephony deployed over hybrid fiber-coax networks. The Touchstone product line provides carrier-grade performance to enable operators to provide all IP and video services on the same network using common equipment. We also are actively involved with the new evolving DOCSIS 2.0 standard and are participating in early interoperability testing with the Touchstone product family at CableLabs.

OAM&P -- OAM&P stands for Operations, Administration, Maintenance and Provisioning. It is a software suite that enables operators to automate many of the functions required to manage and grow subscribers for the multiple services offered. Without OAM&P automation, it would be difficult for an operator to manage subscriber growth effectively.

Our subscriber management products provide operators with the ability to automatically provision headend and subscriber premises equipment to reflect subscribers' parameters, provide key data for third party billing software, and complete maintenance operations. Our Cornerstone(R) Cable Provisioning System 2000, or CPS2000, provides automated provisioning software for control of the CMTS and cable modems. CPS 2000 works with various billing and middle-ware software programs. ARRIS has formed strategic relationships with vendors to integrate existing Cornerstone software for CMTS and Cable Modem OAM&P functions. Operators are able to perform OAM&P functions across Cornerstone Voice and Cornerstone Data employing the Cadant CMTS and Touchstone product lines using a common OAM&P solution. The Cadant G2 IMS software supports configuration performance and fault management of the Cadant C4 CMTS through

easy to use graphical user interfaces. A single G2 IMS server can support up to 100 C4 CMTS chassis and 20 simultaneous client applications.

System Integration -- We are a full service system integrator for converged services over hybrid fiber-coax networks. We historically have been a pioneer in the voice and data over hybrid fiber-coax business and have the experience and infrastructure in place to help operators launch these services. Systems integration offers the service provider a fully integrated solution that has been tested end-to-end for interoperability, performance, capacity, scalability, and reliability prior to ever being installed at the customer facility. This system integration can be followed up by complete headend and operations center design, installation, activation, and traffic planning. We offer the operator coordination of the project management (for the suppliers and the overall program), and future solution assurance services for the long-term, including upgrade support, system audits, and configuration management. Our systems integration service enables operators to rapidly deploy new services on their networks with the assurance that all of the components of the network will interoperate seamlessly.

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#### TRANSMISSION, OPTICAL AND OUTSIDE PLANT

We are a leading supplier of fiber optic related transmission products to the cable industry. We have three primary product lines:

- OPTICAL TRANSMISSION products consisting of optical transmitters, receivers and amplifiers, optical nodes, dense wavelength division multiplexing transport systems, block converters, and element management software.
- RF TRANSMISSION products, which include RF amplifiers and headend RF management equipment.
- INTERCONNECTIVITY products, including a full line of fiber management solutions such as optical entrance enclosures, outside plant fiber optic, splice closures, transmission equipment and demarcation housings.

Our Laser Link(R) product line supplies the components for transmission and switching of fiber optic lines within headends and hubs. These products deliver high-quality signals and can be tailored to meet specific operator requirements. The Laser Link 1550 nm optical laser transmitters and receivers for headends convert incoming electronic video signals to an optical signal for transmission over the fiber optic cable to hubs. The 1310 nm optical lasers, typically located within hubs are used for a small number of homes passed. The Transplex(R) Transport System with dense wavelength division multiplexing provides optical switching within the headend to route fiber optic signals to the appropriate hubs. The product line also includes RF Integrator(R) systems for headend/hub RF signal management and fiber pre-amplifiers. LightLink(TM) termination, couplers, optical and splice enclosures route fiber optics throughout the headend and hub locations. We also provide an integrated assembly consisting of the Laser Link mainframe shelves and LightLink(TM) equipment frame system to provide optimal space and performance efficiencies within headends and hubs.

Nodes are located between the hub and the subscriber premises and provide the interface between the fiber optic network and the coaxial distribution system. The Proteus(TM) scaleable node digital return transmitter detects the light coming out of the cable and converts it back into electronic signals for transmission to subscriber premises via coaxial cable. The RF Link(TM) 870 MHz mini-bridger strengthens the signal either on its way to the node or from the node. If line distances require it, RF Link 870 MHz line extenders provide additional amplification to provide high-quality signals to the subscriber premises. LightGuard(TM) enclosures are used for external splicing of the fiber optic signals as the plant design extends to reach more homes. Regal(R) taps and line passives split the signal for transmission along various branches of the distribution system.

The physical distribution of the RF signal to the subscriber premises requires a flexible selection of enclosures, connectors and drop assemblies to meet different geographical and environmental needs. We provide MONARCH(TM) enclosures for above ground and underground fiber and RF cable distribution as well as network interface devices, or NIDs, for the customer premises. With the advent of advanced services, connectors have become a critical element in the reproduction of quality signals and reduction of noise interference. Our Digicon(R) connector provides a high quality and easy to install component for installations.

We also are a large supplier of other telecommunications products, including T1 and digital subscriber technology components, for broadband signals in traditional telephony architectures.

#### SUPPLIES AND SERVICES

We provide the infrastructure products for fiber optic or coaxial networks built above ground (aerial) or underground. Operators with aerial system requirements may obtain galvanized steel cables or strand to support the transmission cables that run pole-to-pole as well as the support and attachment hardware necessary to complete the system. For underground systems, we also supply MONARCH(TM) underground vaults, pedestals, and conduit for plant build-out. Aerial and underground drop installations to subscriber premises needs are provided with Regal(R) taps, line and house passives. We provide a wide selection of products from tools, test equipment, power protection and other materials in order to meet the installation and operational needs for operators anywhere in the world.

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#### SALES AND MARKETING

Our sales force is divided into two groups, North American and International. Our North American sales force, in turn, is divided into one group that focuses on the seven largest multiple system operators, or MSOs, and a second group that focuses on smaller system operators, overbuilders, regional Bell telephone companies and major communications companies and competitive local exchange carriers. Our North American sales force is headquartered in both Duluth, Georgia and Denver, Colorado.

Following our 2001 acquisition of Arris Interactive L.L.C. we significantly expanded our international sales organization to facilitate sales to customers previously served by Nortel Networks and to include sales of products for high-speed data and cable telephony. This expansion included sales offices in Barcelona, Spain (to service Southern Europe) and in Amsterdam, Netherlands (to service Northern Europe). A new sales and service office was also added in Japan, complementing our already existing Hong Kong office.

We maintain an inside sales group that is responsible for regular phone contact, prompt order entry, timely and accurate delivery and effective sales administration for the many changes frequently required in any substantial rebuild or upgrade activity. In addition, the sales structure includes sales engineers and technicians that can assist customers in system design and specification and can promptly be on site to "trouble shoot" any problems as they arise during a project.

We also have marketing and product management teams that focus on each of the various product categories and work with our engineers and various technology partners on new products and product improvements. These teams are responsible for inventory levels and pricing, delivery requirements, market demand and product positioning and advertising.

We are committed to providing superior levels of customer service by incorporating innovative customer-centric strategies and processes supported by business systems designed to deliver differentiating product support and value-added services. We have implemented advanced customer relationship

management programs and sophisticated information systems to bring additional value to our customers and provide significant value to our operations management. Through these information systems, we can provide our customers with product information ranging from operational manuals to the latest in order processing information. Through on-going development and refinement, these programs will help to improve our productivity and enable us to further improve our customer-focused services.

CUSTOMERS

Although we do sell products to traditional telephone companies and our broadband products can be deployed not only by cable system operators, but also by traditional telephone companies, electric utilities and others, the substantial majority of our sales are to cable system operators. In 2001, as the US cable industry continued a trend toward consolidation, the seven largest multiple system operators control over 90% of the US cable market, thereby making our sales to those MSOs critical to our success. Internationally, the market is dominated by approximately ten cable system operators, comprised of US-based MSOs, government entities, and foreign-based multi-media owners. This group controls approximately 60% of the total international "addressable" market.

Our sales are substantially dependent upon (1) a system operator's selection of our equipment, (2) demand for increased broadband services by subscribers, and (3) general capital expenditure levels by system operators. Although many of our non-Cornerstone products, e.g., transmission and outside plant equipment, are purchased by system operators that do not use Cornerstone technology, Cornerstone sales are critical to our success. Currently 30 MSOs utilize the Cornerstone product in 56 cities in 15 countries.

According to Kagan World Media, as of June 2001, of the 107.6 million homes passed by the top twenty-five MSOs in the United States, only 17.5% subscribed to more than "basic cable." Therefore, substantial opportunity exists for demand-driven growth in the sales of our products. This demand is dependent, however, on subscriber demand for higher speed internet, alternative telephony, and other services requiring more sophisticated equipment.

General capital expenditures by system operators are a product of many factors, including the general economy, competitive responses to their expansion by traditional telephone companies, consumer demand, cost and availability of capital. According to Gartner Dataquest, capital expenditures industry-wide increased from \$179.7 billion in 1999 to \$217.6 billion in 2000, and decreased to \$210.7 billion in 2001, due to various factors. Industry analysts expect capital spending to increase as demand for broadband services increase and new technology is implemented -- such as the Cadant CMTS voice over IP system -- but there can be no assurances that this will occur.

Our two largest customers are AT&T (including MediaOne Communications, which was acquired by AT&T during 2000) and Cox Communications. Their sales for 2001, 2000, and 1999 are set forth below:

	AT&T (INCLUDING MEDIA ONE)	COX COMMUNICATIONS
	-----	-----
	(IN MILLIONS)	
2001 sales.....	\$237.9	\$113.5
2001 percentage of total sales.....	31.8%	15.2%
2000 sales.....	\$431.5	\$117.9
2000 percentage of total sales.....	43.2%	11.8%
1999 sales.....	\$391.1	\$ 58.5
1999 percentage of total sales.....	46.3%	6.9%

Other than Adelphia Communications Corp. and Insight, which accounted for

approximately 8.1% and 5.3%, respectively, of ARRIS' total sales for 2001, no other customer provided more than 5% of ARRIS' total sales for the year ended December 31, 2001. Adelphia accounted for approximately 5% of ARRIS' total sales for December 31, 2000, and no other customer (other than AT&T and Cox Communications) provided more than 5% of ARRIS' total sales for the year ended December 31, 2000. No customer other than AT&T and Cox Communications provided more than 5% of ARRIS' total sales for the year ended December 31, 1999.

Liberty Media Corporation, which had been a part of the Liberty Media Group of AT&T (whose financial performance was "tracked" by a separate class of AT&T stock), effectively controls approximately 10% of ARRIS' outstanding common stock on a fully diluted basis. In August 2001, AT&T spun off Liberty Media to the holders of its tracking stock, and AT&T subsequently no longer indirectly owns that interest in ARRIS.

On December 19, 2001, AT&T Broadband and Comcast Corporation announced a definitive agreement to combine AT&T Broadband with Comcast.

#### RESEARCH AND DEVELOPMENT

We are committed to the development of new technology in the evolving broadband market. New products are developed in our research and development laboratories in Duluth, Georgia; Andover, Massachusetts; and, as a result of our 2002 acquisition of Cadant, Inc., Lisle, Illinois. We also attempt to form strategic alliances with world-class producers of complementary technology to leverage its technologies and provide "best-in-class" solutions.

Research and development expenses in 2001, 2000, and 1999 were approximately \$54.5 million, \$23.4 million, and \$16.6 million, respectively. The increase in 2001 was attributable primarily to the inclusion of Arris Interactive's research and development activities beginning August 3, 2001. We expect that research and development expenses will increase in 2002 compared to 2001 due to the inclusion of Arris Interactive for the entire year and the development of new technologies from the recent acquisition of Cadant's assets.

We believe that our future success depends on rapid adoption and implementation of Broadband local access industry specifications, as well as rapid innovation and introduction of technologies that provide service and performance differentiation. Examples of this include the industry-leading DOCSIS 1.1 qualified CMTS1500 products and Cadant C4 product line (which was acquired in January 2002), as well as the DOCSIS 1.1 certified Touchstone telephony modem and the embedded multi-media terminal adapter.

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We believe the demand for new services requiring intensive, high-touch processing and sophisticated management techniques will continue to increase. We also believe this standards-based market place will continue to exert significant pricing pressures. As a result, our product development activities are primarily directed at the following areas:

- continued development of our IP-based products, such as the Cadant C4
- the Touchstone telephony Modem product line
- sharp focus on product cost and cost reduction
- extensive partnerships with best-in-class Call Management and Network OSS vendors
- network solution testing and end-to-end integration services

We also continue to invest in the development of fiber optic products targeted at broadband local access for residential and small business needs.

#### INTELLECTUAL PROPERTY

We have an aggressive program for protecting our intellectual property. The program consists of maintaining our portfolio of 99 issued patents (both US and foreign) and pursuing patent protection on new inventions (currently 83 patent applications are pending). In our effort to pursue new patents, we have created a process whereby employees may submit ideas of inventions for review by management. The review process evaluates each submission for novelty, detectability, and commercial value, and patent applications are filed on the inventions that meet the criteria. Our patents and patent applications generally are in the areas of optics, telecommunications hardware and software, and related technologies. Recent research and development has led to a number of patent applications in technology related to DOCSIS. The January 2002 purchase of the assets of Cadant resulted in the acquisition of 19 US patent applications, 7 PCT applications, 5 trademark applications, 1 US registered trademark and 5 registered copyrights. The Cadant patents are in the area of cable modems and cable modem termination systems.

For critical technology that is not owned by us, we have a program for obtaining appropriate licenses with the industry leaders to ensure that the strongest possible patents support the licensed technology. In addition, we have formed strategic relationships with leading technology companies that will provide us with early access to technology and will help keep us at the forefront of its industry.

We have a program for protecting and developing trademarks. The program consists of procedures for the use of current trademarks and for the development of new trademarks. This program is designed to ensure that our employees properly use those trademarks and any new trademarks that will develop strong brand loyalty and name recognition. This is intended to protect our trademarks from dilution or cancellation.

#### PRODUCT SOURCING AND DISTRIBUTION

Formerly, we manufactured or assembled a substantial portion of our products. Manufacturing operations ranged from electro/mechanical, labor-intensive assembly to sophisticated electronic surface mount automated assembly lines. We operated five major manufacturing facilities as our primary method of product sourcing. However, during the third quarter of 2001, we made the decision to outsource most of our manufacturing and close four facilities located in El Paso, Texas and Juarez, Mexico. The closure of the factories is expected to be completed during the first half of 2002. Our remaining factory is a 130,000 square foot, ISO certified facility in Rock Falls, Illinois. This facility manufactures various outside plant equipment including T1 repeater cases and transition cable.

Our decision to outsource manufacturing reflects the ongoing weakness in industry capital spending and our evaluation of under-performing assets. Our new product sourcing strategy centers around the use of contract manufacturers to subcontract production where the scale and capacity make it economical to do so. The facilities owned and operated by the contract manufacturers currently being used are located in the United States, Mexico and the Philippines. Our largest outsource manufacturers are Solecron and Mitsumi,

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

#### BACKLOG

Our backlog consists of unfilled customer orders believed to be firm and long-term contracts that have not been completed. With respect to long-term contracts, we include in our backlog only amounts representing orders currently

released for production or, in specific instances, the amount we expect to be released in the succeeding 12 months. The amount contained in backlog for any contract or order may not be the total amount of the contract or order. The amount of our backlog at any given time does not reflect expected revenues for any fiscal period. Our backlog at December 31, 2001 was approximately \$132.8 million, at December 31, 2000 was approximately \$209.5 million and at December 31, 1999 was approximately \$105.4 million.

We believe that substantially all of the backlog existing at December 31, 2001, will be shipped in 2002.

#### INTERNATIONAL OPPORTUNITIES

We sell our products primarily in North America. Our international revenue is generated from Asia Pacific, Europe, Latin America and Canada. The Asia Pacific market includes Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Sampan, Singapore, Taiwan and Thailand. The European market includes France, Ireland, Italy, Netherlands, Portugal, Spain and the United Kingdom. Sales to international customers were approximately 14.6%, 8.5% and 6.4% of total sales for the years ended December 31, 2001, 2000 and 1999, respectively. International sales for the years ended December 31, 2001, 2000 and 1999 were as follows:

	DECEMBER 31, 2001*	DECEMBER 31, 2000	DECEMBER 31, 1999
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	(IN THOUSANDS)		
International region			
Asia Pacific.....	\$ 29,946	\$15,500	\$12,445
Europe.....	52,199	36,378	19,035
Latin America.....	20,531	29,232	19,545
Canada.....	6,232	3,820	3,347
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Total international sales.....	\$108,908	\$84,930	\$54,372
	=====	=====	=====

\* The year ended December 31, 2001 included approximately five months of international Cornerstone revenue. Under the previous joint venture agreement with Nortel Networks, ARRIS was not able to sell the Arris Interactive L.L.C. products internationally. This agreement terminated upon our acquisition of Nortel Networks' share of Arris Interactive L.L.C. on August 3, 2001.

We believe that international opportunities exist and continues to strategically invest in worldwide marketing efforts, which have yielded some promising results in several regions. During 2001, our international group was actively engaged in replacing the Nortel Networks sales and support infrastructure that was in place with Arris Interactive L.L.C. We made some significant operational and geographical changes in the international marketplace. We consolidated our international offices and warehouses to the Netherlands from the United Kingdom to service all of Europe. We also opened a sales office in Chile to address the growing market in that region. We plan on expanding our international presence in the Far East by opening a sales and warehouse facility in Japan by the second quarter of 2002. We currently maintain sales offices in Argentina, Australia, Chile, China, Hong Kong, Mexico, Spain and the Netherlands.

#### COMPETITION

All aspects of our business are highly competitive. The broadband communications industry itself is dynamic, requiring companies to react quickly and capitalize on change. We must retain skilled and experienced personnel, as well as, deploy substantial resources to meet the ever-changing demands of the industry. We compete with national, regional and local manufacturers,

distributors and wholesalers including some companies larger than us. Our major competitors include:

- ADC Telecommunications, Inc.
- C-COR.net Corporation
- Cisco Systems
- Harmonic Inc.
- Juniper Networks
- Motorola, Inc.
- Phillips
- Riverstone Networks, Inc.
- Scientific-Atlanta
- Tellabs Inc.
- Terayon Communication Systems

Various manufacturers who are suppliers to us sell directly, as well as through distributors, into the cable marketplace. In addition, because of the convergence of the cable, telecommunications and computer industries and rapid technological development, new competitors are entering the cable market. Many of our competitors or potential competitors are substantially larger and have greater resources than us.

Our products are marketed with emphasis on quality and are competitively priced. Product reliability and performance, superior and responsive technical and administrative support, and breadth of product offerings are key criteria for competition. Technological innovations and speed to market are an additional basis for competition.

#### EMPLOYEES

As of February 28, 2002, we had 1,416 full-time employees of which approximately 66 were members of a union. We believe that we have maintained an excellent relationship with our employees. Our future success depends, in part, on our ability to attract and retain key executive, marketing, engineering and sales personnel. Competition for qualified personnel in the cable industry is intense, and the loss of certain key personnel could have a material adverse effect on us. We have entered into employment contracts with our key executive officers and have non-compete agreements with substantially all of our employees. We also have a stock option program that is intended to provide substantial incentives for our key employees to remain with us.

#### BACKGROUND AND HISTORY

ARRIS is the successor to ANTEC Corporation. From its inception until its initial public offering in 1993, ANTEC was primarily a distributor of cable television equipment and was owned and operated by Anixter, Inc. Subsequently ANTEC completed several important strategic transactions and formed joint ventures designed to expand significantly its product offerings. Most recently, ANTEC formed a new holding company, ARRIS, and acquired Nortel Networks' interest in Arris Interactive L.L.C., which previously had been a joint venture between ANTEC and Nortel Networks.

A synopsis of ARRIS' evolution:

- 1969 -- Anixter entered the cable industry

- 1987 -- Anixter acquired TeleWire Supply
- 1988 -- Anixter and AT&T developed the first analog video laser transmitter for the cable industry (Laser Link 1)
- 1991 -- ANTEC was established
- 1993 -- ANTEC's initial public offering
- 1994 -- ANTEC completed the acquisition of the following companies, which significantly expanded its product development and manufacturing capabilities:
  - Electronic System Products, Inc. ("ESP"), an engineering consulting firm with core capabilities in digital design, RF design and application specific integrated circuit development for the broadband communications industry
  - Power Guard, Inc., a manufacturer of power supplies and high security enclosures for broadband communications networks
  - Keptel, Inc., a designer, manufacturer and marketer of outside plant telecommunications and transmission equipment for both residential and commercial use, primarily by telephone companies
- 1995 -- ANTEC and Nortel Networks formed Arris Interactive L.L.C., focused on the development, manufacture and sale of products that enable the provision of a broad range of telephone and data services over HFC architectures; ANTEC initially owned 25% and Nortel Networks owned 75% of the Arris Interactive joint venture
- 1997 -- ANTEC acquired TSX Corporation, which provided electronic manufacturing capabilities and expanded the Company's product lines to include amplifiers and line extenders and enhanced laser transmitters and receivers and optical node product lines
- 1998 -- ANTEC introduced the industry's first 1550 nm narrowcast transmitter and dense wavelength division multiplexing ("DWDM") optical transmission system
- 1999 -- ANTEC completed the combination of the Broadband Technology Division of Nortel Networks, which is known as LANcity, with Arris Interactive, resulting in an increase in Nortel Networks' interest in the joint venture to 81.25% while ANTEC's interest was reduced to 18.75%
- 1999 -- ANTEC introduced the industry's first 18 band block converter and combined that with the DWDM allowing 144 bands on a single fiber
- 2001 -- ARRIS acquired all of Nortel Networks' ownership interest in Arris Interactive in exchange for approximately 49% of the common stock of a newly formed holding company, ARRIS, and a preferred membership interest in Arris Interactive.
- 2001 -- ARRIS sold substantially all of its power product lines. During 2000, sales in those product lines were approximately \$18.0 million, and during 2001 (through the date of the sale), sales were approximately \$8.1 million. ARRIS continues as an authorized distributor and representative for these power product lines.
- 2002 -- ARRIS acquired substantially all of the assets of Cadant, Inc., a privately held designer and manufacturer of next-generation cable modem termination systems

## ITEM 2. PROPERTIES

We currently conduct our operations from 13 different locations; one of

which we own, while the remaining 12 are leased. These facilities consist of sales and administrative offices, warehouses and

manufacturing facilities totaling approximately 900,000 square feet. ARRIS' long-term leases expire at various dates through 2009. The principal properties are located in Ontario, California; Duluth, Georgia; Suwanee, Georgia; Englewood, Colorado; El Paso, Texas; Cary, North Carolina; Rock Falls, Illinois; and Juarez, Mexico. ARRIS believes that its current properties are adequate for its operations. During 2001, ARRIS began to implement a plan to expand on its manufacturing outsourcing strategy and close down the factories located in El Paso, Texas and Juarez, Mexico. The closure of the factories is anticipated to be complete during the first half of 2002. We currently are under lease obligations in three facilities, which we are not conducting operations in, however these facilities are subleased to third parties.

A summary of our leased properties that are currently in use is as follows:

LOCATION	DESCRIPTION	AREA (SQ. FT.)	LEASE EXPIRATION
Ontario, California.....	Warehouse	191,853	December 31, 2003
Duluth, Georgia.....	Office space	143,000	June 14, 2009
Rock Falls, Illinois.....	Manufacturing facility	108,550	April 30, 2002
Suwanee, Georgia.....	Office space	97,319	February 28, 2007
Andover, Massachusetts.....	Office space	75,037	July 7, 2004
Englewood, Colorado.....	Warehouse/Office space	42,880	March 30, 2006
El Paso, Texas.....	Warehouse	37,500	June 14, 2003
Lisle, Illinois*.....	Office space	35,249	March 31, 2005
Greenville, Mississippi.....	Warehouse	30,000	May 31, 2002
Amsterdam.....	Office space	6,181	December 31, 2004
Barcelona.....	Office space	3,600	June 30, 2004
Tokyo.....	Office space	2,665	February 14, 2004

\* This location is in relation to the Cadant acquisition, which occurred in January 2002.

We own the following properties. These facilities have been pledged as collateral to secure payment of our credit facility. The following table sets forth the location and approximate square footage of each of our owned properties:

LOCATION	DESCRIPTION	AREA (SQ. FT.)
Juarez, Mexico**.....	Manufacturing facility	152,000
Cary, North Carolina.....	Warehouse	151,500

\*\* We are not currently conducting operations out of this facility, due to the decision to outsource the manufacturing functions. This property is currently for sale.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently engaged in any litigation that it believes would have a material adverse effect on its financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2001, no matters were submitted to a vote of the Company's security holders.

EXECUTIVE OFFICERS OF THE COMPANY

NAME ----	AGE ---	POSITION -----
John M. Egan.....	54	Chairman and Director
Robert J. Stanzione.....	53	President, Chief Executive Officer and Director
Lawrence A. Margolis.....	53	Executive Vice President, Chief Financial Officer, and Secretary
Gordon E. Halverson.....	59	Executive Vice President and Chief Executive Officer, TeleWire Supply
James D. Lakin.....	58	President, Broadband
Bryant K. Isaacs.....	42	President, Network Technologies
Robert Puccini.....	40	President, TeleWire Supply
Ronald M. Coppock.....	47	President, International
David B. Potts.....	44	Senior Vice President, Finance and Chief Information Officer
Leonard E. Travis.....	39	Vice President and Controller
James E. Knox.....	64	General Counsel and Assistant Secretary
Michael H. Durant.....	44	Treasurer

John M. Egan joined the Company in 1973 and has been Chairman of ARRIS' Board of Directors since 1997. Mr. Egan was President and Chief Executive Officer of ARRIS and its predecessors from 1980 to December 31, 1999. On January 1, 2000, Mr. Egan stepped down from his role as Chief Executive Officer of ARRIS. He remains a full-time employee until June 2002. Mr. Egan is on the Board of Directors of the National Cable Television Association ("NCTA"), the Walter Kaitz Foundation, an association seeking to help the cable industry diversify its management workforce to include minorities, and has been actively involved with the Society of Cable Television Engineers and Cable Labs, Inc. Mr. Egan received the NCTA's 1990 Vanguard Award for Associates.

Robert J. Stanzione has been President and Chief Executive Officer since January 1, 2000. From January 1998 through 1999, Mr. Stanzione was President and Chief Operating Officer of ARRIS. Mr. Stanzione has been a director of ARRIS since 1997. From October 1995 to December 1997, he was President and Chief Executive Officer of Arris Interactive. From 1969 to 1995, he held various positions with AT&T Corporation.

Lawrence A. Margolis has been Executive Vice President, Chief Financial Officer and Secretary of ARRIS since 1992 and was Vice President, General Counsel and Secretary of Anixter, Inc., a global communications products distribution company, from 1986 to 1992 and General Counsel and Secretary of Anixter from 1984 to 1986. Prior to 1984, he was a partner at the law firm of Schiff, Hardin & Waite.

Gordon E. Halverson has been Executive Vice President and Chief Executive Officer, of ARRIS TeleWire Supply since April 1997. From 1990 to April 1997, he was Executive Vice President, Sales of ARRIS. During the period 1969 to 1990, he held various executive positions with predecessors of ARRIS. He received the NCTA's 1993 Vanguard Award for Associates. Mr. Halverson is a member of the NCTA, Society of Cable Television Engineers, Illinois Cable Association, Cable Television Administration and Marketing Society.

James D. Lakin has been President, ARRIS Broadband since the acquisition of Arris Interactive in August 2001. From October 2000 through August 2001, he was President and Chief Operating Officer of Arris Interactive. From November 1995 until October 2000, Mr. Lakin was Chief Marketing Officer of Arris Interactive. Prior to 1995, he held various executive positions with Compression Labs, Inc. and its successor General Instrument Corporation.

Bryant K. Isaacs has been President of ARRIS Network Technologies since

September 2000. Prior to joining ARRIS, he was Founder and General Manager of Lucent Technologies' Wireless Communications Networking Division in Atlanta from 1997 to 2000. From 1995 through 1997, Mr. Isaacs held the position of Vice President of Digital Network Systems for General Instrument Corporation where he was responsible for developing international business strategies and products for digital video broadcasting systems.

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Robert Puccini has been President of ARRIS TeleWire Supply since 1999, and prior to that served as Chief Financial Officer of TeleWire for two years. Mr. Puccini brings 20 years of experience in the cable television industry to ARRIS TeleWire Supply. He has held various accounting and controller positions within the former Anixter and ANTEC Corporations. Most recently, Puccini served as Vice President, Project Management for the company's AT&T account. Mr. Puccini is a CPA and received a bachelor's degree from DePaul University.

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

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

Leonard E. Travis has been Vice President and Controller of ARRIS since March 2001. From 1998 through 2001, he was the Finance Director -- Europe of RELTEC Corporation and the Vice President of Finance of Marconi Services --Americas, a division of RELTEC's successor, Marconi, Plc. Prior to 1998, Mr. Travis held various controller positions in finance and operations at RELTEC Corporation. Prior to RELTEC, Mr. Travis was with Material Sciences and Ernst & Whinney. Mr. Travis is a CPA and a CMA.

James E. Knox has been General Counsel and Assistant Secretary since February 1996. He has been Senior Vice President and Secretary of Anixter International Inc. since 1986 and was a partner of the law firm of Mayer, Brown & Platt from 1992 to 1996.

Michael H. Durant has been Treasurer since the acquisition of Arris Interactive in August 2001. Prior to joining ARRIS, he was the Controller of Arris Interactive L.L.C. from 2000 through 2001. Mr. Durant held various roles at Bay Networks and its successor, Nortel Networks from 1996 to 2000, and served as the Chief Financial Officer of LANcity from 1995 through 1996. Prior to 1995, Mr. Durant held several finance and operations positions with EDS.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Beginning on August 6, 2001, ARRIS' common stock trades on the Nasdaq National Market System under the symbol "ARRS". Prior to the ARRIS reorganization, on August 3, 2001, the Company's common stock traded on the Nasdaq National Market System under the symbol "ANTC". (See Note 16 of Notes to

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the Consolidated Financial Statements.) The following table reports the high and low trading prices per share of the Company's common stock as listed on the Nasdaq National Market System:

	HIGH -----	LOW -----
2000		
First Quarter.....	\$61.25	\$28.94
Second Quarter.....	57.00	34.38
Third Quarter.....	50.00	20.44
Fourth Quarter.....	29.75	6.88
2001		
First Quarter.....	\$14.38	\$ 6.63
Second Quarter.....	15.76	5.25
Third Quarter.....	13.59	2.68
Fourth Quarter.....	11.65	3.18

ARRIS has not paid dividends on its common stock since its inception. The Company's primary loan agreement contains covenants that prohibit the Company from paying dividends. (See Note 7 of the Notes to the Consolidated Financial Statements.)

As of February 28, 2002, there were approximately 163 holders of record of ARRIS common stock. This number excludes shareholders holding stock under nominee or street name accounts with brokers.

ITEM 6. SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The selected consolidated financial data as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 set forth below are derived from the accompanying audited consolidated financial statements of ARRIS, and should be read in conjunction with such statements and related notes thereto. The selected consolidated financial data as of December 31, 1999, 1998 and 1997 and for the years ended December 31, 1998 and 1997 is derived from audited consolidated financial statements that have not been included in this filing. The historical consolidated financial information is not necessarily indicative of the results of future operations and should be read in conjunction with ARRIS' historical consolidated financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document. See Note 15 of the Notes to the Consolidated Financial Statements for a summary of our quarterly consolidated financial information.

	2001 -----	2000 -----	1999 -----	1998 -----	1997 -----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED OPERATING DATA:					
Net sales.....	\$ 747,670	\$998,730	\$844,756	\$546,767	\$480,078
Cost of sales(1) (4) (5) (6) (7).....	628,700	812,958	679,774	404,999	365,860
Gross profit.....	118,970	185,772	164,982	141,768	114,218
Selling, general, administrative and development expenses(2) (5) (7).....	165,670	133,988	111,937	105,643	110,803
Amortization of goodwill.....	4,872	4,917	4,946	4,910	4,927
Amortization of intangibles.....	7,012	--	--	--	--
In-process R&D write-off(8).....	18,800	--	--	--	--
Restructuring and other(1) (3) (4).....	36,541	--	5,647	9,119	21,550
Operating (loss) income.....	(113,925)	46,867	42,452	22,096	(23,062)

Interest expense.....	9,315	11,053	12,406	9,337	6,264
Membership interest.....	4,110	--	--	--	--
Other expense (income), net.....	10,142	87	(745)	(977)	(348)
Loss on marketable securities.....	767	773	275	--	--
	-----	-----	-----	-----	-----
(Loss) income before income taxes and extraordinary loss.....	(138,259)	34,954	30,516	13,736	(28,978)
Income tax expense (benefit) (10).....	27,619	14,285	13,806	7,911	(7,534)
	-----	-----	-----	-----	-----
Net (loss) income before extraordinary loss.....	(165,878)	20,669	16,710	5,825	(21,444)
Extraordinary loss (9).....	1,853	--	--	--	--
	-----	-----	-----	-----	-----
Net (loss) income.....	\$(167,731)	\$ 20,669	\$ 16,710	\$ 5,825	\$(21,444)
	=====	=====	=====	=====	=====
CONSOLIDATED BALANCE SHEET DATA:					
Working capital.....	\$ 250,862	\$305,921	\$255,000	\$200,194	\$133,302
Total assets.....	752,115	731,495	700,541	532,645	443,883
Long-term debt.....	115,000	204,000	183,500	181,000	72,339
Stockholders' equity.....	414,543	341,902	309,338	249,778	295,785
NET (LOSS) INCOME PER COMMON SHARE:					
Basic.....	\$ (3.13)	\$ 0.54	\$ 0.46	\$ 0.16	\$ (0.55)
	=====	=====	=====	=====	=====
Diluted.....	\$ (3.13)	\$ 0.52	\$ 0.43	\$ 0.15	\$ (0.55)
	=====	=====	=====	=====	=====
Dividends paid.....	\$ --	\$ --	\$ --	\$ --	\$ --
	=====	=====	=====	=====	=====

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The Company believes that cash loss, cash loss per share, and cash loss excluding unusual items are additional meaningful measures of operating performance. However, this information will necessarily be different from comparable information provided by other companies and should not be used as an alternative to our operating and other financial information as determined under accounting principles generally accepted in the United States. This table should not be considered in isolation or as a measure of a company's profitability or liquidity.

CALCULATION OF CASH EARNINGS, EXCLUDING UNUSUAL ITEMS:

	2001	2000
	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
NET (LOSS) INCOME, INCLUDING UNUSUAL ITEMS.....	\$(167,731)	\$20,669
Add back: Goodwill amortization.....	11,884	4,917
	-----	-----
	(155,847)	25,586
UNUSUAL ITEMS:		
Impacting gross profit		
Inventory write-offs (1) (7).....	(27,834)	(3,500)
Write-down of the Powering product line assets (7).....	(5,834)	--
Severance related to workforce reduction (5).....	(1,275)	--
One-time warranty expense for specific product (6).....	(4,700)	--
Write-off of assets related to Argentinean customer (12)...	(4,388)	--
Impacting operating (loss) income		
Pension curtailment gain (2).....	--	2,108
Severance related to workforce reduction (5).....	(3,756)	--
Restructuring and impairment charges:		
Severance related to factory closure (7).....	(7,479)	--
Impairment of fixed assets (7).....	(14,972)	--
Impairment of goodwill -- Powering (7).....	(5,877)	--
Lease commitments (7).....	(3,521)	--
Facilities shutdown expenses (7).....	(4,692)	--
Write-off of acquired in-process R&D (8).....	(18,800)	--
Impacting net (loss) income		
Gain (loss) on marketable securities (9).....	(767)	(773)
Write-off of deferred financing costs.....	(1,853)	--
Third quarter valuation allowance adjustment for deferred taxes.....	(38,117)	--
Related tax effect on all items, as applicable.....	4,367	(75)
	-----	-----

NET EFFECT OF UNUSUAL ITEMS.....	(139,498)	(2,240)
NET CASH (LOSS) INCOME, EXCLUDING UNUSUAL ITEMS.....	\$ (16,349)	\$27,826
	=====	=====
NET CASH (LOSS) INCOME PER COMMON SHARE -- DILUTED.....	\$ (0.30)	\$ 0.70
	=====	=====

- 
- (1) In 1999, ARRIS recorded pre-tax charges of approximately \$16.0 million in conjunction with the closure of its New Jersey facility and the discontinuance of certain products. The charges included approximately \$2.6 million related to personnel costs and approximately \$3.0 million related to lease termination and other costs. The charges also included an inventory write-down of approximately \$10.4 million reflected in cost of sales. In 2000, ARRIS recorded an additional \$3.5 million pre-tax charge to cost of sales related to the 1999 reorganization. (See Note 4 of the Notes to the Consolidated Financial Statements.)
  - (2) In 2000, ARRIS recorded a pre-tax gain of \$2.1 million as a result of the curtailment of ARRIS' defined benefit pension plan. (See Note 13 of the Notes to the Consolidated Financial Statements.)

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- (3) In 1998, ARRIS recorded pre-tax charges of approximately \$10.0 million in conjunction with the consolidation of its corporate and administrative functions. The charges included approximately \$7.6 million related to personnel costs and approximately \$2.4 million related to lease termination and other costs. (See Note 4 of the Notes to the Consolidated Financial Statements.)
- (4) In 1997 ARRIS recorded pre-tax charges of approximately \$28.0 million in connection with its acquisition of TSX Corporation. The charges included are inventory, write-downs of approximately \$6.5 million reflected in cost of sales. The acquisition was accounted for as a pooling of interests.
- (5) During 2001, ARRIS significantly reduced its overall employment levels. This resulted in a pre-tax charge to cost of sales of approximately \$1.3 million for severance and related costs and a pre-tax charge of \$3.7 million to operating expenses.
- (6) During 2001, a one-time warranty expense relating to a specific product was recorded, resulting in a pre-tax charge of \$4.7 million for the expected replacement cost of this product. ARRIS does not anticipate any further warranty expenses to be incurred in connection with this product.
- (7) In 2001, in connection with the outsourcing of most of its manufacturing functions, ARRIS recorded pre-tax restructuring and impairment charges of approximately \$66.2 million. Included in these charges was approximately \$32.0 million related to the write-down of inventories, and remaining warranty and purchase order commitments of approximately \$1.7 million were charged to cost of goods sold. Also included in these charges was approximately \$5.7 million related to severance and associated personnel costs, \$5.9 million related to the impairment of goodwill due to the sale of the power product lines, \$14.8 million related to the impairment of fixed assets, and approximately \$6.1 million related to lease terminations of factories and office space and other shutdown expenses. (See Note 4 of the Notes to the Consolidated Financial Statements.)
- (8) During 2001, ARRIS recorded a pre-tax write-off of in-process R&D of \$18.8 million in connection with the Arris Interactive L.L.C. acquisition. (See Note 16 of the Notes to the Consolidated Financial Statements.)
- (9) During 2001, ARRIS recorded pre-tax charges of \$1.9 million as an extraordinary loss on the extinguishment of debt in accordance with EITF 96-19 Debtor's Accounting for a Modification or Exchange of Debt Instruments. The amount reflected unamortized deferred finance fees related

to a loan agreement, which was replaced in connection with the Arris Interactive L.L.C. acquisition. (See Note 7 of the Notes to the Consolidated Financial Statements.)

- (10) As a result of the restructuring and impairment charges during the third quarter of 2001, a valuation allowance of approximately \$38.1 million against deferred tax assets was recorded in accordance with FASB Statement No. 109, Accounting for Income Taxes. (See Note 4 of Notes to the Consolidated Financial Statements.) This is offset by approximately \$4.4 million of related taxes associated with the unusual items.
- (11) In the fourth quarter of 2001, ARRIS closed a research and development facility in Raleigh, North Carolina and recorded a \$4.0 million charge related to severance and other costs associated with closing that facility.
- (12) Due to the economic disturbances in Argentina, we recorded a write-off of \$4.4 million related to unrecoverable amounts due from a customer in that region during the fourth quarter of 2001.
- (13) Because the Company's investment in Lucent and Avaya stock are considered trading securities held for resale, they are required to be carried at their fair market value with any gains or losses being included in earnings. In calculating the fair market value of the Lucent and Avaya investments and including \$1.3 million of impairment losses on investments available for sale in 2000, the Company recognized pre-tax losses of \$0.8 million and \$0.8 million, as of December 31, 2001 and 2000, respectively.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses ARRIS' Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. On an on-going basis, management evaluates its estimates and judgments, including those related to customer incentives, product returns, bad debts, inventories, investments, intangible assets, income taxes, financing operations, warranty obligations, restructuring costs, retirement benefits, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

#### (a) Inventories

Our largest tangible asset is inventory, which net of reserves aggregated \$188.0 million as of December 31, 2001. Inventory is reflected in our financial statements at the lower of average, approximating first-in, first-out cost or market value. We continuously reevaluate future usage of product and where supply exceeds demand, we establish a reserve. In reviewing inventory valuations we also review for excess and obsolete items. This requires us to estimate future usage, which, in an industry where rapid technological changes and significant variations in capital spending by system operators are prevalent, is difficult. As a result, to the extent that we have overestimated future usage of

inventory, the value of that inventory on our financial statements may be overstated and when we recognize that overestimate we will have to adjust for that overstatement through an increase in cost of sales in a future period.

b) Accounts Receivable

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

(c) Investments

Prior to March 1999, we owned a 25% interest in Arris Interactive L.L.C., a joint venture with Nortel Networks ("Nortel") that was accounted for under the equity method. Arris Interactive L.L.C. was focused on the development, manufacture and sale of products that enable the provision of a broad range of telephone and data services over hybrid fiber-coax systems. From March 1999 to August 2001 we owned an 18.75% interest in Arris Interactive L.L.C., which was accounted for on the cost method.

In connection with the Arris Interactive L.L.C. acquisition, the quarters ended March 31, 2001 and June 30, 2001 were restated in accordance with Accounting Principles Board ("APB") No. 18, The Equity Method of Accounting for Investments in Common Stock. This APB states that an investment in common stock of an investee that was previously accounted for by the cost method becomes qualified for use of the equity method by an increase in the level of ownership. We adopted the use of the equity method upon acquisition of Nortel's portion of Arris Interactive L.L.C., and all prior periods presented have been adjusted retroactively to reflect the equity method of accounting. During 2000, Arris Interactive L.L.C. recorded net

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income. However, in the periods prior to 2000, Arris Interactive L.L.C. incurred net losses, of which we did not recognize our proportionate share due to our investment in Arris Interactive L.L.C. being reduced to zero. APB No. 18 states that the Company should recognize gains only after its share of net income equals its share of net losses not recognized. Our share of Arris Interactive's net income in 2000 did not exceed the losses unrecognized in previous years, and therefore, these periods have not been restated. However, during the periods ending March 31, 2001 and June 30, 2001, Arris Interactive L.L.C. recorded net losses. We have restated, under the equity method of accounting, these periods to reflect our share of the losses due to our investment in and advances to Arris Interactive at December 31, 2000 being sufficient to record such losses.

(d) Goodwill and Long-Lived Assets

Goodwill relates to the excess of cost over net assets resulting from an acquisition. Goodwill resulting from the 1986 acquisition of Anixter (ARRIS' former owner) by Anixter International was allocated to ARRIS based on ARRIS' proportionate share of total operating earnings of Anixter for the period subsequent to the acquisition. Goodwill also has resulted from acquisitions of business by Anixter and ARRIS subsequent to 1986 that now are owned by ARRIS.

ARRIS assesses the recoverability of goodwill and other long-lived assets whenever events or changes in circumstances indicate that expected future undiscounted cash flows might not be sufficient to support the carrying amount of an asset. If expected future undiscounted cash flows from operations are less than a business' carrying amount, an asset is determined to be impaired, and a loss is recorded for the amount by which the carrying value of the asset exceeds its fair value. Fair value is based on discounting estimated future cash flows

or using other valuation methods as appropriate. Non-cash amortization expense is being recognized as a result of amortization of goodwill on a straight-line basis over a period of 40 years from the respective dates of acquisition. The estimation of future cash flows is critical to the valuation of goodwill. Our industry is subject to rapid technological changes and significant variations in capital spending by system operators. As a result, estimations of future cash flows are difficult, and to the extent that we have overestimated those cash flows we also may have underestimated the need to reduce any attendant goodwill.

Effective January 1, 2002, we will adopt Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. In general, SFAS No. 142 requires that during 2002 we assess the fair value of the net assets underlying our acquisition related goodwill on a business by business basis. Where that fair value is less than the related carrying value, we will be required to reduce the amount of the goodwill. These reductions will be made retroactive to January 1, 2002. SFAS No. 142 also requires that we discontinue the amortization of our acquisition related goodwill.

As of December 31, 2001, our financial statements included acquisition related goodwill of \$259.1 million, net of previous amortization. Although the process of implementing Statement No. 142 will take several more months, we preliminarily believe that a portion of this goodwill may be impaired and may need to be reduced. In addition, we no longer will be amortizing acquisition related goodwill, which aggregated \$4.9 million in 2001, 2000, and 1999.

As of December 31, 2001, our financial statements included intangibles of \$44.5 million, net of amortization of \$7.0 million. These intangibles are related to the existing technology acquired from Arris Interactive L.L.C. on August 3, 2001, and will be amortized over a three year period. The valuation process to determine the fair market value of the existing technology was performed by an outside valuation service. The value assigned was calculated using an income approach utilizing the cash flow generated by this technology.

(e) Warranty

ARRIS provides, by a current charge to cost of sales in the period in which the related revenue is recognized, an amount it estimates will be needed to cover future warranty obligations. This estimate is based upon historical experience. In the event of an unusual warranty claim, the amount of the reserve may not be sufficient. For instance, in 2001 ARRIS had a one-time warranty expense related to a single product and recorded a one-time charge of \$4.7 million against cost of sales in connection with it. To the extent that other unexpected warranty claims occur in the future, the reserves that ARRIS has established may not be sufficient, cost of sales may have been understated, and a charge against future costs of sales may be necessary.

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(f) Income Taxes

ARRIS uses the liability method of accounting for income taxes, which requires recognition of temporary differences between financial statement and income tax basis of assets and liabilities, measured by enacted tax rates.

ARRIS established a valuation allowance in accordance with the provisions of FASB Statement No. 109, Accounting for Income Taxes. The Company continually reviews the adequacy of the valuation allowance and recognizes the benefits of deferred tax assets only as reassessment indicates that it is more likely than not that the deferred tax assets will be realized.

OVERVIEW

Last year was a year of significant change. Our industry experienced a significant reduction in capital spending beginning at the end of 2000 that was with us throughout 2001. Nortel Networks, our partner in Arris Interactive, L.L.C., decided to exit that business, thereby providing us the opportunity to purchase its interest in the joint venture. In December of 2001, we agreed to purchase the business of Cadant Inc., a manufacturer of cable modem termination

systems that had developed a leading design in the industry for the critical component in a voice over IP telephony system. We also refocused our business on our core skills by substantially exiting manufacturing. We now outsource most of our manufacturing to some of the leading contract manufacturers of electronic products. Further, we have reduced workforce and other operating expenses throughout our organization. As a result of these efforts, we believe that we are well positioned for 2002.

Set forth below is a more detailed description of how our business performed over the last two years. We urge you to read it carefully together with the financial statements and description of our business that are included in this report. You should be aware, however, that as a result of our acquisition of Arris Interactive on August 3, 2001, our business has changed significantly and our historical results of operations will not be as indicative of future results of operations as they otherwise might be. Some of these differences are discussed below.

#### ACQUISITION OF ARRIS INTERACTIVE L.L.C.

On August 3, 2001, we completed the acquisition from Nortel of the portion of Arris Interactive that we did not own. Arris Interactive was a joint venture formed by Nortel and us in 1995, and immediately prior to the acquisition we owned 18.75% and Nortel owned the remainder. As part of this transaction:

- A new holding company, ARRIS, was formed
- ANTEC, our predecessor, merged with a subsidiary of ARRIS and the outstanding ANTEC common stock was converted, on a share-for-share basis, into common stock of ARRIS.
- Nortel and the Company contributed to Arris Interactive approximately \$131.6 million in outstanding indebtedness and adjusted their ownership percentages in Arris Interactive to reflect these contributions
- Nortel exchanged its remaining ownership interest in Arris Interactive for 37 million shares of ARRIS common stock (approximately 49.2% of the total shares outstanding following the transaction) and a subordinated redeemable preferred interest in Arris Interactive with a face amount of \$100 million
- ANTEC, now a wholly-owned subsidiary of ARRIS, changed its name to Arris International, Inc.

In connection with this transaction, our bank indebtedness was refinanced on August 3, 2001. The new facility is an asset-based revolving credit facility, which permits us to borrow up to \$175.0 million based upon availability under a borrowing base calculation.

Following the transactions, Nortel designated two new members to our board of directors. Nortel's ownership interest in ARRIS is governed in part, by an Investor Rights Agreement that is filed as an exhibit in [ITEM 14(a) 3] Exhibit List.

#### ACQUISITION OF CADANT, INC.

On January 8, 2002, we completed our acquisition of substantially all of the assets of Cadant, Inc., a privately held designer and manufacturer of next generation cable modem termination systems. Under the terms of the transaction, we paid 5.25 million shares of our common stock and assumed \$17 million in liabilities in exchange for the assets. We also agreed to pay up to 2.0 million additional shares based upon future sales of the CMTS product.

#### INDUSTRY CONDITIONS

ARRIS' performance is largely dependent on capital spending for

constructing, rebuilding, maintaining and upgrading broadband communications systems. After a period of intense consolidation and rapid stock-price acceleration within the industry during 1999, the fourth quarter of 2000 brought a sudden tightening of credit availability throughout the telecommunications industry and a broad-based and severe drop in market capitalization for the sector during the period. This caused broadband system operators to become more judicious in their capital spending, adversely affecting us and other equipment providers, generally.

In response to this downturn, we significantly reduced expense levels, including workforce reductions during the first quarter of 2001 and the more significant reductions announced and implemented in April 2001. The actions taken in April resulted in a pre-tax charge of approximately \$5.0 million in the second quarter of 2001 for severance and related separation costs, and we reduced overall employment levels by approximately 545 employees. Additionally, as part of our continuing review and evaluation of underperforming assets to assess their long-term strategic role within ARRIS, as well as strategic opportunities we face, we restructured our manufacturing operations and are in the process of implementing an outsourcing strategy. This manufacturing restructuring resulted in the closure of four factories in El Paso, Texas and Juarez, Mexico and the termination of 807 employees. The outsourcing is anticipated to be completed during the first half of 2002.

RESULTS OF OPERATIONS

The following table sets forth ARRIS' key operating data as a percentage of net sales:

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Net sales.....	100.0%	100.0%	100.0%
Cost of sales.....	84.1	81.4	80.5
Gross profit.....	15.9	18.6	19.5
Selling, general, administrative and development expenses...	22.2	13.4	13.2
In process R&D write-off.....	2.5	--	--
Restructuring and impairment charges.....	4.9	--	--
Amortization of goodwill.....	0.7	0.5	0.6
Amortization of intangibles.....	0.9	--	--
Restructuring and other.....	--	--	0.7
Operating (loss) income.....	(15.3)	4.7	5.0
Interest expense.....	1.2	1.1	1.4
Membership interest.....	0.5	--	--
Other (income) expense, net.....	1.4	--	--
Loss on marketable securities.....	0.1	0.1	--
(Loss) income before income tax expense and extraordinary loss.....	(18.5)	3.5	3.6
Income tax expense.....	3.7	1.4	1.6
Net income before extraordinary loss.....	(22.2)	--	--
Extraordinary loss.....	0.2	--	--
Net (loss) income.....	(22.4)%	2.1%	2.0%

SIGNIFICANT CUSTOMERS

Our two largest customers are AT&T (including MediaOne Communications, which was acquired by AT&T during 2000) and Cox Communications.

AT&T (INCLUDING MEDIA ONE)      COX COMMUNICATIONS  
-----  
(DOLLARS IN MILLIONS)

2001 sales.....	\$237.9	\$113.5
2001 percentage of total sales.....	31.8%	15.2%
2000 sales.....	\$431.5	\$119.0
2000 percentage of total sales.....	43.2%	11.9%
1999 sales.....	\$391.1	\$ 58.5
1999 percentage of total sales.....	46.3%	6.9%

Other than Adelphia Communications Corp. and Insight, which accounted for approximately 8.1% and 5.3% of ARRIS' total sales for 2001, no other customer provided more than 5% of ARRIS' total sales for the year.

Liberty Media Corporation, which had been a part of the Liberty Media Group of AT&T (whose financial performance was "tracked" by a separate class of AT&T stock), effectively controls approximately 10% of the Company's outstanding common stock on a fully diluted basis. In August 2001, AT&T spun off Liberty Media to the holders of its tracking stock, and AT&T subsequently no longer indirectly owns that interest in the Company.

On December 19, 2001, AT&T Broadband and Comcast Corporation announced a definitive agreement to combine AT&T Broadband with Comcast.

COMPARISON OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Net Sales. ARRIS' sales for 2001 decreased by 25.1% to \$747.7 million, as compared to sales levels achieved in 2000. The reduction generally was the result of the widespread slowdown in telecommunications infrastructure spending. The slowdown in spending began in the fourth quarter of 2000 and continued throughout 2001. All of our product categories experienced the reduction.

Our products and services are summarized in three new product categories instead of the previous four categories: broadband (previously cable telephony and internet access); transmission, optical, and outside plant; and supplies and services. All prior period amounts have been aggregated to conform to the new product categories.

- Broadband product revenues increased by approximately 18.0% to \$368.5 million. Broadband product revenues accounted for approximately 49.3% of 2001 sales as compared to 31.3% for 2000. However, revenues in 2001 included approximately \$30.0 million of sales to AT&T that were carried over from the fourth quarter of 2000. Further, 2001 included five months of additional international revenues due to the acquisition of Arris Interactive, L.L.C. on August 3, 2001.
- Transmission, optical and outside plant product revenues decreased by approximately 46.8% to \$227.8 million. This revenue accounted for approximately 30.5% of 2001 sales as compared to 42.8% for 2000. Although all product lines within this category experienced a decline in sales year-over-year, the areas with the most significant decreases included optronics & nodes, RF, and taps, which decreased by approximately 49.7%, 73.8%, and 61.6%, respectively.
- Supplies and services product revenues decreased by approximately 41.4% to \$151.4 million. Supplies and services product revenue accounted for approximately 20.2% of 2001 sales as compared to 25.9% for 2000. Engineering service revenue in 2001 decreased approximately 34.7%. We also experienced reduced sales of other product lines within this category, including fiber optic cable, outside plant, and installation materials and tools, which decreased by approximately 61.4%, 49.7%, and 23.3%, respectively.

International sales increased 28.2% to \$108.9 million. This increase was primarily the result of the addition of international sales of the Cornerstone product line following our August 3, 2001 acquisition of Arris Interactive. Under a previous agreement with Nortel, ARRIS had not been able to sell Cornerstone products internationally. International sales in 2001 represented approximately 14.6% of total sales, as compared to international sales of 8.5% of the Company's total revenue in 2000.

Gross Profit. Gross profit decreased to \$119.0 million in 2001 from \$185.8 million in 2000. Gross profit margins for the year ended December 31, 2001 decreased 2.7 percentage points to 15.9% as compared to 18.6% for 2000. As a result of the planned restructuring of manufacturing operations, approximately \$27.8 million of inventory related to the factories was written down, \$5.8 million was incurred with the sale of the powering product line assets, severance costs of approximately \$1.3 million were incurred in connection with the workforce reduction program incurred at the factory level, a one-time warranty expense of \$4.7 million for a specific product, and due to the economic disturbances in Argentina, we recorded a write-off of \$4.4 million (reflected in the cost of sales) related to unrecoverable amounts due from a customer in that region during 2001. During 2000, ARRIS recorded an additional \$3.5 million charge for product discontinuation costs, as an increase to cost of goods sold, related to the reorganization that occurred in the fourth quarter of 1999. However, after adjusting for unusual items in 2001 and 2000 the gross profit margins for 2001 and 2000 would have been approximately 21.8% and 19.0%, respectively.

The Company believes that excluding unusual items is a meaningful measure of operating performance. However, this information will necessarily be different from comparable information provided by other companies and should not be used as an alternative to our operating and other financial information as determined under accounting principles generally accepted in the United States. This table should not be considered in isolation or in accordance with generally accepted accounting principles, or as a measure of a company's profitability or liquidity. The table below summarizes the effects of the unusual items on our gross profit margin:

	2001	2000
	-----	-----
	(IN THOUSANDS)	
GROSS PROFIT BEFORE ADJUSTING FOR UNUSUAL ITEMS.....	\$118,970	\$185,772
UNUSUAL ITEMS:		
Inventory write-offs.....	27,834	3,500
Write-down of the Powering product line assets.....	5,834	--
Severance related to workforce reduction.....	1,275	--
One-time warranty expense for specific product.....	4,700	--
Write-off of assets related to Argentinean customer.....	4,388	--
	-----	-----
GROSS PROFIT AFTER ADJUSTING FOR UNUSUAL ITEMS.....	\$163,001	\$189,272
	=====	=====

Selling, General, Administrative, and Development ("SGA&D") Expenses. SGA&D expenses increased to \$165.7 million from \$134.0 million. SGA&D expenses for 2001 included approximately \$3.7 million of severance costs related to workforce reductions. The SGA&D expenses for the year ended December 31, 2000 included a one-time pre-tax gain of \$2.1 million realized as a result of employee elections associated with a new and enhanced benefit plan and the resultant effect on the Company's defined benefit pension plan. Excluding the effects of these charges, the expenses for 2001 and 2000 would have been \$162.0 million and \$136.1 million, respectively. This year-over-year increase is primarily the result of the additional expenses for five months following the acquisition of Arris Interactive.

Restructuring and Impairment Charges. In the fourth quarter of 2001, ARRIS

closed a research and development facility in Raleigh, North Carolina and recorded a \$4.0 million charge related to severance and other costs associated with closing that facility. In the third quarter of 2001, the Company announced a restructuring plan to outsource the functions of most of its manufacturing facilities. This decision to reorganize was due in part to the ongoing weakness in industry spending patterns. The plan entails an expanded manufacturing outsourcing strategy and the related closure of the four factories located in El Paso, Texas and Juarez, Mexico. The closure of the factories is anticipated to be complete during the first half of 2002. As a

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result, we recorded restructuring and impairment charges of \$32.5 million. Included in these charges was approximately \$5.7 million related to severance and associated personnel costs, \$5.9 million related to the impairment of goodwill due to the pending sale of the power product lines, \$14.8 million related to the impairment of fixed assets, and approximately \$6.1 million related to lease termination and other shutdown expenses of factories and office space. The personnel-related costs included termination expenses for the involuntary dismissal of 807 employees, primarily engaged in production and assembly functions performed at the facilities. ARRIS offered terminated employees separation amounts in accordance with our severance policy and provided the employees with specific separation dates. The severance and associated personnel costs will be paid upon closure of the factories. As of December 31, 2001, approximately \$14.9 million of expenses relating to the restructuring and impairment charges remained in our restructuring accrual.

In accordance with FASB Statement No. 109, Accounting for Income Taxes, a valuation allowance of \$38.1 million against deferred tax assets was recorded in the third quarter of 2001 because the restructuring and impairment charges described above put the Company in a cumulative loss position for recent years.

Write-off of in-process R&D. Acquired in-process research and development totaling \$18.8 million of acquired in-process research and development was written off in connection with the Arris Interactive acquisition during the third quarter of 2001.

Loss on Marketable Securities. In 2000, we made a \$1.0 million strategic investment in Chromatis Networks, Inc., receiving shares of the company's preferred stock. On June 28, 2000, Lucent Technologies acquired Chromatis. As a result of this acquisition, our shares of Chromatis stock were converted into shares of Lucent stock. Subsequently, as a result of Lucent's spin off of Avaya, Inc. during the third quarter of 2000, we were issued shares of Avaya stock.

Because the Company's investment in Lucent and Avaya stock are considered trading securities held for resale, they are required to be carried at their fair market value with any gains or losses being included in earnings. In calculating the fair market value of the Lucent and Avaya investments and including \$1.3 million of impairment losses on investments available for sale in 2000, the Company recognized pre-tax losses of \$0.8 million and \$0.8 million, as of December 31, 2001 and 2000, respectively.

Interest Expense. Interest expense for the years ended December 31, 2001 and 2000 were \$9.3 million and \$11.1 million, respectively. Interest expense for all periods reflects the cost of borrowings on our revolving line of credit and the interest paid on the 4.5% Convertible Subordinated Notes due 2003. As of December 31, 2001, we did not have a balance outstanding under our credit facility, as compared to \$89.0 million outstanding at December 31, 2000. For the year ended December 31, 2001, the average interest rate on our outstanding line of credit borrowings was 7.2% with an overall blended rate of approximately 5.2% including the subordinated notes. For the year ended December 31, 2000, the average interest rate on the Company's outstanding line of credit borrowings was 7.9%, with an overall blended rate of approximately 5.9% including the subordinated notes.

Membership Interest Expense. In conjunction with the acquisition of Arris Interactive L.L.C., we issued to Nortel Networks a subordinated redeemable

preferred interest in Arris Interactive with a face amount of \$100.0 million. This membership interest earns a return of 10% per annum, compounded annually. For the year ended December 31, 2001, we recorded membership interest expense of \$4.1 million.

Income Tax Expense. The Company recognized income tax expense of \$27.6 million for the year ended December 31, 2001 as compared to an expense of approximately \$14.3 million during 2000. The increase in expense was due primarily to the Company increasing its valuation allowance against deferred tax assets.

Net (Loss) Income. A net loss of \$(167.7) million was recorded for in 2001, as compared to net income of \$20.7 million in 2000. The yearly results for 2001 included restructuring and impairment expenses of \$36.5 million, inventory write-offs of \$32.0 million, severance related to workforce reduction of \$5.0 million, a reserve of \$4.4 million (reflected in the cost of sales) related to unrecoverable amounts due from an Argentinean customer, purchase order commitment write-offs of \$0.7 million, warranty charges \$5.7 million, income tax valuation charges of \$38.1 million, an in-process R&D write-off of \$18.8 million, a market adjustment of \$0.8 million on the Company's investment in Lucent and Avaya and impairment losses on

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investments available for sale, an extraordinary loss of \$1.9 million in connection with the write-off of the remaining deferred financing costs on the previous credit facility, and the related tax effect of all unusual items of \$4.4 million. The yearly results for 2000 included a pre-tax loss of \$0.8 million on the Company's investment in Lucent and Avaya, a charge of \$3.5 million in connection with product discontinuation costs reflected as an increase in cost of goods sold, a pension curtailment gain of \$2.1 million, and the related tax effect of all unusual items of \$0.1 million.

The Company believes that excluding unusual items is a meaningful measure of operating performance. However, this information will necessarily be different from comparable information provided by other companies and should not be used as an alternative to our operating and other financial information as determined under accounting principles generally accepted in the United States. This table should not be considered in isolation or in accordance with generally accepted accounting principles, or as a measure of a company's profitability or liquidity. The table below summarizes the effects of the unusual items on our net (loss) income.

	2001	2000
	-----	-----
	(IN THOUSANDS)	
NET (LOSS) INCOME, INCLUDING UNUSUAL ITEMS.....	\$(167,731)	\$20,669
UNUSUAL ITEMS:		
Impacting gross profit		
Inventory write-offs.....	(27,834)	(3,500)
Write-down of the Powering product line assets.....	(5,834)	--
Severance related to workforce reduction.....	(1,275)	--
One-time warranty expense for specific product.....	(4,700)	--
Write-off of assets related to Argentinean customer.....	(4,388)	--
Impacting operating (loss) income		
Pension curtailment gain.....	--	2,108
Severance related to workforce reduction.....	(3,756)	--
Restructuring and impairment charges:		
Severance related to factory closure.....	(7,479)	--
Impairment of fixed assets.....	(14,972)	--
Impairment of goodwill -- Powering.....	(5,877)	--
Lease commitments.....	(3,521)	--
Facilities shutdown expenses.....	(4,692)	--

Write-off of acquired in-process R&D.....	(18,800)	--
Impacting net (loss) income		
Gain (loss) on marketable securities.....	(767)	(773)
Write-off of deferred financing costs.....	(1,853)	--
Third quarter valuation allowance adjustment for deferred taxes.....	(38,117)	--
Related tax effect on all items.....	4,367	(75)
	-----	-----
NET EFFECT OF UNUSUAL ITEMS.....	(139,498)	(2,240)
NET CASH (LOSS) INCOME, EXCLUDING UNUSUAL ITEMS.....	\$ (28,233)	\$22,909
	=====	=====

Exclusive of the above items, the net loss recorded for the year ended December 31, 2001 was \$(28.2) million or a loss of \$(0.53) per diluted share as compared to net income of \$22.9 million or \$0.58 per diluted share for the year ended December 31, 2000.

COMPARISON OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

Net Sales. ARRIS' consolidated sales for 2000 increased by 18.2% to \$998.7 million as compared to 1999 sales of \$844.8 million. In 2000 and 1999, ARRIS experienced a rise in sales resulting from earlier investments in new products, primarily for cable telephony and the increase in capital spending by

communication providers, particularly the multiple system operators ("MSOs,") as they rebuild their plants in an effort to provide additional services, such as telephony. Through the twelve months ended December 31, 2000, all of ARRIS' product lines, cable telephony and internet access products in particular, benefited from the growth in capital spending despite the slow down experienced during the fourth quarter of the year. ARRIS' Cornerstone voice and data product revenues grew from approximately \$237.4 million in 1999 to approximately \$312.3 million in 2000, an increase of approximately 31.6%. Cornerstone's growth focused on host digital terminal sales. The HDT product provides an interface between the hybrid fiber-coax system and digital telephone switches. Additionally, the introduction of revenue from LANcity cable product sales, Cornerstone "data," was included in the results for the final three quarters of 1999 and all of 2000. These cable modems and cable modem termination systems have an open scaleable architecture ideal for small to large networks, allowing end users to work at speeds hundreds of times faster than conventional dial-up connections. Sales of these data products amounted to approximately \$18.5 million for 2000 and \$38.2 million for 1999. The decline in data product sales during 2000 is a result of the general market shift from proprietary technology to a standards-based technology or data over cable standards interface system ("DOCSIS"). The DOCSIS modems are a commodity product that face strong pricing pressure. Also, during the fourth quarter of 1999, ARRIS recorded revenue of approximately \$28.7 million in connection with the sale of RF Concentration software to AT&T. This software is used in conjunction with the host digital terminal, and AT&T bought licenses equivalent to the number of HDTs purchased during 1999.

The balance of the revenue increase for 2000, as compared to the prior year, was from revenue growth related to ARRIS' other product offerings. Exclusive of the Cornerstone voice and data growth, combined sales for the remaining product lines increased approximately \$79.1 million:

- Broadband product revenues increased by approximately 32.0% to \$312.3 million for the year ended December 31, 2000 as compared to \$236.5 million for 1999. Broadband product revenues accounted for approximately 31.3% of sales for the year ended December 31, 2000 as compared to 28.0% for 1999.
- Transmission, optical and outside plant product revenues increased by approximately 10.1% to \$427.9 million for the year ended December 31, 2000 as compared to \$388.6 million in 1999. This revenue accounted for

approximately 42.8% of sales for the year ended December 31, 2000 as compared to 46.0% for 1999.

- Supplies and services revenue increased approximately 17.7% to \$258.5 million for the year ended December 31, 2000 as compared to \$219.6 million for 1999. Sales of fiber optic cable products and engineering services drove this increase. This revenue accounted for approximately 25.9% of sales for the year ended December 31, 2000 as compared to 26.0% for 1999.

Sales to ARRIS' largest customer, AT&T (including MediaOne Communications, which was acquired by AT&T during 2000), reached approximately \$431.5 million during 2000, or approximately 43.2% of the annual volume. This compares to 1999 when sales to AT&T were \$355.0 million or 42.0% of the volume for the year. Giving effect to AT&T's acquisition of MediaOne Communications, sales to the combined entity were \$391.1 million for 1999 or 46.3% of the annual volume. This marks a \$40.4 million increase in revenue from the combined AT&T entity despite their fourth quarter decision to hold off on equipment shipments until 2001.

International sales for the twelve months ended December 31, 2000 increased 59.2% to \$86.6 million as compared to the twelve months ended December 31, 1999 when sales were \$54.4 million. International revenue for 2000 represented approximately 12.9% of ARRIS' total revenue for the year, exclusive of the Cornerstone products, which ARRIS did not sell internationally. This compares to international revenue of 9.0% of ARRIS' total revenue for 1999, also net of the Cornerstone product sales.

Gross Profit. The abrupt decline of business during the fourth quarter adversely affected ARRIS' overall gross margin results for 2000. Gross profit in 2000 was \$185.8 million as compared to \$165.0 million in 1999. Gross profit margins for 2000 slipped 0.9 percentage points to 18.6% versus 19.5% for the prior year.

When comparing the overall 2000 gross profit results to the overall 1999 gross profit results, both years were affected by a variety of factors, including those listed below. It is important to note that in 2000 and 1999,

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ANTEC, the predecessor to ARRIS, distributed Arris Interactive, L.L.C. Cornerstone products. ANTEC's margins were approximately 15% for the Cornerstone product line.

- Cost of sales for 1999 includes a \$10.4 million pre-tax charge related to the elimination of certain product lines and the resulting inventory obsolescence charge. ARRIS discontinued certain older product lines not consistent with the Company's focus on two-way, high-speed internet, voice and video communications equipment. This discontinuance affected the uninterruptible common ferroresonant and security lock powering products and included a narrowing of the Company's radio frequency ("RF") and optical products. During the second quarter of 2000, ARRIS recorded an additional \$3.5 million pre-tax charge to cost of goods sold for product discontinuation costs, related to the continued evaluation of the estimated costs associated with these actions.
- Cornerstone voice and data sales growth began during 1999 and continued during 2000. Sales of these products accounted for approximately 31.3% and 28.1% of the consolidated sales for the years ended December 31, 2000 and 1999, respectively. ARRIS had exclusive domestic distribution rights for the Cornerstone voice and data products to cable MSOs. This agreement afforded ARRIS distribution-type margins traditionally in the 15% range.
- A portion of the increased revenue from some customers during 2000 required aggressive pricing for products already experiencing strong margin pressure.
- During 2000, ARRIS' customers shifted the focus of their capital spending

from higher margin, basic network infrastructure type products towards more revenue generating investments such as cable telephony, which carried lower margins.

- Partially offsetting some of the unfavorable gross margin issues, during 1999, ARRIS recognized approximately \$2.1 million in previously deferred gross margin related to intercompany profit in inventory pertaining to sales of ARRIS' products to the Tanco joint venture. This venture provided turnkey construction or upgrading of broadband distribution services. ARRIS deferred its ownership portion of this profit on sales to Tanco until Tanco effectively transferred the inventory to the ultimate customer. During 1999, AT&T exercised its right to terminate, for convenience, its contracts with the joint venture and to take over the management of these projects directly. The joint venture was not intended to generate profits and the termination of the contracts and the dissolution of this venture did not have any material adverse effect on ARRIS or its product sales to AT&T.

Selling, General, Administrative and Development ("SGA&D") Expenses. SGA&D expenses in 2000 were \$134.0 million as compared to \$111.9 million in 1999. As a percentage of sales, SGA&D was 13.4% in 2000 as compared with 13.2% in 1999. Research and development expenses related to new product development and introductions accounted for approximately \$6.9 million of the year-over-year increase. Selling expenses accounted for approximately \$12.6 million of the year-over-year expense increase as resources were added in support of the top line growth. General and administrative costs accounted for the remaining expense increase. These additional costs were somewhat offset by the reversal of approximately \$1.8 million in over-accrued expenses made early in 1999 due to changes in estimated bonuses and a reduction in self-insurance reserves from year end 1998.

It should be noted that the 2000 results include a one-time pre-tax gain of \$2.1 million realized as a result of employee elections associated with a new and enhanced benefit plan and the resultant effect on ARRIS' defined benefit pension plan. Additionally, approximately \$0.7 million has been charged to expense during 2000 incurred in connection with the New Jersey facility closure. (See Note 4 of the Notes to the Consolidated Financial Statements.)

Restructuring. In the fourth quarter of 1999, in conjunction with the announced consolidation of the New Jersey facility to Georgia and the Southwest, coupled with the discontinuance of certain product offerings, ARRIS recorded a pre-tax charge of approximately \$16.0 million. Included in the charge was approximately \$2.6 million related to personnel costs and approximately \$3.0 million related to lease termination and other facility shutdown charges. Included in the restructuring was the elimination of certain product lines resulting in an inventory obsolescence charge totaling approximately \$10.4 million, which has

been reflected in the cost of sales. The personnel-related costs included termination expenses for the involuntary dismissal of 87 employees, primarily engaged in engineering, inside sales and warehouse functions performed at the New Jersey facility. ARRIS offered terminated employees separation amounts in accordance with ARRIS' severance policy and provided the employees with specific separation dates. In connection with customer demand shifting to ARRIS' newer product offerings, such as the Scaleable and Micro Node products, ARRIS discontinued certain older product lines that were not consistent with ARRIS' focus on two-way, high-speed internet, voice and video communications equipment. This discontinuance affected the uninterruptible common ferroresonant and security lock powering products and included the narrowing of ARRIS' RF and optical products.

During the second quarter of 2000, ARRIS further evaluated its powering and RF products and recorded an additional pre-tax charge of \$3.5 million to cost of goods sold, bringing the total reorganization related charge to \$19.5 million. In addition to the charges totaling \$19.5 million, ARRIS incurred expenses of

\$0.7 million in connection with the New Jersey facility closure. As of December 31, 2001, \$0.2 million related to personnel costs and \$0.6 million related to lease termination remained to be paid in the restructuring accrual.

**Interest Expense.** Interest expense for 2000 was approximately \$11.1 million as compared to \$12.4 million in 1999. Both years reflect the cost of borrowings on ARRIS' revolving line of credit as well as interest on \$115.0 million of 4.5% Convertible Subordinated Notes issued during 1998. As of December 31, 2000, ARRIS had approximately \$89.0 million of floating debt outstanding under its Credit Facility. The average annual interest rate on these outstanding borrowings was approximately 8.1% at December 31, 2000 with an overall blended rate of approximately 6.1% when considering the subordinated debt. This compares to approximately \$68.5 million outstanding under its Credit Facility with an average annual interest rate of approximately 7.6% at December 31, 1999 with an overall blended rate of approximately 5.7% including the subordinated debt.

**Other Income and Expenses, net.** The results for 1999 include the impact of approximately \$2.2 million of channel fees recorded related to LANcity's first quarter sales to domestic cable companies. Beginning in April 1999, all LANcity revenue pertaining to cable modem and headend products sold into the Company's market was recorded by ARRIS. Due to the timing of the completion of the transaction, a channel fee of 15% was earned by ARRIS for sales of LANcity products sold in the first quarter of 1999. In addition, in connection with Nortel's contribution of LANcity to Arris Interactive, the Company recorded approximately \$2.5 million of transaction related expenses.

**Income Tax Expense.** Income tax expense for the year ended December 31, 2000 was approximately \$14.3 million as compared to 1999 income tax expense of \$13.8 million due to the increase in pre-tax earnings for 2000 as compared to 1999. During 1999, ARRIS shifted its focus towards a more aggressive tax savings and planning strategy. In line with this strategy, ARRIS was able to record benefits from filing amended foreign sales corporation ("FSC") returns as well as research and development ("R&D") credits from previous years. During 2000, with this tax strategy in place, ARRIS was able to reduce its effective tax rate from that of prior years.

**Net Income.** Net income in 2000 was \$20.7 million as compared to a net income of \$16.7 million recorded in 1999. The results for 2000 included a \$2.1 million pre-tax pension curtailment gain, an additional \$3.5 million pre-tax charge to cost of goods sold related to the reorganizational charge taken in the fourth quarter of 1999, as well as several mark-to-market adjustments on investments which netted to a pre-tax loss of \$0.8 million. Included in the 1999 results was the fourth quarter pre-tax restructuring charge of approximately \$16.0 million. (See Financial Liquidity and Capital Resources.)

Eliminating the gain transaction and the respective charges for 2000 and 1999, as identified above, net income for the year ended December 31, 2000 was approximately \$22.9 million or \$0.58 per diluted share as compared to 1999 results of approximately \$29.6 million or \$0.76 per diluted share.

#### COMMITMENTS

In the ordinary course of our business we enter into contracts with landlords, suppliers and others that involve multi-year commitments on our part. Note 11 to our Consolidated Financial Statements summarizes our commitments with respect to real estate leases. Of those leases the most significant (financially) is the lease for our headquarters in Duluth, Georgia. That lease requires annual payments of \$1.4 million, subject to adjustment, through 2009. See item [1] [2], [Business] [Properties] for a discussion of other significant leases.

We also are party to various multi-year contracts with vendors. These contracts generally do not require minimum purchases by us. The two most significant of these are with Solectron and Mitsumi for contract manufacturing

and are filed as exhibits to our SEC reports.

Lastly, we have several multi-year commitments that are not related to the ordinary operation of our business. These include registration rights agreements with Nortel and Liberty Media as well as registration rights obligations with Cadant. Although our monetary commitments under these agreements may not be significant, they could impact our business in other ways that investors might consider material.

## FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

### Overview

Our liquidity position is primarily the product of the cash flows that we generate from operations and the funding available to us under our revolving credit facility. During 2001, we managed our inventory and other current assets carefully and were able to generate substantial cash from our business despite incurring an operating loss. In the future, we may not have the same cash generating opportunities and may be more dependent upon cash generated from operations and our revolving credit facility.

As discussed elsewhere, our operating results are dependent upon capital expenditures by cable system operators, which were at reduced levels throughout 2001. We believe industry capital spending for 2002 is likely to be flat but concentrated in customers and products that should favor us to some degree, and, as a result, we believe we will achieve more favorable results for 2002. If we are correct, we should generate sufficient funds from operations, when combined with modest borrowing under our revolving credit facility, to meet our operating liquidity needs. If not, we will need to borrow more funds. In the event of extremely unfavorable results, we may even need to raise additional equity.

We have outstanding \$115.0 million 4.5% convertible subordinated notes due May 15, 2003. Our revolving credit facility requires that we redeem those notes not later than December 31, 2002. We currently are exploring ways of doing that, including, among others, exchanging common stock for the notes and issuing common stock in order to provide funds to redeem the notes (either at maturity or through defeasance). We also may seek to amend our revolving credit facility in order to permit us to borrow sufficient funds under that facility in order to redeem the notes in combination with such exchange or issuances. Refinancing or converting the convertible subordinated notes could result in a significant charge to earnings.

ARRIS has not paid dividends on its common stock since its inception. The Company's primary loan agreement contains covenants that prohibit the Company from paying dividends.

Several key indicators of our liquidity are summarized in the following table:

### Liquidity Table

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS)		
Working capital.....	\$250.9	\$305.9	\$255.0
Current ratio.....	3.1	2.7	2.2
Cash provided by (used in) operations.....	\$111.5	\$ 4.7	\$ (4.3)
Proceeds from issuance of common stock.....	\$ 1.1	\$ 5.5	\$ 21.3
Capital expenditures.....	\$ 9.6	\$ 15.5	\$ 20.8
A/R collection period (days).....	72.8	65.3	70.9
Inventory turnover.....	2.8	3.4	3.5

## Financing

In connection with the Arris Interactive acquisition, all of our existing bank indebtedness was refinanced. The new facility is an asset-based revolving credit facility initially permitting the borrowers (including Arris International and Arris Interactive) to borrow up to \$175 million (which can be increased under certain conditions by up to \$25 million), based upon availability under a borrowing base calculation. In general, the borrowing base is limited to 85% of net eligible receivables (with special limitations in relation to foreign receivables) plus 80% of the orderly liquidation value of eligible inventory (not to exceed \$80 million). The facility contains traditional financial covenants, including fixed charge coverage, senior debt leverage, minimum net worth, minimum inventory turns ratios, and a \$10 million minimum borrowing base availability covenant. The facility is secured by substantially all of the borrowers' assets. The credit facility has a maturity date of August 31, 2004. However, the maturity date of the credit facility will be December 31, 2002 in the event that the Company's convertible subordinated notes due May 15, 2003 are not either fully refinanced or fully converted to ARRIS common stock prior to December 31, 2002 in a manner satisfactory to the lenders under the credit facility. Refinancing or converting the convertible subordinated notes could result in a significant charge to earnings. The commitment fee on unused borrowings is approximately 0.5%. The average annual interest rate on these outstanding borrowings was approximately 7.2% at December 31, 2001 as compared to 8.1% at December 31, 2000 under our prior credit facility.

As of December 31, 2001, we had no borrowings outstanding under our credit facility and \$86.0 million of available capacity. We were in compliance with all covenants contained in the credit facility.

## Contractual Obligations and Commercial Commitments

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	1-3 YEARS	3-5 YEARS	AFTER 5 YEARS	TOTAL
	(IN MILLIONS)			
Long term debt.....	\$115.0	\$ --	\$ --	\$115.0
Operating leases.....	23.6	9.2	4.6	37.4
Sublease income.....	(2.8)	(0.5)	--	(3.3)
Membership interest.....	--	104.1	--	104.1
Total contractual cash obligations.....	\$135.8	\$112.8	\$4.6	\$253.2

## Interest Rates

As of December 31, 2001, ARRIS did not have any floating rate indebtedness. The average interest rate on its outstanding line of credit borrowings was 7.2% during the year, with an overall blended rate of 5.2% when including the subordinated debt. At December 31, 2001, ARRIS did not have any outstanding interest rate swap agreements.

## Foreign Currency

A significant portion of ARRIS' products are manufactured or assembled in Mexico and other countries outside the United States. ARRIS' sales of its equipment 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. Even though most of ARRIS' international sales have been denominated in U.S. dollars, ARRIS' business could be adversely affected if relevant currencies fluctuate relative to the United States dollar.

#### Financial Instruments

In the ordinary course of business, ARRIS, from time to time, will enter into financing arrangements with customers. These financial instruments 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. As of December 31, 2001, we had approximately \$1.6 million outstanding under letters of credit with our banks.

#### Investments

In the ordinary course of business, the Company may make strategic investments in the equity securities of various companies, both public and private. The Company holds investments in the common stock of Lucent Technologies and Avaya, Inc. totaling approximately \$0.8 million at December 31, 2001. These investments are considered trading securities, and accounted for approximately 5% of the Company's total investments at December 31, 2001. Changes in the market value of these securities are recognized in income and resulted in pre-tax losses of approximately \$0.8 million for each of the years ended December 31, 2001 and 2000. The Company's remaining investments in marketable securities, totaling \$2.1 million, are classified as available-for-sale and accounted for approximately 14% of the Company's total investments at December 31, 2001. The remaining 81% of the Company's investments at December 31, 2001 consist of securities that are not traded actively in a liquid market.

#### Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS' capital expenditures were \$9.6 million in 2001 as compared to \$15.5 million in 2000 and \$20.8 million in 1999. ARRIS had no significant commitments for capital expenditures at December 31, 2001. Management expects to invest approximately \$14.0 million in capital expenditures for the year 2002.

#### Cash Flow

Cash levels decreased by approximately \$3.5 million during 2001 as compared to an increase of approximately \$5.8 million in 2000 and a decrease of approximately \$1.5 million during 1999. As discussed in more detail below, operating activities in 2001 provided approximately \$111.5 million in positive cash flow while investing activities used approximately \$19.3 million and financing activities used approximately \$95.7 million. During 2000, net cash provided by operating activities was \$4.7 million. Cash provided by operations was primarily resultant of net income of \$20.7 million and decreases in accounts receivable of \$36.0 million being offset by increases in accounts payable and inventory levels in support of our 2000 growth of \$48.5 million and \$21.6 million, respectively, and an increase in other, net, which used \$4.4 million. These operating cash outlays in 2000 were somewhat offset by non-cash activities which provided \$22.5 million. ARRIS spent \$23.7 million in investing activities during 2000. These cash outlays during 2000 were partially offset by positive cash flows of \$24.8 million provided through financing activities. Cash used by operating activities during 1999 was \$4.3 million primarily driven by increases in accounts receivable and inventories from the low levels at year end 1998, which were partially offset by increases in accounts payable and accrued

liabilities. Investment activity in 1999 consumed \$20.8 million. These 1999 outlays were partially offset by \$23.6 million of positive cash flow from

financing activities.

Operating activities provided cash of \$111.5 million during 2001. Net loss used \$167.7 million in during 2001. Non-cash items such as depreciation, amortization, provisions for doubtful accounts, deferred income taxes, losses on marketable securities, losses from equity investments, write-offs of acquired in process R&D and inventories, impairment of goodwill and fixed assets, and a sale of powering assets accounted for positive cash flow of approximately \$151.6 million. Additionally, positive cash flow was generated from decreases in the following areas: accounts receivable of \$17.8 million, inventory of \$125.9 million, income taxes of \$17.9 million and \$0.8 million in other, net primarily from royalty receivables. These positive cash flows were offset by the following uses of cash: a \$24.6 million decrease in accounts payable and accrued expenses and a \$10.0 million increase in other receivables.

Days sales outstanding ("DSO") in accounts receivable was approximately 73 days at December 31, 2001 as compared to 65 days outstanding at year-end 2000. This increase in DSOs was primarily due to the higher volume of international sales as a result of the Arris Interactive L.L.C. acquisition. We historically experience longer payment terms with our international customers.

Current inventory levels decreased by \$75.7 million, as compared to December 31, 2000. This decrease in inventory is comprised of approximately \$16.4 million in raw material and approximately \$52.0 million in finished goods and by a \$7.3 million decrease in work in process. This decrease is net of write-offs of \$32.0 million, the sale of powering assets of \$9.2 million and additions from the acquisitions of Arris Interactive L.L.C. of \$91.4 million. Excluding the write-offs and the acquisition impacts, inventory decreased \$125.9 million. This inventory decrease is reflective of the abrupt slow down in ARRIS' business late in 2000. During the fourth quarter AT&T announced that it would delay equipment shipments until later in 2001. Changes in both the financial markets in general and in the telecommunications equipment market specifically, created a slow down in capital spending by ARRIS' customers late in 2000. With these events unfolding during the fourth quarter, ARRIS was unable to adjust its inventory levels to account for the delays in equipment spending from key customers. Inventory turns decreased to 2.8 times in 2001 as compared to 3.4 times recorded in 2000 and 3.5 times recorded in 1999. This decrease was mainly driven by the reduction in sales volume when comparing the two periods.

A decrease in accounts payable and accrued liabilities, net of the effects of the acquisition, used approximately \$24.6 million in cash during 2001. This decrease in the level of payables and accrued expenses is reflective of the decline in product demand volumes during the fourth quarter of 2000 and the subsequent slow down of purchasing levels.

Cash flows used by investing activities were approximately \$19.3 million for 2001 as compared to \$23.7 million and \$20.8 million used during 2000 and 1999, respectively. The investments made during 2001 included: (a) \$9.6 million to purchase capital assets, (b) the funds paid for the Arris Interactive acquisition, net of the cash acquired in the transaction, utilized cash of approximately \$6.9 million, (c) proceeds from the sale of a building provided \$1.1 million and (d) ARRIS funded an additional \$3.9 million in strategic business investments. The investments during 2000 included \$15.5 million spent on capital assets and \$8.3 million in strategic investments. The \$20.8 million in investments made during 1999 pertained to the purchase of capital assets.

Cash flows used in financing activities were \$95.7 million for 2001 as compared to cash inflows of \$24.8 million and \$23.6 million in 2000 and 1999, respectively. During the year ended December 31, 2001 ARRIS paid down approximately \$89.0 million on its credit facility compared to net borrowings of \$20.5 million and \$2.5 million in 2000 and 1999, respectively. Deferred financing fees paid used approximately \$7.8 million compared to \$1.2 million and \$0.2 million in 2000 and 1999, respectively. The issuance of common stock provided positive cash flows of \$1.1 million, \$5.5 million, and \$21.3 million in 2001, 2000 and 1999, respectively.

## Net Operating Loss Carryforwards

As of December 31, 2001, ARRIS had net operating loss ("NOL") carryforwards for domestic and foreign income tax purposes of approximately \$51.0 million and \$6.9 million, respectively. We established a valuation allowance against deferred tax assets in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes during 2001. We continually review the adequacy of the valuation allowance and recognize the benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

The availability of tax benefits of NOL carryforwards to reduce ARRIS' federal and state income tax liability is subject to various limitations under the Internal Revenue Code. The availability of tax benefits of NOL carryforwards to reduce ARRIS' foreign income tax liability is subject to the various tax provisions of the respective countries.

As of December 31, 2001, tax benefits arising from NOL carryforwards of approximately \$2.4 million originating prior to TSX's quasi-reorganization would be credited directly to additional paid-in capital if and when realized.

## FORWARD-LOOKING STATEMENTS

Certain information and statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this report, including statements using terms such as "may," "expect," "anticipate," "intend," "estimate," "believe," "plan," "continue," "could be," or similar variations or the negative thereof constitute forward-looking statements with respect to the financial condition, results of operations, and business of ARRIS, including statements that are based on current expectations, estimates, forecasts, and projections about the markets in which the Company operates and management's beliefs and assumptions regarding these markets. These and any other statements in this document that are not statements about historical facts are "forward-looking statements." In order to comply with the terms of the safe harbor, the Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance and that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. Important factors that could cause results or events to differ from current expectations are described in the risk factors below. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of the Company's business. In providing forward-looking statements, ARRIS is not undertaking any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise.

## RISK FACTORS

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

ARRIS' performance has been largely dependent on customers' capital spending for constructing, rebuilding, maintaining or upgrading broadband communications systems. Capital spending in the telecommunications industry is cyclical. A variety of factors will affect the amount of capital spending, and therefore, ARRIS' sales and profits, including:

- general economic conditions,
- availability and cost of capital,
- other demands and opportunities for capital,
- regulations,
- demands for network services,

- competition and technology, and
- real or perceived trends or uncertainties in these factors.

The markets in which ARRIS operates are intensely competitive, and competitive pressures may adversely affect ARRIS' 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 will require ARRIS to retain skilled and experienced personnel as well as deploy substantial resources toward meeting the ever-changing demands of the industry. ARRIS competes with national and international manufacturers, distributors and wholesales, including many companies larger than ARRIS. ARRIS' major competitors include:

- ADC Telecommunications, Inc.
- C-COR.net Corporation
- Cisco Systems
- Harmonic Inc.
- Juniper Networks
- Motorola, Inc.
- Phillips
- Riverstone Networks, Inc.
- Scientific-Atlanta
- Tellabs Inc.
- Terayon Communication Systems

The rapid technological changes occurring in the broadband markets may lead to the entry of new competitors, including those with substantially greater resources than ARRIS. Since the markets in which the Company competes 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 ARRIS' 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 ARRIS' current products, which could have a material adverse effect on ARRIS' business.

Further, many of ARRIS' 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 will not be as susceptible to downturns in a particular market. In addition, several of ARRIS' competitors have been in operation longer than ARRIS and therefore have more long-standing and established relationships with domestic and foreign broadband service users. ARRIS may not be able to compete successfully in the future, and competition may harm ARRIS' business.

ARRIS' BUSINESS HAS PRIMARILY COME FROM TWO KEY CUSTOMERS. THE LOSS OF ONE OR BOTH OF THESE CUSTOMERS OR A SIGNIFICANT REDUCTION IN SERVICES TO ONE OR BOTH OF THESE CUSTOMERS WOULD HAVE A MATERIAL ADVERSE EFFECT ON ARRIS' BUSINESS.

ARRIS' two largest customers are AT&T and Cox Communications. For the twelve months ended December 31, 2001, sales to AT&T (including sales to

MediaOne Communications, which was acquired by AT&T during 2000) accounted for approximately 31.8% of ARRIS' total sales, while Cox Communications accounted for approximately 15.2%. In addition, there are two other customers that each provided more than 5% of ARRIS' total sales for the year ended December 31, 2001. ARRIS currently is the exclusive provider of

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telephony products for both AT&T and Cox Communications in eight metro areas. The loss of either AT&T, Cox Communications or one of our other large customers, or a significant reduction in the services provided to any of them would have a material adverse impact on ARRIS.

On December 19, 2001, AT&T Broadband and Comcast Corporation announced a definitive agreement to combine AT&T Broadband with Comcast. We believe that this transaction will have a positive impact on our business.

AN INABILITY TO FULLY DEVELOP A SALES, DISTRIBUTION, AND SUPPORT INFRASTRUCTURE IN INTERNATIONAL MARKETS AND THE COSTS ASSOCIATED WITH DEVELOPING THIS INFRASTRUCTURE MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Historically, Arris Interactive L.L.C. relied upon Nortel Networks exclusively for sales, distribution and support of its products in the international markets and for certain customers in the North American market. We entered into a non-exclusive sales representation agreement with Nortel Networks to market our products. This agreement terminated on December 31, 2001 with respect to North American markets and this agreement will terminate on December 31, 2003 with respect to international markets. In June 2001, Nortel Networks announced that it was realigning its business, which will include the discontinuance of Nortel Networks' access solutions operations (which includes its ARRIS related operations). To avoid reliance on Nortel Networks and other third parties, we have attempted to develop our own sales, marketing, distribution, and support infrastructure, particularly to support and enhance our international sales. However, these efforts may not be successful, or if successful, might not be sufficient to offset sales lost from the discontinuance of our relationship with Nortel Networks.

OUR CREDIT FACILITY IMPOSES FINANCIAL COVENANTS THAT MAY ADVERSELY AFFECT THE REALIZATION OF OUR STRATEGIC OBJECTIVES.

ARRIS and certain of its subsidiaries have entered into a revolving credit facility providing for borrowing up to a committed amount of \$175 million, with borrowing also limited by a borrowing base determined by reference to eligible accounts receivable and eligible inventory. The committed amount under this revolving credit facility may be increased to \$200 million at a later date upon the agreement of the lenders thereunder. This credit facility imposes, among other things, covenants limiting the incurrence of additional debt and liens and requires us to meet certain financial objectives.

The credit facility has a maturity date of August 3, 2004. However, the maturity date of the credit facility will be December 31, 2002 in the event that the Company's convertible subordinated notes due May 15, 2003 are not either fully refinanced or fully converted to ARRIS common stock prior to December 31, 2002 in a manner satisfactory to the lenders under the credit facility. The acceleration of the maturity date of the credit facility could have a material adverse effect on our business.

WE HAVE SUBSTANTIAL STOCKHOLDERS THAT MAY NOT ACT CONSISTENT WITH THE INTERESTS OF THE OTHER STOCKHOLDERS.

Nortel Networks owns approximately 49% of our common stock and Liberty Media Corporation beneficially owns approximately 10% of our common stock. These respective ownership interests results in both Nortel Networks and Liberty Media having a substantial influence over ARRIS. Nortel Networks and Liberty Media may not exert their respective influences in a manner that is consistent with the interest of other stockholders. Nortel Networks is, in its capacity as a stockholder, able to block stockholder action, including, for instance,

stockholder approval of a merger or large acquisition.

THE TWO LARGEST STOCKHOLDERS HAVE THE POWER TO SELL A LARGE PORTION OF ARRIS STOCK IN THE FUTURE, WHICH COULD CAUSE THE PRICE OF OUR STOCK TO DECLINE.

Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, could lower the price of our common stock. We have entered into a registration rights agreement with Nortel Networks. Under this agreement, Nortel Networks has the power to cause us to initiate a public offering for all or part of Nortel Networks' shares of ARRIS common stock, and we expect it to do so in the near future. Further, Nortel Networks could cause us to file a shelf registration statement,

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which would allow Nortel Networks to sell its ARRIS shares on the open market at an undetermined point in the future. Liberty Media currently has similar registration rights. Through the exercise of their registration rights, either Nortel Networks or Liberty Media or both could sell a large number of shares to the public.

Nortel Networks also owns a redeemable membership interest in Arris Interactive. The terms of the membership interest require Nortel Networks to exchange the membership interest for common stock, preferred stock (which may be convertible), or notes (which may be convertible, upon the happening of certain circumstances). The exchange for, and conversion into, our common stock would occur at the then prevailing market price of the common stock. Since some of the circumstances under which exchange and/or conversion is permitted may occur in the event that we are in significant financial distress, it is possible that the market price of the common stock would be quite low and the Nortel Networks would be able to convert its new membership interest into significant, but presently undeterminable, portion of ARRIS common stock which could dilute our other stockholders.

ARRIS MAY DISPOSE OF EXISTING PRODUCT LINES OR ACQUIRE NEW PRODUCT LINES IN TRANSACTIONS THAT MAY ADVERSELY IMPACT OUR FUTURE RESULTS.

On an ongoing basis, we evaluate our various product offerings in order to determine whether any should be sold or closed and whether there are businesses that we should pursue acquiring. Future acquisitions and divestitures entail various risks, including:

- the risk that we will not be able to find a buyer for a product line, while product line sales and employee morale will have been damaged because of general awareness that the product line is for sale;
- the risk that the purchase price obtained will not be equal to the book value of the assets for the product line that it sells; and
- the risk that acquisitions will not be integrated or otherwise perform as expected.

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 ARRIS' products. The technology applications currently under development by ARRIS may not be successfully developed. Even if the developmental products are successfully developed, they may not be widely used or ARRIS may not be able to successfully exploit these technology applications. To compete successfully, ARRIS must quickly design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability. However, ARRIS may not be able to successfully develop or introduce these products if our products:

- are not cost effective;

- are not brought to market in a timely manner; or
- fail to achieve market acceptance.

Furthermore, ARRIS' competitors may develop similar or alternative new technology solutions and applications that, if successful, could have a material adverse effect on ARRIS. ARRIS' 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 partner could have a material adverse effect on the progress of new products under development with that partner.

CONSOLIDATIONS IN THE TELECOMMUNICATIONS INDUSTRY COULD RESULT IN DELAYS OR REDUCTIONS IN PURCHASES OF PRODUCTS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON ARRIS' BUSINESS.

The telecommunications industry has experienced the consolidation of many industry participants and this trend is expected to continue. ARRIS and one or more of its competitors may each supply products to businesses that have merged or will merge in the future. Consolidations could result in delays in purchasing

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decisions by merged businesses, with ARRIS playing a greater or lesser role in supplying the communications products to the merged entity. These purchasing decisions of the merged companies could have a material adverse effect on ARRIS' business.

Mergers among the supplier base also have increased, and this trend may continue. The larger combined companies with pooled capital resources may be able to provide solution alternatives with which ARRIS 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. These consolidated supplier companies could have a material adverse effect on ARRIS' business.

ARRIS' 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 ARRIS may not be successful in attracting and retaining key executives, marketing, engineering and sales personnel, which could impact our ability to maintain and grow our operations. ARRIS' 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 ARRIS employees and in the future, these 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 ARRIS' 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 ARRIS products are obtained from a sole supplier or a limited group of suppliers, including Nortel Networks. 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 generally 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.

ARRIS' 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. The entire line of ARRIS products is marketed and made available to existing and 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 HAVE MANUFACTURING OR ASSEMBLY PLANTS.

A significant portion of our products are manufactured or assembled in Mexico and the Philippines and other countries outside of the United States. The governments of the foreign countries in which we have plants may pass laws that impair our operations, such as laws that impose exorbitant tax obligations on the business or nationalize segments of our businesses.

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WE MAY FACE DIFFICULTIES IN CONVERTING EARNINGS FROM INTERNATIONAL OPERATIONS TO U.S. DOLLARS.

We 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.

ARRIS' PROFITABILITY HAS BEEN, AND MAY CONTINUE TO BE, VOLATILE, WHICH COULD ADVERSELY AFFECT THE PRICE OF ARRIS' STOCK.

The Company has experienced years with significant operating losses. Although we have been profitable during the preceding years, we may not be profitable or meet the level of expectations of the investment community in the future, which could have a material adverse impact on ARRIS' stock price.

WE MAY FACE HIGHER COSTS ASSOCIATED WITH PROTECTING OUR INTELLECTUAL PROPERTY.

ARRIS' 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 and may continue to receive from third parties, including some of our competitors, notices claiming that ARRIS' companies have infringed upon third-party patents or other proprietary rights. Any of these claims, whether with or without merit, could result in costly litigation, divert the time, attention and resources of our management, delay our product shipments, or require us to enter into royalty or licensing agreements. If a claim of product infringement against ARRIS is successful and we fail to obtain a license or develop a license non-infringing technology, our business and operating results could be adversely affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of ARRIS' 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.

ARRIS is exposed to various market risks, including interest rates and foreign currency rates. Changes in these rates may adversely affect our results

of operations and financial condition. To manage the volatility relating to these typical business exposures, ARRIS may enter into various derivative transactions, when appropriate. ARRIS does not hold or issue derivative instruments for trading or other speculative purposes. Taking into account the effects of interest rate changes on the Company's revolving debt facility, a hypothetical 100 basis point adverse change in interest rates would increase interest expense by approximately \$0.6 million annually. As of December 31, 2001, the Company had no material contracts denominated in foreign currencies.

In the past, ARRIS has used interest rate swap agreements, with large creditworthy financial institutions, to manage its exposure to interest rate changes. These swaps would involve the exchange of fixed and variable interest rate payments without exchanging the notional principal amount. During the year ended December 31, 2001, ARRIS did not have any outstanding interest rate swap agreements.

The Company is exposed to foreign currency exchange rate risk as a result of sales of our products in various foreign countries. In order to minimize the risks associated with foreign currency fluctuations, most sales contracts are issued in U.S. dollars. The Company has previously used foreign currency contracts to hedge the risks associated from foreign currency fluctuations for significant sales contracts, however, no significant contracts were in place during the year ended December 31, 2001. ARRIS constantly monitors the exchange rate between the U.S. dollar and Mexican peso to determine if any adverse exposure exists relative to its costs of manufacturing. The Company does not maintain Mexican peso denominated currency. Instead, U.S. dollars are exchanged for pesos at the time of payment.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

N/A

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Stockholders  
ARRIS Group, Inc.

We have audited the accompanying consolidated balance sheets of ARRIS Group, Inc. as of December 31, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of ARRIS' management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARRIS Group, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 3 of the Notes to the Consolidated Financial Statements, the Company has not yet adopted Statement of Financial Accounting Standards No. 142. However, the transition provisions of the Statement preclude the amortization of goodwill acquired in a business combination for which the acquisition date is after June 30, 2001.

/s/ ERNST & YOUNG LLP

Atlanta, Georgia  
February 7, 2002

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
	-----	-----
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 5,337	\$ 8,788
Accounts receivable (net of allowances for doubtful accounts of \$9,409 in 2001 and \$6,686 in 2000).....	83,224	138,336
Accounts receivable from AT&T.....	35,915	21,662
Accounts receivable from Nortel Networks.....	18,857	201
Other receivables.....	10,049	--
Inventories.....	187,971	263,683

Income taxes recoverable.....	5,066	17,895
Deferred income taxes.....	--	18,928
Investments held for resale.....	795	1,561
Other current assets.....	22,110	19,098
	-----	-----
Total current assets.....	369,324	490,152
Property, plant and equipment (net of accumulated depreciation of \$39,057 in 2001 and \$55,443 in 2000).....	52,694	53,353
Goodwill (net of accumulated amortization of \$56,430 in 2001 and \$51,559 in 2000).....	259,062	144,919
Intangibles (net of accumulated amortization of \$7,012 in 2001 and \$0 in 2000).....	44,488	--
Investments.....	14,037	12,085
Deferred income taxes.....	--	6,773
Other assets.....	12,510	24,213
	-----	-----
	\$752,115	\$731,495
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 18,620	\$138,774
Accrued compensation, benefits and related taxes.....	32,747	17,350
Accounts payable and accrued expenses -- Nortel Networks.....	21,373	--
Other accrued liabilities.....	45,722	28,107
	-----	-----
Total current liabilities.....	118,462	184,231
Long-term debt.....	115,000	204,000
Deferred income taxes.....	--	1,362
	-----	-----
Total liabilities.....	233,462	389,593
Membership interest -- Nortel Networks.....	104,110	--
	-----	-----
Total liabilities & membership interest.....	337,572	389,593
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, 150.0 million shares authorized; 75.2 million and 38.1 million shares issued and outstanding in 2001 and 2000, respectively...	755	383
Capital in excess of par value.....	507,650	266,216
Retained earnings (deficit).....	(90,162)	77,569
Unrealized holding loss on marketable securities.....	(3,211)	(1,668)
Unearned compensation.....	(577)	(678)
Cumulative translation adjustments.....	88	80
	-----	-----
Total stockholders' equity.....	414,543	341,902
	-----	-----
	\$752,115	\$731,495
	=====	=====

See accompanying notes to the consolidated financial statements.

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#### CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31,		
2001	2000	1999
-----		
(IN THOUSANDS, EXCEPT PER SHARE DATA)		

Net sales (includes sales to AT&T of \$237.9 million, \$431.5 million and \$355.0 million for the years ended December 31, 2001, 2000, and 1999, respectively, and includes sales to Nortel Networks of \$23.4 million, \$1.6 million and \$-0-

for the years ended December 31, 2001, 2000, and 1999, respectively).....	\$ 747,670	\$998,730	\$844,756
Cost of sales.....	628,700	812,958	679,774
	-----	-----	-----
Gross profit.....	118,970	185,772	164,982
Operating expenses:			
Selling, general, administrative and development expenses.....	165,670	133,988	111,937
In-process R&D write-off.....	18,800	--	--
Restructuring and impairment charges.....	36,541	--	5,647
Amortization of goodwill.....	4,872	4,917	4,946
Amortization of intangibles.....	7,012	--	--
	-----	-----	-----
	232,895	138,905	122,530
Operating (loss) income.....	(113,925)	46,867	42,452
Other expense (income):			
Interest expense.....	9,315	11,053	12,406
Membership interest.....	4,110	--	--
Other (income) expense, net.....	10,142	87	(745)
Loss on marketable securities.....	767	773	275
	-----	-----	-----
(Loss) income before income tax expense and extraordinary loss.....	(138,259)	34,954	30,516
Income tax expense.....	27,619	14,285	13,806
	-----	-----	-----
Net (loss) income before extraordinary loss.....	\$ (165,878)	\$ 20,669	\$ 16,710
Extraordinary loss.....	1,853	--	--
	-----	-----	-----
Net (loss) income.....	\$ (167,731)	\$ 20,669	\$ 16,710
	=====	=====	=====
Net (loss) income per common share:			
Basic: Net (loss) income before extraordinary loss.....	\$ (3.09)	\$ 0.54	\$ 0.46
Extraordinary loss.....	(0.04)	--	--
	-----	-----	-----
Net (loss) income.....	\$ (3.13)	\$ 0.54	\$ 0.46
	=====	=====	=====
Diluted: Net (loss) income before extraordinary loss.....	\$ (3.09)	\$ 0.52	\$ 0.43
Extraordinary loss.....	(0.04)	--	--
	-----	-----	-----
Net (loss) income.....	\$ (3.13)	\$ 0.52	\$ 0.43
	=====	=====	=====
Weighted average common shares:			
Basic.....	53,624	37,965	36,600
	=====	=====	=====
Diluted.....	53,624	39,571	38,867
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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#### CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(IN THOUSANDS)		
Operating activities:			
Net (loss) income.....	\$ (167,731)	\$ 20,669	\$ 16,710
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	31,745	19,631	17,075
Provision for doubtful accounts.....	5,820	1,117	5,859
Deferred income taxes.....	19,273	30	(405)
Loss on marketable securities.....	788	773	275
Amortization of unearned compensation.....	1,076	950	389
Loss from equity investment.....	8,607	--	--
Write-off of acquired in-process R&D.....	18,800	--	--
Impairment of goodwill.....	5,877	--	--
Impairment of fixed assets.....	14,722	--	--
Write-down of inventories.....	31,970	--	--
Sale of Powering inventory.....	9,225	--	--
Change in membership accrued interest.....	4,110	--	--
Gain on sale of building.....	(448)	--	--
Changes in operating assets and liabilities, net of effects of acquisitions:			



Shares granted under stock award plan....	--	1,444	--	--	(1,444)	--	--
Compensation under stock award plan....	--	--	--	--	950	--	950
Issuance of common stock and other.....	5	5,449	--	--	--	--	5,454
Tax benefit related to exercise of stock options.....	--	7,078	--	--	--	--	7,078
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 2000.....	383	266,216	77,569	(1,668)	(678)	80	341,902
	-----	-----	-----	-----	-----	-----	-----
Comprehensive (loss) Net (loss).....	--	--	(167,731)	--	--	--	(167,731)
Unrealized loss on marketable securities.....	--	--	--	(1,543)	--	--	(1,543)
Translation adjustment.....	--	--	--	--	--	8	8
	-----	-----	-----	-----	-----	-----	-----
Comprehensive (loss).....							(169,266)
Shares granted under stock award plan....	--	975	--	--	(975)	--	--
Compensation under stock award plan....	--	--	--	--	1,076	--	1,076
Issuance of common stock to acquire Arris Interactive L.L.C.....	370	226,810	--	--	--	--	227,180
Issuance of stock options in acquisition of Arris Interactive L.L.C.....	--	12,531	--	--	--	--	12,531
Issuance of common stock and other.....	2	1,118	--	--	--	--	1,120
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 2001.....	\$ 755	\$507,650	\$ (90,162)	\$ (3,211)	\$ (577)	\$88	\$414,543
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

ARRIS Group, Inc., the successor to ANTEC Corporation (together with its consolidated subsidiaries, except as the context otherwise indicates, "ARRIS" or the "Company"), is an international communications technology company, headquartered in Duluth, Georgia. ARRIS specializes in the design and engineering of hybrid fiber-coax architectures and the development and distribution of products for these broadband networks. The Company provides its customers with products and services that enable reliable, high-speed, two-way broadband transmission of video, telephony, and data.

ARRIS operates in one business segment, Communications, providing a range of customers with network and system products and services, primarily hybrid fiber-coax networks and systems for the communications industry. This segment accounts for 100% of consolidated sales, operating profit and identifiable assets of the Company. ARRIS provides a broad range of products and services to cable system operators and telecommunication providers. ARRIS is a leading developer, manufacturer and supplier of telephony, optical transmission, construction, rebuild and maintenance equipment for the broadband communications industry. ARRIS supplies most of the products required in a broadband communication system, including headend, distribution, drop and in-home subscriber products.

On August 3, 2001, the Company acquired Nortel Networks' portion of Arris Interactive L.L.C., which was a joint venture formed by Nortel and us in 1995. Nortel exchanged its ownership interest in Arris Interactive L.L.C. for a subordinated redeemable preferred membership interest in Arris Interactive with a face amount of \$100 million and 37 million shares of ARRIS Group, Inc. common stock (See Note 16 of the Notes to the Consolidated Financial Statements). As of December 31, 2001, Nortel Networks effectively controlled approximately 49% of the outstanding ARRIS common stock on a fully diluted basis. Following the acquisition, Nortel designated two new members of our Board of Directors.

As of December 31, 2001, Liberty Media Corporation, which is part of the Liberty Media Group of AT&T whose financial performance is "tracked" by a separate class of AT&T stock, effectively controlled approximately 10% of the outstanding ARRIS common stock on a fully diluted basis. In August 2001, AT&T spun off Liberty Media to the holders of its tracking stock, and AT&T subsequently no longer indirectly owns that interest in the Company. The effective ownership includes options to acquire an additional 854,341 shares. A significant portion of the Company's revenue is derived from sales to AT&T (including MediaOne Communications, which was acquired by AT&T during 2000) aggregating \$237.9 million, \$431.5 million and \$355.0 million for the years ended December 31, 2001, 2000 and 1999, respectively. Giving effect to AT&T's acquisition of MediaOne Communications, sales to the combined entity aggregated \$391.1 million for 1999. ARRIS had accounts receivable from AT&T of approximately \$35.9 million, \$21.7 million and \$90.4 million at December 31, 2001, 2000 and 1999, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of ARRIS after elimination of intercompany transactions.

(b) Use of Estimates

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(c) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation.

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates fair value.

(e) Inventories

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

(f) Investments

Prior to March 1999, the Company owned a 25% interest in Arris Interactive L.L.C., a joint venture with Nortel Networks ("Nortel") that was accounted for under the equity method. Arris Interactive L.L.C. was focused on the development, manufacture and sale of products that enable the provision of a broad range of telephone and data services over hybrid fiber-coax architectures typically used for video distribution. From March 1999 to August 2001 we owned an 18.75% interest in Arris Interactive L.L.C., which was accounted for on the cost method.

In connection with the Arris Interactive L.L.C. acquisition, the quarters ended March 31, 2001 and June 30, 2001 were restated in accordance with Accounting Principles Board ("APB") No. 18, The Equity Method of Accounting for Investments in Common Stock. This APB states that an investment in common stock

of an investee that was previously accounted for by the cost method becomes qualified for use of the equity method by an increase in the level of ownership. We adopted the use of the equity method upon acquisition of Nortel's portion of Arris Interactive L.L.C., and all prior periods presented have been adjusted retroactively to reflect the equity method of accounting. During 2000, Arris Interactive L.L.C. recorded net income. However, in the periods prior to 2000, Arris Interactive L.L.C. incurred net losses, of which we did not recognize our proportionate share due to our investment in Arris Interactive L.L.C being reduced to zero. APB No. 18 states that the Company should recognize gains only after its share of net income equals its share of net losses not recognized. Our share of Arris Interactive's net income in 2000 did not exceed the losses unrecognized in previous years, and therefore, these periods have not been restated. However, during the periods ending March 31, 2001 and June 30, 2001, Arris Interactive L.L.C. recorded net losses and we have restated these periods to reflect our share of the losses under the equity method of accounting due to the our investment in and advances to Arris Interactive at December 31, 2000 being sufficient to record such losses.

The Company holds investments in the common stock of Lucent Technologies and Avaya, Inc. totaling approximately \$0.8 million at December 31, 2001, which are classified as trading securities. Changes in the market value of these securities are recognized in income and resulted in a net pre-tax loss of approximately \$0.8 million during the year ended December 31, 2001 and a pretax gain of approximately \$0.5 million during the year ended December 31, 2000.

The Company's remaining investments in marketable securities, totaling approximately \$2.1 million, are classified as available-for-sale. At December 31, 2001 and 2000, ARRIS had unrealized losses related to these available-for-sale equity securities of approximately \$3.2 million and \$1.7 million respectively, included in comprehensive income. In 2000, the Company recognized a pre-tax loss of approximately \$1.3 million relating to investments with other than temporary impairments.

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#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS --(CONTINUED)

During the ordinary course of business, the Company has made strategic investments in private companies, which total approximately \$12.0 million at December 31, 2001. These strategic investments are recorded at cost and are periodically evaluated for impairment.

##### (g) Revenue Recognition

ARRIS' revenue recognition policies are in compliance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, as issued by the Securities and Exchange Commission. Sales and related cost of sales are recognized at the time products are shipped or title passes pursuant to the terms of the agreement with the customer, the amount due from the customer is fixed and collectibility of the related receivable is reasonably assured. Sales of services are recognized at the time of performance. ARRIS resells software developed by outside third parties. Software sold by ARRIS does not require significant production, modification or customization. Software revenue is generally recognized when shipment is made, no significant vendor obligations remain and collection is considered probable.

##### (h) Depreciation of Property, Plant and Equipment

The Company provides for depreciation of property, plant and equipment principally on the straight-line basis over the estimated useful lives of 25 to 40 years for buildings and improvements, 3 to 10 years for machinery and equipment, and the term of the lease for leasehold improvements. Depreciation expense for the three years ended December 31, 2001, 2000, and 1999 was approximately \$18.1 million, \$13.6 million and \$11.0 million, respectively.

##### (i) Goodwill and Long-Lived Assets

Goodwill relates to the excess of cost over net assets resulting from an

acquisition. Goodwill resulting from the 1986 acquisition of Anixter (ARRIS' former owner) by Anixter International was allocated to ARRIS based on ARRIS' proportionate share of total operating earnings of Anixter for the period subsequent to the acquisition. Goodwill also has resulted from acquisitions of businesses by Anixter and ARRIS subsequent to 1986 that now are owned by ARRIS.

ARRIS assesses the recoverability of goodwill and other long-lived assets whenever events or changes in circumstances indicate that expected future undiscounted cash flows might not be sufficient to support the carrying amount of an asset. If expected future undiscounted cash flows from operations are less than their carrying amounts, an asset is determined to be impaired, and a loss is recorded for the amount by which the carrying value of the asset exceeds its fair value. Fair value is based on discounting estimated future cash flows or using other valuation methods as appropriate. Non-cash amortization expense is being recognized as a result of amortization of goodwill on a straight-line basis over a period of 40 years from the respective dates of acquisition. The estimation of future cash flows is critical to the valuation of goodwill. The communications industry is subject to rapid technological changes and significant variations in capital spending by system operators. As a result, estimations of future cash flows are difficult, and to the extent that the Company has overestimated those cash flows the Company may also have underestimated the need to reduce any attendant goodwill.

Effective January 1, 2002, we will adopt Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. In general, SFAS No. 142 requires that during 2002 the Company assesses the fair value of the net assets underlying its acquisition related goodwill on a business by business basis. Where that fair value is less than the related carrying value, the Company will be required to reduce the amount of the goodwill. These reductions will be made retroactive to January 1, 2002. SFAS No. 142 also requires that the Company discontinue the amortization of its acquisition related goodwill.

As of December 31, 2001, the financial statements include acquisition related goodwill of \$259.1 million, net of previous amortization. Although the process of implementing SFAS No. 142 will take several more months, it is possible that a portion of this goodwill may be impaired and may need to be reduced. In addition,

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Company no longer will be amortizing acquisition related goodwill, which aggregated \$4.9 million in 2001, 2000, and 1999.

As of December 31, 2001, the financial statements included intangibles of \$44.5 million, net of amortization of \$7.0 million. These intangibles are related to the existing technology acquired from Arris Interactive L.L.C. on August 3, 2001, and will be amortized over a three year period. The valuation process to determine the fair market value of the existing technology was performed by an outside valuation service. The value assigned was calculated using an income approach utilizing the cash flow generated by this technology.

(j) Advertising and Sales Promotion

Advertising and sales promotion costs are expensed as incurred. Advertising expense was approximately \$1.3 million, \$3.3 million and \$2.8 million for the years ended December 31, 2001, 2000 and 1999, respectively.

(k) Research and Development

Research and development ("R&D") costs are expensed as incurred. ARRIS' research and development expenditures for the years ended December 31, 2001, 2000 and 1999 were approximately \$54.5 million, \$23.4 million and \$16.6 million, respectively. Acquired in-process research and development in the amount of \$18.8 million was written off in connection with the Arris Interactive acquisition during the third quarter of 2001.

(l) Warranty

ARRIS provides, by a current charge to income in the period in which the related revenue is recognized, an amount it estimates will be needed to cover future warranty obligations.

(m) Income Taxes

ARRIS uses the liability method of accounting for income taxes, which requires recognition of temporary differences between financial statement and income tax bases of assets and liabilities, measured by enacted tax rates. The Company continually reviews the adequacy of the valuation allowance and recognizes the benefits of deferred tax assets only as reassessment indicates that it is more likely than not that the deferred tax assets will be realized.

(n) Foreign Currency

The financial position and operating results of ARRIS' foreign operations are consolidated using the local currency as the functional currency. All balance sheet accounts of foreign subsidiaries are translated at the current exchange rate at the end of the accounting period with the exception of fixed assets, which are translated at historical cost. Income statement items are translated at average currency exchange rates. The resulting translation adjustment is recorded as a separate component of stockholders' equity.

(o) Stock-Based Compensation

ARRIS grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and, accordingly, does not recognize compensation expense for the stock option grants. As required by Financial Accounting Standards Board ("FASB") Statement No. 123, Accounting for Stock-Based Compensation, ARRIS presents supplemental information disclosing pro forma net income and net income per common share as if the Company had recognized compensation expense on stock options granted subsequent to December 31, 1994 under the fair value method of that statement. (See Note 12 of Notes to the Consolidated Financial Statements.)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(p) Interest Rate Agreements

As of December 31, 2001, the Company had a zero balance in floating rate indebtedness and had no outstanding interest rate swap agreements.

(q) Concentrations of Credit

Financial instruments that potentially subject ARRIS to concentrations of credit risk consist principally of temporary cash investments and accounts receivable. ARRIS places its temporary cash investments with high credit quality financial institutions in accordance with debt agreements. Concentrations with respect to accounts receivable occur as the Company sells primarily to large, well established companies including companies outside of the United States, however, the credit quality of these customers significantly diminishes the risk of loss from extension of credit. Our credit policy generally does not require collateral from our customers. ARRIS closely monitors extensions of credit to other parties and, where necessary, utilizes common financial instruments to mitigate risk or requires cash on delivery terms. Overall financial strategies and the effect of using a hedge are reviewed periodically. Due to the economic disturbances in Argentina, the Company recorded a write-off of \$4.4 million (reflected in cost of sales) related to unrecoverable amounts due from a customer in that region during 2001.

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

- Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
- Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair values.
- Marketable securities: The fair values for trading and available-for-sale equity securities are based on quoted market prices.
- Long-term debt: The carrying amounts of the Company's borrowings under its long-term revolving credit arrangements approximate their fair value. The fair value of the Company's convertible subordinated debt is based on its quoted market price and totaled approximately \$89.7 million and \$62.1 million at December 31, 2001 and 2000, respectively.
- Foreign exchange contracts and interest rate swaps: The fair values of the Company's foreign currency contracts and interest rate swaps are estimated based on dealer quotes, quoted market prices of comparable contracts adjusted through interpolation where necessary, maturity differences or if there are no relevant comparable contracts on pricing models or formulas using current assumptions. As of December 31, 2001, the Company did not have any foreign exchange contracts. The Company had no interest rate swap agreements outstanding as of December 31, 2001.

(r) Accounting for Derivative Instruments

ARRIS uses various derivative financial instruments, including foreign exchange contracts, and in the past, interest rate swap agreements to enhance the Company's ability to manage risk. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. ARRIS' derivative financial instruments are for purposes other than trading. ARRIS' non-derivative financial instruments include letters of credit, commitments to extend credit and guarantees of debt. ARRIS generally does not require collateral to support its financial instruments.

It is the Company's policy to recognize all derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of comprehensive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in comprehensive income net of applicable deferred taxes. Changes in fair values of derivatives, not qualifying as hedges, are reported in income. These amounts were immaterial for the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, however it retains the fundamental provisions of that statement related to the recognition and measurement of the impairment of

long-lived assets to be "held and used." The Statement is effective for year-ends beginning after December 15, 2001 (e.g. January 1, 2002 for a calendar-year company). The Company is in the process of evaluating the impact SFAS 144 will have upon adoption, but does not anticipate it will have a significant impact on its financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment, or more frequently if impairment indicators arise. The review process will entail assessing the fair value of the net assets underlying our acquisition related goodwill on a business by business basis. If the fair value is deemed less than the related carrying value, we will be required to reduce the amount of the goodwill. These reductions will be made retroactive to January 1, 2002. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. The transitional provisions of SFAS No. 142 have been adopted for the goodwill and intangible assets acquired with the Arris Interactive L.L.C. transaction, as the acquisition occurred on August 3, 2001. The Company will apply the new accounting rules to goodwill and intangible assets acquired prior to July 1, 2001 at the beginning of fiscal year 2002. As of December 31, 2001, our financial statements included acquisition related goodwill of \$259.1 million, net of previous amortization. The process of implementing Statement No. 142 has begun and will be complete during the first half of 2002. In addition, we no longer will be amortizing acquisition related goodwill, which amortization aggregated, \$4.9 million in 2001, \$4.9 million in 2000 and \$4.9 million in 1999. If the goodwill acquired with the Arris Interactive L.L.C. transaction had been amortized over a ten year useful life, it would have resulted in approximately \$5.1 million of additional amortization expense for the year ended December 31, 2001.

In 2000, the Emerging Issues Task Force reached a consensus on EITF No. 00-10, Accounting for Shipping and Handling Fees and Costs ("EITF 00-10") that states all amounts billed to a customer in a sale transaction related to shipping and handling represent revenues earned for the goods provided and should be classified as revenue. In 1999 and 2000, shipping revenue and the related cost of sales were netted as pass-through expenses, reimbursed in total by the Company's customers. However, all shipping and handling costs, in aggregate have now been reclassified to net sales and cost of sales. Shipping and handling costs for the years ended December 31, 2001, 2000 and 1999 were approximately \$7.3 million, \$20.0 million and \$18.2 million, respectively, and are appropriately classified to net sales and cost of sales.

#### NOTE 4. RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of 2001, ARRIS closed a research and development facility in Raleigh, North Carolina and recorded a \$4.0 million charge related to severance and other costs associated with closing that

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

facility. This charge included termination expenses of \$2.2 million related to the involuntary dismissal of 48 employees, primarily engaged in engineering functions at that facility. Also included in the \$4.0 million charge was \$0.7 million related to lease commitments, \$0.2 million related to the impairment of fixed assets, and \$0.9 million related to other shutdown expenses. As of December 31, 2001, approximately \$2.0 million related to severance, \$0.7 million related to lease commitments, and \$0.9 million of shutdown expenses remained in the restructuring accrual to be paid. The Company anticipates disposing of \$0.2 million of fixed assets during the second quarter of 2002.

In the third quarter of 2001, the Company announced a restructuring plan to outsource the functions of most of its manufacturing facilities. This decision to reorganize was due in part to the ongoing weakness in industry spending

patterns. The plan entails the implementation of an expanded manufacturing outsourcing strategy and the related closure of the four factories located in El Paso, Texas and Juarez, Mexico. The closure of the factories is anticipated to be complete during the first half of 2002. As a result, the Company recorded restructuring and impairment charges of \$66.2 million. Included in these charges was approximately \$32.0 million related to the write-down of inventories and approximately \$1.7 million related to remaining warranty and purchase order commitments, which have been reflected in cost of sales. Also included in the restructuring and impairment charge was approximately \$5.7 million related to severance and associated personnel costs, \$5.9 million related to the impairment of goodwill due to the pending sale of the power product lines, \$14.8 million related to the impairment of fixed assets, and approximately \$6.1 million related to lease termination and other shutdown expenses of factories and office space. The personnel-related costs included termination expenses for the involuntary dismissal of 807 employees, primarily engaged in production and assembly functions performed at the facilities. ARRIS offered terminated employees separation amounts in accordance with the Company's severance policy and provided the employees with specific separation dates. The severance and associated personnel costs will be paid upon closure of the factories. As of December 31, 2001, approximately \$3.7 million related to severance, \$2.6 million related to lease commitments, \$0.7 million related to purchase order commitments, \$1.0 million related to the warranty reserve, and \$1.8 million of other shutdown expenses relating to the restructuring and impairment charges remained in the accrual to be paid. The fixed assets will be disposed of in the first half of 2002.

In accordance with SFAS No. 109, Accounting for Income Taxes, an adjustment to the valuation allowance of \$38.1 million against deferred tax assets was recorded in the third quarter of 2001. As a result of the restructuring and impairment charges described above, the Company was placed in a cumulative loss position for recent years, which provides significant negative evidence to not recognize deferred tax assets.

In the fourth quarter of 1999, in conjunction with the announced consolidation of the New Jersey facility to Georgia and the Southwest, coupled with the discontinuance of certain product offerings, the Company recorded a pre-tax charge of approximately \$16.0 million. Included in the charge was approximately \$2.6 million related to personnel costs and approximately \$3.0 million related to lease termination and other facility shutdown charges. Included in the restructuring was the elimination of certain product lines resulting in an inventory obsolescence charge totaling approximately \$10.4 million, which has been reflected in the cost of sales. The personnel-related costs included termination expenses for the involuntary dismissal of 87 employees, primarily engaged in engineering, inside sales and warehouse functions performed at the New Jersey facility. ARRIS offered terminated employees separation amounts in accordance with ARRIS' severance policy and provided the employees with specific separation dates. In connection with customer demand shifting to ARRIS' newer product offerings, such as the Scaleable and Micro Node products, ARRIS discontinued certain older product lines that were not consistent with ARRIS' focus on two-way, high-speed internet, voice and video communications equipment. This discontinuance affected the uninterruptible common ferroresonant and security lock powering products and included the narrowing of ARRIS' radio frequency and optical products.

During the second quarter of 2000, ARRIS further evaluated its powering and radio frequency products and recorded an additional pre-tax charge of \$3.5 million to cost of goods sold, bringing the total reorganization related charge to \$19.5 million. In addition to the charges totaling \$19.5 million, ARRIS also

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS --(CONTINUED)

incurred \$0.7 million in connection with the New Jersey facility closure. As of December 31, 2001, \$0.2 million related to personnel costs and \$0.6 million related to lease termination remained to be paid in the restructuring accrual.

In January 1998, ARRIS announced a consolidation plan implemented concurrently with the creation of the new organization in Georgia. ARRIS

completed the consolidation of its Rolling Meadows, Illinois corporate and administrative functions into the Duluth, Georgia and the Englewood, Colorado locations during 1999. As part of the consolidation, the two principal facilities located in Georgia were consolidated and some international operating and administrative functions located in Miami and Chicago were also consolidated into Georgia. In connection with these consolidations, ARRIS recorded a pre-tax charge of approximately \$10.0 million in the first quarter of 1998. The components of the restructuring charge included approximately \$7.6 million related to personnel costs and approximately \$2.4 million related to lease termination payments and other costs. Subsequently, during the fourth quarter of 1998, ARRIS reduced this charge by \$0.9 million as a result of the ongoing evaluation of the estimated costs associated with these actions. The personnel-related costs included termination expenses related to the involuntary termination of 177 employees, primarily related to the finance and management information systems activities as well as international operational functions located in Chicago and Miami. ARRIS offered terminated employees separation amounts in accordance with ARRIS' severance policy and provided the employees with specific separation dates. As of December 31, 1999, 139 of the 177 employees had been terminated and it was determined that 38 employees originally included as part of the 177 employees to be terminated would remain as employees. Additionally, ARRIS' actual cost of terminating or sub-letting real estate obligations in Georgia and Illinois were slightly higher than anticipated. As of December 31, 1999, approximately \$0.6 million of accrued costs related to the obligations resulting from this restructuring remained. ARRIS expended this remaining balance during the first quarter of 2000.

NOTE 5. INVENTORIES

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

	DECEMBER 31,	
	2001	2000
	-----	-----
Raw material.....	\$ 46,104	\$ 62,458
Work in process.....	1,797	9,119
Finished goods.....	140,070	192,106
	-----	-----
Total inventories.....	\$187,971	\$263,683
	=====	=====

During the year ended December 31, 2001, the Company sold approximately \$9.2 million of inventory related to the sale of power product lines.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	DECEMBER 31,	
	2001	2000
	-----	-----
Land.....	\$ 1,964	\$ 2,549
Buildings and leasehold improvements.....	11,258	15,394
Machinery and equipment.....	78,529	90,853
	-----	-----

	91,751	108,796
Less: Accumulated depreciation.....	(39,057)	(55,443)
	-----	-----
Total property, plant and equipment, net.....	\$ 52,694	\$ 53,353
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 7. LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):

	DECEMBER 31,	
	2001	2000
	-----	-----
Revolving Credit Facility.....	\$ --	\$ 89,000
4.5% Convertible Subordinated Notes.....	115,000	115,000
	-----	-----
	\$115,000	\$204,000
	=====	=====

In 1998, the Company issued \$115.0 million of 4.5% Convertible Subordinated Notes ("Notes") due May 15, 2003. The Notes are convertible, at the option of the holder, at any time prior to maturity, into the Company's common stock ("Common Stock") at a conversion price of \$24.00 per share. The Notes became redeemable, in whole or in part, at the Company's option, on May 15, 2001. If the Notes are redeemed prior to May 15, 2002, the Company will be required to pay a premium of 1.8% of the principal amount or approximately \$2.1 million. As of December 31, 2001, ARRIS had not exercised its option to redeem these Notes.

The Company's bank indebtedness was refinanced on August 3, 2001, in connection with the Arris Interactive L.L.C. acquisition. (See Note 16 of Notes to the Consolidated Financial Statements.) At this time, unamortized deferred financing costs of \$1.9 million, or \$0.03 per diluted share, relating to the previous credit facility were written off. In accordance with EITF 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments, this charge was recorded as an extraordinary loss on the extinguishment of debt. As a result of the restructuring and impairment charges described in Note 4 of Notes to the Consolidated Financial Statements, the Company was placed in a cumulative loss position for recent years and therefore no tax effect was recorded in relation to this extraordinary loss.

The new facility is an asset-based revolving credit facility, which initially permitted the borrowers (including the Company and Arris Interactive) to borrow up to \$175 million (which can be increased under certain conditions by up to \$25 million), based upon availability under a borrowing base calculation. In general, the borrowing base is limited to 85% of net eligible receivables (with special limitations in relation to foreign receivables) and 80% of the orderly liquidation value of eligible inventory (not to exceed \$80 million). The facility contains traditional financial covenants, including fixed charge coverage, senior debt leverage, minimum net worth, and minimum inventory turns ratios, and a \$10 million minimum borrowing base availability covenant. The facility is secured by substantially all of the borrowers' assets. The credit facility has a maturity date of August 3, 2004. However, the maturity date of the credit facility will be December 31, 2002 in the event that the Company's convertible subordinated notes due May 15, 2003 are not either fully refinanced or fully converted to ARRIS common stock prior to December 31, 2002 in a manner satisfactory to the lenders under the credit facility. Refinancing or converting the convertible subordinated notes could result in a significant charge to earnings.

As of December 31, 2001, ARRIS had approximately \$86.0 million of available borrowings under the Credit Facility.

In conjunction with the acquisition of Arris Interactive L.L.C., we issued to Nortel Networks a subordinated redeemable preferred membership interest in Arris Interactive with a face amount of \$100.0 million. This membership interest earns a return of 10% per annum, compounded annually. For the year ended December 31, 2001, we recorded membership interest expense of \$4.1 million.

ARRIS has not paid dividends on its common stock since its inception. The Company's primary loan agreement contains covenants that prohibit the Company from paying dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8. COMMON STOCK

The following shares of Common Stock have been reserved for future issuance:

	DECEMBER 31,		
	2001	2000	1999
Convertible subordinated notes.....	4,791,667	4,791,667	4,791,667
Stock options.....	14,640,106	7,251,775	4,742,112
Director stock units.....	71,200	40,500	36,900
Employee stock purchase plan.....	800,000	448,298	466,907
Liberty Media options.....	854,341	854,341	854,341
Nortel Networks.....	--	--	2,747,252
Total.....	21,157,314	13,386,581	13,639,179

NOTE 9. 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):

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
<b>Basic:</b>			
Net (loss) income before extraordinary loss.....	\$ (165,878)	\$20,669	\$16,710
Extraordinary loss.....	(1,853)	--	--
Net (loss) income.....	\$ (167,731)	\$20,669	\$16,710
Weighted average shares outstanding.....	53,624	37,965	36,600
Basic (loss) earnings per share.....	\$ (3.13)	\$ 0.54	\$ 0.46
<b>Diluted:</b>			
Net (loss) income before extraordinary loss.....	\$ (165,878)	\$20,669	\$16,710
Extraordinary loss.....	(1,853)	--	--
Net (loss) income.....	\$ (167,731)	\$20,669	\$16,710
Weighted average shares outstanding.....	53,624	37,965	36,600
Net effect of dilutive securities:			

Add: options, net of tax benefit.....	--	1,606	2,267
	-----	-----	-----
Total.....	53,624	39,571	38,867
	=====	=====	=====
Diluted (loss) earnings per share.....	\$ (3.13)	\$ 0.52	\$ 0.43
	=====	=====	=====

The 4.5% Convertible Subordinated Notes were antidilutive for all periods presented. The effects of the options were not presented for the year ended December 31, 2001 as the Company incurred a net loss and inclusion of these securities would be antidilutive.

On January 8, 2002, ARRIS issued 5.25 million shares of ARRIS common stock for the purchase of substantially all of the assets and certain liabilities of Cadant, Inc. (See Note 17 of Notes to the Consolidated Financial Statements).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 10. INCOME TAXES

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

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Current -- Federal.....	\$ (4,636)	\$12,496	\$11,698
State.....	(430)	1,759	2,513
	-----	-----	-----
	(5,066)	14,255	14,211
	-----	-----	-----
Deferred -- Federal.....	29,908	26	(355)
State.....	2,777	4	(50)
	-----	-----	-----
	32,685	30	(405)
	-----	-----	-----
	\$27,619	\$14,285	\$13,806
	=====	=====	=====

A reconciliation of the Statutory Federal tax rate of 35% and the effective rates is as follows:

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Statutory Federal income tax expense (benefit).....	(35.0)%	35.0%	35.0%
Effects of:			
Amortization of goodwill.....	1.1%	4.4%	5.0%
State income taxes, net of Federal benefit.....	(3.3)%	2.1%	3.4%
Meals and entertainment.....	0.3%	1.1%	1.3%
Write-off of acquired in-process R&D.....	4.7%	0.0%	0.0%
Change in valuation allowance.....	51.9%	(2.8)%	0.0%
Other, net.....	0.0%	1.1%	0.5%
	-----	-----	-----
	19.7%	40.9%	45.2%
	=====	=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Significant components of ARRIS' net deferred tax assets (liabilities) were as follows (in thousands):

	DECEMBER 31,	
	2001	2000
Current deferred tax assets:		
Inventory costs.....	\$ 16,853	\$11,678
Merger/restructuring related reserves.....	6,481	3,897
Allowance for uncollectible accounts.....	3,599	2,058
Accrued pension.....	4,707	2,211
Other, principally operating expenses.....	14,274	(916)
Total current deferred tax assets.....	45,914	18,928
Long-term deferred tax assets:		
Federal/state net operating loss carryforwards.....	19,521	3,076
Foreign net operating loss carryforwards.....	2,358	2,358
Plant and equipment, depreciation and basis differences.....	7,687	3,697
Total long-term deferred tax assets.....	29,566	9,131
Long-term deferred tax liabilities:		
Purchased technology.....	(17,017)	--
Goodwill and other.....	(2,040)	(1,362)
Total long-term deferred tax liabilities....	(19,057)	(1,362)
Net deferred tax assets.....	56,423	26,697
Valuation allowance on deferred tax assets.....	(56,423)	(2,358)
Net deferred tax assets.....	\$ --	\$24,339

As of December 31, 2001, ARRIS has estimated federal and foreign tax loss carryforwards of \$51.0 million and \$6.9 million, respectively. The federal and foreign tax loss carryforwards expire through 2016 and 2005, respectively. As of December 31, 2001, tax benefits arising from loss carryforwards of approximately \$2.4 million originating prior to TSX's quasi-reorganization on November 22, 1985 would be credited directly to additional paid in capital if and when realized.

ARRIS established a valuation allowance in accordance with the provisions of FASB Statement No. 109, Accounting for Income Taxes. The Company continually reviews the adequacy of the valuation allowance and recognizes the benefits of deferred tax assets only as reassessment indicates that it is more likely than not that the deferred tax assets will be realized. As of December 31, 2001, the Company will be able to realize approximately \$5,066,000 of NOL carrybacks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company had U.S. and foreign net operating loss carryforwards at December 31, 2001 expiring as follows (in thousands):

U.S.	FOREIGN
------	---------

EXPIRATION IN CALENDAR YEAR -----	AMOUNT -----	AMOUNT -----
2002.....	\$ 1,099	\$ --
2004.....	501	--
2005.....	1,967	6,935
2007.....	2,745	--
2008.....	1,379	--
2016.....	43,343	--
	-----	-----
	\$51,034	\$6,935
	=====	=====

#### NOTE 11. COMMITMENTS

ARRIS leases office, distribution, and manufacturing facilities as well as equipment under long-term operating leases expiring at various dates through 2009. Future minimum lease payments under non-cancelable operating leases at December 31, 2001 were as follows (in thousands):

2002.....	\$ 9,879
2003.....	7,458
2004.....	6,266
2005.....	5,201
2006.....	4,043
Thereafter.....	4,557
Less sublease income.....	(3,326)
	-----
Total minimum lease payments.....	\$34,078
	=====

Total rental expense for all operating leases amounted to approximately \$7.8 million, \$5.3 million and \$7.6 million for the years ended December 31, 2001, 2000 and 1999, respectively. We currently lease approximately 75,000 square feet of office space from Nortel Networks with an annual rental charge of approximately \$675,000 expiring July 2004.

As of December 31, 2001, the Company had approximately \$1.6 million outstanding under letters of credit with its banks.

#### NOTE 12. STOCK-BASED COMPENSATION

ARRIS grants stock options for a fixed number of shares to employees and directors with an exercise price equal to the market price of the shares at the date of grant. ARRIS accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees and, accordingly, does not recognize compensation expense for the stock option grants. The Company has elected to follow APB Opinion No. 25 because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options.

ARRIS grants stock options under its 2001 Stock Incentive Plan ("2001 SIP") and issues stock purchase rights under its Employee Stock Purchase Plan ("ESPP"). In connection with the Company's reorganization on August 3, 2001, the Company froze additional grants under its prior plans, which are the 2000 Stock

Incentive Plan ("LTIP"). All options granted under the previous plans are still exercisable. These plans are described below.

As required by SFAS No. 123, ARRIS presents below supplemental information disclosing pro forma net (loss) income and net (loss) income per common share as if ARRIS had recognized compensation expense on stock options granted subsequent to December 31, 1994 under the fair value method of that statement. The fair value for these options was estimated using a Black-Scholes option-pricing model. The weighted average assumptions used in this model to estimate the fair value of options granted under the 2001 SIP, 2000 SIP, MIP, SIP, ESIP, DSOP and LTIP for 2001, 2000 and 1999 were as follows: risk-free interest rates of 4.27%, 5.03% and 5.41%, respectively; a dividend yield of 0%; volatility factor of the expected market price of ARRIS' common stock of .71, .64 and .56, respectively; and a weighted average expected life of 4, 5, and 7 years, respectively. The weighted average assumptions used to estimate the fair value of purchase rights granted under the ESPP for 2001, 2000, and 1999 were as follows: risk-free interest rates of 2.70%, 5.52% and 5.66% respectively; a dividend yield of 0%; volatility factor of the expected market price of ARRIS' common stock of .64, .64 and .56, respectively; and a weighted average expected life of .5, 1 and 1 year, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because ARRIS' employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. ARRIS' pro forma information follows (in thousands, except per share data):

	2001 -----	2000 -----	1999 -----
Pro forma net (loss) income.....	\$(176,991)	\$14,454	\$12,766
	=====	=====	=====
Pro forma net (loss) income per common share:			
Basic.....	\$ (3.30)	\$ 0.38	\$ 0.35
	=====	=====	=====
Diluted.....	\$ (3.30)	\$ 0.37	\$ 0.33
	=====	=====	=====

Compensation expense recognized for pro forma purposes was approximately \$9.3 million, \$10.4 million and \$6.6 million for 2001, 2000 and 1999, respectively. SFAS No. 123 is applicable only to options granted subsequent to December 31, 1994.

In 2001, the Board of Directors approved the 2001 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2001 SIP may be in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 9,580,000 shares of the Company's common stock may be issued pursuant to this plan. Options granted under this plan vest in fourths on the anniversary date of the grant beginning with the first anniversary and terminate ten years from the date of grant.

In 2001, the Board of Directors approved a proposal to grant truncated options to employees and board members having previous stock options with exercise prices more than 33% higher than the market price of the Company's stock at \$10.20 per share. The truncated options to purchase stock of the

Company pursuant to the Company's 2001 Stock Incentive Plan, have the following terms: (a) one fourth of each option shall be exercisable immediately and an additional one fourth shall become exercisable or vest on each anniversary of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

this grant; (b) each option shall be exercisable in full after the closing price of the stock has been at or above the target price as determined by the agreement for twenty consecutive trading days (the "Accelerated Vesting Date"); (c) each option shall expire on the earliest of (i) the tenth anniversary of grant, (ii) six months and one day from the accelerated vesting date, (iii) the occurrence of an earlier expiration event as provided in the terms of the options granted by 2000 stock option plans. No compensation was recorded in relation to these options.

In 2000, the Board of Directors approved the 2000 SIP to facilitate the retention and continued motivation of key employees, consultants and directors, and to align more closely their interests with those of the Company and its stockholders. Awards under the 2000 SIP may be in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 2,500,000 shares of the Company's common stock were originally reserved for issuance under this plan. Options granted under this plan vest in fourths on the anniversary date of the grant beginning with the first anniversary and terminate ten years from the date of grant. No compensation was recorded in relation to these options.

In 2000, the Board of Directors approved the 2000 MIP established to facilitate the retention and continued motivation of key mid-level employees and to align more closely their interests with those of the Company and its stockholders. Awards under this plan were in the form of non-qualified stock options. A total of 500,000 shares of ARRIS' common stock were originally reserved for issuance under this plan. As only mid-level employees of the Company are eligible to receive grants under this plan, no options under this plan were granted to officers of ARRIS. No mid-level employee received more than 7,500 options to purchase shares of the Company's stock under this plan and no option may be granted under this plan after the date of the 2000 annual meeting of stockholders. Options granted under this plan vest in fourths on the anniversary date of the grant beginning with the first anniversary and terminate ten years from the date of grant.

In 1997, the Board of Directors approved the SIP to facilitate the hiring, retention and continued motivation of key employees, consultants and directors and to align more closely their interests with those of the Company and its stockholders. Awards under the SIP were in the form of incentive stock options, non-qualified stock options, stock grants, stock units, restricted stock, stock appreciation rights, performance shares and units, dividend equivalent rights and reload options. A total of 3,750,000 shares of the Company's common stock were originally reserved for issuance under this plan. Vesting requirements for issuance under the SIP may vary as may the related date of termination.

Approximately three-fourths of the SIP options granted were tied to a vesting schedule that would accelerate if ARRIS' stock closed above specified prices (\$15, \$20 and \$25) for 20 consecutive days and the Company's diluted earnings per common share (before non-recurring items) over a period of four consecutive quarters exceed \$1.00 per common share. As of March 31, 1999 the \$1.00 per diluted share trigger for the vesting of these grants was met. The \$15 and \$20 stock value targets had already been met. Accordingly two-thirds of these options were vested. Further, on May 26, 1999, the final third was vested upon meeting the \$25 per share value target. Under the terms of the options, one half of the vested options became exercisable when the target was reached and the remaining options become exercisable one year later. A portion of all other options granted under this plan vest each year on the anniversary of the date of grant beginning with the second anniversary and terminate seven years from the date of grant. The remaining portion of options granted under the SIP plan vest in fourths on the anniversary of the date of grant beginning with the first

anniversary and have an extended life of ten years from the date of grant.

In 1993, the Board of Directors approved the ESIP that provides for granting key employees and consultants options to purchase up to 1,925,000 shares of ARRIS common stock. In 1996, an amendment to the ESIP was approved increasing the number of shares of ARRIS common stock that may be issued pursuant to that plan from 1,925,000 shares to 3,225,000 shares. One-third of these options vests each year on the anniversary of the date of grant beginning with the second anniversary. The options terminate seven years from the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In 1993, the Board of Directors also approved the DSOP that provides for the granting, to each director of the Company who has not been granted any options under the ESIP each January 1, commencing January 1, 1994, an option to purchase 2,500 shares of ARRIS common stock for the average closing price for the ten trading days preceding the date of grant. A total of 75,000 shares of ARRIS common stock have been originally reserved for issuance under this plan. These options vest six months from the date of grant and terminate seven years from the date of grant. No options have been issued pursuant to this plan after 1997.

In connection with ARRIS' acquisition of TSX in 1997, each option to purchase TSX common stock under the LTIP was converted to a fully vested option to purchase ARRIS common stock. A total of 883,900 shares of ARRIS common stock have been allocated to this plan. The options under the LTIP terminate ten years from the original grant date.

A summary of activity of ARRIS' options granted under its 2001 SIP, 2000 SIP, MIP, SIP, ESIP, DSOP, and LTIP is presented below:

	2001		2000		1999	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Beginning balance.....	5,378,727	\$16.27	3,940,717	\$14.34	5,450,903	\$11.55
Grants.....	4,169,778	\$10.17	2,389,017	\$21.11	774,500	\$23.86
Exercises.....	(59,328)	\$11.80	(490,337)	\$10.71	(1,870,357)	\$10.83
Terminations.....	(535,227)	\$17.45	(460,003)	\$30.85	(403,496)	\$11.07
Expirations.....	(41,724)	\$22.22	(667)	\$15.88	(10,833)	\$20.48
Ending balance.....	8,912,226	\$13.34	5,378,727	\$16.27	3,940,717	\$14.34
Vested at period end.....	3,605,738	\$13.64	2,261,708	\$12.46	965,275	\$12.49
Weighted average fair value of options granted during year.....	\$ 5.71		\$ 21.11		\$ 14.67	

The following table summarizes information about 2001 SIP, 2000 SIP, MIP, SIP, ESIP, DSOP, and LTIP options outstanding at December 31, 2001.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT 12/31/01	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/01	WEIGHTED AVERAGE EXERCISE PRICE
\$ 2.00 to \$ 4.00.....	20,000	2.17 years	\$ 2.00	20,000	\$ 2.00
\$ 5.00 to \$ 8.00.....	1,251,500	8.97 years	\$ 7.99	314,021	\$ 7.99
\$ 8.88 to \$10.20.....	4,861,372	8.31 years	\$ 9.96	1,372,286	\$ 9.37
\$10.50 to \$15.88.....	1,157,266	2.22 years	\$12.70	1,112,097	\$12.59
\$16.60 to \$19.75.....	298,501	2.44 years	\$18.01	242,335	\$18.27
\$22.88 to \$59.31.....	1,323,587	7.59 years	\$30.50	544,599	\$28.16
\$ 2.00 to \$59.31.....	8,912,226	7.30 years	\$13.34	3,605,738	\$13.64

Pursuant to the Merger Agreement between ARRIS and Keptel, on November 17, 1994 under the ARRIS/Keptel Exchange Option Plan ("EOP"), each Keptel stock option, whether or not then exercisable, was canceled and substituted with an ARRIS/Keptel exchange option to acquire shares of ARRIS common stock. Each ARRIS/Keptel exchange option provides the option holder with rights and benefits that are no less favorable than were provided under the former Keptel stock option plan. A total of 360,850 shares of ARRIS common stock have been allocated to this plan. There were no options granted under the EOP during the years ended December 31, 2001, 2000, and 1999. Additionally, as of December 31, 2001 no options issued under this plan remain outstanding.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Additionally, ARRIS has an ESPP that initially enabled its employees to purchase a total of 300,000 shares of ARRIS common stock over a period of time. In 1999, an amendment to the ESPP was approved increasing the number of shares of ARRIS common stock that may be issued pursuant to that plan to 800,000 shares. The Company accounts for the ESPP in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and accordingly recognizes no compensation expense. Participants can request that up to 10% of their base compensation be applied toward the purchase of ARRIS common stock under ARRIS' ESPP. Purchases by any one participant are limited to \$25,000 in any one year. The exercise price is the lower of 85% of the fair market value of the ARRIS common stock at the date of grant or at the later exercise date. Under the ESPP, employees of ARRIS purchased 15,092, 18,709 and 44,451 shares of ARRIS common stock in 2001, 2000 and 1999, respectively. In connection with the Company's reorganization on August 3, 2001, the existing plan was frozen and a new plan was authorized under which 800,000 shares are available. At December 31, 2001, approximately 231,306 shares are subject to purchase under the new ESPP at a price of no more than \$3.04 per share.

In 2001, 2000 and 1999, ARRIS paid its non-employee directors annual retainer fees of \$50,000 in the form of stock units. These stock units, which are granted out of the various stock option plans, convert to Common Stock of the Company at the prearranged time selected by each director. The Company amortizes the compensation expense related to these stock units on a straight-line basis over a period of one year. At December 31, 2001, 2000 and 1999 there were 71,200 units, 40,300 units and 36,700 units issued and outstanding, respectively.

NOTE 13. EMPLOYEE BENEFIT PLANS

The Company sponsors two non-contributory defined benefit pension plans that cover the majority of the Company's U.S. employees. As of January 1, 2000, the Company froze the defined pension plan benefits for 569 participants. These participants elected to participate in ARRIS' enhanced 401(k) plan. Due to the cessation of plan accruals for such a large group of participants, a curtailment was considered to have occurred. As a result of the curtailment, as outlined under FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, the Company recorded a \$2.1 million pre-tax gain on the curtailment during the first quarter 2000. In addition, during the year ended December 31, 2001, the Company recognized approximately \$3.6 million in pension expense related to supplemental pension plan benefits.

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

-----      -----  
(IN THOUSANDS)

Change in Benefit Obligation:		
Benefit obligation at the beginning of year.....	\$ 17,851	\$17,791
Service cost.....	431	597
Interest cost.....	1,269	1,143
Plan amendment.....	3,955	86
Actuarial loss.....	2,207	1,829
Benefit payments.....	(329)	(259)
Curtailment.....	3,589	(3,336)
	-----	-----
Benefit obligation at end of year.....	\$ 28,973	\$17,851
	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2001      2000  
-----      -----  
(IN THOUSANDS)

Change in Plan Assets:		
Fair value of plan assets at beginning of year.....	\$ 11,513	\$11,468
Actual return on plan assets.....	(56)	304
Company contributions.....	11	--
Benefits paid from plan assets.....	(328)	(259)
	-----	-----
Fair value of plan assets at end of year.....	\$ 11,140	\$11,513
	=====	=====
Funded Status:		
Funded status of plan.....	\$ (17,833)	\$ (6,338)
Unrecognized actuarial loss (gain).....	1,486	(1,713)
Unamortized prior service cost.....	4,106	2,108
	-----	-----
(Accrued) benefit cost.....	\$ (12,241)	\$ (5,943)
	=====	=====

The plans' assets consist of corporate and government debt securities and equity securities. Net periodic pension cost for 2001, 2000 and 1999 for pension and supplemental benefit plans includes the following components (in thousands):

	2001	2000	1999
	-----	-----	-----
Service cost.....	\$ 431	\$ 597	\$1,629
Interest cost.....	1,269	1,143	1,446
Return on assets (expected).....	(914)	(901)	(940)
Recognized net actuarial loss.....	(23)	(141)	104
Amortization of prior service cost.....	313	308	128
	-----	-----	-----
Net periodic pension cost.....	1,076	1,006	2,367
Additional pension (income) due to curtailment.....	3,589	(2,108)	--
	-----	-----	-----
Net periodic pension cost (income).....	\$4,665	\$ (1,102)	\$2,367
	=====	=====	=====

The assumptions used in accounting for the Company's defined benefit plans for the three years presented are set forth below:

	2001	2000	1999
	----	----	----
Assumed discount rate for active participants.....	7.25%	7.75%	7.5%
Assumed discount rate for inactive participants.....	6.5%	6.5%	--
Rates of compensation increase.....	6.0%	6.0%	6.0%
Expected long-term rate of return on plan assets.....	8.0%	8.0%	8.0%

Additionally, ARRIS has established defined contribution plans pursuant to the Internal Revenue Code Section 401(a) that cover all eligible U.S. employees. ARRIS contributes to these plans based upon the dollar amount of each participant's contribution. ARRIS made contributions to these plans of approximately \$1.1 million, \$1.1 million and \$0.7 million in 2001, 2000, and 1999, respectively. In conjunction with the Company's reorganization in August 2001, all the terms and conditions of the plan remain the same.

#### NOTE 14. SALES INFORMATION

As of December 31, 2001, Liberty Media Corporation, which is part of the Liberty Media Group of AT&T whose financial performance is "tracked" by a separate class of AT&T stock, effectively controlled approximately 10% of the outstanding ARRIS common stock on a fully diluted basis. The effective ownership includes options to acquire an additional 854,341 shares. In August 2001, AT&T spun off Liberty Media to the holders of its tracking stock, and AT&T no longer indirectly owns an interest in ARRIS. A significant

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#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

portion of the Company's revenue is derived from sales to AT&T (including MediaOne Communications, which was acquired by AT&T during 2000) aggregating \$237.9 million, \$431.5 million and \$355.0 million for the years ended December 31, 2001, 2000 and 1999, respectively. Giving effect to AT&T's acquisition of MediaOne Communications, sales to the combined entity aggregated \$391.1 million for 1999.

ARRIS operates globally and offers products and services that are sold to cable system operators and telecommunications providers. ARRIS' products and services are focused in three new product categories instead of the previous four categories: broadband (previously cable telephony and internet access); transmission, optical, and outside plant; and supplies and services. All prior period revenues have been aggregated to conform to the new product categories. Consolidated revenues by principal products and services for the years ended December 31, 2001, 2000 and 1999, respectively were as follows (in thousands):

	BROADBAND	TRANSMISSION, OPTICAL, AND OUTSIDE PLANT	SUPPLIES AND SERVICES	TOTAL
	-----	-----	-----	-----
Annual sales:				
December 31, 2001.....	\$368,511	\$227,759	\$151,400	\$747,670
December 31, 2000.....	\$312,310	\$427,878	\$258,542	\$998,730
December 31, 1999.....	\$236,532	\$388,588	\$219,636	\$844,756

The Company sells its products primarily in the United States with its international revenue being generated from Asia Pacific, Europe, Latin America and Canada. The Asia Pacific market includes Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Sampan, Singapore, Taiwan, and Thailand. The European market includes France, Ireland, Italy, Netherlands, Portugal, Spain and the United Kingdom. Sales to international customers were approximately 14.6%, 8.5% and 6.4% of total sales for the years ended December 31, 2001, 2000 and 1999, respectively. Sales for the three years

ended December 31, 2001, 2000 and 1999 are as follows:

	DECEMBER 31, 2001*	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----	-----
	(IN THOUSANDS)		
International region			
Asia Pacific.....	\$ 29,946	\$ 15,500	\$ 12,445
Europe.....	52,199	36,378	19,035
Latin America.....	20,531	29,232	19,545
Canada.....	6,232	3,820	3,347
	-----	-----	-----
Total international sales.....	108,908	84,930	54,372
Domestic sales.....	638,762	913,800	790,384
	-----	-----	-----
Total sales.....	\$747,670	\$998,730	\$844,756
	=====	=====	=====

\* The year ended December 31, 2001 included approximately five months of international Cornerstone revenue. Under the previous joint venture agreement with Nortel, the Company was not able to sell the Arris Interactive L.L.C products internationally. This agreement terminated upon the Company's acquisition of Nortel's share of Arris Interactive L.L.C. on August 3, 2001.

Total identifiable international assets were immaterial.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 15. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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

	QUARTERS IN 2001 ENDED			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
	-----	-----	-----	-----
Net sales.....	\$212,788	\$177,185	\$ 174,159	\$183,538
Gross profit.....	32,090	22,668	13,870	50,342
Operating (loss).....	(4,345)	(15,048)	(85,796)	(8,736)
(Loss) before income taxes and extraordinary loss (15).....	(10,420)	(21,784)	(92,495)	(13,560)
Net (loss).....	\$ (7,218)	\$ (14,488)	\$ (132,465)	\$ (13,560)
	=====	=====	=====	=====
Net (loss) per common share:				
Basic.....	\$ (0.19)	\$ (0.38)	\$ (2.13)	\$ (0.18)
	=====	=====	=====	=====
Diluted.....	\$ (0.19)	\$ (0.38)	\$ (2.13)	\$ (0.18)
	=====	=====	=====	=====

Supplemental financial information (excluding the effects of unusual items):

Gross profit (1) (2) (3) (13) (14).....	\$ 32,090	\$ 28,643	\$ 47,538	\$ 54,730
	=====	=====	=====	=====
Operating income (loss) (3) (4) (13).....	\$ (4,345)	\$ (5,317)	\$ (787)	\$ (348)
	=====	=====	=====	=====
(Loss) before income taxes.....	\$ (10,061)	\$ (11,651)	\$ (7,398)	\$ (5,254)
	=====	=====	=====	=====

Net (loss) (5) (6).....	\$ (7,013)	\$ (8,566)	\$ (7,398)	\$ (5,254)
	=====	=====	=====	=====
Net (loss) per common share:				
Diluted.....	\$ (0.18)	\$ (0.22)	\$ (0.12)	\$ (0.07)
	=====	=====	=====	=====
Weighted average diluted shares.....	38,252	38,290	62,110	75,398
	=====	=====	=====	=====

	QUARTERS IN 2000 ENDED			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
	-----	-----	-----	-----
Net sales.....	\$256,571	\$283,016	\$ 281,413	\$177,730
Gross profit.....	51,280	52,826	52,317	29,349
Operating income (loss).....	19,320	17,690	16,315	(6,458)
Income (loss) before income taxes.....	16,449	19,607	9,910	(11,012)
Net income (loss).....	\$ 9,727	\$ 11,594	\$ 5,860	\$ (6,512)
	=====	=====	=====	=====
Net income (loss) per common share:				
Basic.....	\$ 0.26	\$ 0.31	\$ 0.15	\$ (0.17)
	=====	=====	=====	=====
Diluted.....	\$ 0.24	\$ 0.28	\$ 0.15	\$ (0.17)
	=====	=====	=====	=====

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Supplemental financial information (excluding the effects of unusual items):

Gross profit(7).....	\$ 51,280	\$ 56,326	\$ 52,317	\$ 29,347
	=====	=====	=====	=====
Operating income (loss)(8).....	\$ 17,212	\$ 21,190	\$ 16,315	\$ (6,460)
	=====	=====	=====	=====
Income (loss) before income taxes(9)(10)(11)(12).....	\$ 14,341	\$ 18,457	\$ 13,324	\$ (9,005)
	=====	=====	=====	=====
Net income (loss).....	\$ 8,392	\$ 12,102	\$ 7,806	\$ (5,394)
	=====	=====	=====	=====
Net income (loss) per common share:				
Diluted.....	\$ 0.21	\$ 0.29	\$ 0.19	\$ (0.14)
	=====	=====	=====	=====
Weighted average diluted shares.....	44,513	44,733	44,641	38,772

(1) During the second quarter of 2001, a workforce reduction program was implemented which significantly reduced the Company's overall employment levels. This action resulted in a pre-tax charge to cost of goods sold of approximately \$1.3 million for severance and related costs incurred at the factory level. Additionally, a pre-tax charge of \$3.7 million was recorded to operating expenses.

(2) During the second quarter of 2001, a one-time warranty expense relating to a specific product was recorded, resulting in a pre-tax charge of \$4.7 million for the expected replacement cost of this product. The Company does not anticipate any further warranty expenses to be incurred in connection with this product.

(3) In the third quarter 2001, in connection with the restructuring plan to outsource most of its manufacturing functions, the Company recorded restructuring and impairment charges of approximately \$66.2 million. Included in these charges was approximately \$32.0 million related to the write-down of inventories. Additionally, remaining warranty and purchase order commitments of approximately \$1.7 million were charged to cost of goods sold. Also included in these charges was approximately \$5.7 million

related to severance and associated personnel costs, \$5.9 million related to the impairment of goodwill due to the pending sale of the power product lines, \$14.8 million related to the impairment of fixed assets, and approximately \$6.1 million related to lease termination of factories and office space and other shutdown expenses.

- (4) During the third quarter 2001, the Company wrote off in-process R&D of \$18.8 million in connection with the Arris Interactive L.L.C. acquisition.
- (5) During the third quarter 2001, unamortized deferred finance fees of \$1.9 million were written off and recorded as an extraordinary loss on the extinguishment of debt. These fees related to a revolving credit facility, which was replaced in connection with the Arris Interactive L.L.C. acquisition.
- (6) As a result of the restructuring and impairment charges during the third quarter 2001, a valuation allowance of approximately \$38.1 million against deferred tax assets was recorded in accordance with FASB Statement No. 109, Accounting for Income Taxes. (See Note 4 of Notes to the Consolidated Financial Statements.)
- (7) During the second quarter of 2000, ARRIS further evaluated its powering and RF products and recorded an additional pre-tax charge of \$3.5 million to cost of goods sold, bringing the total 1999 reorganization related charge to \$19.5 million. (See Note 4 of the Notes to the Consolidated Financial Statements.)
- (8) As of January 1, 2000, the Company froze the defined pension plan benefits for 569 participants. These participants elected to participate in ARRIS' enhanced 401(k) plan. Due to the cessation of plan accruals for such a large group of participants, a curtailment was considered to have occurred. As a result of the curtailment, as outlined under FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, the

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Company recorded a \$2.1 million pre-tax gain on the curtailment during the first quarter 2000. (See Note 13 of the Notes to the Consolidated Financial Statements.)

- (9) During the fourth quarter of 2000, the Company reversed \$1.25 million of accrued expenses related to the LANcity transaction, due to a change in estimate for costs related to the transaction.
- (10) During the second quarter of 2000, ARRIS made a strategic investment in Chromatis Networks, Inc. ("Chromatis"), receiving 56,882 shares of the company's preferred stock. On June 28, 2000, Lucent Technologies announced it had completed an acquisition of Chromatis. The conversion of the Chromatis shares into Lucent shares resulted in ARRIS receiving 120,809 shares of Lucent's stock. Lucent's stock price on the date of the completed transaction was \$57.48, valuing ARRIS' investment at approximately \$6.9 million, thus producing a pre-tax gain of \$5.9 million. These shares of Lucent stock are considered trading securities held for resale.
- (11) Because the shares of Lucent stock discussed in the footnote above, are considered trading securities held for resale, they are required to be carried at their fair market value with any gains or losses being included in earnings. Additionally, as a result of Lucent's spin-off of Avaya Inc., ARRIS was issued approximately 9,060 shares of Avaya stock on September 19, 2000. These securities are also being held for resale. By the end of the third quarter, the stock price of Lucent dropped significantly. In calculating the fair market value of the investments as of September 30, 2000, ARRIS recognized a \$3.4 million pre-tax write down of the investments in Lucent and Avaya.

- (12) During the fourth quarter of 2000, ARRIS calculated the fair market value of its available for sale investments and recorded an additional pre-tax mark-to-market write down on its investments of approximately \$3.3 million.
- (13) In the fourth quarter of 2001, ARRIS closed a research and development facility in Raleigh, North Carolina and recorded a \$4.0 million charge related to severance and other costs associated with closing that facility.
- (14) Due to economic disturbance in Argentina, the Company recorded a write-off of \$4.4 million related to unrecoverable amounts due from a customer in that region during the fourth quarter of 2001.
- (15) In accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock, the quarters ended March 31, 2001 and June 30, 2001 were restated as a result of the Arris Interactive L.L.C. acquisition. (See Note 16 of Notes to the Consolidated Financial Statements.)

NOTE 16. ACQUISITION OF ARRIS INTERACTIVE L.L.C.

On August 3, 2001, the Company completed the acquisition from Nortel Networks of the portion of Arris Interactive that it did not own. Arris Interactive was a joint venture formed by Nortel and the Company in 1995, that developed products for delivering voice and data services over hybrid fiber coax-networks. The Company decided to complete this transaction because it would have a positive impact on the Company's future results. Immediately prior to the acquisition we owned approximately 18.75% and Nortel owned the remainder. As part of this transaction:

- A new holding company, ARRIS, was formed
- ANTEC, our predecessor, merged with a subsidiary of ARRIS and the outstanding ANTEC common stock was converted, on a share-for-share basis, into common stock of ARRIS Group, Inc.
- Nortel and the Company contributed to Arris Interactive approximately \$131.6 million in outstanding indebtedness and adjusted their ownership percentages in Arris Interactive to reflect these contributions
- Nortel exchanged its remaining ownership interest in Arris Interactive for 37 million shares of ARRIS common stock (approximately 49.2% of the total shares outstanding following the transaction) and a

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS --(CONTINUED)

subordinated redeemable preferred membership interest in Arris Interactive with a face amount of \$100 million

- ANTEC, now a wholly-owned subsidiary of ARRIS, changed its name to Arris International, Inc.

Following the transactions, Nortel designated two new members to our board of directors. Nortel's ownership interest in ARRIS is governed in part, by an Investor Rights Agreement.

The preferred membership interest is redeemable in approximately four quarterly installments commencing February 3, 2002, provided that certain availability and other tests are met under the Company's revolving credit facility as described in Note 7 of the Notes to the Consolidated Financial Statements.

The following is a summary of the purchase price allocation to record the Company's purchase of Nortel Networks' ownership interest in Arris Interactive for 37,000,000 shares of ARRIS Group, Inc. common stock on August 3, 2001 at \$6.14 per share as of April 9, 2001 (date of definitive agreement):

(IN THOUSANDS)

37,000,000 shares of ARRIS' \$0.01 par value common stock at \$6.14 per share.....	\$227,180
Acquisition costs (banking fees, legal and accounting fees, printing costs).....	7,616
Write-off of abandoned leases and related leasehold improvements.....	2,568
Fair value of stock options to Arris Interactive, L.L.C. employees.....	12,531
Other.....	1,346
	-----
Adjusted Purchase Price.....	\$251,241
	=====
Allocation of Purchase Price:	
Net tangible assets acquired.....	\$ 56,048
Existing technology (to be amortized over 3 years).....	51,500
In-process research and development.....	18,800
Goodwill (not deductible for income tax purposes).....	124,893
	-----
Total Allocated Purchase Price.....	\$251,241
	=====

The value assigned to in-process research and development, in accordance with accounting principles generally accepted in the United States, was written off at the time of acquisition. The \$18.8 million of in-process research and development valued for the transaction related to two projects that were targeted at the carrier-grade telephone and high-speed data markets. The value of the in-process research and development was calculated separately from all other acquired assets. The projects included:

- Multi-service Access System ("MSAS"), a high-density multiple stream cable modem termination system providing carrier-grade availability and high-speed routing technology on the same headend targeted at the carrier-grade telephone and high-speed data market. There are specific risks associated with this in-process technology. As the MSAS has a unique capability to perform hardware sparing through its functionality via use of a radio frequency switching matrix, there is risk involved in being able to achieve the isolation specifications related to this type of technology. Subsequent to December 31, 2001 the MSAS project was discontinued because of a product overlap with Cadant, Inc.
- Packet Port II, an outside voice over internet protocol terminal targeted at the carrier-grade telephone market. There are specific risks associated with this in-process technology. Based on the key product objectives of the Packet Port II, from a hardware perspective, the product is required to achieve power supply performance capable of meeting a wide range of input power, operating conditions and loads. From a software perspective, the Company is dependent on a third party for reference design software critical to this product. Since development of this reference design software is currently in process, the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ordinary risks associated with the completion and timely delivery of the software are inherent to this project. Additionally, there are sophisticated power management techniques required to meet the target power consumption of this product. There are technical/schedule risks associated with implementing processor power down that can simultaneously meet power consumption targets without affecting the voice or data functionality of this technology application. It is anticipated that the Packet Port II project will be in service in field trials during 2002 and

is expected to begin contributing to consolidated revenues in 2002. First prototypes of the Packet Port II are currently being developed. This will allow testing on the functionality of the major subsystems of this product.

The following table identifies specific assumptions for the projects, in millions:

PROJECT	FAIR VALUE AT DATE OF VALUATION	ESTIMATED PERCENTAGE OF COMPLETION	EXPECTED COST TO COMPLETE	EXPECTED DATE TO COMPLETE	DISCOUNT RATE
MSAS.....	\$16.9	68.9%	\$ 9.9	July 2002	32%
Packet Port II.....	\$ 1.9	41.5%	\$11.3	March 2002	32%

#### Valuation of in-process research and development

The fair values assigned to each developed technology as related to this transaction were valued using an income approach based upon the current stage of completion of each project in order to calculate the net present value of each in-process technology's cash flows. The cash flows used in determining the fair value of these projects were based on projected revenues and estimated expenses for each project. Revenues were estimated based on relevant market size and growth factors, expected industry trends, individual product sales cycles, the estimated life of each product's underlying technology, and historical pricing. Estimated expenses include cost of goods sold, selling, general and administrative and research and development expenses. The estimated research and development expenses include costs to maintain the products once they have been introduced into the market, and costs to complete the in-process research and development. It is anticipated that the acquired in-process technologies will yield similar prices and margins that have been historically recognized by Arris Interactive and expense levels consistent with historical expense levels for similar products.

A risk-adjusted discount rate was applied to the cash flows related to each existing products' projected income stream for the years 2002 through 2006. This discount rate assumes that the risk of revenue streams from new technology is higher than that of existing revenue streams. The discount rate used in the present value calculations was generally derived from a weighted average cost of capital, adjusted upward to reflect the additional risks inherent in the development life cycle, including the useful life of the technology, profitability levels of the technology, and the uncertainty of technology advances that are known at the assumed transaction date. Product-specific risk includes the stage of completion of each product, the complexity of the development work completed to date, the likelihood of achieving technological feasibility, and market acceptance.

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS --(CONTINUED)

We present below summary unaudited pro forma combined financial information for the Company and Arris Interactive to give effect to the transaction. This summary unaudited pro forma combined financial information is derived from the historical financial statements of the Company and Arris Interactive. This information assumes the transaction was 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, Arris Interactive or the combined entity would actually have been had the transaction occurred at the applicable dates, or to project the Company's, Arris Interactive's or the combined entity's results of operations for any future period or date. The actual results of Arris Interactive are included in the Company's operations from August 4, 2001 through the end of 2001.

(UNAUDITED)  
 TWELVE MONTHS ENDED  
 DECEMBER 31,

	2001	2000
--	------	------

(IN THOUSANDS,  
 EXCEPT FOR EARNINGS PER SHARE  
 DATA)

Net sales.....	\$789,184	\$1,293,602
Gross profit.....	144,118	352,845
Operating (loss) income(1) (3).....	(155,034)	96,043
(Loss) income before income taxes.....	(177,390)	85,137
Net (loss) income(2).....	(205,010)	51,481
	=====	=====
Net (loss) income per common share:		
Basic.....	\$ (2.72)	\$ 0.69
	=====	=====
Diluted.....	\$ (2.72)	\$ 0.67
	=====	=====
Weighted average common shares:		
Basic.....	75,281	74,965
	=====	=====
Diluted.....	75,281	76,571
	=====	=====

- 
- (1) In accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets, goodwill is no longer amortized, but reviewed annually for impairment. The provisions of Statement No. 142 state that goodwill and indefinite lived intangible assets acquired after June 30, 2001 will not be amortized. The information presented above, therefore, does not include amortization expense on the goodwill acquired in this transaction.
  - (2) In accordance with FASB Statement No. 109, Accounting for Income Taxes, a valuation reserve against deferred tax assets was recorded as a result of the restructuring and impairment charges during the third quarter 2001. Therefore, no additional adjustment for tax expense (benefit) was reflected in the information presented above.
  - (3) In accordance with SEC regulations, the in-process R&D write-off is not reflected as an adjustment to the unaudited pro forma combined statements of operations as it represents a non-recurring charge directly attributable to the transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table represents the amount assigned to each major asset and liability caption of Arris Interactive as of August 3, 2001.

(IN THOUSANDS)

Total current assets.....	\$179,909
Property, plant and equipment, net.....	\$ 23,209
Goodwill.....	\$124,893
Intangible assets.....	\$ 51,500
Total assets.....	\$379,511
Total current liabilities.....	\$ 64,724
Total long-term liabilities.....	\$ 2,484
Total liabilities and membership interest.....	\$167,208
Total stockholders' equity.....	\$212,303

In connection with the Arris Interactive L.L.C. acquisition, the quarters ended March 31, 2001 and June 30, 2001 were restated in accordance with Accounting Principles Board ("APB") No. 18, The Equity Method of Accounting for Investments in Common Stock. This APB states that an investment in common stock of an investee that was previously accounted for by the cost method becomes qualified for use of the equity method by an increase in the level of ownership. The Company adopted the use of the equity method upon acquisition of Nortel's portion of Arris Interactive L.L.C., and all prior periods presented have been adjusted retroactively to reflect the equity method of accounting. During 2000, Arris Interactive L.L.C. recorded net income. However, in the periods prior to 2000, Arris Interactive L.L.C. incurred net losses, of which the Company did not recognize its proportionate share due to its investment in Arris Interactive L.L.C. being reduced to zero. APB No. 18 states that the Company should recognize gains only after its share of net income equals its share of net losses not recognized. The Company's share of Arris Interactive's net income in 2000 did not exceed the losses unrecognized in previous years, and therefore, these periods have not been restated. However, during the periods ending March 31, 2001 and June 30, 2001, Arris Interactive L.L.C. recorded net losses and the Company has restated these periods to reflect its share of the losses under the equity method of accounting due to the Company's investment in and advances to Arris Interactive at December 31, 2000 being sufficient to record such losses.

NOTE 17. ACQUISITION OF CADANT, INC.

On January 8, 2002, ARRIS completed the acquisition of all of the assets of Cadant Inc., a privately held designer and manufacturer of next generation Cable Modem Termination Systems ("CMTS"). The Company decided to complete this transaction because it would have a positive impact on future results of the Company.

- ARRIS issued 5.25 million shares of ARRIS common stock for the purchase of substantially all of Cadant's assets and certain liabilities.
- ARRIS agreed to pay up to 2.0 million shares based upon future sales of the CMTS product through January 8, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following is a summary of the preliminary purchase price allocation to record ARRIS' purchase price of the assets and certain liabilities of Cadant Inc. for 5,250,000 shares of ARRIS Group, Inc. common stock based on the average closing price of ARRIS' common stock for 5 days prior and 5 days after the date of the transaction as quoted on the Nasdaq National Market System.

The excess of the purchase price over the fair value of the net tangible and intangible assets acquired has been allocated to goodwill. Although the purchase price and its allocation are not final, it is anticipated that a portion of the purchase price will be allocated to existing technology. The final allocation of the purchase price will be determined after completion of thorough analyses to identify and determine the fair values of Cadant's tangible and identifiable intangible assets and liabilities as of the date the transaction is completed. Any change in the fair value of the net assets of Cadant will change the amount of the purchase price allocable to goodwill.

	UNAUDITED (IN THOUSANDS)
5,250,000 shares of ARRIS Group, Inc.'s \$0.01 par value common stock at \$10.631 per common share.....	\$55,813
Acquisition costs (banking fees, legal and accounting fees, printing costs).....	600
Fair value of stock options to Cadant, Inc. employees.....	12,760

Assumption of certain liabilities of Cadant, Inc.....	17,039
	-----
Adjusted preliminary purchase price.....	\$86,212
	=====
Allocation of Preliminary Purchase Price:	
Net tangible assets acquired.....	\$ 4,588
Existing technology (to be amortized over 3 years).....	53,000
Goodwill (not deductible for income tax purposes).....	28,624
	-----
Total allocated preliminary purchase price.....	\$86,212
	=====

The following table represents the amount assigned to each major asset and liability caption of Cadant, Inc. as of January 8, 2002.

(IN THOUSANDS)

Total current assets.....	\$ 307
Property, plant and equipment, net.....	\$ 4,281
Goodwill.....	\$28,624
Intangibles.....	\$53,000
Total assets.....	\$86,212
Total current liabilities and long-term debt.....	\$17,039

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### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to directors and officers of ARRIS is set forth under the captions entitled "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference. Certain information concerning the executive officers of the Company is set forth in Part I of this document under the caption entitled "Executive Officers of the Company".

#### ITEM 11. EXECUTIVE COMPENSATION

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

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) EXHIBITS.

The exhibits listed below in Item 14 (a) 1, 2 and 3 are filed as part of this document. Each management contract or compensatory plan required to be filed as an exhibit is identified by an asterisk (\*).

(B) REPORTS ON FORM 8-K.

None.

ITEM 14(A) 1 & 2. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

The following Consolidated Financial Statements of ARRIS Group, Inc. and Report of Independent Auditors are filed as part of this Report.

	PAGE
	----
Report of Independent Auditors.....	42
Consolidated Balance Sheets at December 31, 2001 and 2000...	43
Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999.....	44
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....	45
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999.....	46
Notes to the Consolidated Financial Statements.....	47

FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statement schedule of ARRIS is included in Item 14 (a) 2 pursuant to paragraph (d) of Item 14:

Schedule II -- Valuation and Qualifying Accounts

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

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	RESERVES FROM ACQUISITION	CHARGE TO EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----	-----
(IN THOUSANDS)					
YEAR ENDED DECEMBER 31, 2001					
Reserves and allowance deducted from asset accounts:					
Allowance for uncollectible accounts.....	\$ 6,686	\$ 2,046	\$ 5,820	\$ 5,143(1)	\$ 9,409
Reserve for obsolescence and excess inventory(2).....	\$30,160	\$14,704	\$53,279	\$54,084	\$44,059
YEAR ENDED DECEMBER 31, 2000					
Reserves and allowance deducted from asset accounts:					

Allowance for uncollectible accounts.....	\$ 7,505	\$ --	\$ 1,117	\$ 1,936(1)	\$ 6,686
Reserve for obsolescence and excess inventory(2).....	\$26,541	\$ --	\$ 5,485	\$ 1,866	\$30,160
YEAR ENDED DECEMBER 31, 1999					
Reserves and allowance deducted from asset accounts:					
Allowance for uncollectible accounts.....	\$ 4,609	\$ --	\$ 5,859	\$ 2,963(1)	\$ 7,505
Reserve for obsolescence and excess inventory(2).....	\$17,026	\$ --	\$10,230	\$ 715	\$26,541

-----  
(1) Uncollectible accounts written off, net of recoveries

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

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ITEM 14(A)3. EXHIBIT LIST

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

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBIT -----	THE FILINGS REFERENCED FOR INCORPORATION BY REFERENCE ARE ARRIS (FORMERLY KNOWN AS BROADBAND PARENT, INC.) FILINGS UNLESS OTHERWISE NOTED -----
2.1	Agreement and Plan of Reorganization dated as of October 18, 2000.....	October 25, 2000, Form 8-K, Exhibit 2.1, filed by ANTEC Corporation.
2.2	First Amendment to Agreement and Plan of Reorganization dated as of April 9, 2001.....	April 13, 2001, Form 8-K, Exhibit 2.1, filed by ANTEC Corporation.
2.3	Side Letter dated as of August 3, 2001.....	August 13, 2001, Form 8-K, Exhibit 2.3.
3.1	Amended and Restated Certificate of Incorporation...	Registration Statement #333-61524, Exhibit 3.1.
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation.....	August 3, 2001, Form 8-A, Exhibit 3.2.
3.3	By-laws.....	Registration Statement #333-61524, Exhibit 3.2, filed by Broadband Parent Corporation
4.1	Form of Certificate for Common Stock.....	Registration Statement #333-61524, Exhibit 4.1.
4.2	4 1/2% Convertible Subordinated Notes due 2003 dated May 5, 1998.....	March 31, 1998, Form 10-Q, Exhibit 10.28, filed by ANTEC Corporation.
4.2(a)	Supplemental Indenture dated August 3, 2001.....	Filed herewith.
4.2(b)	Supplemental Indenture dated August 29, 2001.....	Filed herewith.
10.1	Credit Agreement, dated August 3, 2001.....	August 13, 2001, Form 8-K, Exhibit 10.1.
10.1(a)	First Amendment to Credit Agreement dated January 8, 2002.....	Filed herewith.
10.2	Second Amended and Restated Limited Liability Company Agreement of Arris Interactive, L.L.C., dated August 3, 2001.....	August 13, 2001, Form 8-K, Exhibit 10.4.
10.3	Amended and Restated Investor Rights Agreement dated April 9, 2001.....	April 13, 2001, Form 8-K, Exhibit 10.1, filed by ANTEC Corporation.

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THE FILINGS REFERENCED FOR  
INCORPORATION BY REFERENCE ARE  
ARRIS (FORMERLY KNOWN AS  
BROADBAND PARENT, INC.) FILINGS  
UNLESS OTHERWISE NOTED

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	
10.3(a)	First Amendment to Amended and Restated Investor Rights Agreement dated August 3, 2001.....	August 3, 2001, Form 8-A, Exhibit 10.2.
10.4	(Nortel Networks LLC) Registration Rights Agreement.....	August 13, 2001, Form 8-K, Exhibit 10.3.
10.5	(Cadant, Inc.) Asset Purchase Agreement dated December 8, 2001.....	February 8, 2002, Form S-3, Exhibit 2.
10.6(a) *	Agreement with Robert J. Stanzione for the conversion of special 2001 bonus to stock units....	December 31, 1999, Form 10-K, Exhibit 10.10(b), filed by ANTEC Corporation.
10.6(b) *	Amended and Restated Employment Agreement, dated August 6, 2001, with Robert J Stanzione.....	September 30, 2001, Form 10-Q, Exhibit 10.10(c).
10.6(c) *	Supplemental Executive Retirement Plan for Robert J Stanzione.....	September 30, 2001, Form 10-Q, Exhibit 10.10(d).
10.7(a) *	Amended and Restated Employment Agreement dated April 29, 1999, with John M. Egan.....	June 30, 1999, Form 10-Q, Exhibit 10.31(a).
10.7(b) *	Consulting Agreement, dated April 27, 1999 with John M. Egan.....	June 30, 1999, Form 10-Q, Exhibit 10.31(b), filed by ANTEC Corporation.
10.7(c) *	Supplemental Executive Retirement Plan for John M. Egan.....	June 30, 1999, Form 10-Q, Exhibit 10.31(c), filed by ANTEC Corporation.
10.8*	Amended and Restated Employment Agreement, dated April 29, 1999, with Lawrence A. Margolis.....	June 30, 1999, Form 10-Q, Exhibit 10.33, filed by ANTEC Corporation.
10.9*	Form of Employment Agreement with Gordon E. Halverson.....	December 31, 2000, Form 10-K, Exhibit 10.13, filed by ANTEC Corporation.
10.10*	Retainer Agreement with James E. Knox.....	December 31, 1996, Form 10-K, Exhibit 10.17, filed by ANTEC Corporation.
10.11*	Consulting Agreement dated February 1, 1998 for James L. Faust.....	December 31, 1998, Form 10-K, Exhibit 10.14, filed by ANTEC Corporation.

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THE FILINGS REFERENCED FOR  
INCORPORATION BY REFERENCE ARE  
ARRIS (FORMERLY KNOWN AS  
BROADBAND PARENT, INC.) FILINGS  
UNLESS OTHERWISE NOTED

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	
10.12*	Stock Option Agreement with William H. Lambert dated March 14, 1994.....	April 30, 1994, TSX Corporation Form 10-K, Exhibit 10(A)(1)(3)
10.13*	2001 Stock Incentive Plan.....	July 2, 2001 Appendix III of Proxy Statement filed as part of, Registration Statement #333-61524, filed by Broadband Parent Corporation.
10.14*	Management Incentive Plan.....	July 2, 2001, Appendix IV of Proxy Statement filed as part of Registration Statement #333-61524, filed by Broadband Parent Corporation.
10.15*	Solectron Manufacturing Agreement and Addendum.....	Filed herewith.
10.16	Mitsumi Agreement.....	Filed herewith.
10.17	Form of Employment Agreement with Ronald M. Coppock.....	Filed herewith.
21	Subsidiaries of the Registrant.....	Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARRIS GROUP, INC.

/s/ LAWRENCE A. MARGOLIS  
 -----  
 Lawrence A. Margolis  
 Executive Vice President,  
 Chief Financial Officer

Dated: March 29, 2002

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

/s/ JOHN M. EGAN ----- John M. Egan	Chairman and Director	March 29, 2002
/s/ ROBERT J. STANZIONE ----- Robert J. Stanzione	President, Chief Executive Officer and Director	March 29, 2002
/s/ LAWRENCE A. MARGOLIS ----- Lawrence A. Margolis	Executive Vice President, Chief Financial Officer	March 29, 2002
/s/ DAVID B. POTTS ----- David B. Potts	Senior Vice President of Finance, Chief Information Officer	March 29, 2002
/s/ JOHN IAN ANDERSON CRAIG* ----- John Ian Anderson Craig	Director	March 29, 2002
/s/ ROD F. DAMMEYER* ----- Rod F. Dammeyer	Director	March 29, 2002
/s/ JAMES L. FAUST* ----- James L. Faust	Director	March 29, 2002
/s/ WILLIAM H. LAMBERT* ----- William H. Lambert	Director	March 29, 2002
/s/ JOHN R. PETTY* ----- John R. Petty	Director	March 29, 2002
/s/ LARRY ROMRELL* ----- Larry Romrell	Director	March 29, 2002
/s/ SAMUEL K. SKINNER* ----- Samuel K. Skinner	Director	March 29, 2002
/s/ BRUCE VAN WAGNER* ----- Bruce Van Wagner	Director	March 29, 2002



## SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE (the "SUPPLEMENTAL INDENTURE"), dated as of August 3, 2001, between ANTEC Corporation, a Delaware corporation (the "Company"), Arris Group, Inc. (f/k/a Broadband Parent Corporation), a Delaware corporation ("ARRIS GROUP"), and The Bank of New York, a New York banking corporation, as Trustee (the "TRUSTEE"), to the Indenture between the Company and the Trustee, dated as of May 8, 1998, as amended or supplemented from time to time (the "INDENTURE"). Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Indenture.

## WITNESSETH:

WHEREAS, pursuant to an Agreement and Plan of Reorganization, dated as of October 18, 2000, as amended (as amended, the "PLAN OF REORGANIZATION") by and among the Company, Arris Group, Broadband Transition Corporation ("TRANSITION"), Nortel Networks Inc., Nortel Networks LLC and Arris Interactive L.L.C., Transition, a wholly-owned subsidiary of Arris Group and in indirect wholly-owned subsidiary of the Company, will merge (the "MERGER") with and into the Company and each share of common stock, par value \$0.01 per share, of the Company (the "COMPANY COMMON STOCK") then outstanding will become one (1) share of common stock, par value \$0.01 per share, of Arris Group ("ARRIS GROUP COMMON STOCK");

WHEREAS, the Indenture provides that, subject to the provisions of the Indenture, any Security may at any time, be converted into fully paid and non-assessable shares of Company Common Stock;

WHEREAS, pursuant to Section 13.6 of the Indenture (all section references herein are to the Indenture) the Company and Arris Group are delivering to the Trustee this Supplemental Indenture, which provides that on and after the effective time of the Merger (the "EFFECTIVE TIME"), the Holder of each Security then outstanding shall have the right thereafter to convert such Security into shares of Arris Group Common Stock upon the same terms as such Security was convertible into Company Common Stock immediately prior to the Effective Time;

NOW, THEREFORE, intending to be legally bound hereby, the parties hereto agree as follows for the benefit of each other party and for the equal and ratable benefit of the Holders of the Company's 4 1/2% Convertible Subordinated Notes due 2003:

## ARTICLE I

CONTINUATION OF CONVERSION PRIVILEGE FOR  
ARRIS GROUP COMMON STOCK

Section 1.1 Subject to and upon compliance with the provisions of Article XIII of the Indenture, on and after the Effective Time, at the option of the Holder thereof, each Security shall be convertible into fully paid and non-assessable shares of Arris Group Common Stock at the

same Conversion Price (as subsequently adjusted from time to time in accordance with the terms of the Indenture) as such Security was convertible into Company Common Stock immediately prior to the Effective Time of the Merger. From and after the Effective Time, all references in the Indenture to "Common Stock" shall mean Arris Group Common Stock.

Section 1.2 The Company shall notify the Trustee of the Effective Time of the Merger in the Officers' Certificate contemplated by Section 2.1 hereof.

## ARTICLE II

EFFECTIVE TIME

Section 2.1 This Supplemental Indenture shall become effective upon the last to occur of:

- (a) execution of this Supplemental Indenture by the parties;
- (b) receipt by the Trustee of a duly executed Officers' Certificate substantially in the form attached hereto as Exhibit A; and
- (c) receipt by the Trustee of an opinion of counsel of the Company in the form required by the Indenture.

ARTICLE III

MISCELLANEOUS

Section 3.1 The Indenture, as amended and modified by this Supplemental Indenture, is in all respects ratified and confirmed; this Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided; and all the terms, conditions, and provisions of the Indenture shall remain in full force and effect, as amended and modified hereby.

Section 3.2 THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK.

Section 3.3 All parties may sign any number of copies or counterparts of this Supplemental Indenture. Each signed copy or counterpart shall be an original, but all of them together shall represent the same agreement.

Section 3.4 The recitals contained herein shall be taken as the statements of the Company and Arris Group, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed.

ANTEC CORPORATION

By: /s/ Lawrence A. Margolis  
-----  
Name: Lawrence A. Margolis  
Title: Executive Vice President  
ARRIS GROUP, INC.

By: /s/ Lawrence A. Margolis  
-----  
Name: Lawrence A. Margolis  
Title: Vice President

THE BANK OF NEW YORK, as Trustee

By: /s/ Mary LaGumina  
-----

Name: Mary LaGumina  
Title: Vice President

SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE (the "SUPPLEMENTAL INDENTURE"), dated as of August 29, 2001, between Arris International, Inc. f/k/a ANTEC Corporation, a Delaware corporation (the "COMPANY"), and The Bank of New York, a New York banking corporation, as Trustee (the "TRUSTEE"), to the Indenture between the Company and the Trustee, dated as of May 8, 1998, as amended or supplemented from time to time (the "INDENTURE"). Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Indenture.

WITNESSETH:

WHEREAS, Section 9.1 of the Indenture provides that without the consent of any Holder, the Company and the Trustee may enter into a supplement to the Indenture for the purpose of curing any ambiguity, defect or inconsistency or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture, provided that such action does not adversely affect the interests of any Holder in any respect;

WHEREAS, the Indenture is ambiguous with respect to the use of the defined but not used term "Designated Senior Debt" and undefined but used term "Designated Senior Indebtedness"; and

WHEREAS, this Supplemental Indenture is being entered into to clarify that the terms "Designated Senior Debt" and "Designated Senior Indebtedness" are synonymous and that the term "Designated Senior Indebtedness" used throughout the Indenture means the defined the term "Designated Senior Debt";

NOW, THEREFORE, intending to be legally bound hereby, the parties hereto agree as follows for the benefit of each other party and for the equal and ratable benefit of the Holders of the Company's 4 1/2% Convertible Subordinated Notes due 2003:

ARTICLE I

CLARIFICATION OF THE INDENTURE

Section 1.1 All occurrences in the Indenture of the phrase "Designated Senior Indebtedness" shall be amended to read "Designated Senior Debt."

ARTICLE II

EFFECTIVE TIME

Section 2.1 This Supplemental Indenture shall become effective upon the last to occur of:

(a) execution of this Supplemental Indenture by the parties; and

(b) receipt by the Trustee of an opinion of counsel of the Company in the form required by the Indenture.

ARTICLE III

MISCELLANEOUS

Section 3.1 The Indenture, as amended and modified by this Supplemental Indenture, is in all respects ratified and confirmed; this

Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided; and all the terms, conditions, and provisions of the Indenture shall remain in full force and effect, as amended and modified hereby.

Section 3.2 THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK.

Section 3.3 All parties may sign any number of copies or counterparts of this Supplemental Indenture. Each signed copy or counterpart shall be an original, but all of them together shall represent the same agreement.

Section 3.4 The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed.

ARRIS INTERNATIONAL, INC.  
f/k/a ANTEC CORPORATION

By: /s/ Robert J. Stanzione  
-----  
Name: Robert J. Stanzione  
Title: President  
THE BANK OF NEW YORK, as Trustee

By: /s/ Mary LaGumina  
-----  
Name: Mary LaGumina  
Title: Vice President

Agreed to and Acknowledged by ARRIS GROUP, INC., obligor under the conversion provisions of the Indenture

ARRIS GROUP, INC.

By: /s/ Robert J. Stanzione  
-----  
Name: Robert J. Stanzione  
Title: President

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FIRST AMENDMENT  
TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "AMENDMENT") is dated as of January 8, 2002 and entered into by and among ARRIS INTERNATIONAL, INC., a Delaware corporation (the "COMPANY"), ARRIS INTERACTIVE L.L.C., a Delaware limited liability company ("ARRIS"), EACH OF COMPANY'S SUBSIDIARIES LISTED ON THE SIGNATURE PAGES HEREOF (Company, Arris and each such subsidiary are individually referred to herein as a "BORROWER" and, collectively, on a joint and several basis, as the "BORROWERS"), THE FINANCIAL INSTITUTIONS LISTED ON THE SIGNATURE PAGES HEREOF (each individually referred to herein as a "LENDER" and collectively as "LENDERS"), CREDIT SUISSE FIRST BOSTON, as syndication agent for Lenders (in such capacity, "SYNDICATION AGENT") and THE CIT GROUP/BUSINESS CREDIT, INC., as administrative agent and collateral agent for Lenders (in such capacity, "ADMINISTRATIVE AGENT"), and is made with reference to that certain Credit Agreement dated as of August 31, 2001 (as amended, restated, supplemented or otherwise modified as of the date hereof, the "CREDIT AGREEMENT"), by and among the Borrowers, Lenders, Syndication Agent and Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Holdings and Cadant, Inc., a Delaware corporation ("CADANT") have entered into the Cadant Asset Purchase Agreement (as defined below), pursuant to which Holdings has agreed to purchase substantially all of the assets and assume certain liabilities of Cadant and Holdings has assigned all of its rights and obligations under the Asset Purchase Agreement to Company pursuant to the Cadant Assignment and Assumption Agreement (as defined below); and

WHEREAS, Borrowers and Lenders desire to amend the Credit Agreement to (i) permit Company to acquire substantially all of the assets and assume certain liabilities of Cadant, (ii) provide the terms pursuant to which Company may convert the Convertible Subordinated Notes in an aggregate principal amount not to exceed \$115,000,000 to shares of common stock of Holdings, (iii) permit Holdings to guaranty the obligations of Company under the Comdisco Lease (as defined below) in an aggregate amount no to exceed \$3,500,000; (iv) amend the minimum fixed coverage ratio set forth in subsection 7.6A for the period ending March 31, 2002, and (iv) make certain other amendments as set forth below;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE CREDIT AGREEMENT

1.1 AMENDMENTS TO SECTION 1: PROVISIONS RELATING TO  
DEFINED TERMS

A. Subsection 1.1 of the Credit Agreement is hereby amended by adding thereto the following definitions, which shall be inserted in

proper alphabetical order:

"CADANT" means Cadant, Inc., a Delaware corporation.

"CADANT ACQUISITION" means the purchase by Holdings of substantially all of Cadant's assets and certain liabilities of Cadant on the First Amendment Effective Date, pursuant to the Cadant Acquisition Documents.

"CADANT ACQUISITION DOCUMENTS" means the Cadant Asset Purchase Agreement, the Cadant Voting Agreement, the Cadant Assignment and Assumption Agreement and all other instruments or documents delivered or entered into in connection with any of the foregoing, in each case including all schedules, annexes and exhibits thereto, as such Cadant Acquisition Documents may be amended, restated, supplemented or otherwise modified from time to time to the extent permitted under subsection 7.12.

"CADANT ASSET PURCHASE AGREEMENT" means that certain Asset Purchase Agreement, dated December 8, 2001, as supplemented by that certain letter dated January 8, 2002, by and between Holdings and Cadant, as further amended, restated, supplemented or otherwise modified from time to time to the extent permitted under subsection 7.12.

"CADANT ASSIGNMENT AND ASSUMPTION AGREEMENT" means that certain Assumption Agreement dated as of January 8, 2002, by and between Holdings and Company, as amended, restated, supplemented or otherwise modified from time to time to the extent permitted under subsection 7.12.

"CADANT VOTING AGREEMENT" means that certain Voting Agreement, dated as of December 8, 2001 among Holdings, Cadant and the equity holders of Cadant listed on the signature pages thereto, as amended, restated, supplemented or otherwise modified from time to time to the extent permitted under subsection 7.12.

"COMDISCO LEASE" means that certain Master Lease Agreement dated September 8, 2000, by and between Comdisco, Inc. and Cadant, Inc. that was assigned to Company pursuant to the Cadant Acquisition Documents.

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"FIRST AMENDMENT EFFECTIVE DATE" means the date the First Amendment to this Agreement became effective in accordance with its terms.

"HOLDINGS COMDISCO GUARANTY" means a guaranty by Holdings of the obligations of Company under the Comdisco Lease, in form and substance satisfactory to Administrative Agent.

"HOLDINGS COMMON STOCK" means the common stock of Holdings, par value \$.01 per share.

B. Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definitions of "Acquired Business" and

"Permitted Acquisition" therefrom in their entirety.

C. Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definitions of "First Priority" and "Pro Forma" therefrom in their entirety and substituting the following therefor:

"FIRST PRIORITY" means, with respect to any Lien purported to be created in any Collateral pursuant to any Collateral Document, that (i) such Lien is perfected and has priority over any other Lien on such Collateral (other than (w) Permitted Encumbrances which are given priority as a matter of law, (x) Liens described on Schedule 7.2, so long as such Liens are only on the assets encumbered by such Liens on the Closing Date and (y) Liens securing Purchase Money Indebtedness, so long as such Liens only attach to the assets being acquired with such Purchase Money Indebtedness and are otherwise permitted by subsection 7.2(vii)) and (ii) such Lien is the only Lien (other than Liens permitted pursuant to subsection 7.2) to which such Collateral is subject.

"PRO FORMA BASIS" means, as of any date of determination, in connection with (i) the calculation of Consolidated EBITDA or Consolidated Capital Expenditures for the Fiscal Quarter ending June 30, 2001 and for that portion of the Fiscal Quarter ending September 30, 2001 that is prior to the Closing Date, the Consolidated EBITDA or Consolidated Capital Expenditures for such Fiscal Quarter, after giving effect on a pro forma basis to the Reorganization and (ii) in connection with the compliance of the Borrowers with the financial covenants set forth in subsection 7.6 as of the last day of the four Fiscal Quarter period most recently ended prior to such date of determination for which the relevant financial information is available (the "COMPLIANCE PERIOD"), after giving effect on a pro forma basis to any dispositions made during such Compliance Period, other than sales of inventory in the ordinary course of business and dispositions of obsolete equipment, in each case on the following basis:

(i) any Indebtedness incurred or assumed by Holdings or any of its Subsidiaries in connection with the Reorganization and any Indebtedness repaid in connection with the Reorganization and/or dispositions, as the case may be, shall be deemed to have been incurred or repaid, respectively, as of April 1, 2001

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in the case of the Reorganization and as of the first day of the Compliance Period, in the case of dispositions;

(ii) if such Indebtedness incurred or assumed by Holdings or any of its Subsidiaries in connection with the Reorganization has a floating or formula rate, then the rate of interest for such Indebtedness for the applicable period shall be computed as if the rate in effect for such Indebtedness on the relevant measurement date had been the applicable rate for the entire applicable period;

(iii) income statement items (whether positive or negative) attributable to the property or business acquired or disposed in the Reorganization and/or dispositions, as the case may be, shall be included as if such acquisitions took place on April 1, 2001, in the case of the Reorganization, and as of the first day of the Compliance Period, in the case of dispositions, in each case on a pro forma basis; and

(iv) any historical extraordinary non-recurring

costs or expenses or other verifiable costs or expenses that will not continue after the Closing Date, in the case of the Reorganization may be eliminated and other expenses and cost reductions may be reflected on a basis consistent with Regulation S-X promulgated by the Securities and Exchange Commission.

Such pro forma calculations shall, in the case of the Reorganization, be based on the audited or reviewed financial delivered pursuant to subsection 4.1G. All pro forma adjustments shall be approved by the Administrative Agent."

1.2 AMENDMENTS TO SECTION 7: BORROWERS' NEGATIVE

COVENANTS

A. Subsection 7.1 of the Credit Agreement is hereby amended by deleting clause (viii) and substituting the following therefor:

"(viii) Company may remain liable with respect to Indebtedness evidenced by the Convertible Subordinated Notes, in an aggregate principal amount not to exceed \$115 million; provided, that prior to December 31, 2002, such Indebtedness shall be refinanced pursuant to documentation in form and substance satisfactory to Requisite Lenders or converted into shares of Holdings Common Stock in accordance with subsection 7.5(ix);"

B. Subsection 7.2 of the Credit Agreement is hereby amended by deleting clause (v) and substituting the following therefor:

"(v) Liens (other than Liens on any (x) Accounts or Inventory of Holdings, any Borrower or any Domestic Subsidiary or Mexican Subsidiary of any Borrower or (y) Capital Stock) granted by Borrowers and their Subsidiaries securing Indebtedness permitted by subsections 7.1(vi), 7.1(vii) and 7.1(xii) in an aggregate amount not to exceed \$10,000,000 at any time outstanding; provided, however, that Borrowers and their Domestic Subsidiaries shall not grant such Liens in connection with any Indebtedness of any Foreign Subsidiary of any Borrower incurred pursuant to subsection 7.1(vii); provided, further, that (i) Holdings and its Subsidiaries may not grant any Liens in

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connection with any Indebtedness assumed by Holdings or any of its Subsidiaries in connection with the Cadant Acquisition and (ii) no assets acquired pursuant to the Cadant Acquisition may be subject to any Liens under any such assumed Indebtedness except to the extent such Liens evidence Capital Leases and are otherwise permitted by subsection 7.2(vii)."

C. Subsection 7.3 of the Credit Agreement is hereby amended by deleting clause (vii) and substituting the following therefor:

"(vii) So long as no Event of Default or Potential Event of Default has occurred and is continuing, Holdings and Company may consummate the Cadant Acquisition, in accordance with (1) the Cadant Acquisition Documents and (2) the following terms:

(a) the aggregate amount of consideration paid by Holdings and Company for the Cadant Acquisition shall not exceed 7,250,000 shares of Holdings Common Stock and \$4,500,000 in cash;

(b) as of the consummation of the Cadant Acquisition, any assets or liabilities acquired or assumed by Holdings pursuant to the Cadant Acquisition Documents shall have been assigned to Company pursuant to the Cadant Assignment and

Assumption Agreement;

(c) the aggregate amount of all liabilities being assumed by Company in connection with the Cadant Acquisition, including any Indebtedness and Capital Leases, shall not exceed \$14,000,000; provided, that such amount shall include all Indebtedness owed by Cadant to Company and interest thereon in an aggregate amount of approximately \$2,500,000;

(d) concurrently with the consummation of the Cadant Acquisition, Borrowers shall have fully complied with the requirements of subsections 6.8 and 6.9 of this Agreement and Section 5 of the Security Agreement, with respect to the Cadant Acquisition;

(e) Company shall have delivered to Administrative Agent (i) the results of recent searches, by a Person or Persons satisfactory to Administrative Agent, of all effective UCC financing statements and fixture filings and all judgment and tax lien filings which may have been made with respect to any personal or mixed property acquired in the Cadant Acquisition, together with copies of all such filings disclosed by such search, (ii) UCC termination statements duly executed by all applicable Persons for filing in all applicable jurisdictions as may be necessary to terminate any effective UCC financing statements or fixture filings disclosed in such search, (iii) to the extent requested by Administrative Agent, recent searches, by Person or Persons satisfactory to Administrative Agent of all effective filings with the PTO or United States Copyright Office which may have been made with respect to any patents, trademarks or copyrights being acquired in the Cadant Acquisition and (iv) and all other documents or instruments necessary to release all Liens on any personal or mixed property acquired in the Cadant

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Acquisition, in each case in form and substance satisfactory to Administrative Agent;

(f) Company shall have delivered an Officer's Certificate, in form and substance satisfactory to Administrative Agent, (1) certifying that no Potential Event of Default or Event of Default shall then exist or shall occur as a result of the Cadant Acquisition, and (2) demonstrating that on the First Amendment Effective Date, after giving effect to the Cadant Acquisition, the Borrowers will be in compliance with subsection 7.6C.

D. Subsection 7.4 of the Credit Agreement is hereby amended by (i) deleting the "and" at the end of subsection (xiv) thereof, deleting the "." at the end of subsection (xv) thereof and substituting therefor "; and" and (ii) adding the following subsection (xvi) to the end thereof:

"(xvi) Holdings may become and remain liable with respect to Contingent Obligations arising under the Holdings Comdisco Guaranty in an aggregate amount not to exceed \$3,500,000 at any time."

E. Subsection 7.5 of the Credit Agreement is hereby amended by (i) deleting the "and" at the end of subsection (vii) thereof, deleting the "." at the end of subsection (viii) thereof and substituting therefor "; and" and (ii) adding the following subsections (ix) and (x) to the end thereof:

"(ix) Company may exchange Convertible Subordinated Notes in an aggregate principal amount not to exceed \$115,000,000 for Holdings

Common; provided, that (i) the fair market value of such Holdings Common Stock at the time of any such exchange does not exceed the principal amount of the Convertible Subordinated Notes so exchanged, (ii) no other consideration is paid by Holdings or any of its Subsidiaries in connection with such exchange other than cash in lieu of fractional shares of Holdings Common Stock in a nominal amount satisfactory to Administrative Agent; and (iii) the other terms and the documentation pursuant to which any such exchange occurs is in form and substance satisfactory to Administrative Agent;"

(x) So long as no Event of Default or Potential Event of Default has occurred and is continuing, Company may make Restricted Junior Payments in connection with the payment of cash in lieu of fractional shares of Holdings Common Stock pursuant to clause (ix) above and to the extent required under the Convertible Subordinated Note Indenture."

F. Subsection 7.6 of the Credit Agreement is hereby amended by deleting the table contained in subsection 7.6A and substituting therefor the following:

"PERIOD -----	MINIMUM FIXED CHARGE COVERAGE RATIO -----
Closing Date through December 31, 2001	1.10:1.00
January 1, 2002 through March 31, 2002	0.75:1.00
April 1, 2002 through June 30, 2002	1.25:1.00
July 1, 2002 and thereafter	1.50:1.00"

G. Subsection 7.11 of the Credit Agreement is hereby amended by deleting the proviso contained in such subsection.

H. Subsection 7.12 of the Credit Agreement is hereby amended by:

(i) deleting subsection 7.12A and substituting therefor the following:

"A. AMENDMENTS OR WAIVERS OF CERTAIN AGREEMENTS. Neither any Borrower nor any of its Subsidiaries will agree to any amendment to, or waive any of its rights under, any Reorganization Document, Mexican Intercompany Security Document, Tax Abatement Transaction Document, or Cadant Acquisition Document after the Closing Date, without in each case obtaining the prior written consent of Requisite Lenders to such amendment or waiver."; and

(ii) adding the following proviso to the end of subsection 7.12B:

"; provided, however, that Holdings and the Company may amend the Convertible Subordinated Note Indenture to provide for the Subordinated Holdings Guaranty, pursuant to documentation in form and substance reasonably satisfactory to Administrative Agent"

1.3 AMENDMENTS TO SECTION 8: EVENTS OF DEFAULT

Subsection 8.13 of the Credit Agreement is hereby amended by deleting part (b) of clause (i) of such subsection in its entirety and substituting the following therefor:

"(b) entering into and performing its obligations under and in accordance with the Subordinated Holdings Guaranty, Holdings Comdisco Guaranty and the Loan Documents, Reorganization Documents, or Cadant Acquisition Documents to which it is a party, or"

SECTION 2. CONDITIONS TO EFFECTIVENESS

Section 1 of this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the "FIRST AMENDMENT EFFECTIVE DATE"):

A. Borrowers shall deliver to Lenders (or to Agents for Lenders with sufficient originally executed copies, where appropriate, for each Lender and its counsel) reliance letters addressed to the Agents and each of the Lenders dated the First Amendment Effective Date with respect to all legal opinions delivered in connection with Cadant Acquisition, which legal

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opinions and reliance letters shall be in form and substance reasonably satisfactory to the Administrative Agent.

B. Lenders shall have received from Administrative Agent a completed audit of the Inventory and Accounts to be acquired in the Cadant Acquisition and Administrative Agent shall have determined the extent to which such Accounts and Inventory shall be included as Eligible Accounts and Eligible Inventory immediately after the consummation of the Cadant Acquisition.

C. Administrative Agent shall have implemented a reserve of \$20,000,000 against the Borrowing Base in connection with the Cadant Acquisition that shall not be removed without the consent of Requisite Lenders.

D. On the First Amendment Effective Date, all conditions to the consummation of the Cadant Acquisition (other than payment of the purchase price therefor and the conveyance of assets resulting therefrom) shall have been satisfied or waived with the consent of Administrative Agent and the Requisite Lenders and Administrative Agent shall have received (i) a fully executed or conformed copy of each Cadant Acquisition Document to be entered into on or prior to the First Amendment Effective Date, in form and substance reasonably satisfactory to the Administrative Agent and Requisite Lenders, and each such Cadant Acquisition Document shall be in full force and effect and no provision thereof shall have been modified or waived without the consent of Administrative Agent and Requisite Lenders, and the parties to the Cadant Acquisition Documents shall not have failed in any material respect to perform any material obligation or covenant required by the Cadant Asset Purchase Agreement, respectively, to be performed or complied with by any of them on or before the First Amendment Effective Date, and (ii) an Officer's Certificate of Company (1) to the effect set forth in clause (i) and (2) stating that Holdings, Company and Cadant will proceed to consummate the Cadant Acquisition contemporaneously with the effectiveness of this Amendment.

E. Company shall have paid to Administrative Agent an amendment fee equal to \$218,750, to be distributed among each Lender that has executed and delivered a counterpart of this Amendment on or prior to 5:00 PM (New York City time) on December 28, 2001, in proportion to the amount of each such Lender's Revolving Loan Exposure to the aggregate amount of the Revolving

Loan Exposure of all such Lenders.

F. Administrative Agent shall have received evidence satisfactory to it that all outstanding statements of O'Melveny & Myers LLP have been paid in full.

### SECTION 3. BORROWERS' REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Borrowers represent and warrant to each Lender that the following statements are true, correct and complete:

A. CORPORATE POWER AND AUTHORITY. Each Borrower has all requisite corporate power and authority to enter into this Amendment, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "AMENDED AGREEMENT").

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B. AUTHORIZATION OF AGREEMENTS. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of each of the Borrowers.

C. NO CONFLICT. The execution and delivery by Borrowers of this Amendment and the performance by Borrowers of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to any Borrower or any of their respective Subsidiaries, the Certificate or Articles of Incorporation or Bylaws or Certificate of Formation or Operating Agreement, as applicable, of any Borrower or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on any Borrower or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of any Borrower or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of any Borrower or any of its Subsidiaries (other than Liens created under any of the Loan Documents in favor of Administrative Agent on behalf of Lenders), or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of any Borrower or any of its Subsidiaries.

D. GOVERNMENTAL CONSENTS. The execution and delivery by each Borrower of this Amendment and the performance by the Borrowers of the Amended Agreement and the transactions contemplated by this Amendment do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

E. BINDING OBLIGATION. This Amendment and the Amended Agreement have been duly executed and delivered by each Borrower and is the legally valid and binding obligations of the Borrowers, enforceable against the Borrowers in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. INCORPORATION OF REPRESENTATIONS AND WARRANTIES FROM CREDIT AGREEMENT. The representations and warranties contained in Section 5 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

G. ABSENCE OF DEFAULT. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

SECTION 4. ACKNOWLEDGEMENT AND CONSENT

Holdings, each Borrower and each Subsidiary Guarantor hereby acknowledges that such Loan Party has read this Amendment and consents to the terms hereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the

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obligations of such Loan Party under each of the Loan Documents to which such Loan Party is a party shall not be impaired and each of the Loan Documents to which such Loan Party is a party are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Holdings and each Subsidiary Guarantor acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Loan Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Loan Party to any future amendments to the Credit Agreement.

SECTION 5. MISCELLANEOUS

A. REFERENCE TO AND EFFECT ON THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Administrative Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. FEES AND EXPENSES. Company acknowledges that all costs, fees and expenses as described in subsection 10.2 of the Credit Agreement incurred by Agents and their counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Borrowers.

C. HEADINGS. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. APPLICABLE LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE

CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE

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STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. COUNTERPARTS; EFFECTIVENESS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment shall become effective upon (i) the execution of a counterpart hereof by each of the Borrowers, each of the Subsidiary Guarantors, Holdings and Requisite Lenders and receipt by Company and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof and (ii) the satisfaction of the conditions precedent contained in Section 2 hereof.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

HOLDINGS: ARRIS GROUP, INC.

By: /s/ Lawrence A. Margolis  
-----  
Name: Lawrence A. Margolis  
Title: Vice President, Chief Financial Officer & Secretary

COMPANY: ARRIS INTERNATIONAL, INC.

By: /s/ Lawrence A. Margolis  
-----  
Name: Lawrence A. Margolis  
Title: Executive Vice President, Chief Financial Officer & Secretary

ARRIS: ARRIS INTERACTIVE L.L.C.

By: /s/ Lawrence A. Margolis  
-----  
Name: Lawrence A. Margolis  
Title: Executive Vice President

SUBSIDIARIES OF COMPANY: ANTEC ASSET MANAGEMENT COMPANY

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: President

ANTEC LICENSING COMPANY

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: President

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TEXSCAN CORPORATION

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Chairman of the Board

ELECTRONIC CONNECTOR CORPORATION OF ILLINOIS

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Vice President

POWER GUARD, INC.

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Vice President

ELECTRONIC SYSTEM PRODUCTS INC.

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Vice President

KEPTEL, INC.

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Vice President

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for purposes of Section 6 only,

TEXSCAN DE MEXICO, S.A. DE C.V.

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Chairman

KEPTEL DE MEXICO S.A. DE C.V.

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Chairman

ANTEC INTERNATIONAL CORPORATION

By: /s/ Lawrence A. Margolis

-----  
Name: Lawrence A. Margolis  
Title: Director

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LENDERS:

THE CIT GROUP/BUSINESS CREDIT, INC.,  
individually and as Administrative Agent  
and Collateral Agent

By: /s/ Kenneth B. Butler

-----  
Name: Kenneth B. Butler  
Title: Vice President

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CREDIT SUISSE FIRST BOSTON,  
individually and as Syndication Agent

By: /s/ David L. Sawyer

-----  
Name: David L. Sawyer  
Title: Vice President

By: /s/ Jay Chall

-----  
Name: Jay Chall  
Title: Director

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AMERICAN NATIONAL BANK AND  
TRUST COMPANY OF CHICAGO

By: /s/ Clare J. D'Cruz

-----  
Name: Clare J. D'Cruz  
Title: Vice President

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COMERICA BANK

By: /s/ David Selden

-----  
Name: David Selden  
Title: Vice President

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CONGRESS FINANCIAL CORPORATION (SOUTHERN)

By: /s/ Morris P. Holloway

-----  
Name: Morris P. Holloway  
Title: Senior Vice-President

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FLEET CAPITAL CORPORATION

By: /s/ Douglas Strange

-----  
Name: Douglas Strange  
Title: Vice President

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GMAC COMMERCIAL CREDIT LLC

By: /s/ Arthur A. Mason

-----  
Name: Arthur A. Mason  
Title: Executive Vice President

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PNC BANK, NATIONAL ASSOCIATION

By: /s/ Eric Huff

-----  
Name: Eric Huff  
Title: Assistant Vice President

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SOLECTRON

MANUFACTURING AGREEMENT

MANUFACTURING SERVICES AGREEMENT

NO. [\_\_\_\_\_]

This Manufacturing Agreement ("Agreement") is entered into by and between Solectron Corporation, a Delaware Corporation, located at 847 Gibraltar Drive, Milpitas, CA 95035, by and on behalf of its subsidiaries and affiliates ("Solectron" OR "Manufacturer") and Arris Interactive L.L.C., a Delaware limited liability company, having its principal office at 3871 Lakefield Drive, Suwanee, Georgia 30024-1242 ("Purchaser"). Solectron and Purchaser hereby agree as follows:

1. Term

This Agreement shall be effective on July 2, 2001, and shall remain in force for one (1) year. This Agreement shall automatically be renewed for successive one (1) year terms unless either Party requests in writing, at least ninety (90) days prior to the anniversary date, that this Agreement not be so renewed.

2. SPECIFICATION COMMENTS

All products covered under this Agreement shall be in accordance with Purchaser's specifications and drawings listed herein ("Products").

3. TITLE AND SHIPPING

All shipments by Solectron and EXW: Solectron facility/point of shipment (Incoterms 2000).

4. PAYMENT TERMS

- a. Solectron and Customer agree to payment terms of Net 30 days from the latter of the date of invoice of shipment.
- b. All prices and payments shall be in U.S. Dollars unless otherwise agreed by the Parties.
- c. Except for the net value added taxes, prices are exclusive of all taxes, duties, customs or similar charges and are subject to an increase equal in amount to any charge Solectron may be required to collect or pay upon shipment of the Product.
- d. Until Solectron has received payment in full, Solectron retains a security interest in the Products delivered to Purchaser.

5. PURCHASE ORDERS AND FORECASTS

- a. Purchaser will provide to Manufacturer firm purchase orders for a minimum of sixty (60) days in advance of delivery of Products. Further, Purchaser will maintain a six month non-binding forecast by month of planned purchases of Products and will issue revisions of that forecast to Manufacturer monthly. Manufacturer will purchase materials per purchase order and forecast based on lead-time and inventory-class buy policy. Purchaser is responsible for material purchased upon Purchaser's purchase order or, with Purchaser's pre-approval, purchased upon Purchaser's non-binding forecast, in case of Purchaser requested schedule reductions or cancellations, but only for items that cannot be rescheduled or cancelled. Purchaser will maintain a minimum of sixty (60) days of Products on order at all

times. Each purchase order shall become effective upon acceptance of the order by Manufacturer.

- b. Purchaser may reschedule deliveries on Products under purchase orders in accordance with the following schedule:

Number of days prior to the original schedule the delivery date that written notice of a change OR rescheduling is received by Solectron.	Maximum percentage of the Product quantity by which the scheduled delivery can be decreased or rescheduled for later delivery without incurring cancellation charges.
00 - 60 DAYS	0% can be rescheduled. Total volume is firm. Mix changes are acceptable with thirty (30) calendar days prior written notice. Purchaser remains fully liable for all material.
61 - 90 DAYS	25% of total volume can be rescheduled, one time per purchase order, only, for a maximum reschedule of sixty (60) days from the original delivery date acknowledged by Manufacturer. Purchaser will be responsible for a one percent per month carrying charge on Manufacturer's cost of the material acquired pursuant to the original delivery date that cannot be rescheduled or cancelled.
91 - 120 DAYS	50% of total volume can be rescheduled. Purchaser will be responsible for a one percent per month carrying charge on Manufacturer's cost of the material acquired pursuant to the original delivery date that cannot be rescheduled or cancelled.
120 + DAYS	100% of total volume can be rescheduled.

If a Purchaser requested reschedule represents an acceleration or increase, Manufacturer shall use commercially reasonable efforts to meet Purchaser's request. Purchaser shall be responsible for the costs reasonably and directly incurred by Manufacturer to meet

Purchaser's request, subject to prior written notification to and written approval by Purchaser.

The maximum amount of rescheduled Product is limited also by the capability of Manufacturer to produce the remaining Product, as contracted, within the time remaining in the Term. Should Purchaser request a reschedule of product (while meeting all other reschedule constraint conditions) beyond the term of this Agreement or such that Manufacturer cannot complete the total contracted production within the Term of this Agreement due to manufacturing capacity constraints, material procurement constraints, or any other situations not caused or controlled by Manufacturer, then Manufacturer and Purchaser shall discuss reasonable solutions to such scheduling problems, including extending the term of this Agreement to accommodate those problems.

- c. Upon Manufacturer's request, Purchaser may give written authorization to Manufacturer to order or procure materials with long lead-times in order to improve Manufacturer's ability to respond to changes in Purchaser's forecast. Specific limits regarding the quantity and/or dollar value of this material shall be documented in writing and provided to Purchaser on a case-by-case basis.
- d. Purchaser shall not be responsible for rescheduling charges if Purchaser reschedules delivery of Products as a result of Manufacturer's failure to deliver Products which meet the requirements of this Agreement or to deliver Products in accordance with specified delivery schedules.
- e. All purchase orders issued by Purchaser shall contain the following information:
1. Purchaser's part number, description, and revision level of Product to be shipped.

2. The delivery schedule.

3. The unit price.

No more than one type of Product can be ordered per purchase order.

6. WARRANTY

a. Product Warranty

Manufacturer warrants that the Products sold hereunder will be free from defects in material, manufacture and workmanship (to exclude customer provided materials; i.e. "consigned", and will perform in accordance with the applicable Specifications under normal handling, use and operation for a period of eighteen (18) months from the date Purchaser receives the Product.

Manufacturer's sole obligation under this Product Warranty, and Purchaser's sole and exclusive remedy, shall be at Manufacturer's option, to either repair, replace or credit

Purchaser's account for any Products found to be defective during this warranty period. This remedy is made on the following conditions:

i. Manufacturer is notified in writing of the defective Products within a reasonable time after Purchaser or Purchaser's customer acknowledges receipt of Products.

ii. Purchaser shall forward defective Products to Manufacturer at Manufacturer's expense. Manufacturer shall use its best effort to return the repaired or replaced Products freight prepaid by Manufacturer to Purchaser no later than thirty (30) days from the date Manufacturer receives the defective Products. Such Products will be returned Manufacturer F.O.B. destination. The Product Warranty referred to in this Agreement shall apply to all Products supplied to replace defective Products.

Repaired Products shall be warranted for a period of ninety (90) days or the remainder of the original warranty period, whichever is longer. The aforementioned warranties shall inure to Purchaser and its assigns and may be passed through to Purchaser's customers.

b. The foregoing warranty shall not be valid if the Products or component parts have been subjected to abuse and the defects are the result of misuse, accident, neglect, alteration, or improper testing, storage, and/or improper installation by Purchaser, or its agents and other subcontractors.

c. Products shall be accepted by Manufacturer once Purchaser has identified the returned goods with the proper Returned Material Authorization (RMA) number displayed on the shipping cartons and the associated Product name. In addition, if there is more than one RMA lot being returned at any given time, there cannot be more than one RMA lot per shipping container. RMA numbers shall be issued by the Program Manager or designate.

d. Once RMA lot receipts are acknowledged by Manufacturer, these lot(s) will be returned to Purchaser in new shipping containers with proper

RMA number and Product name displayed on the carton. The period for this return will be thirty (30) calendar days from the date of receipt at Manufacturer. Should any of the containers be damaged in shipment from the Purchaser to Manufacturer which in turn causes damage to the Products contained, Purchaser's carrier will be notified immediately so insurance claims can be filed by Manufacturer.

- e. Product which are returned to Manufacturer with alleged defects, which Products are found to be in proper working order, upon return to Purchaser may be subject to a twenty-five dollar (\$25.00) surcharge to cover the costs of handling and testing.
- f. Upon Purchaser's request, Manufacturer will repair out-of-warranty Products. Each such out-of-warranty repair shall be charged as agreed to by both Parties. This repair cost basis will be one of the following: (1) charged at a time and material basis; (2) average cost. re-

pair cost basis; (3) fixed unit repair cost. Manufacturer warrants each such repair for a period of four months for material and six months for manufacturing workmanship from the date of Purchaser's receipt of the repaired Products. Manufacturer shall pay all freight charges for repaired Products requiring a second repair under Manufacturer's warranty for repaired Products as set forth in this paragraph.

7. DELIVERY

Products shall be delivered to Purchaser in accordance with required delivery dates as specified on Purchaser's purchase orders as agreed-to by Manufacturer. Upon learning of any potential delays, Manufacturer shall immediately notify Purchaser in writing, as to the cause and extent of such delay. The Purchaser may request overnight or special delivery on Products failing to meet the ship-dates specified on purchase orders, the incremental cost to be paid by the Manufacturer if the delay is due to causes within Manufacturer's control. If the delay is due to causes within Purchaser's control, incremental cost for overnight or special delivery on Products to be paid by the Purchaser.

8. TERMINATION AND CANCELLATION

- a. For Cause - This Agreement may be terminated by either Party at any time upon occurrence of any one or more of the following Events of Default:
  - (1) failure of the other Party: a) to perform pursuant to the material terms and conditions of this Agreement; and b) to cure such performance deficiency within sixty (60) days after receiving written notice thereof given by the aggrieved Party; or
  - (2) the entering into or filing by the other Party of a petition, arrangement or proceeding seeking an order for relief under the bankruptcy laws of the United States, a receiver-ship for any assets of the other Party; a composition with or assignment for the benefit of its creditors; a readjustment of debt or the dissolution or liquidation of the other Party.
- b. For Convenience - Either Party may terminate this Agreement for convenience upon one hundred and twenty (120) days written notice to the other Party.
- c. Upon termination, Purchaser shall be responsible for any unique, non-cancelable material acquired plus handling charges pursuant to purchase orders and mutually agreed upon long lead time items

purchased to forecast. Any such material shall be shipped promptly Purchaser upon termination and shall be subject to the then current pricing and payment terms. Purchaser shall also be responsible for any mutually agreed upon unamortized investment incurred by Manufacturer at the time of termination in the event that Purchaser terminates the Agreement.

- d. If Manufacturer agrees to purchase order reschedules in excess of those allowed specified in paragraph 5.b, or if Purchaser suspends, reschedules or does not issue purchase orders for forecasted shipments to which long lead-time material purchases have been made,

then Manufacturer may invoice for finished product and/or raw material carrying charges. Such carrying charges shall be calculated monthly at 1.0%.

here:

I = total dollar value at Manufacturer's actual cost of unused raw material inventory being held by Manufacturer.

P = prime interest rate expressed as a decimal.

#### 9. INSPECTION

- a. Upon request and reasonable notice from Purchaser, Manufacturer shall allow Purchaser to inspect and review the work being performed under this Agreement, including materials and supplies being used. However, shipments will not be delayed if Purchaser fails to effect such source inspection. Source inspection does not constitute acceptance. Final acceptance shall be at Purchaser's facility.
- b. Purchaser shall have a reasonable time not to exceed thirty (30) days after actual receipt of Products for domestic shipments within which to inspect prior to Purchaser's acceptance thereof. For shipments of overseas via boat, Purchaser shall have sixty (60) days after shipment date within which to inspect prior to Purchaser's acceptance thereof. Purchaser will notify Manufacturer in writing of all particular deficiencies of the same during the inspection period.
- c. In the course of purchasing component parts on behalf of Purchaser, Manufacturer must follow Purchaser's Approved Vendors list (AVL) for all component parts. If Manufacturer offers alternative to Purchaser's AVL, the alternative may be approved in writing by Purchaser prior to procurement/ production at Manufacturer's facility.

#### 10. ENGINEERING CHANGE ORDERS

It is recognized that from time to time Manufacturer will be asked to implement ECOs. The following delineates the procedures to be followed by the Parties:

- a. Purchaser must notify Manufacturer in writing of proposed ECO. This notification will include the documentation of the change to effectively support Manufacturer's investigation of the impact of this proposal. The documentation should include: ECO form with written description of change, revised BOM, drawings, AVL, media, required implementation date, etc.
- b. If such changes cause an increase or decrease in the total number of Products due under an order issued hereunder or in the time required for its performance, an equitable adjustment shall be made; provided, however, that any claim by either Party therefore must be asserted in writing in the form of a quotation within thirty (30) calendar days from the acknowledged receipt date of the change notice by

Manufacturer.

- c. Upon notice of a change. Manufacturer shall use commercially reasonable efforts to review all costs impacted within five (5) days after Manufacturer's receipt of ECO proposal. All cost impacts and material availability issues will be presented, mutually reviewed and agreed to in writing with Purchaser prior to Manufacturer's implementation.
- d. Purchaser will be responsible for all expedite costs associated with emergency ECO implementation. For non-emergency ECO's, Manufacturer shall present the cost impacts and material availability issues, to be mutually reviewed and agreed-to in writing by the Parties prior to Manufacturer's implementation.
- e. Manufacturer shall notify Purchaser in writing of any proposed changes to the Products. If Purchaser has not given approval of any proposed changes within fifteen (15) calendar days after receipt of such written notification, Manufacturer will conclusively presume that Purchaser has disapproved the change. Manufacturer will continue to deliver un- changed Products in accordance with the provisions of this Agreement should Purchaser not approve the proposed change.

11. CONFIDENTIALITY

Both Parties acknowledge that, by reason of their relationship. they may have access to certain information and materials concerning the other's business, plans and Products (including, but not limited to, information and materials contained in technical data provided to the other Party) which is confidential and of substantial value to the other Party, which value would be impaired if such information were disclosed to third parties. Neither Party shall use in any way, for their own account or the account of any third party, nor disclose to any third party, any such confidential information which is revealed to it by the other Party hereto, without written consent of the other Party. Each Party shall take every reasonable precaution to protect the confidentiality of such information consistent with the efforts exercised by it with respect to its own confidential information. Each Party shall advise the other if it considers any particular information or materials to be confidential. This provision shall survive termination of this Agreement.

All written data such as drawings, plans, reports, designs, schematics, bill of materials, and other specifications supplied by Purchaser to Manufacturer shall remain the exclusive property of Purchaser. Such data and any copies thereof, together with all data furnished by Purchaser and any copies thereof, shall be returned to the extent requested upon completion of the services, in the event of termination under the Agreement. or upon the earlier written request therefore by.

12. INDEMNIFICATION

Each Party shall indemnify and defend the other Party against all claims, suits, losses, expenses and liabilities for bodily injury, personal injury, death and property damage directly or indirectly caused by any Products or through the intentional acts or negligence of a Party or of any. person for whose actions said Party is legally liable. Both Parties shall carry and maintain liability insurance coverage to satisfactorily cover its obligations under this Agreement.

13. COMPLIANCE WITH APPLICABLE LAWS

Manufacturer and Purchaser has been, and shall continue to be, in material compliance with the provisions of all federal, state and local laws, regulations, rules and ordinances to the transactions governed by this Agreement.

14. FORCE MAJEURE

In the event that performance by either Party of its obligations under this Agreement is prevented due to any Act of God, fire, casualty, flood, earthquake, war, strike, lockout, epidemic, destruction of production facilities, riot, insurrection, material unavailability, or any other cause beyond reasonable control of the Party invoking this section -and if such Party shall give prompt written notice to the other Party - its performance shall be excused, and the time or the performance shall be extended for the period of delay or inability to perform due to such occurrences as stated above.

15. MISCELLANEOUS

a. SEVERABILITY: In the event that one or more of the provisions, or parts thereof, contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable by a court of competent jurisdiction, the same shall not be invalidated or otherwise affect any provision in the Agreement, and the Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

b. INTEGRATION AND MODIFICATION: This Agreement constitutes the entire and exclusive statement by Purchaser and Manufacturer of the terms of their Agreement, notwithstanding any additional or different terms that may be obtained in quotation, acknowledgment, confirmation, purchase order, invoice or other form of Purchaser or Manufacturer. All prior and contemporaneous proposals, negotiations, representations and agreements are merged in the Agreement. These terms of the Agreement may not be altered, modified, superseded, amended or rescinded, and no additional terms shall become a part of the Agreement, except pursuant to a writing specifically referencing the Agreement and signed by a representative of the Party against whom enforcement is sought.

c. NOTICE: Unless otherwise specified in the Agreement, all notices and other conditions permitted or required by the provisions of those documents shall be in writing and shall be mailed, telecopied, telegraphed, telexed, or delivered to the other Party at the address set forth below (or at such other address as either Party shall designate in writing to the other party during the term of this Agreement) and shall be effective and deemed received: i) if mailed, when actually received; ii) if telecopied, when actually received; iii) if telegraphed, when actually received; iv) if telexed, when dispatched; or v) if personally delivered, when delivered. Each notice to Manufacturer or Purchaser shall be addressed, until notice of change thereof as follows:

i. If intended for Manufacturer, to:

Solectron Corporation  
847 Gibraltar Drive  
Milpitas, CA 95035

ii. If intended for Purchaser, to:

Arris Interactive, LLC  
3871 Lakefield Drive, Suite 300  
Suwanee, Georgia 30024-1242

- d. ASSIGNMENT: This Agreement shall not be assignable by either Party without the prior written consent of the other Party, such consent shall not be unreasonably withheld, and any purported assignment, including full or partial assignment or delegation to any agency or subcontractor, not permitted hereunder shall be void. If consent is given, this contract shall be binding upon and inure to the benefit of the assigns.
- e. WAIVER: No failure or delay on the part of either Party hereto in exercising any right or remedy under the Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any such right or remedy. No provision of the Agreement may be waived except in writing signed by the Party granting such waiver.
- f. GOVERNING LAW: The Agreement shall be governed by and construed in accordance with the laws of the State of California. Acceptance or acquiescence in a course of performance rendered under the Agreement shall not be relevant to determining the meaning of the Agreement, even though the accepting or acquiescing Party had knowledge of the nature of the performance and an opportunity for objection. No course of prior dealing between the Parties and no usage of the trade shall be relevant to supplement or explain any terms used in the Agreement.
- g. CONSEQUENTIAL DAMAGES: In no event shall Purchaser or Manufacturer be liable for special, incidental or consequential damages including without limitation, loss of profits, even if advised of the possibility thereof.

16. PRICING

- a. The prices for the Products shall be those set forth in quotations provided by Manufacturer and accepted by Purchaser's purchase order(s). Prices are exclusive of all taxes now in force or enacted in the future and therefore are subject to increase equal in amount to any tax Manufacturer may be required to collect or pay upon the sale or delivery of any Products or on this transaction with Purchaser's prior approval.
- b. Cost reductions will be sought by Purchaser and Manufacturer for each Product through the terms of this Agreement Manufacturer will revise pricing for each cost reduction based on the effectivity as follows:
  - (i) Purchaser identified cost reductions will be reflected in the pricing 100% after depletion of inventory.
  - (ii) Manufacturer identified cost reductions will be reflected in the pricing 50% after depletion of inventory. Thereby sharing the cost reduction partially with Purchaser, but limited to a period of 180 days plus depletion of inventory, thereafter the full cost reduction will be reflected in the base material cost.
- c. Pricing will be reviewed and adjusted each calendar quarter by Manufacturer to reflect as a minimum; ECOs, present market conditions for material, cost reductions, present process yields, and changes in demand.

17. PROGRAM IMPROVEMENTS

Notwithstanding Paragraph 16, Purchaser and Manufacturer will jointly work towards process improvements in the following areas:

- \* Cost
- \* Quality

- \* Cycle Time
- \* On-time Delivery
- \* Communication
- \* Design improvements on manufacturability, quality, and cost.
- \* Other

Purchaser and Manufacturer will meet every three (3) months to review current worldwide material prices for high dollar components and make changes with mutual agreement to procurement strategy to achieve best total pricing. In addition, the items listed above will also be included in the review cycle.

18. NON-RECURRING EXPENSES AND PURCHASER OWNED EQUIPMENT

a. Upon prior authorization via a purchaser order by Purchaser, Manufacturer shall order and purchase for Purchaser at Purchaser's expense all of the process tooling, assembly tools, and test fixtures required to manufacture the Products except for tools consigned by purchaser and listed in Exhibit A. Manufacturer shall submit the request for authorization to Purchaser in writing and Purchaser shall grant or deny the request in

writing within ten (10) days after the date of request. If Purchaser does not respond to Manufacturer within the prescribed period for each request, the request shall be canceled. Manufacturer shall not be liable for the impact to production schedules should Purchaser not grant authorization or should not respond to a request in a timely manner. All orders and forecasts for Products requiring the tooling shall be mutually reviewed and adjusted accordingly.

b. Manufacturer shall provide or contract for all maintenance and calibration required for the process tooling, manufacturing tooling and test equipment whether purchased by Manufacturer or consigned by Purchaser while in the possession of Manufacturer. Preventative maintenance shall be at the expense of Manufacturer. Remedial maintenance and scheduled calibration required shall be at the expense of the Purchaser.

c. Upon termination of this Agreement Manufacturer shall package and ship to Purchaser, F.O.B. Manufacturer shipping point and at the risk and expense of Purchaser, all of the process tooling, manufacturing tooling and test equipment paid for by Purchaser as well as all consigned tooling and equipment supplied by Purchaser.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

FOR: SOLECTRON CORPORATION,  
(Manufacturer)

FOR: ARRIS INTERACTIVE L.L.C.  
(Purchaser)

By: /s/ George W. Moore  
-----

By: /s/ James D. Lakin  
-----

Name: George W. Moore  
-----

Name: James D. Lakin  
-----

Title: Corporate Vice President  
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Title: President  
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Date: 6/12/01

Date: 6/29/01

APPENDIX A

MANUFACTURING SITES LISTING

As of July 2, 2001, this Manufacturing Services Agreement applies to the following Solectron manufacturing sites who are conducting business with Arris Interactive, L.L.C. :

SOLECTRON DE MEXICO, S.A. DE C.V.  
Prol. Lopez Mateos Sur 2915, Km. 6.5  
Tlajomulco de Zuniga, Jalisco Mexico

SOLECTRON GEORGIA  
437 Old Peachtree Road  
Suwanee, Georgia 30024

SOLECTRON CALIFORNIA  
48233 Warm Springs Blvd.  
Fremont, California 94539  
Solectron Charlotte

SOLECTRON NORTH CAROLINA  
6800 Solectron Drive  
Charlotte, North Carolina 28262

SOLECTRON MASSACHUSETTS  
125 Fisher St.  
Westboro, MA 01581

ARRIS NETWORK TECHNOLOGIES BUSINESS UNIT ADDENDUM  
TO THE  
MANUFACTURING SERVICES AGREEMENT

This ARRIS Network Technologies Business Union Addendum to the Manufacturing Agreement (this "Addendum") is entered into on the 22 day of October 2001 ("Effective Date") by and between Solectron Corporation, a Delaware corporation located at 847 Gibraltar Drive, Milpitas, CA 95035 ("Solectron"), and ARRIS International, Inc., a Delaware Corporation having a principal office at 11450 Technology Circle, Duluth, Georgia 30097 ("ARRIS" and "Purchaser").

RECITALS:

WHEREAS, Solectron and the Purchaser are parties to that certain Manufacturing Services Agreement effective on July 2, 2001, as amended, (the "MSA");

WHEREAS, Solectron and the Purchaser desire to add certain terms related only to the ARRIS Network Technologies Business Unit manufacturing services, that in no way modify or alter the MSA, except to add additional terms applicable only to the ARRIS Network Technologies Business Unit manufacturing services;

WHEREAS, ARRIS Network Technologies Business Unit currently manufacturers many of its products at the following facilities:

ANA: that is, ARRIS facilities located at Avenida San Lorenzo 425, Cd. Juarez, Chihuahua, Mexico;

AA: that is, ARRIS facilities located at C. Tapioca No. 5455-A, Cd. Juarez, Chihuahua, Mexico;

Plastics: that is, ARRIS facilities located at 12055 Rojas Dr. Suite A, El Paso, Texas;

WHEREAS, ANA, AA and Plastics are collectively referred to herein as the "Manufacturing Facilities";

WHEREAS, ARRIS wishes to outsource to Solectron the manufacturing for the products manufactured at the Manufacturing Facilities ("Products"); and

WHEREAS, the parties agree that Solectron shall become ARRIS' exclusive manufacturer for the Products, subject to the terms hereof.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Solectron and the Purchaser hereby agree to the following Addendum terms applicable only the ARRIS Network Technologies Business Unit manufacturing services for the Products:

1. Solectron and ARRIS hereby agree that the terms and conditions of the MSA, as specifically added to or modified by this Addendum for the stated limited purposes related to the

Product, are applicable to the manufacturing services to be performed on the Products related to the ARRIS Network Technologies Business Unit.

2. ADDITION TO SECTION 1 OF THE MSA. The following is added to the end of Section 1: "Solectron will invest significant capital in start-up costs for the manufacturing of the Products. To make the efforts contemplated under this Addendum a worthwhile effort, the ARRIS and Solectron agree to a term of two (2) years, with respect to the Products. ARRIS agrees to such two-year term, provided that Solectron's performance meets commercially reasonable two-year term, provided that Solectron's performance meets commercially reasonable performance measures with respect to quality and delivery, and that its price and terms are competitive, given Solectron's additional engineering and design work. Following a two-year term, the term shall revert to the Manufacturing Service Agreement No. SLRDC180-071001, Section 1.3.

3. PURCHASE ORDERS AND FORECASTS, ADDITION TO SUBSECTION 5.A AND 5.C. The following is added to the end of Subsections 5.a and 5.c, to read as follows:

5.a. Purchaser will provide to Manufacturer firm purchase orders for a minimum of sixty days for sales order and target inventory. Further, Purchaser will maintain a six-month non-binding forecast by month of planned purchases of Products and will issue revisions of that forecast to Manufacturer monthly. Manufacturer will purchase materials per purchase orders. Purchaser is responsible for material purchased upon Purchaser's purchase order or, with Purchaser's pre-approval, in case of Purchaser requested schedule reductions or cancellations, but only for items that cannot be rescheduled or cancelled. Each purchase order shall become effective upon acceptance of the order by Manufacturer. Manufacturer shall respond to Purchase Order request within two business days.

5.c. The desired lead time for all products from Manufacturer is eight weeks or less. Upon Manufacturer's request, Purchaser may give written authorization to Manufacturer to order or procure materials with long lead-times in order to improve

Manufacturer's ability to respond to changes in Purchaser's forecast. Specific limits regarding the quantity and/or dollar value of this material shall be documented in writing and provided to Purchaser on a case-by-case basis.

4. AMENDMENT TO SUBSECTION 8.B. Section 8.b is modified for this Addendum to read as follows: "For Convenience -During the two (2) year term of this Addendum, there shall be no right of termination for convenience by either party.

5. AMENDMENT TO SUBSECTION 8.D. Section 8.d is modified to eliminate the following: "here: I = total dollar value at Manufacturer's actual cost of unused raw material inventory being held by Manufacturer. P = prime interest rate expressed as a decimal."

6. AMENDMENT TO SECTION 14. The following phrase is deleted from Section 14: "material unavailability".

7. ADDITION TO SUBSECTION 15.D. The following is added to the end of Subsection 15.d.: "It is recognized that ARRIS, from time to time, may choose to exit or dispose of certain product liens. It is understood that ARRIS has no obligation to Solectron to remain in business or otherwise continue to purchase products of such product lines if and when actions are taken, subject to the material liability terms, and other applicable terms of the MSA."

8. ADDITION TO SUBSECTION 16.C. The following is added to the end of Subsection 16.c, for the purposes of the Products covered by this Addendum:

16.c.(i) Solectron will manufacture and sell the Products to ARRIS at a price ("Price") that is the same as the ARRIS' standard cost of the Products ("ARRIS' Cost" or "Cost") for a period not to exceed six (6) months. To determine the Cost, ARRIS will compile and provide information to Solectron showing ARRIS Standard Costs, including components, labor and overhead and ARRIS shall provide such information to Solectron no later than 15 days from the Effective Date of this Agreement.

16.c(ii) Solectron shall continue to offer to ARRIS the Products at the ARRIS' Cost during the first six (6) months of the term of this Addendum. However, during said six (6) month period, said Cost shall be subject to adjustment due to the following reasons:

- a. A dollar for dollar ("Pro Tanto") increase or decrease in Price due to bill of materials ("BOM") errors, labor hours errors, other errors in ARRIS' submitted accounting documents upon which the Price and ARRIS Cost are based, or as authorized by ARRIS pursuant to Section 16.;
- b. After the first 6 months from the date of this Addendum, based on inventory depletion, Arris and Solectron shall work together to target joint Cost Reduction opportunities. The intent shall be to agree on a pricing model which includes Solectron's costs, including, but not limited to cost of acquisition and transformation cost consisting of materials, cost of acquisition, labor and overhead on future pricing. Pricing will be reviewed quarterly in accordance with paragraph 16.c. of the current MSA (SLR DC180-071001); and
- c. Negative purchase part variances and cost impacts from engineering changes.

9. ADDITION TO SECTION 18. Section 18 is modified to add the following one-time occurrences directly related to this Addendum:

18.d. To support the manufacturing efforts at the Manufacturing Facilities, ARRIS has a significant amount of assets, typically in the form of capital equipment. ARRIS will sell to Solectron those as per the mutually agreed Transfer Schedule those assets which Solectron determines are necessary or required to manufacture the Products ("Capital Equipment") at the book value or market value, whichever is less, as of the Effective Date of this Addendum. Solectron shall be responsible for the packing and shipping costs of transferring the Capital Equipment from ARRIS' facilities to Solectron's facilities.

18.e. ARRIS will deliver to Solectron the Product-unique assets ("PU Assets"), such as tooling and test equipment. Solectron will be allowed to use the PU Assets, at no charge to Solectron. Solectron shall be responsible for the packing and shipping costs of transferring the PU Assets from ARRIS' facilities to Solectron's facilities. ARRIS shall be responsible for packing and shipping costs associated with the return of the PU from Solectron's facilities to ARRIS's, or ARRIS designee's facilities.

18.f. Solectron shall pay for all its NRE costs and other costs associated with Solectron's engineering, manufacturing and other internal costs associated with the transfer of the manufacturing of the Products.

18.g. ARRIS shall pay for all their internal costs of crating, packaging, travel, training, etc. to support the efforts under this Product transfer.

18.h. The closing of ARRIS' Manufacturing Facilities will result in the laying off or termination of most of the ARRIS employees from the Manufacturing Facilities. Solectron Monterrey, Mexico (hereafter known as "SLR-MTY") will use good faith and commercially reasonable efforts to hire approximately 15 to 18 of the current ARRIS employees from the Manufacturing Facilities offer these employees at Solectron's minimum standard relocation package.

10. THE FOLLOWING SUBSECTION TITLED "19.0 PPM INVENTORY" IS ADDED TO THE MSA IN RELATION TO THE PRODUCTS AND READS AS FOLLOWS:

#### 19. PPM INVENTORY

19.a. ARRIS currently has in its Manufacturing Facilities a significant amount of inventory including raw material, components, and subassemblies, which material ARRIS had been using in the manufacturing of the Products ("PPM Inventory"). ARRIS will make a list of all such inventory and its respective cost, provide said list to Solectron and deliver all the PPM inventory to be stored at ALMACENADORA USCO LOGISTICS DE MEXICO, S.A. DE C.V., or as otherwise reasonably determined by Solectron.

19.b. Solectron shall use reasonable commercial efforts to utilize the PPM Inventory in its manufacture of the Products for ARRIS and its other global manufacturing operations.

19.c. Solectron shall keep track of its usage of the PPM Inventory, and issue a bi-weekly report of such usage to ARRIS. Upon issuance of said bi-weekly reports, Solectron shall issue a purchase order ("PO") to ARRIS for the consumed PPM Inventory at the Standard Cost or Weighted Average Cost, whichever is lower. Solectron shall pay ARRIS for the consumed PPM Inventory within thirty (30) days of the date of the bi-weekly report.

19.d. If Solectron has not used up all the PPM Inventory within one year of the Effective Date, ARRIS and Solectron shall negotiate a way

to use, sell or otherwise dispose of the remaining PPM Inventory. After such one-year period following the Effective Date of this Addendum, ARRIS shall be responsible for all of Solectron's costs

associated with the ARRIS PPM Inventory, until such time as the ARRIS PPM Inventory is depleted.

19.e. ARRIS is responsible for insurance on the ARRIS Owned Inventory (PPM Inventory) which will be managed by Solectron. Solectron is responsible for the storage and handling cost of the PPM Inventory, subject to the terms of Section 19.d, upon receipt of the designated storage site.

11. SOFTWARE. All software, which ARRIS provides to Solectron, is and shall remain the property of Arris. Arris grants to Solectron a license to copy, modify and use such software as required to perform Solectron obligations under this agreement. All software developed by Solectron to support the production process or otherwise shall be and remain the property of Solectron.

12. BANKING. The parties acknowledge that ARRIS has in place a secured credit facility pursuant to a credit agreement (the "Credit Agreement") with a syndicate of lenders (the "Lenders") led by Credit Suisse First Boston ("CSFB") and The CIT Group/Business Credit, Inc. ("CIT"). In connection with that Credit Agreement, the parties further agree that the obligations of ARRIS under this Addendum shall be subject to the following conditions precedent:

- a) Solectron shall have provided to the Lenders all required consents, releases and acknowledgements in the form of collateral access agreements, warehousemen's letters, UCC consignment financing statements or other documents, recognizing the Lenders' security interests and waiving any conflicting claims in the ARRIS assets in the possession of Solectron in such form and covering such other matters as the Lenders may require, including, but not limited to, agreeing to act as custodian or depository in order to perfect a possessory security interest under Mexican law in favor of CIT, as agent for the Lenders, in the assets of Arris held by Solectron, all of the foregoing to be in form and substance reasonably satisfactory to CSFB and CIT; and
- b) The receipt by Arris of all consents, waivers, modification or approvals from the Lenders as Arris believes are necessary or prudent under the Credit Agreement.

13. LIMITATION ON AMENDMENT. The changes made to the MSA herein apply only to this Addendum, and except as expressly modified for the purposes of this Addendum only, the Manufacturing Services Agreement shall remain in full force and effect, without modification or waiver.

14. GOVERNING LAW. This Amendment shall be governed by, and construed in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their duly authorized representatives as of the date first written above.

FOR SOLECTRON CORPORATION:

FOR ARRIS International, Inc.

(Solectron)

By: /s/ Jose Almaraz

-----  
Name: Mr. Jose Almaraz

-----  
Title: General Manager Solectron Monterrey  
-----

(Purchaser)

By: /s/ David B. Potts

-----  
Name: David B. Potts

-----  
Title: Senior V.P. Finance  
-----

## ARRIS INTERACTIVE/MITSUMI

ELECTRIC CO., LTD.

## MANUFACTURING AGREEMENT

JULY, 1997

## MANUFACTURING AGREEMENT

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#### MANUFACTURING AGREEMENT

THIS MANUFACTURING AGREEMENT (the "Agreement") is made effective as of the \_\_\_\_ day of 1997 (the "Effective Date") by and between Mitsumi Electric Co., Ltd. , 8-8-2 Kokuryo-cho, Chofu-shi, Tokyo, 182 Japan (hereinafter "Manufacturer") and ARRIS INTERACTIVE L.L.C., a limited liability company organized under the laws of the State of Delaware, located at 3871 Lakefield Drive, Suwanee, Georgia, 30024 (hereinafter "Customer").

WITNESSETH:

WHEREAS, Customer desires to have Manufacturer manufacture and assemble certain Products (as hereinafter defined) pursuant to one or more Purchase Orders (as hereinafter defined) issued by Customer in accordance with this Agreement; and

WHEREAS, Manufacturer desires to manufacture and assemble such Products for Customer hereunder;

NOW, THEREFORE, Customer and Manufacturer, in consideration of the mutual premises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, agree as follows:

## SECTION 1: DEFINITIONS

Capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings set forth below.

"Affiliate" of a corporation shall mean its subsidiaries, any company of which it is a subsidiary, and other subsidiaries of such company.

"Bill of Materials" shall mean a listing or reference for the Hardware, Firmware and Software components included in or required for the manufacture or assembly of the Products based on their Specifications.

"Changes and Errors" shall mean material, manufacturing labor and engineering support incurred as the result of the implementation of product design changes resulting from engineering change notices ("ECNs") issued by the Customer, and applicable to manufacturing correction or rework of current production in process.

"Components" shall mean parts, materials, firmware and software listings included in or required for the manufacturing of each Product, as provided in the Bill of Materials for such Product.

"Days" shall mean calendar days, unless otherwise specified, provided that if a deadline falls on a Saturday, Sunday, or holiday, it shall be extended until the following regular business day.

"Delivery" shall mean delivery of Products, FOB Manufacturer's facility.

"Effective Date" shall mean the date first written above.

"Engineering Change Notice [ECN]" shall mean a Product design change, manufacturing specification change or process change initiated by the Customer to address product related issues potentially affecting the performance, reliability, safety, serviceability, cost, manufacturability or Form, Fit, or Function of the Products.

"Excess and Obsolete" shall mean surplus in material inventory resulting from a reduction in production forecast by the Customer or as a result of a procurement strategic decision initiated by the Customer, and surplus material resulting from implementation of design changes and ECNs rendering Components obsolete.

"Firmware" shall mean a combination of (1) hardware and (2) software represented by a pattern of bits contained in such hardware.

"Form" shall mean physical size, appearance, layout, shape, and dimensions.

"Fit" shall mean mounting, protocol and interface connections and operations (i.e., electrical or mechanical connections).

"Function" shall mean product operation, functionality and features.

"Intellectual Property Rights" shall mean any rights under patent, semiconductor chip protection, copyright, trade secret, trademark, or similar laws which would restrict the manufacture, assembly, or distribution of the Products or the subsequent use, sale, or repair of the Products as purchased by Customer from Manufacturer hereunder.

"Known Product Defect" shall mean documented known field product issues requiring correction resulting from outstanding product ECNs or manufacturing defects.

"Manufacturing and Design Documentation" shall mean materials and media provided to Manufacturer by Customer or third-party contractors, suppliers, or licensors acting at Manufacturer's request, in each case

specifically for use in the manufacture and assembly of Products hereunder, including drawings, routings, Bill of Materials, schematics, circuit diagrams, Specifications, and test documents.

"Nonrecurring Charges" shall mean charges for special engineering work or other activities listed under this designation in a Statement of Work.

"Preproduction" shall mean the period proceeding standard manufacturing where initial pilot production runs are being produced to demonstrate product functionality, manufacturing processes and test yields.

"Product Code" shall mean an identification code for each Product components; the .product code will include a product identification code and a vintage release number to provide traceability of product changes.

"Purchase Order" shall mean an order to purchase a specific quantity of a Product submitted by Customer and accepted by Manufacturer in accordance with this Agreement, which refers to the type and volume and timing of Products to be manufactured and purchased; price terms; scheduled delivery dates (unless submitted on open delivery terms); and "sold to," and "ship to" addresses. The terms of this Agreement control over any printed terms on a purchase order, acknowledgment, confirmation, or invoice.

"RF Converter" shall mean printed circuit assembly which converts coaxial carried RF signals to a digital bit stream, manufactured by Manufacturer for Customer, and which specifications are listed in Exhibit "B".

"Specifications" shall mean the description of the Product, performance and test requirements as provided through detailed drawings, in-process and final test criteria, or similar documentation.

"Statement of Work" shall mean a document defining a specific task relating to a particular product or Service, documented and agreed on by Manufacturer and Customer, which refers to the Specifications for the Product or Service that the Manufacturer agrees to manufacture, assemble or perform pursuant to Purchase Orders Customer may submit hereunder. This Agreement may include multiple Statements of Work and each Statement of Work shall be considered a separate transaction. The statement of work shall be within the Scope of Work of this Agreement as described in Section 2 hereof. The Statement of Work price terms and applicable manufacturing and testing procedures for each Product will be set forth in a Statement of Work. A Statement of Work may be implemented by reference to a new or change in a particular product.

"Tooling" shall mean all patterns, tools, jigs, dies, equipment.

"Voice Ports" shall mean end subscriber located modules, manufactured by Manufacturer for Customer which interface with the cable network and provide standard or premium telephone or data services to the connected subscribers and which specifications are listed in Exhibit "B".

## SECTION 2: SCOPE OF WORK

Manufacturer agrees to perform for Customer the tasks and services described hereafter, with respect to the Products described within this agreement and according to the accepted schedules and budgets therein, as modified from time to time by mutual agreement, under the specific direction of the designated Technical Coordinator of Customer. Specific requirements from Customer will be addressed with "Statements of Work" defining the task, schedules and budgets items related to a specific requirement. Each Statement of Work will be within the boundary of this Scope of Work, unless modified by mutual agreement.

### 2.1 DESIGN OF PRODUCTS.

Manufacturer shall provide design and manufacturing services and coordinate with such of its affiliates or subcontractors to produce product(s) meeting the specifications in Exhibit "B" per the schedule(s) given in Exhibit "C" as they may be mutually amended.

## 2.2 MANUFACTURING OF PRODUCTS.

Manufacturer shall manufacture and shall coordinate with such of its affiliates or subcontractors (as Customer agrees by written consent, which shall not be unreasonably withheld) and sell Products to Customer, and Customer shall order and purchase Products from Manufacturer, in accordance with the terms and conditions of this Agreement. Manufacturer shall deliver to Customers specified location only that quantity of Products specified in Customers Purchase Orders, at prices set forth in such Purchase Orders. Manufacturer shall be responsible for final assembly and system level testing of all products assembled and/or manufactured under this agreement. The initial product list to be manufactured by Manufacturer are outlined in Exhibit "A" herewith. Customer reserves the right to amend this product list from time to time based on market requirements.

## 2.3 MANUFACTURING PRIMESHIP AND LOCATION.

Manufacturer agrees that Customer has internally qualified Akita Mitsumi Co., Ltd., Japan facilities as the prime manufacturing facilities to perform all Manufacturer's obligations under this Agreement. Accordingly, Manufacturer shall not move or otherwise transfer production of any Products from this facility without the prior, written consent of Customer, which consent shall not be unreasonably withheld. Each party shall provide the other with reasonable access to its facilities reasonably required in connection with the performance of each party's respective, obligations under this Agreement. Manufacturer can elect to use sub-contractors to manufacture sub-assemblies of a product. In such case, Manufacturer shall be responsible for any sub-contracting agreements concerning the manufacture of products sub-assemblies, the co-ordination of manufacturing schedule and the overall quality of the finished products.

## 2.4 MANUFACTURING SCHEDULING

Manufacturer shall coordinate the manufacturing scheduling and material planning with regard to the Products to be manufactured with all necessary affiliates and subcontractors and shall manage the overall production plan and shipments thereunder in accordance with the Manufacturing Forecast provided by Customer in accordance with Section 6 hereof, and the Delivery Dates set forth in the Purchase Orders.

## 2.5 QUALITY ASSURANCE.

Manufacturer shall build and test the Products in accordance with the test procedures and specifications as developed by Manufacturer and agreed to by Customer. Manufacturing test data will be maintained by Manufacturer for at least two (2) years from the date of such test and will be available for inspection by Customer during normal business hours upon reasonable notice.

## 2.6 REPAIRS

Manufacturer shall manage the Repairs process in accordance to Section 16 of this Agreement.

## 2.7 NEW PRODUCT INTRODUCTION

Upon Customer request, Manufacturer shall provide timely manufacturability assessment, test and production engineering support for new and cost reduced Product that is proposed to be introduced by Customer. Customer shall use commercially reasonable efforts to provide

a forward view of the Product development plan and timing for new products. Each new Product will be addressed with a separate Statement of Work defining the deliverables and schedules.

## 2.8 COST REDUCTION AND OPTIMIZATION.

Manufacturer shall use its best efforts to aid Customer with respect to its cost reduction of the Products and shall procure materials and services for the Products such that the lowest overall Product cost is achieved. Manufacturer shall work with Customer to optimize the manufacturing of the Products. In the event that lower total product cost can be achieved through outside subcontracting of manufacturing of specific Products, Manufacturer and Customer shall use their best efforts to transfer out manufacturing of these Products by the Manufacturer in favor of the lower total cost option.

## 2.9 PACKAGING

Packaging shall be in accordance with Customer's standards, unless otherwise mutually agreed in writing. Customer shall specify in each Statement of Work, or otherwise as agreed by the parties, the trademarks and trade dress features to appear on the Products and the publications to be included in packaging.

## 2.10 PROGRAM COORDINATION.

Each party shall appoint Program coordinators to provide operational, commercial and technical liaison with the other party hereto in connection with the manufacture and the delivery of the Products. Each coordinator shall be responsible to provide the official point of interface within each party and will be prime to the provide coordination within their respective organization for all aspect of the execution of this agreement.

Manufacturer Program Coordinator:  
Takeshi Naito  
Phone; 81-3-3489-3800  
Fax; 81-3-3488-1228

Customer Program Coordinator:  
Jeff Milway  
Phone; 770-622-8644  
Fax; 770-622-8645

## SECTION 3: PRICING AND PAYMENT TERMS

### 3.1 PRICING OF PRODUCT AND SERVICES

Pricing for each Product units shall be mutually agreed upon by the parties and shall be defined as follow:

- (i) a pricing schedule for current Products to be manufactured by Manufacturer on a "standard production" basis (Exhibit "A");
- (ii) a pricing schedule for repair services (Exhibit "D");

All prices are in U.S. dollars unless otherwise stated.

Exhibits "A" and "D" are incorporated herein by reference. Manufacturer will sell Products and Services to Customer at the prices indicated on such Exhibits. Changes to pricing schedules shall be mutually agreed on by the parties in connection with each material change in an applicable Bill of Materials for each Product. The parties understand that, during the term hereof, different Products may be manufactured and sold to Customer by Manufacturer upon mutual agreement of the parties. Manufacturer and Customer may agree to amend pricing schedules accordingly. The pricing in Exhibits "B" is subject to periodic review and change by written agreement of the parties.

Unless otherwise expressly stated in writing, Manufacturer's prices are exclusive of charges for Product(s) transportation and other related services, and any sales or other tax or duty which Manufacturer may be required to collect or pay upon the ordered transaction. Premium transportation may be used with Customer's concurrence to expedite delivery but only upon Customer's written request and expense. Premium transportation shall be used by Manufacturer, at its own cost, if necessary to meet Order delivery dates.

### 3.2 PRICING OF NEW PRODUCT(S)

Prices for new Product units shall be mutually agreed upon by the parties and shall be defined according to section 3.1 of this agreement.

### 3.3 PAYMENT

Payment terms are net/45 days from the date Manufacturer issues an invoice.

### 3.4 INVOICING

Manufacturer may invoice for Products upon completion and shipment of such Products pursuant to Purchase Orders. To the extent Manufacturer is entitled to do so under a Statement of Work, Manufacturer may invoice monthly for other Services performed, if any, as set forth in the applicable Statement of Work.

### 3.5 TAXES

Customer shall be responsible for sales, use, or custom taxes or duties resulting from the sale or shipment of Products in accordance with its Purchase Orders. Customer shall provide tax exemption numbers, if applicable, for such purchases.

### 3.6 RECORD KEEPING

Manufacturer shall its maintain records and shall implement mutually agreeable accounting classifications such that charges to Customer are separately identified.

## SECTION 4: PURCHASE ORDERS

### 4.1 PURCHASE ORDERS

Customer will provide Purchase Order(s) on a monthly basis, as its needs require. Such Purchase Order(s) will cover a forward period of a minimum of 60 days.

### 4.2 ACCEPTANCE OF PURCHASE ORDERS

Manufacturer shall accept Purchase Orders conforming to the requirements of this Agreement and Statements of Work then in effect. Manufacturer shall indicate its acceptance of proposed Purchase Order(s) by written acknowledgment of the Purchase Order(s) for quantity and delivery timing requested within ten (10) days after its receipt thereof. Customer shall expect that delivery quantities and timing will be as requested provided that such quantities are within the Product(s) Forecast.

### 4.3 COMPLETION

Upon acceptance of each Purchase Order, Manufacturer will manufacture and assemble the Products called for by such Purchase Order, conduct final testing, and package the Products in accordance with the Products' Specifications.

## SECTION 5: PURCHASE ORDER RESCHEDULING/CANCELLATIONS

5.1 RESCHEDULING

Manufacturer agrees to use commercially reasonable efforts to accommodate Customer's requests for rescheduling (both acceleration and delay), from time to time. Before accepting such rescheduling requests, Manufacturer may quote applicable charges resulting from changes in costs associated with such rescheduling to Customer. If the parties are unable to agree on such changes in charges, then Manufacturer shall deliver the Products as initially agreed, subject to Customer's right to cancel Purchase Orders as provided herein.

5.2 PRODUCT MODIFICATIONS

Manufacturer agrees to use commercially reasonable efforts to accommodate changes in versions of a Product within a reasonable time after receiving a written request for such change.

5.3 CANCELLATION

Customer may, by written notice, cancel shipments of Products that are scheduled for delivery more than thirty (30) days after Manufacturer's receipt of such notice. Upon Manufacturer's receipt of a notice of cancellation, Manufacturer shall stop work on the canceled Portion of existing Purchase Orders immediately. Manufacturer agrees to use its best efforts to return, reuse, or sell any Manufacturer Components that comprise the canceled portion of the applicable Purchase Order and Manufacturer will use its best efforts to effectively minimize all other costs associated with such cancellation.

5.4 CANCELLATION CHARGES

With respect to canceled Purchase Orders, Customer agrees to pay Manufacturer:

- (a) For Components (other than items paid for by Customer) acquired solely for the execution of such Purchase Order, Customer shall pay to Manufacturer, Manufacturer's actual costs for such Components, minus amounts saved as a result of any return, reuse, or sale of such Components; plus
- (b) For completed work and work in progress that cannot be used to fill other orders, Customer shall reimburse Manufacturer's costs for actual and reasonable labor and supplies incurred pursuant to Customer's Purchase Orders up to the date of receipt of notice of cancellation.
- (c) Customer shall be responsible for long lead-time materials purchased by Manufacturer, with prior written approval from Customer, outside the immediate 60 day Firm Purchase Order period.

In no event shall cancellation charges set forth previously exceed the price of the Products covered by the canceled portion of the Purchase Order.

Manufacturer will provide Customer with documentation adequate to support its claim for cancellation charges. Components and completed work and work in progress that are paid for by Customer pursuant to such cancellation charges shall be Customer's property and shall be held or delivered to Customer as Customer may reasonably request. Notwithstanding the foregoing, Customer shall have no obligation to pay cancellation charges if the cancellation is occasioned by the failure of Manufacturer to perform its obligations under this Agreement.

SECTION 6: FORECASTS

6.1 PRODUCT(S) FORECAST

- (a) Customer shall provide its Product(s) forecasts in the following manner:

Days from Shipment	Required Specifically
0 to 60 Days	Firm Order
61 to 90 Days	30% variation from previous forecast
91 to 120 Days	75% schedule variation from previous forecast
12 months	Rolling forecast updated quarterly

- (b) Orders shall be managed in weekly intervals within the immediate 90 day period and monthly within the rest of the 12 month period. Customer shall provide monthly forecasts and except as provided in a Purchase Order, forecast information shall be for planning purposes only and shall not represent Customers commitment to purchase any or all of such units or create any other obligation whatsoever by Customer beyond the immediate 60 day period.
- (c) Manufacturer shall provide acknowledgment and factory delivery commitments to the above requirements within 5 working days for 0 to 60 day requirements and 10 working days for 61 day and over requirements.
- (d) Manufacturer will provide weekly shipment reports detailing all Product Codes shipped, quantity, value and "Ship to" customer.

SECTION 7: SHIPPING/DELIVERY/TITLE

7.1 FOB TERMS

All deliveries of Products covered under this Agreement shall be made Manufacturer FOB Manufacturer's facility freight collect, or prepaid by Manufacturer and charged to Customer per Invoice. Customer may specify the carrier by so indicating within a mutually agreeable, reasonable period of time prior to shipment. If Products are designated for export, Customer is responsible for assuring compliance with applicable export laws, and Customer will provide Manufacturer with instructions for the handling of such export shipments.

7.2 SHIPPING

Shipping will be planned to meet commitments with the most economical shipping arrangements for both Customer and Manufacturer. All shipments will be marshaled and Product(s) may not be shipped incomplete, except as may be mutually agreed to by the parties.

7.3 DELIVERY IN INSTALLMENTS

Manufacturer may fill a Purchase Order in installments, but only in mutually agreeable partial quantities and at mutually agreeable intervals. Manufacturer may not Ship incomplete Products at any time, unless pre-approved by Customer.

7.4 TITLE

Title to any Manufacturer Components included in the Products will pass to Customer upon the earlier of delivery to Customer or Manufacturer's receipt of payment for such items. To the extent not otherwise provided in this paragraph, title to Products will pass to Customer at point of shipment. Customer Components shall be held by Manufacturer as on consignment from Customer and shall be accounted for by Manufacturer and cared for in accordance with commercially reasonable standards. Title to Customer Components will remain with Customer, but Manufacturer shall have a purchase money security interest against the Products until receipt of payment from Customer.

7.5 LATE DELIVERY

Manufacturer agrees that it shall deliver the Products ordered by Customer hereunder on, or not earlier than 10 calendar days before, the Delivery Dates specified in the Purchase Orders. Manufacturer shall immediately notify Customer of any anticipated late deliveries and any impending plant or facility shutdowns for any reason; including vacation, tool repair, labor difficulties or governmental order, which may adversely impact the scheduled Delivery Dates. In the event that Manufacturer is delinquent on delivering a Product to Customer for reasons other than a force majeure, Manufacturer shall deliver such Product to Customer in the most expeditious manner possible and the payment of premium transportation costs associated with the delivery of the Product shall be at Manufacturers expense. Furthermore, any deliveries made more than 30 days beyond the Delivery Date specified in s Purchase Order shall result in Manufacturer being required to prepare a written corrective action plan and delivering such to Customer, specifying the causes for such delay and the corrective action to be taken as a result thereof, and Customer shall have the right to terminate the Purchase Order to which such delivery relates without any liability for such termination.

SECTION 8: MANUFACTURING CAPACITY

8.1 MANUFACTURING CAPACITY

Manufacturer warrants that it currently has the installed capacity to produce manufacturing output of 10,000 RF Converters per month. Manufacturer agrees to use its best efforts to accommodate capacity increases if requested by Customer, from time to time. Notwithstanding the foregoing, Manufacturer agrees that it will accommodate an increase in capacity within 90 days with a preapproved forecast or 180 days from the date of request of production output.

SECTION 9: QUALITY

9.1 QUALITY ASSURANCE

Prior to first Production start for each Product(s), Manufacturer shall provide Customer with a specific product quality plan satisfactory to Customer.

Manufacturer agrees that all shipments and products shall be verified for compliance with the agreed Customer's test specifications for each Product(s); test and verification records will be logged and kept available for a period of 24 months from the period of shipment for each Product(s).

Further, the parties agree that regular quality reviews will be held no less frequently than on a quarterly basis at such time and place as mutually agreed to by the parties. Reasons for such meetings may include, but shall not be limited to:

- (a) Review of quality acceptance criteria;
- (b) Review of test process for quality or cost improvement;
- (b) Quality performance and receiving inspection/installation results;
- (c) Corrective action results/change control; and
- (d) Field problem reviews and regulatory impacts.

In addition, Manufacturer agrees to:

- (a) Respond in a timely manner to Customers quality related corrective action requests as a result of quality non-conformance;
- (b) Allow inspections and periodic quality audits by Customer to determine product conformance to quality criteria and

- (c) Manufacture Products in compliance with applicable requirements hereunder and as required by law.

Manufacturer shall notify Customer promptly of product(s) or quality issues identified in the course of the manufacturing process. Customer shall provide prompt technical assistance to Quality and Product related issues. Manufacturer has the right to stop manufacturing lines to limit product defects exposure, except as otherwise provided herein.

## 9.2 FAILURE ANALYSIS

Manufacturer agrees to support Customer in the performance of failure Root Cause analysis such that product issues can be solved at the source.

Customer agrees to share with Manufacturer all pertinent data that can improve product quality of process reliability.

## 9.3 INSPECTION AND ACCEPTANCE

Customer may notify Manufacturer in writing of particular deficiencies in the Products, from time to time, but failure to give such notice of such deficiencies shall not prejudice warranty claims hereunder. Products will be deemed accepted by Customer if a notice of deficiency is not received by Manufacturer within fifteen (15) days after Customer's receipt of the Products. Manufacturer's responsibility for deficiencies shall be as provided for under the warranty provisions of this Agreement.

## SECTION 10: PREPRODUCTION

When, requested, Manufacturer shall support Customer in the introduction of New Product(s) throughout the preproduction product cycle including the following tasks;

- (a) Manufacturability assessment
- (b) Product testability assessment
- (c) Component sourcing
- (c) Manufacturing and test process design
- (d) Manufacturing launch

The Preproduction tasks required, for each "new Product will be covered by specific Statements of Work.

## SECTION 11: SPECIFICATIONS AND COMPONENTS

### 11.1 SPECIFICATIONS

Customer shall have primary responsibility for the preparation of Specifications for the Product. Customer shall provide Manufacturer with copies of preliminary, working draft, and completed portions of the Specifications for review. The parties agree to cooperate with each other to implement changes to the Specifications made by Customer from time to time. The parties shall jointly review the impact of such changes, and, in the event Manufacturer reasonably believes that any such change will affect the work performed by Manufacturer under this Agreement, it shall notify Customer and advise Customer of any such effect, including any impact on the manufacture or assembly of the Product, design considerations, and the costs to be incurred by Manufacturer and Customer as a result of such changes.

### 11.2 CUSTOMER COMPONENTS

Customer may identify to Manufacturer certain Components that must be used in the manufacturing of the Product. Either these Components may be consigned by Customer or Manufacturer may be directed by Customer to purchase such components from Customer's approved vendor list ("AVL"). If Manufacturer offers alternatives to Customer's AVL, the alternative

must be approved in writing by Customer prior to use in production of Products.

### 11.3 PROGRAMS

If third party Software is incorporated in the Products, procurement of such Software shall be the responsibility of Manufacturer or Customer as set forth in the applicable Statement of Work or Bill of Materials. Any restrictions or payment obligations imposed by the original source on Manufacturer's or Customer's use or handling of such Software shall be set forth in a separate signed writing. There shall be no payment or reimbursement obligation on Customer's part for programming obtained or provided by Manufacturer unless such payments or reimbursements are set forth in a Bill of Materials that indicates that Customer has accepted such obligation. Title to any Programs and other Proprietary Information provided by Customer to Manufacturer (by license or otherwise) to be used in the manufacturer of Products will remain with Customer and Manufacturer shall use such Programs and other Proprietary Information solely for the purpose contemplated by this Agreement. Customer hereby grants to Manufacturer a personal and nonexclusive license to use the Programs in and for the Products during the term of this Agreement. Manufacturer may only make such copies of the Programs as are necessary for it to perform its duties hereunder, plus one copy. Manufacturer shall immediately return such Programs, permitted copies and Proprietary Information to Customer upon termination of this Agreement.

### 11.4 DESIGN TRANSFER PROCESS

It is expected that Manufacturer provide capability to allow electronic transfer of all design information. The actual extent and format of product design information shall be mutually agreed.

## SECTION 12: QUARTERLY OPERATIONS REVIEWS

### 12.1 REVIEWS

Customer and Manufacturer agree to review quarterly the business performance of each party. Such review shall include items such as product delivery, production forecast, product performance, quality, pricing, and new designs.

## SECTION 13: ECNS, CHANGES AND ERRORS, AND EXCESS AND OBSOLETE MATERIALS

### 13.1 DESIGN CONTROL

Customer shall be the sole design authority for the Products and as such may issue, from time to time, Engineering Change Notices [ECNs]. Customer shall retain engineering control over the entire Product, including Components, sub-assemblies and all other data and material.

Manufacturer shall provide on request, to the Technical Coordinator of Customer, process information and specifications, Bills of Materials, updated versions of all drawings, tool drawings, manufacturing and test documentation, software, and other Information as may be reasonably required for the manufacture of the Products ("Manufacturing Data") promptly after such material has been created and thereafter at the request of Customers Program Coordinator. Such information shall be furnished in English.

### 13.2 ECN CLASS DEFINITIONS AND APPLICABILITY

"Class 1 ECNs" apply to hazardous conditions or inoperative conditions and must be implemented immediately for all new production, work-in process and stock on hand in Manufacturer's facilities. "Class 2 ECNs" apply to Products that fail published specifications or experience excessive field failure rates which must be implemented on any new

production after a planned, mutually agreed to, implementation date as soon as possible, "Class 3 ECNs" apply to new feature, cost improvement, or material substitution on Products and shall be implemented on any new production after a planned, mutually agreed to, implementation date. "Class 4 ECNs" apply to new feature, cost improvement, or material substitution on products after a planned implementation date determined by Manufacturer to minimize scrap material costs. "Class 5 ECNs" shall be issued by Customer which apply to new Products produced by Manufacturer indicating product acceptance by Customer. Customer shall issue ECN's to Manufacturer from time to time and the responsibility for the costs of such ECN's is set forth in Section 13.3.

### 13.3 RESPONSIBILITY FOR COST OF ECNS AND ACTIONS

Charges for ECN's needed due to product specification error/changes are the responsibility of Customer. All other charges due to ECN's are responsibility of Manufacturer.

### 13.4 CHANGES AND ERRORS

Customer is responsible for costs of Changes and Errors resulting from Engineering Design Changes requested by the Customer and shall be billed for such costs by Manufacturer. Manufacturer is responsible for all Changes and Errors resulting from defects in workmanship and resulting from Engineering Design Changes requested by the Manufacturer.

### 13.5 APPROVAL OF MAJOR CHANGES AND ERRORS

All costs of Changes and Errors in excess of \$10,000 must be pre-approved in writing by Customer. Manufacturer shall provide monthly Changes and Errors reports to Customer in a format as shall be mutually agreed.

### 13.6 EXCESS AND OBSOLETE MATERIALS

Customer is responsible for all costs resulting from a reduction in forecast exceeding the ordering rules outlined in Section 6.1 and Customer is responsible for all obsolete material resulting from engineering design changes requested by Customer. Manufacturer is responsible for the cost of all other Excess and Obsolete materials. Customer will accept Excess and Obsolete charges at the time of the final disposition of such material to the extent Customer is responsible: for such changes as outlined above. Manufacturer and Customer shall review such Excess and Obsolete materials monthly to ensure compliance with the terms herein.

## SECTION 14: DEVELOPED INFORMATION

The parties agree that Manufacturer is performing research or development activities, manufacturing and assembly services for Customer and it is specifically agreed that Customer is not conferring on Manufacturer any Intellectual Property Rights or licenses concerning Customer's Products and that all design plans are the Property of Customer. If Manufacturer does design or develop anything related to Customers Products and Product designs, such "Improvements" shall be promptly disclosed to Customer and they shall be considered "work for hire" and belong to Customer or alternatively Manufacturer agrees to promptly disclose to Customer any such "Improvement" and assign all such rights exclusively to Customer. "Improvements" shall include improvements, changes, additions, and modifications to Customer's Product design and Intellectual Property, but shall not include Manufacturer's general practices and knowledge, pre-existing intellectual property, designs, and individual components and other intellectual property not specifically related to the Product.

## SECTION 15: WARRANTY

#### 15.1 MANUFACTURER'S WARRANTY

Manufacturer warrants that the Products manufactured hereunder, under normal use and service, will be free from defective material and faulty workmanship and will perform in accordance with Customers applicable Specifications for a period, of 20 months from the date of manufacture; provided, however, that Manufacturer shall have no liability for any defects as a result of specification flaws. This warranty does not apply to items normally consumed in operation, such as lamps and fuses. Manufacturer's sole obligation and Customer's exclusive remedy under this warranty is limited to the replacement or repair, at Manufacturers option and expense, of the defective Products, and such obligation and remedy are conditioned upon the Products not having been altered by any party other than Manufacturer without Manufacturer's prior written consent, and the defect not being the result of mishandling, abuse, misuse or improper storage, operation, or maintenance, or other causes not imputable to Manufacturer and upon the Products not having been damaged by fire, explosion, power failure, or any act of nature or public enemy. Repair or replacement Products furnished during the warranty period shall be warranted for a period of one hundred and twenty (120) days or the remainder of the original warranty whichever is longer. The aforementioned warranties shall inure to Customer, its successors and assigns, and those who

purchase or use each Product Manufacturer warrants that the Product delivered to Customer is free and clear of all liens and encumbrances.

#### 15.2 MANUFACTURERS DUTIES

Manufacturer shall maintain product test logs for all products shipped for a period of 24 months and shall make such information available to Customer on request. Product related issues identified in field returns shall be documented by Manufacturer and reported in writing to Customer as soon as practicable. Manufacturer shall assist Customer in performing root cause analysis of field failures and make such information available to Customer on request. Manufacturer shall have no responsibility for defects in Customer Components with no design root cause; but Manufacturer agrees to cooperate in processing applicable third-party warranty claims and in taking advantage of remedies, if any, available from the original sources of such Customer Components. Issues resulting from Warranty administration must be reported monthly in writing by Manufacturer and both parties shall use their best efforts to achieve prompt resolution of any open issues.

#### 15.3 CUSTOMER WARRANTY

Customer warrants it has the right (1) to consign Customer Components to Manufacturer for incorporation in the Products in accordance with the Manufacturing and Design Documentation and (2) to authorize Manufacturer to use, for purposes of manufacturing and assembling the Products hereunder, any information provided by Customer and contained in the Manufacturing and Design Documentation.

#### 15.4 CONFORMING PRODUCTS

For Products that are returned to Manufacturer by Customer for warranty repair or replacement and are found by Manufacturer to conform to the Product Specifications and such conformity is verified by Customer, Customer shall pay Manufacturer shipping charges and duties.

#### 15.5 INCOMING INSPECTION

All incoming lots are subject to sampling and inspection according to MIL STD-105D, level 2, normal inspection, single sampling, AQL level = 1.0. Lots will be subject to acceptance or rejection as per the above criteria. Rejected lots will be submitted to the Manufacturer for 100% inspection and correction. Customer and Manufacturer reserve the right

to reject any defective units, regardless of whether the lot as a whole is accepted or rejected. A unit is considered defective if it (or any section of it) fails to work or it fails to meet any specification listed in this document. Units exhibiting inadequate or poor workmanship may also be considered defective.

15.6 DISCLAIMER.

THE FOREGOING WARRANTIES AND REMEDIES CONSTITUTE THE ONLY WARRANTIES WITH RESPECT TO PRODUCTS AND ARE CUSTOMER'S EXCLUSIVE REMEDIES IN THE EVENT SUCH WARRANTIES ARE BREACHED. SUCH WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED. INCLUDING WITHOUT LIMITATION, ANY WARRANTY WITH RESPECT TO ANY OTHER SERVICES PROVIDED BY MANUFACTURER HEREUNDER OR OTHERWISE, AND ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NEITHER PARTY SHALL BE LIABLE FOR ANY INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OF ANY NATURE FOR ANY REASON.

SECTION 16: REPAIRS

Manufacturer agrees to provide repairs services for Product it manufactures. Stock classes applicable to repairs are set forth in Exhibit "F".

16.1 REPAIRS UNDER WARRANTY

Manufacturer is responsible for the cost of repairs where workmanship defects are identified, subject to the terms set forth in section 15. Customer shall be responsible for costs of repair where specification related defects are identified. Manufacturer can replace product with "like for like" replacement Class B stock.

16.2 REPAIRS OUT OF WARRANTY

The price schedule for out of warranty repairs is set forth in Exhibit "D".

16.3 TIME LIMITATIONS

Manufacturer must retain repair capabilities for the product component set forth in Exhibit "A" for a period of 7 years.

16.4 REPAIR PROCESS

- a) Manufacturer shall coordinate the management of repairs and returns, and shall coordinate the management of repairs and returns with such of its affiliates or subcontractors (as Customer agrees by written consent, which shall not be unreasonably withheld).
- b) Manufacturer shall proceed with the repair of Class C product(s) as defined in Exhibit "E" within twenty-one (21) calendar days from the date of receipt at Manufacturer's site. In the event that any Product is not capable of being repaired by Manufacturer on a timely basis, it shall be replaced with a Class A Product as defined in Exhibit "E".
- c) Manufacturer shall establish return depots in North America and Japan.

SECTION 17: LIMITATION OF LIABILITY

17.1 EXCLUSION OF CERTAIN DAMAGES

IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES, LOSS OF PROFITS, LOSS OF USE, OR DATA OR INTERRUPTION OF BUSINESS, WHETHER SUCH ALLEGED DAMAGES ARE LABELED IN TORT, CONTRACT, OR INDEMNITY, EVEN IF SUCH PARTY HAS BEEN

ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

17.2 TIME LIMITATIONS

Actions by either party, however asserted, other than in respect of any infringement of Intellectual Property Rights, shall be commenced within two years from the date the cause of action accrues.

SECTION 18: INTELLECTUAL PROPERTY RIGHTS

18.1 MANUFACTURER INDEMNITY

Manufacturer, at its own expense, shall protect, defend, hold harmless, and indemnify Customer and any subsequent owner of the Products, and shall pay any damages, agreed upon settlement amounts, or necessary costs (including attorney fees and fines) finally awarded with respect to all proceedings or claims against it or them for the infringement of any Intellectual Property Rights resulting from Manufacturer's manufacture and assembly processes or the use of Manufacturer Components where such use necessarily and solely causes the infringement. Manufacturer shall not have any liability hereunder based on (1) required compliance by Manufacturer with manufacturing and design documentation originating with and furnished by Customer (or the combination of the Products with other apparatus not included in the deliveries to Customer), if such compliance (or combination) necessarily and solely gives rise to such proceedings or claims; (2) infringement or alleged infringement caused solely by Customer Components; or (3) infringements resulting from modifications or alterations made after shipment by Manufacturer. Customer shall not agree to settle any such proceeding or claim without the written consent of Manufacturer, which consent shall not be unreasonably withheld.

18.2 NO OTHER RIGHTS

Except for any licenses and immunities that are expressly granted by this Agreement, nothing in this Agreement or any course of dealing between the parties will be deemed to create a license from either party to the other of any Intellectual Property Right, whether by estoppel, implication, or otherwise.

SECTION 19: TERM AND TERMINATION

19.1 TERM

This Agreement shall commence on the Effective Date and shall be in effect until December 31, 1998. Thereafter, this Agreement shall automatically renew for successive terms of one year unless and until terminated pursuant to Section 19.2.

19.2 TERMINATION OF AGREEMENT

This Agreement may be terminated by either party at any time upon the occurrence of any one or more of the following events of default:

- (a) The other party defaults in the performance of any material requirement or obligation under this Agreement or any other written agreement between the parties concerning the subject of this Agreement, and such default is not cured within 20 days after written notice of such default is sent to such party;
- (b) Customer fails to make (in full) any payment required by this Agreement to Manufacturer on the date due, and fails to cure such default within 20 days after written notice of such default is sent to Customer; or
- (c) The other party ceases to do business, makes a composition or assignment for the benefit of its creditors, makes a general

arrangement with its creditors concerning any extension or forgiveness of any of its secured debt, becomes bankrupt or insolvent, suffers or seeks the

appointment of a receiver to the whole or any material part of its business, takes any action to liquidate or wind up the whole or any material part of its business, is found subject to any provisions of any bankruptcy code concerning involuntary bankruptcy or similar proceeding, or suffers a material adverse change in its financial position such that payments hereunder may be affected or delayed by a creditor or administrator of the business of the other party.

In addition, either party may terminate this Agreement for convenience on a 9 months prior written notice to the other party.

In the event of termination of this Agreement, Manufacturer agrees that the Customer will have the option to purchase the dedicated test equipment, texturing and tools used for the manufacturing and test of the Product(s). Manufacturer agrees to sell such equipment at actual depreciated book value at the time of termination.

#### 19.3 PAYMENT OBLIGATIONS

No termination of this Agreement shall release Customer from any obligation to pay Manufacturer any amount that has accrued or become payable at or prior to the date of termination.

#### 19.4 SURVIVAL

Notwithstanding any termination of this Agreement, the provisions of Section 20.3 shall continue in accordance with its terms.

### SECTION 20: GENERAL TERMS

#### 20.1 INDEMNIFICATION

Each party shall indemnify and defend the other party against all claims, suits, losses, expenses, and liabilities for bodily injury, personal injury, death, and property damage directly or indirectly caused by any Products or through the intentional acts or negligence of such party or of any person for whose actions said party is legally liable. Both parties shall carry and maintain liability insurance coverage to satisfactorily cover its obligations under this Agreement.

#### 20.2 INDEPENDENT CONTRACTOR STATUS

Each of the parties hereto shall conduct the work to be performed hereunder as an independent contractor and not as an agent or employee of the other party. Subject to the terms and conditions of this Agreement, each party shall choose the means to be employed and the manner of carrying out its obligations hereunder. Each party shall have sole responsibility for the supervision and payment of its personnel and, except as agreed in writing, all other costs and expenses required to perform its obligations hereunder.

#### 20.3 CONFIDENTIAL INFORMATION

All technical information, specifications, drawings, documentation and "know-how" of every kind and description whatsoever disclosed by either party to the other under this Agreement ("Information"), except insofar as it may be in the public domain or be established to have been independently developed and so documented by the other party or obtained by the other party from any person not in breach of any confidentiality obligations to the disclosing party, is the exclusive property of the disclosing party, and the other party, except as specifically authorized in writing by the disclosing party, or as permitted hereunder, shall treat and protect the Information as

confidential, shall not reproduce the Information except to the extent reasonably required for the performance of this Agreement, shall not divulge the Information in whole or in part to any third parties, and shall use the Information only for purposes necessary for the performance of this Agreement. This obligation shall survive the termination of this Agreement. Each party shall disclose the Information only to those of its employees and agents who shall have a "need-to-know" the Information for the purposes described herein after first making such employees or agents aware of the confidentiality obligations set forth above.

#### 20.4 FREEDOM OF ACTION

Except as restricted by Intellectual Property Rights of a party hereto or of third parties, nothing in this Agreement shall limit the right of Customer or Manufacturer to develop, have developed, procure, and/or market products or services now or in the future, including any that may be competitive with those that are subject of this Agreement. Neither party shall be required to disclose planning information to the other except for the forecast described in Section 6 and as may be mutually agreed upon by the parties.

#### 20.5 TRADEMARKS AND TRADE NAMES

Neither this Agreement nor the sale of Products hereunder shall be deemed to give either party any right to use any of the other party's trademarks or trade names without such other party's specific, written consent.

#### 20.6 COMPLIANCE WITH GOVERNMENTAL LEGAL REQUIREMENTS

Manufacturer shall comply with the provisions of all applicable federal, state, and local laws, regulations, rules, and ordinances applicable to the transactions governed by this Agreement. Customer shall ensure that the product design complies with FCC regulations and meets UL and CSA standards. Manufacturer shall ensure compliance of all manufactured products to applicable UL and CSA standards. Manufacturer must at all times be ISO 9002 compliant and obtain similar governmental and safety certifications or approvals. Manufacturer shall perform all administrative actions required to qualify each Product for preferential treatment under the rules of any applicable trade treaty.

#### 20.7 EXPORT CONTROLS

Each party agrees that it will not knowingly (1) export or re-export, directly or indirectly, any technical data (as defined by the U.S. Export Administration Regulations), including software received from the other under this Agreement; (2) disclose such technical data for use in; or (3) export or re-export directly or indirectly, any direct product of such technical data, including software, to destination to which such export or re-export is restricted or prohibited by U.S. or non-U.S. law without obtaining prior authorization from U.S. Department of Commerce and other competent government authorities to the extent required by those laws. This clause shall survive termination or cancellation of this Agreement.

#### 20.8 FORCE MAJEURE

Neither Customer nor Manufacturer shall be considered in default or liable for any delay or failure to perform any provision of this Agreement if such delay or failure arises directly or indirectly out of an act of nature, acts of the public enemy freight embargoes, strikes; quarantine restrictions, unusually severe weather conditions, insurrection, riot, and other such causes beyond the control of the party responsible for the delay or failure to perform.

#### 20.9 NOTICE

Unless otherwise specified in this Agreement, all notices and other communications permitted or required hereunder shall be in writing and shall be mailed, telecopied, telegraphed, telexed or delivered to the other party at the address set forth in the following (or at such other address as either policy shall designate in writing to the other party during the term of this Agreement) and shall be effective at the earlier of the time received or five days after dispatch in accordance with the terms of this Section. Each notice to Customer or Manufacturer shall be addressed until notice of change thereof, as follows:

If to Customer:

Arris Interactive L.L.C.  
Suite 300  
Lakefield Drive  
Suwanee, Georgia 30024

Attn: Jeff Milway  
Telephone: 770-622-8644  
Fax: 770-622-8770

If to Manufacturer:

Mitsumi Electric Co., Ltd.  
8-8-2 Kokuryo-cho  
Chofu-shi  
Tokyo 182  
Japan

Attn: Tomoaki lida \_\_\_\_\_  
Telephone: 81-3-3489-5333 \_\_\_\_\_  
Fax: 81-3-3488-1228 \_\_\_\_\_

20.10 ASSIGNMENT

This Agreement may not be assigned by either party without the prior written consent of the other party. Any attempted assignment or transfer of any of the rights, duties, or obligations herein shall be void if not in compliance with this subsection.

20.11 GOVERNING LAW

This Agreement shall be governed by the laws of the State of Georgia.

20.12 WAIVER

No failure or delay on the part of either party hereto in exercising any right or remedy under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any such right or remedy. No provision of this Agreement may be waived except in writing signed by the party granting such waiver.

20.13 SEVERABILITY

If any provision of this Agreement is held to be invalid, the other provisions will not be affected.

20.14 COMPLETE AGREEMENT

This Agreement (including the attachments hereto, Statements of Works, Acknowledgments, Invoices, and Purchase Orders issued hereunder) constitutes the complete and exclusive final written expression of all the terms of agreement between parties. It supersedes all prior agreements, understandings, and negotiations concerning the matters specified herein. Any representations, promises, warranties or statements made by either party that differ in any way from the terms of this Agreement shall not be binding on either party unless made in writing and signed by a duly authorized representative of each party.

Agreed to:  
CUSTOMER  
ARRIS INTERACTIVE LLC.

By: /s/ R.J. Stanzione

R.J. Stanzione  
Name (Print or Type)

Title: CEO

Date: 7/9/97

Agreed to:  
MANUFACTURER  
MITSUMI ELECTRIC CO., LTD.

By: /s/ H. Moribe

H. Moribe  
Name (Print or Type)

Title: CSO

Date: 9/15/97

July 9, 2001

Mr. Tom Lida  
Mitsumi Electric Co., LTD  
8-8-2 Koyuryo-Cho  
Chofu-shi  
Tokyo 182  
Japan

Subject: Amendment to Manufacturing Agreement between Arris Interactive LLC and  
Mitsumi Electric Co., LTD.

Dear Lida-san:

This letter amends the above mentioned agreement as follows:

Change the last sentence of Section 7.4 from:

"Title to Customer Components will remain with Customer, but Manufacturer shall have a purchase money security interest against the Products until receipt of payment from Customer."

To read as follows:

"Title to Customer Components will remain with Customer."

Provisions of the above-mentioned agreement to the extent not amended by or in conflict with the above amendment shall continue in effect.

Please sign and return a copy of this letter signifying your agreement.

Regards,

Jeff Milway  
Senior Director - Operations  
Arris Interactive LLC

IN WITNESS WHEREOF, the undersigned has executed this Amendment.

Mitsumi

Arris Interactive

Signature: /s/ Steve Moribe

/s/ David Potts

Printed Name: Steve Moribe

David Potts

Title: Executive Vice President

Vice President and CEO

Date: July 9, 2001

July 9, 2001

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of October 6, 2000, is by and between ANTEC CORPORATION, a Delaware corporation (the "Company"), and RON COPPOCK ("Executive").

WHEREAS, Executive and the Company are parties to a previous employment agreement; and

WHEREAS, Executive and the Company desire to replace the previous employment agreement.

WHEREAS, Executive and the Company want to enter into a written agreement providing for the terms of Executive's employment by the Company.

NOW, THEREFORE, in consideration of the foregoing recital and of the mutual covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. Executive agrees to enter into the continued employment of the Company, and the Company agrees to employ Executive, on the terms and conditions set forth in this Agreement. Executive agrees during the term of this Agreement to devote substantially all of his business time, efforts, skills and abilities to the performance of his duties as stated in this Agreement and to the furtherance of the Company's business.

Executive's initial job title will be Executive President ANTEC International and his duties will be those executive duties as are designated by the Chief Executive Officer of the Company. Executive further agrees to serve, without additional compensation, as an officer or director, or both, of any subsidiary, division or affiliate of the Company or any other entity in which the Company holds an equity interest, provided, however, that (a) the Company shall indemnify Executive from liabilities in connection with serving in any such position to the same extent as his indemnification rights pursuant to the Company's Certificate of Incorporation, Bylaws and applicable Delaware law, and (b) such other position shall, not materially detract from the responsibilities of Executive pursuant to this Section 1 or his ability to perform such responsibilities.

2. Compensation.

(a) Base Salary. During the term of Executive's employment with the Company pursuant to this Agreement, the Company shall pay to Executive as compensation for his services an annual base salary of not less than \$195,000 ("Base Salary"). Executive's Base Salary will be payable in arrears in accordance with the Company's normal payroll

procedures and will be reviewed annually and subject to upward adjustment at the discretion of the Chief Executive Officer, but will not be lowered.

(b) Incentive Bonus. During the term of Executive's employment with the Company pursuant to this Agreement, Executive's incentive compensation program shall be determined by the Company in its discretion with a target bonus equal to 50% of Base Salary, and allowing for payment of up to 150% of target. On termination at other than year-end the bonus will be prorated to reflect the period of actual employment.

(c) Executive Perquisites. During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to receive such executive perquisites and fringe benefits as are

provided to the executives in comparable positions and their families under any of the Company's plans and/or programs in effect from time to time and such other benefits as are customarily available to executives of the Company and their families, including without limitation vacations and life, medical and disability insurance.

(d) Tax Withholding. The Company has the right to deduct from any compensation payable to Executive under this Agreement social security (FICA) taxes and all federal, state, municipal or other such taxes or charges as may now be in effect or that may hereafter be enacted or required.

(e) Expense Reimbursements. The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the course of performing his duties hereunder, including but not limited to reasonable travel expenses for Executive. As a condition to such payment or reimbursement, however, Executive shall maintain and provide to the Company reasonable documentation and receipts for such expenses.

3. Term. Unless sooner terminated pursuant to Section 4 of this Agreement, and subject to the provisions of Section 5 hereof, the term of this Agreement shall commence as of the date hereof and shall continue until five years from the date hereof

4. Termination. Notwithstanding the provisions of Section 3 hereof, but subject to the provisions of Section 5 hereof, Executive's employment under this Agreement shall terminate as follows:

(a) Death. Executive's employment shall terminate upon the death of Executive; provided, however, that the Company shall continue to pay (in accordance with its normal payroll procedures) the Base Salary to Executive's estate for a period of three months after the date of Executive's death.

(b) Termination for Cause. The Company may terminate Executive's employment at any time for "Cause" (as hereinafter defined) by delivering a written termination notice to Executive. For purposes of this Agreement, "Cause" shall mean any of: (i) Executive's conviction of a felony or a crime involving moral turpitude; (ii) Executive's commission of an act constituting fraud, deceit or material misrepresentation with respect to the Company; (iii)

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Executive's embezzlement of funds or assets from the Company; (iv) Executive's addiction to any alcoholic, controlled or illegal substance or drug; (v) Executive's commission of any act or omission which would give the Company the right to terminate Executive's employment under applicable law; or (vi) Executive's failure to correct or cure any material breach of or default under this Agreement within ten days after receiving written notice of such breach or default from the Company.

(c) Termination Without Cause. The Company may terminate Executive's employment at any time by delivering a written termination notice to Executive.

(d) Termination by Executive. Executive may terminate his employment at any time by delivering ninety days prior written notice to the Company; provided, however, that the terms, conditions and benefits specified in Section 5 hereof shall apply or be payable to Executive only if such termination occurs as a result of a material breach by the Company of any provision of this Agreement.

(e) Termination Following Disability. In the event Executive becomes mentally or physically impaired or disabled and is unable to perform his material duties and responsibilities hereunder for a period of at least ninety days in the aggregate during any one hundred twenty consecutive day

period, the Company may terminate Executive's employment by delivering a written termination notice to Executive. Notwithstanding the foregoing, Executive shall continue to receive his full salary and benefits under this Agreement for a period of six months after the effective date of such termination.

(f) Payments. Following any expiration or termination of this Agreement or Executive's employment hereunder, and in addition to any amounts owed pursuant to Section 5 hereof, the Company shall pay to Executive all amounts earned by Executive hereunder prior to the date of such expiration or termination.

5. Certain Termination Benefits. Subject to Section 6(a) hereof, in the event (i) the Company terminates Executive's employment without cause pursuant to Section 4(c) or (ii) Executive terminates his employment pursuant to Section 4(d):

(a) Base Salary and Bonus. The Company shall continue to pay to Executive his Base Salary (as in effect as of the date of such termination) and bonus (calculated on a pro rata basis based upon the assumption that Executive would have fulfilled the requirements to earn his target bonus) that would have been payable hereunder to Executive from the date of such termination for a period of twelve months following the termination.

(b) Stock. Subject to Section 10 hereof, on and as of the effective date of the termination of employment, all of Executive's outstanding stock options and restricted stock grants under the Company's stock option and other benefit plans shall immediately vest.

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(c) Life Insurance. The Company shall continue to provide Executive with group and additional life insurance coverage for a period of twelve months following termination.

(d) Medical Insurance. The Company shall continue to provide Executive and his family with group medical insurance coverage under the Company's Medical Plans (as the same may change from time to time) or other substantially similar health insurance for a period of twelve months following termination.

(e) Group Disability. The Company shall continue to provide Executive coverage under the Company's group disability plan for a period of twelve months following termination.

(f) Offset. Any fringe benefits received by Executive in connection with any other employment that are reasonably comparable, but not necessarily as beneficial, to Executive as the fringe benefits then being provided by the Company pursuant to this Section 5, shall be deemed to be the equivalent of, and shall terminate the Company's responsibility to continue providing, the fringe benefits then being provided by the Company pursuant to this Section 5. The Company acknowledges that if Executive's employment with the Company is terminated, Executive shall have no duty to mitigate damages.

(g) General Release. Acceptance by Executive of any amounts pursuant to this Section 5 shall constitute a full and complete release by Executive of any and all claims Executive may have against the Company, its officers, directors and affiliates, including, but not limited to, claims he might have relating to Executive's cessation of employment with the Company; provided, however, that there may properly be excluded from the scope of such general release the following:

(i) claims that Executive may have against the Company for reimbursement of ordinary and necessary business expenses incurred by him during the course of his employment;

(ii) claims that may be made by the Executive for

payment of Base Salary, fringe benefits or stock options properly due to him; or

(iii) claims respecting matters for which the Executive is entitled to be indemnified under the Company's Certificate of Incorporation or Bylaws, respecting third party claims asserted or third party litigation pending or threatened against the Executive.

A condition to Executive's receipt of any amounts pursuant to this Section 5 shall be Executive's execution and delivery of a general release as described above. In exchange for such release, the Company shall, if Executive's employment is terminated without Cause, provide a release to Executive, but only with respect to claims against Executive which are actually known to the Company as of the time of such termination.

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6. Effect of Change in Control.

(a) If within one year following a "Change of Control" (as hereinafter defined), Executive terminates his employment with the Company for Good Reason (as hereinafter defined) or the Company terminates Executive's employment for any reason other than Cause, death or disability, the Company shall pay to Executive: (1) an amount equal to one times the Executive's Base Salary as of the date of termination; (2) an amount equal to one times the average annual cash bonus paid to Executive for the two fiscal years immediately preceding the date of termination; and (3) all benefits under the Company's various benefit plans, including group healthcare, dental and life, for the period equal to twelve months from the date of termination.

(b) "Change of Control" shall mean the date as of which: (i) there shall be consummated (1) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or (ii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% of the Company's outstanding common stock (other than AT&T Corporation or one of their subsidiaries); or (iv) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire board of directors of the Company shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(c) "Good Reason" shall mean any of the following actions taken by the Company without the Executive's written consent after a Change of Control:

(i) the assignment to the Executive by the Company of duties inconsistent with, or the reduction of the powers and functions associated with, the Executive's position, duties, responsibilities and status with the Company immediately prior to a Change of Control or Potential Change of Control (as defined below), or an adverse change in Executive's titles or offices as in effect immediately prior to a Change of Control or Potential Change of Control, or any

removal of the Executive from or any failure to re-elect Executive to any of such positions, except in connection with the termination of his employment for Disability or Cause or as a result of Executive's death except to the extent that a

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change in duties relates to the elimination of responsibilities attendant to the Company's no longer being a publicly traded company;

(ii) A reduction by the Company in the Executive's Base Salary as in effect on the date of a Change of Control or Potential Change of Control, or as the same may be increased from time to time during the term of his Agreement;

(iii) The Company shall require the Executive to be based anywhere other than at the Company's principal executive offices or the location where the Executive is based on the date of a Change of Control or Potential Change of Control, or if Executive agrees to such relocation, the Company fails to reimburse the Executive for moving and all other expenses reasonably incurred with such move;

(iv) The Company shall fail to continue in effect any Company-sponsored plan or benefit that is in effect on the date of a Change of Control or Potential Change of Control, that provides (A) incentive or bonus compensation, (B) fringe benefits such as vacation, medical benefits, life insurance and accident insurance, (C) reimbursement for reasonable expenses incurred by the Executive in connection with the performance of duties with the Company, or (D) pension benefits such as a Code Section 401(k) plan, except to the extent that such plans taken as a whole are replaced with substantially comparable plans;

(v) Any material breach by the Company of any provision of this Agreement; and

(vi) Any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company effected in accordance with the provisions of Section 6.

(d) "Potential Change of Control" shall mean the date as of which (1) the Company enters into an agreement the consummation of which, or the approval by shareholders of which, would constitute a Change of Control; (ii) proxies for the election of Directors of the Company are solicited by anyone other than the Company; (iii) any person (including, but not limited to, any individual, partnership, joint venture, corporation, association or trust) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change of Control; or (iv) any other event occurs which is deemed to be a Potential Change of Control by the Board and the Board adopts a resolution to the effect that a Potential Change of Control has occurred.

(e) In the event that (i) Executive would otherwise be entitled to the compensation and benefits described in Section 6(a) hereof ("Compensation Payments"), and (ii) the Company determines, based upon the advice of tax counsel selected by the Company's independent auditors and acceptable to Executive, that, as a result of such Compensation Payments and any other benefits or payments required to be taken into account under Code

Section 280G(b)(2) ("Parachute Payments"), any of such Parachute Payments would be reportable by the Company as "excess parachute payments", such Compensation Payments shall be reduced to the extent necessary to cause Executive's Parachute Payments to equal 2.99 times the "base amount" as defined in Code Section 280G(b)(3) with respect to such Executive. However, such reduction in the Compensation Payments shall be made only if, in the opinion of such tax counsel, it would result in a larger Parachute Payment to the Executive than payment of the unreduced Parachute Payments after deduction of tax imposed on and payable by the Executive under Section 4999 of the Code ("Excise Tax"), The value of any non-cash benefits or any deferred payment or benefit for purposes of this paragraph shall be determined by the Company's independent auditors.

(f) The parties hereto agree that the payments provided under Section 6(a) above, as the case may be, are reasonable compensation in light of Executive's services rendered to the Company and that neither party shall contest the payment of such benefits as constituting an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

(g) Unless the Company determines that arty Parachute Payments made hereunder must be reported as "excess parachute payments" in accordance with Section 6(e) above, neither party shall file any return taking the position that the payment of such benefits constitutes an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

7. Non-Competition. Executive agrees that during the term of this Agreement and for a period of four months from the date of the termination of Executive's employment with the Company pursuant to Sections 4(b), 4(c), 4(d), 4(e) and 6 herein or for any other reason that results in the Executive being entitled to the benefits described in Section 5, he will not, directly or indirectly, compete with the Company by providing to any company that is in a "Competing Business" services substantially similar to the services provided by Executive at the time of termination. Competing Business shall be defined as any business that engages, in whole or in part, in the broadband communication equipment for broadband communications architectures in the United States, and Executive's employment function or affiliation is directly or indirectly in such business,

8. Nonsolicitation of Employees. For a period of two years after the termination or cessation of his employment with the Company for any reason whatsoever, Executive shall not, on his own behalf or on behalf of any other person, partnership, association, corporation, or other entity, solicit or in any manner attempt to influence or induct any employee of the Company or its subsidiaries or affiliates (known by the Executive to be such) to leave the employment of the Company or its subsidiaries or affiliates, nor shall he use or disclose to any person, partnership, association, corporation or other entity any information obtained while an employee of the Company concerning the names and addresses of the Company's employees.

9. Nondisclosure of Trade Secrets. During the term of this Agreement, Executive will have access to and become familiar with various trade secrets and proprietary and

confidential information of the Company, its subsidiaries and affiliates, including, but not limited to, processes, designs, computer programs, compilations of information, records, sales procedures, customer requirements, pricing techniques, product plans, marketing plans, strategic plans, customer lists, methods of doing business and other confidential information (collectively, referred to as "Trade Secrets") which are owned by the Company, its subsidiaries and/or affiliates and regularly used in the operation of its business, and as to which the Company, its subsidiaries and/or affiliates take

precautions to prevent dissemination to persons other than certain directors, officers and employees. Executive acknowledges and agrees that the Trade Secrets (1) are secret and not known in the industry; (2) give the Company or its subsidiaries or affiliates an advantage over competitors who do not know or use the Trade Secrets; (3) are of such value and nature as to make it reasonable and necessary to protect and preserve the confidentiality and secrecy of the Trade Secrets; and (4) are valuable, special and unique assets of the Company or its subsidiaries or affiliates, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company or its subsidiaries or affiliates. Executive may not use in any way or disclose any of the Trade Secrets, directly or indirectly, either during the term of this Agreement or at any time thereafter, except as required in the course of his employment under this Agreement, if required in connection with a judicial or administrative proceeding, or if the information becomes public knowledge other than as a result of an unauthorized disclosure by the Executive. All files, records, documents, information, data and similar items relating to the business of the Company, whether prepared by Executive or otherwise coming into his possession, will remain the exclusive property of the Company and may not be removed from the premises of the Company under any circumstances without the prior written consent of the Board (except in the ordinary course of business during Executive's period of active employment under this Agreement), and in any event must be promptly delivered to the Company upon termination of Executive's employment with the Company. Executive agrees that upon his receipt of any subpoena, process or other request to produce or divulge, directly or indirectly, any Trade Secrets to any entity, agency, tribunal or person, Executive shall timely notify and promptly hand deliver a copy of the subpoena, process or other request to the Board. For this purpose Executive irrevocably nominates and appoints the Company (including any attorney retained by the Company), as his true and lawful attorney-in-fact, to act in Executive's name, place and stead to perform any act that Executive might perform to defend and protect against any disclosure of any Trade Secrets.

10. Return of Profits. In the event that Executive violates any of the provisions of Sections 7, 8 or 9 hereof or fails to provide the notice required by Section 4(d) hereof, the Company shall be entitled to receive from Executive the profits, if any, received by Executive upon exercise of any Company granted stock options or stock appreciation rights or upon lapse of the restrictions on any grant of restricted stock to the extent such options or rights were exercised, or such restrictions lapsed, subsequent to six months prior to the termination of Executive's employment.

11. Severability. The parties hereto intend all provisions of Sections 7, 8, 9 and 10 hereof to be enforced to the fullest extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of Sections 7, 8, 9 or 10 hereof is too broad to be enforced as written, the parties intend that the court reform the provision to

such narrower scope as it determines to be reasonable and enforceable. In addition, however, Executive agrees that the nonsolicitation and nondisclosure agreements set forth above each constitute separate agreements independently supported by good and adequate consideration shall be severable from the other provisions of, and shall survive, this Agreement. The existence of any claim or cause of action of Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants of Executive contained in the nonsolicitation and nondisclosure agreements. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term hereof, such provision shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision never constituted a part of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added as part of this Agreement, a

provision as similar in its terms to such illegal, invalid or enforceable provision as may be possible and be legal, valid and enforceable.

12. Arbitration - Exclusive Remedy.

(a) The parties agree that the exclusive remedy or method of resolving all disputes or questions arising out of or relating to this Agreement shall be arbitration. Arbitration shall be held in Atlanta, Georgia by three arbitrators, one to be appointed by the Company, a second to be appointed by Executive, and a third to be appointed by those two arbitrators. The third arbitrator shall act as chainman. Any arbitration may be initiated by either party by written notice ("Arbitration Notice") to the other party specifying the subject of the requested arbitration and appointing that party's arbitrator.

(b) if (i) the non-initiating party fails to appoint an arbitrator by written notice to the initiating party within ten days after the Arbitration Notice, or (ii) the two arbitrators appointed by the parties fail to appoint a third arbitrator within ten days after the date of the appointment of the second arbitrator, then the American Arbitration Association, upon application of the initiating party, shall appoint an arbitrator to fill that position:

(c) The arbitration proceeding shall be conducted in accordance with the rules of the American Arbitration Association. A determination or award made or approved by at least two of the arbitrators shall be the valid and binding action of the arbitrators. The costs of arbitration (exclusive of the expense of a party in obtaining and presenting evidence and attending the arbitration and of the fees and expenses of legal counsel to a party, all of which shall be borne by that party) shall be borne by the Company only if Executive receives substantially the relief sought by him in the arbitration) whether by settlement, award or judgment; otherwise, the costs shall be borne equally between the parties. The arbitration determination or award shall be final and conclusive on the parties, and judgment upon such award may be entered and enforced in any court of competent jurisdiction.

13. Miscellaneous.

(a) Notices. Any notices, consents, demands, requests, approvals and other communications to be given under this Agreement by either party to the other must be in writing and must be either (i) personally delivered, (ii) mailed by registered or certified mail, postage repaid with return receipt requested, (iii) delivered by overnight express delivery service or same-day local courier service, or (iv) delivered by telex or facsimile transmission, to the address set forth below, or to such other address as may be designated by the parties from time to time in accordance with this Section 12(a);

If to the Company: ANTEC Corporation  
11450 Technology Circle  
Duluth, Georgia 30091  
Attention: Lawrence A. Margolis

If to Executive: Ron Coppock  
105 Aintree Court  
Alpharetta, GA 30004

Notices delivered personally or by overnight express delivery service or by local courier service are deemed given as of actual receipt. Mailed notices are deemed given three business days after mailing. Notices delivered by telex or facsimile transmission are deemed given upon receipt by the sender of the answer back (in the case of a telex) or transmission confirmation (in the case of a facsimile transmission).

(b) Entire Agreement. This Agreement supersedes any and

all other agreements, either oral or written, between the parties with respect to the subject matter of this Agreement and contains all of the covenants and agreements between the parties with respect to the subject matter of this Agreement.

(c) Modification. No change or modification of this Agreement is valid or binding upon the parties, nor will any waiver of any term or condition in the future be so binding, unless the change or modification or waiver is in writing and signed by the parties to this Agreement

(d) Governing Law and Venue. The parties acknowledge and agree that this Agreement and the obligations and undertakings of the parties under this Agreement will be performable in Georgia. This Agreement is governed by, and construed in accordance with, the laws of the State of Georgia. If any action is brought to enforce or interpret this Agreement, venue for the action will be in Georgia.

(e) Counterparts. This Agreement may be executed in counterparts, each of which constitutes an original, but all of which constitutes one document.

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(f) Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, each party shall bear its own costs and expenses.

(g) Estate. If Executive dies prior to the expiration of the term of employment or during a period when monies are owing to him, any monies that may be due him from the Company under this Agreement as of the date of his death shall be paid to his estate and as when otherwise payable.

(h) Assignment. The Company shall have the right to assign this Agreement to its successors or assigns. The terms "successors" and "assigns" shall include any person, corporation, partnership or other entity that buys all or substantially all of the Company's assets or all of its stock, or with which the Company merges or consolidates. The rights, duties and benefits to Executive hereunder are personal to him, and no such right or benefit may be assigned by him.

(i) Binding Effect. This Agreement is binding upon the parties hereto, together with their respective executors, administrators, successors, personal representatives, heirs and permitted assigns.

(j) Waiver of Breach. The waiver by the Company or Executive of a breach of any provision of this Agreement by Executive or the Company may not operate or be construed as a waiver of any subsequent breach.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ANTEC CORPORATION

By: /s/ Lawrence A. Margolis

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Name: Lawrence A. Margolis

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Title: CFO and EVP  
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EXECUTIVE

/s/ Ronald Coppock

SUBSIDIARIES OF ARRIS GROUP, INC.  
AS OF DECEMBER 31, 2001

Arris Group, Inc. is the holding company for Arris International, Inc. and owns approximately 85% of the Class A membership interest in Arris Interactive L.L.C. (the remaining Class A membership interest is held by Arris International, Inc.). Set forth below are the names of certain subsidiaries, at least 50% owned, directly or indirectly, of Arris Group, Inc. Indirect subsidiaries are direct subsidiaries of the company under which they are indented.

SUBSIDIARY	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION
Arris Interactive L.L.C.	Delaware
Arris International, Inc.	Delaware
Keptel, Inc.	Delaware
Keptel de Mexico SA de CV	Mexico
ANTEC Latin America, Inc. Sucursal Argentina	Argentina
Texscan Corporation	Nevada
Antec International Corporation	Barbados
ANTEC Europe Limited	United Kingdom
Texscan de Mexico, S.A., de C.V.	Mexico
Electronic Connector Corporation of Illinois	Illinois
Comunicaciones Broadband S.A. de C.V.	Mexico
Power Guard, Inc.	Illinois
Eletronic System Products, Inc.	Illinois
ANTEC Foreign Sales Corporation	Barbados
ANTEC Asset Management Company	Delaware
ANTEC Licensing Company	Delaware
Arris International Iberia, S.L.	Spain
ANTEC do Brasil LTDA	Brazil
Arris International Netherlands BV	Netherlands

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements and in the related prospectuses of ARRIS Group, Inc. (successor registrant to ANTEC Corporation) listed below of our report dated February 7, 2002, with respect to the consolidated financial statements and schedule of ARRIS Group, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2001:

Registration Statement No. 333-58437 on Form S-3 (\$115,000,000 4 1/2% Convertible Subordinated Notes and Common Stock)

Registration Statement No. 33-71384 on Form S-8 (Amended and Restated Employee Stock Incentive Plan)

Registration Statement No. 3371386 on Form S-8 (ANTEC Corporation Director Stock Option Plan)

Registration Statement No. 3371388 on Form S-8 (ANTEC Corporation Employee Stock Purchase Plan)

Registration Statement No. 3389704 on Form S-8 (ANTEC/Keptel Exchange Options)

Registration Statement No. 333-11921 on Form S-8 (ESP Stock Plan)

Registration Statement No. 333-12131 on Form S-8 (ANTEC Corporation Amended and Restated Employee Stock Incentive Plan)

Registration Statement No. 333-19129 on Form S-8 (TSX Corporation 1996 Second Amended and Restated Long-Term Incentive Compensation Program; TSX Corporation 1993 Amended and Restated Directors Stock Option Plan, As Amended; TSX Corporation 1994 W.H. Lambert Stock Option Agreement)

Registration Statement No. 333-90559 on Form S-8 (Amended and Restated Employee Stock Purchase Plan)

Registration Statement No. 333-90561 on Form S-8 (ANTEC Corporation 1997 Stock Incentive Plan)

Registration Statement No. 333-48666 on Form S-8 (ANTEC Corporation Employee Savings Plan, as amended March 30, 2000)

Registration Statement No. 333-37032 on Form S-8 (ANTEC Corporation 2000 Mid-Level Stock Option Plan)

Registration Statement No. 333-37030 on Form S-8 (ANTEC Corporation 2000 Stock Incentive Plan)

Registration Statement No. 333-61524 on Form S-4, as amended (Broadband Parent Corporation 38,200,000 shares of Common Stock)

Registration Statement No. 333-67934 on Form S-8 (Broadband Parent Corporation 2001 Stock Incentive Plan)

Registration Statement No. 333-67936 on Form S-8 (Broadband Parent Corporation Employee Stock Purchase Plan)

Registration Statement No. 333-68018 on Form S-8 (ARRIS Group, Inc. Employee Savings Plan)

Registration Statement No. 333-82404 on Form S-3, as amended (ARRIS

Group, Inc. 5,250,000 shares of Common Stock)

/s/ ERNST & YOUNG LLP

Atlanta, Georgia  
March 29, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director and/or officer of Arris Group, Inc., a Delaware corporation (the "Corporation"), which is about to file an annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, on Form 10-K, hereby constitutes and appoints Robert Stanzione, Lawrence Margolis and David Potts and each of them his or her true and lawful attorney-in-fact and agent, with full power and all capacities, to sign the Corporation's Form 10-K and any and all amendments thereto, and any other documents in connection therewith, to be filed with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as she or he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his or her hand and seal as of the 28th day of February, 2002.

/s/ John M. Egan  
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/s/ Samuel K. Skinner  
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/s/ Rod Dammeyer  
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/s/ Bruce Van Wagner  
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/s/ James L. Faust  
-----

/s/ Craig Johnson  
-----

/s/ William H. Lambert  
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/s/ Vickie Yohe  
-----

/s/ John R. Petty  
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/s/ Ian Craig  
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/s/ Larry Romrell  
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