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

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OF

ARRIS GROUP, INC.
A DELAWARE CORPORATION
IRS EMPLOYER IDENTIFICATION NO. 58-2588724
SEC FILE NUMBER 001-16631

11450 TECHNOLOGY CIRCLE
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ARRIS Group's Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934. 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 held by non-affiliates as of June 28, 2002 was approximately $270,446,897 (computed on the basis of the last reported sales price per share $4.48 of such stock on the Nasdaq National Market System). As of March 24, 2003, 74,641,555 shares of the registrant's Common Stock were outstanding. For these purposes, directors, officers and 10% shareholders have been assumed to be affiliates. ARRIS Group, Inc. is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Portions of ARRIS Group's Proxy Statement for its 2003 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 without limitation, including Arris International, Inc. (formerly ANTEC Corporation) and Arris Interactive L.L.C., unless the context otherwise requires.

GENERAL

We develop and supply equipment and technology for cable system operators and other broadband service providers which allow them to deliver a full range of integrated voice, video and data services to their subscribers. Further, we are a leading supplier of infrastructure products used by cable system operators in the build-out and maintenance of hybrid fiber coaxial, or HFC, networks. We are the successor to ANTEC Corporation.

Our principal executive offices are located at 11450 Technology Circle, Duluth, Georgia 30097, and our telephone number is (678) 473-2000. We also have a worldwide website at http://www.arrisi.com. We are currently developing the system on our website that will provide copies or hyperlinks to copies of the annual, quarterly and current reports we file with the Securities and Exchange Commission and any amendments to those reports. We will provide copies of such reports in electronic or paper form free of charge upon request to Investor Relations.

INDUSTRY OVERVIEW

We provide our products and equipment principally to the cable television market and, more specifically, to operators of multiple cable systems, or MSOs. In recent years, the technology used in cable systems has evolved significantly. Historically, cable systems offered only one-way video service. Due to technological advancements and large investments in infrastructure upgrades, these systems have evolved to become two-way broadband systems featuring high-speed, high-volume, interactive services. In the United States alone, MSOs have aggressively upgraded their networks to cost-effectively support and deliver enhanced video, voice and data services and have invested over $70 billion in network upgrades. As a result, cable operators have been able to use broadband systems to increase their revenues by offering enhanced interactive subscriber services, such as high-speed data, telephony, digital video and video on demand, and to effectively compete against other broadband communications technologies, such as digital subscriber line, local multiport distribution service, direct broadcast satellite, and fixed wireless. Delivery of enhanced services also has helped MSOs offset slowing basic video subscriber growth and reduce subscriber churn.

A key factor supporting the growth of broadband systems is the powerful growth of the internet. Rapid growth in the number of internet users and the demand for high-speed, high-volume interactive services has strained existing 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. Further, system operators are looking for products and technology that are 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. We believe that our products position us well to meet these industry challenges.

A broadband system consists of three principal components:

- Headend. The headend is a central point in the cable system where signals are received via satellite and other sources and interfaces are located that connect the Internet and public switched telephony networks. 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 allocates the combined signals from the headend and transmits them throughout the cable system to nodes.

- Subscriber Premises. Cable drops extend from nodes to subscribers' homes and connect to a subscriber's television set, converter box, telephony network interface device or computer modem.

As cable networks evolved from one-way video only networks to broadband networks, the underlying network elements have evolved and have been upgraded. Traditionally, cable systems used coaxial cable and a series of radio frequency, or RF, amplifiers throughout a distribution network. Today, most of the major cable systems have been, or will be, upgraded with fiber optic technology. The use of fiber optic technology enables operators to transmit wider 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 a subscriber's premises. The use of fiber optic technology also reduces the 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. We offer to cable operators many of the hardware elements necessary for these upgrades and products to maintain their fiber optic networks.

Significant advancements in technology have occurred which allow cable operators to offer services beyond their traditional video offering. Two key services are cable telephony and the provision of data. According to In-Stat/MDR, worldwide revenues from cable telephony services are projected to increase from $3.1 billion in 2002 to approximately $7.5 billion in 2006, representing a compound annual growth rate of 25%. Additionally, according to Gartner Dataquest, cable modem subscribers worldwide are projected to increase from 28.8 million in 2002 to over 56.1 million in 2006, representing a compound annual growth rate of 18%.

Data is the method by which cable operators can offer to their customers high-speed access to the internet. We offer both headend and customer premises products to cable operators that enable them to offer this service to their subscribers. Our Cadant C4(TM) CMTS headend product is a high density, chassis-based product that provides the industry's most flexible built-in redundancy to ensure carrier-grade performance and allows operators to install the system for data applications today with a seamless transition to voice services in the future. We offer a competitive line of cable modems for the customer premises.

The second key new service, cable telephony, is presently offered to cable operators using two distinct technologies: constant bit rate, or CBR, technology and Internet protocol, or IP, technology. CBR technology 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. 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 2002, our

Cornerstone CBR cable telephone products served over 3.5 million subscriber lines deployed by 42 operators in 101 cities in 13 countries. IP technology, also known as voice over IP, or VoIP, permits cable operators to provide toll-quality cable telephony at costs 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. We offer telephony products using both of these technologies.

Data and VoIP services are governed by a set of technical standards promulgated by CableLabs(R) in North America and TComLabs(R) in Europe, two industry standard-setting bodies. While the standards set by these two bodies necessarily differ in a few details to accommodate the differences in HFC network architectures between North America and Europe, they have a great deal in common. The primary data standard specification for cable operators in North America is entitled "Data Over Cable Service Interface Specification", or DOCSIS. Release 1.1 of this specification has been the governing standard for data services in North America. The Euro-DOCSIS standard Release 1.1 is the same for Europe. A new version of the standard, DOCSIS 2.0, was released in 2001, and suppliers, including us, are expected to begin deliveries of

product compliant to this new standard in 2003. DOCSIS 2.0 builds upon the capabilities of DOCSIS 1.0 and DOCSIS 1.1 and adds additional 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 has defined the PacketCable(R) standard for VoIP. This standard defines the interfaces among network elements such as cable modem termination systems, or CMTS, multi-media terminal adapters, or MTA, gateways and call management servers to provide high quality IP telephony service over the HFC 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 two categories:

Broadband	- Cable telephony products, CBR telephony products and VoIP telephony products, including headend and subscriber premises equipment; - High speed data products, including DOCSIS headend and subscriber premises equipment; - Operational support systems; and - System integration services.
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

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, a gateway, and provisioning systems provide the ability to integrate the public-switched telephone network and high-speed data services over an HFC network. The CMTS provides the software and hardware to allow the IP traffic from the internet or that used in VoIP telephony to be converted for use on HFC networks. It is also responsible for initializing and monitoring all cable modems connected to the HFC network. We provide two products that are used in the cable operator's headend to provide VoIP and high-speed data services to residential or business subscribers. These are the Cornerstone Data CMTS 1500 and the Cadant C4 CMTS:

- The Cadant C4 CMTS is a high density, chassis-based product that provides the industry's most flexible built-in redundancy to ensure carrier-grade performance. It is DOCSIS(TM) 1.1 and EuroDOCSIS 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 that service thousands to hundreds of thousands of high-speed data and VoIP subscribers.

- The Cornerstone CMTS 1500 is a DOCSIS 1.1 and EuroDOCSIS 1.1 qualified CMTS. It is a scaleable headend solution, providing high-speed data and VoIP services in headends that service several thousand to 50,000 subscribers. We also provide a modular redundant chassis to enable CMTS 1500's to be grouped together with a four-to-one redundant architecture providing the requisite reliability for carrier-grade telephony operation.

Subscriber Premises -- Subscriber premises equipment includes DOCSIS 1.0 and 1.1 certified cable modems for high-speed data applications and DOCSIS 1.1 and PacketCable certified cable modems with embedded multimedia terminal adapters, or E-MTA, for PacketCable-compliant VoIP applications. The PacketCable solution builds on DOCSIS 1.1 and its quality of service enhancements to support lifeline

telephony deployed over HFC 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. The Touchstone product line consists of the Touchstone 300-series and 450-series Cable Modems, the Touchstone TM 202-series telephony modem for indoor applications and the Touchstone TP 202-series telephony port for outdoor deployments.

- The Touchstone CM300A Cable Modem is DOCSIS 1.1-certified enabling it to be deployed in networks where advanced high-speed data features such as tiered data services are planned. The Touchstone 300B Cable Modem provides the same features as the CM300A but is EuroDOCSIS-certified for use in European and similar systems. We plan to introduce the Touchstone CM 450A/450C DOCSIS 2.0-based Cable Modems in the second quarter of 2003. These advanced modems deliver higher upstream speeds enabling operators to offer advanced services over HFC networks.

- The Touchstone TM 202A/B/C E-MTAs are PacketCable-certified indoor E-MTAs that support enhanced services of high-speed data and up to two lines of IP telephony on the same network for residential and business subscribers. The Touchstone TM 202A is DOCSIS 1.1 certified for use in North American and similar cable systems. The Touchstone TM 202B is EuroDOCSIS 1.1 certified for use in European and similar cable systems. The Touchstone TM 202C is DOCSIS 1.1-based and designed specifically for the unique frequency plan of Japanese cable systems.

- The Touchstone TM 202P/R E-MTAs are PacketCable certified and provide all of the features of the TM 202A/B/C series with the added benefit of an integral battery back-up system enabling the service provider to offer carrier-grade Telephony over IP, or ToIP(TM).

- The Touchstone TP 202A/C Telephony Port is a rugged, environmentally hardened, ultra-reliable outdoor E-MTA that provides high-speed data access and up to four lines of carrier-grade ToIP(TM) for service providers wishing to compete by offering a service which is at parity with the local telephone company.

Constant Bit Rate Products

Headend -- We market our headend equipment under the brand name Cornerstone Voice. Cornerstone Voice products for the headend include host digital terminals, or HDTs. An HDT is the device that provides the interfaces, controls and communications channels between public-switched networks and the HFC network. Because the Cornerstone Voice system is easy to implement, economical and scaleable, network operators can offer telephony at low initial penetration levels and expand as customer demand increases. We design this 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 our customers to compete with the incumbent local telephone company with an equivalent, and often superior, service offering.

Subscriber Premises -- The key equipment at subscriber premises is a network interface unit, or NIU. We market our NIUs under the brand name Cornerstone Voice Port(TM). The Cornerstone Voice Port is the most widely deployed CBR NIU. Voice Port units operate in conjunction with the Cornerstone HDT to provide cable telephony while also maintaining a subscriber's existing video services. Operators who are also deploying high-speed data services, such as our Cornerstone, Cadant and Touchstone brands, may deploy cable modems inside the home or work premises and multiplex the data service signals on to the same HFC network as the Cornerstone Voice application. This combination of 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 indoor Voice Port NIU with an integrated backup battery, a four-line Voice Port NIU, and a twenty-four-line Voice Port NIU for multiple dwelling unit applications.

Operational Support Systems (OSS)

OSS stands for operational support systems. OSS are a group of networked software suites that enable operators to automate many of the functions required to install, provision, manage and grow a subscriber base while managing, maintaining and upgrading the network for the multiple services offered. Without OSS automation, operators cannot manage subscriber growth and network operations effectively.

We are partnering with leading suppliers in the industry to 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. We are an authorized value added reseller of Alopa's MetaServ(TM), which provides automated provisioning software for control of the CMTS and cable modems. MetaServ works with various billing and middleware software programs. We have strategic relationships with other equipment vendors to integrate existing Cornerstone software for CMTS and cable modem OSS functions. Operators are able to perform OSS functions across Cornerstone Voice and Cornerstone Data employing the Cadant CMTS and Touchstone product lines using a common OSS 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 Cadant G2 IM Server can support up to 100 Cadant C4 CMTS chassis and 20 simultaneous client applications.

System Integration Services

We are a full service system integrator for converged services over HFC networks. We historically have been a pioneer in the voice and data over HFC business and have the experience and infrastructure in place to help operators launch these services. System integration offers the service provider a fully integrated solution that has been tested for end-to-end interoperability, performance, capacity, scalability, and reliability prior to ever being installed at the customer facility. System solution verification can be followed 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 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.

SUPPLIES AND SERVICES

We offer a variety of supplies and services, including products and value-added logistics programs, to support broadband network builds, rebuilds, upgrades and maintenance. Our supplies and services are complemented by our extensive channel-to-market infrastructure, which is focused on providing efficient delivery of products from stocking or drop-ship locations.

We believe that the core strength of our products is our broad selection of trusted name-brand products and strategic proprietary lines and our experience in distribution. Our name-brand products are manufactured to our specifications by manufacturing partners. These products include: taps, line passives, house passives and premises installation equipment marketed under our Regal brand name; MONARCH(TM) aerial and underground plant construction products and enclosures; Digicon premium F-connectors; and FiberTel fiber optic connectivity devices and accessories. Through our product selection, we are able to address virtually every broadband infrastructure application, including fiber optics, outside plant construction, drop and premises installation, and signal acquisition and distribution.

We also resell products from hundreds of strategic supplier-partners, which include widely recognized brands to small specialty manufacturers. Through our strategic supplier-partners, we also supply ancillary products like tools and safety equipment, testing devices and specialty electronics.

Our inventory management and logistics capabilities, which are critical to our efficient and successful operation, are often leveraged to offer value-added services to our customers. These services range from just-in-time delivery, product "kitting," specialized electronic interfaces, and customized reporting, to more complex and comprehensive supply chain management solutions. These services complement our products

offerings with advanced channel-to-market and logistics capabilities, extensive product bundling opportunities, and an ability to deliver carrier-grade infrastructure solutions in the passive transmission portions of the network. The depth and breadth of our inventory and service capabilities enable us to provide our customers with single supplier flexibility.

SALES AND MARKETING

Our sales force is divided into two groups, North American and International. Our North American sales force is also divided into two groups. The first group focuses on the six largest multiple system operators, or MSOs. The second group 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 Duluth, Georgia and Denver, Colorado. Our International sales force includes sales offices in Argentina, Chile, Japan, Spain and the Netherlands.

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 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

The majority of our sales are to cable system operators, 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. In 2002, as the US cable industry continued a trend toward consolidation, the six largest MSOs controlled 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 a system operator's selection of our equipment, demand for increased broadband services by subscribers, and general capital expenditure levels by system operators.

Our two largest customers are Comcast (including AT&T Broadband, which was acquired by Comcast during 2002) and Cox Communications. Sales to these two customers for 2002, 2001, and 2000 are set forth below:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
	(IN MILLIONS)		
Comcast (including AT&T Broadband)	$250.2	$245.6	$387.2
% of sales	38.4%	39.1%	51.6%
Cox Communications	$106.7	$110.9	$116.5
% of sales	16.4%	17.7%	15.5%

Other than Jupiter Telecom and Cabovisao, which accounted for approximately 7.6% and 6.0% of our total sales for 2002, no other customer provided more than 5% of our total sales for the year ended December 31, 2002.

In the fourth quarter of 2002, Comcast completed its purchase of AT&T Broadband. AT&T Broadband was our largest customer in terms of revenue in the first three quarters of 2002. AT&T Broadband, with the deployment of telephony as part of its core strategy, had been using our CBR products in many of its major markets. Comcast has announced that as an initial priority after its purchase of AT&T Broadband, it will emphasize video and high-speed data services and will focus on improving the profitability of its telephony operations at the expense of subscriber growth. As a result, we have experienced a significant decline in sales of our CBR telephony product to Comcast in the fourth quarter of 2002, a trend we expect to continue into 2003.

There are uncertainties surrounding the level of any future transactions with Cabovisao or Adelphia. Sales to these two customers for 2002, 2001 and 2000 are set forth below:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
	(IN MILLIONS)		
Adelphia Communications	$25.9	$54.1	$48.7
% of sales	4.0%	8.6%	6.5%
Cabovisao	$39.1	$16.2	$ 2.5
% of sales	6.0%	2.6%	0.3%

Sales to Adelphia decreased during the second quarter of 2002 as a result of Adelphia's financial troubles, which ultimately resulted in a bankruptcy filing in June 2002. As a result, in June 2002, we established a bad debt reserve of $20.2 million in connection with our accounts receivable from Adelphia. In the third quarter of 2002, we sold a portion of our Adelphia accounts receivable to an unrelated third party, resulting in a net gain of approximately $4.3 million.

Cabovisao, a Portugal-based MSO, accounted for approximately 6% of our total sales in 2002. As of March 10, 2003, Cabovisao owed us approximately 18.6 million euros in accounts receivable, a substantial portion of which was past due. On October 17, 2002, the parent company of Cabovisao, CSii, issued an announcement that suggested it may have difficulty in accessing or refinancing its senior credit facility in the future. At that point, we suspended shipments to them. In January 2003, Cabovisao senior management met with us and presented a payment plan. In late January 2003, we received the first scheduled payment of 2.0 million euros. On the strength of the payment received and the payment plan presented, we shipped 0.4 million euros of product to Cabovisao in February 2003. On January 29, 2003, the parent company of Cabovisao announced that it had obtained access to bridge financing of 14.0 million euros and that it was continuing negotiations with respect to a long-term financing solution. However, Cabovisao failed to make the 2.5 million euros February payment to us by its due date. On March 1, 2003, CSii announced that its bankers again extended the waivers pertaining to the maturity date of its credit facility until March 26, 2003, but Csii would not make the scheduled March 3, 2003 interest payment on its senior unsecured notes. The announcement also indicated the company had formed a special board committee to consider alternatives to

meet its financial needs, including debt restructuring or a possible court-supervised restructuring, among other alternatives. We will not deliver further products to Cabovisao until we have a satisfactory payment plan with Cabovisao and are considering what actions should be taken regarding the situation. We cannot provide any assurance that Cabovisao will satisfy our accounts receivable or that it will continue to place orders with us in the future.

RESEARCH AND DEVELOPMENT

We are committed to the development of new technology and rapid innovation in the evolving broadband market. New products are developed in our research and development laboratories in Duluth, Georgia and Lisle, Illinois. We form strategic alliances with world-class producers and suppliers of complementary technology to provide "best-in-class" solutions focused on "time-to-revenue."

Research and development expenses in 2002, 2001, and 2000 were approximately $64.8 million, $26.9 million, and $9.1 million, respectively. The increase in 2002 and 2001 was directly attributable to the inclusion of the research and development activities of Arris Interactive L.L.C. beginning with

the acquisition on August 3, 2001, and the development of new technology following the acquisition of Cadant on January 8, 2002.

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. To that end, the Cadant C4 CMTS product line continues to lead the industry in areas such as fault tolerance, wire-speed throughput and routing, and density. The Touchstone(TM) product line boasts a wide-range of DOCSIS 1.1 and PacketCable 1.0 certified products, including the Touchstone Cable Modem 300, in addition to the Touchstone Telephony Modem Model 2E-MTA. We also have developed an outdoor E-MTA to support lifeline telephony and data services.

The following trends are having a direct effect on our current product development activities:

- Continued increase in peer-to-peer services are accelerating demand for new services requiring intensive, high-touch processing and sophisticated management techniques;

- Innovations in video encode/decode technology are making possible very low bit rate, high quality video streaming;

- Continued silicon integration and chip fabrication technology innovations are making possible very low cost, multi-functional broadband consumer devices, integrating not only telephony but wireless and video decompression and digital rights management functionality; and

- Continued field and market trials of PacketCable VoIP technology, potentially leading to adoption and mass deployment beginning in 2004.

As a result, our product development activities are primarily directed at the following areas:

- Rapid development and delivery of Cadant C4 CMTS features, including DOCSIS 2.0 support, Layer 3 routing enhancements, packet inspection and filtering features, and increased downstream/upstream density;

- Introduction of the fourth generation Touchstone Telephony Modem E-MTA, including support for low maintenance, consumer-friendly lithium ion battery technology;

- Expansion of the Touchstone product line to include support for DOCSIS 2.0 and wireless home networking capabilities;

- Definition of services and products that will exploit the video compression innovations of H.264 and Windows Media(TM) Player 9; and

- Continued emphasis on product cost reduction.

INTELLECTUAL PROPERTY

We have an aggressive program for protecting our intellectual property. The program consists of maintaining our portfolio of 45 issued patents (both U.S. and foreign) and pursuing patent protection on new inventions (currently 133 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 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

Patent Convention Treaty (PCT) applications, 5 trademark applications, 1 U.S. registered trademark and 5 registered copyrights. The Cadant patents are in the area of cable modems and CMTSs. The March 2003 purchase of the assets of Atoga Systems resulted in the acquisition of 2 US patent applications, which also have been filed as PCT applications. The Atoga patents are in the area of network traffic flow.

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 our 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

Our product sourcing strategy centers on the use of contract manufacturers to subcontract production. Our largest contract manufacturers are Solectron and Mitsumi, located in the United States and Japan, respectively. The facilities owned and operated by these contract manufacturers for the production of our products are located in the United States, Mexico and the Philippines. 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.

Prior to 2002, we manufactured or assembled a substantial portion of our products related to our Actives, Keptel and Power product lines. Manufacturing operations ranged from electro-mechanical, labor-intensive assembly to sophisticated electronic surface mount automated assembly lines. We operated five major manufacturing facilities related to these product lines. During the third quarter of 2001, we made the decision to outsource most of our manufacturing and have since closed four facilities located in El Paso, Texas and Juarez, Mexico. The remaining factory in Rock Falls, Illinois, was closed in conjunction with the sale of the Keptel product line in April 2002.

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, 2002 was approximately $43.8 million, at December 31, 2001 was approximately $119.2 million and at December 31, 2000 was approximately $182.8 million.

We believe that substantially all of the backlog existing at December 31, 2002 will be shipped in 2003.

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 primarily includes China, Hong Kong, Japan, Korea, and Singapore. The European market primarily includes Austria, Germany, France, Netherlands, Poland, Portugal, Romania, Spain, and Switzerland. The Latin American market primarily includes Argentina, the Bahamas, Chile, Colombia, Mexico, and Puerto Rico. Sales to international customers were approximately 22.6%, 11.4% and 4.3% of total sales for the years ended December 31, 2002, 2001 and 2000, respectively. International sales for the years ended December 31, 2002, 2001 and 2000 were as follows:

	YEARS ENDED DECEMBER 31		
	2002	2001	2000
	(IN THOUSANDS)		
Asia Pacific	$ 51,328	$20,484	$ 2,721
Europe	67,363	31,613	6,592
Latin America	20,266	14,125	19,789
Canada	8,387	5,679	3,308
Total	$147,344	$71,901	$32,410

We believe that international opportunities exist and continue 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 We have made significant operational and geographical changes in the international marketplace. We consolidated our international offices and warehouses to the Netherlands (to service northern Europe) and Spain (to service southern Europe). We also opened a sales office in Chile to address the growing market in that region. In 2002, we consolidated our international presence in the Far East by opening a sales and warehouse facility in Japan. We currently maintain international sales offices in Argentina, Chile, Japan, 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.;
- Broadband Services, Inc.;
- Cisco Systems, Inc.;
- Juniper Networks, Inc.;
- Motorola, Inc.;
- Riverstone Networks, Inc.;
- Scientific-Atlanta, Inc.;
- Tellabs, Inc.;
- Terayon Communications Systems, Inc.; and
- TVC Communications, Inc.

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, 2003, we had 959 full-time employees. 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 confidentiality 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 I).

- 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., or 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, or 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%.

  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 Class B membership interest in Arris Interactive.

  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.

  ARRIS sold its Keptel product line. During 2001, sales in this product line were approximately $44.8 million, and during 2002 (through the date of the sale), sales were approximately $7.5 million.

  ARRIS sold its Actives product line. During 2001, sales in this product line were approximately $68.2 million, and during 2002 (through the date of the sale), sales were approximately $58.8 million.

  ARRIS closed its office in Andover, Massachusetts, which was primarily a product development and repair facility.

- 2003 -- ARRIS acquired certain assets of Atoga Systems, a Fremont, California-based developer of optical transport systems for metropolitan area networks.

ITEM 2. PROPERTIES

We currently conduct our operations from 12 different locations; two of which we own, while the remaining 10 are leased. These facilities consist of sales and administrative offices and warehouses totaling approximately 600,000 square feet. Our long-term leases expire at various dates through 2009. We

believe that

our current properties are adequate for our operations. A summary of our principal 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
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
Lisle, Illinois.....	Office space	35,249	March 31, 2005
Greenville, Mississippi.....	Warehouse	30,000	May 31, 2003
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 process of closing, and the closing should be completed by June 30, 2003.

Our owned facilities have been pledged as collateral to secure payment of our credit facility. We own the following properties:

LOCATION	DESCRIPTION	AREA (SQ. FT.)
Cary, North Carolina.....	Warehouse	151,500
Chicago, Illinois.....	Warehouse/Office space	18,000

ITEM 3. LEGAL PROCEEDINGS

We are not currently engaged in any litigation that we believe would have a material adverse effect on our financial condition or results of operations.

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

During the fourth quarter of 2002, no matters were submitted to a vote of our company's security holders.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the name, age as of March 10, 2003, and position with us of our executive officers.

NAME	AGE	POSITION
John M. Egan.....	55	Chairman of the Board
Robert J. Stanzione.....	55	President and Chief Executive Officer
Lawrence A. Margolis.....	55	Executive Vice President, Chief Financial Officer, and Secretary
Gordon E. Halverson.....	60	Corporate Executive Vice President, Domestic Sales
Ronald M. Coppock.....	48	President, International
Bryant K. Isaacs.....	43	President, New Business Ventures
James D. Lakin.....	59	President, Broadband
Robert Puccini.....	41	President, TeleWire Supply
David B. Potts.....	45	Senior Vice President, Finance and Chief Information Officer
Leonard E. Travis.....	40	Vice President and Controller

Marc Geraci..... 50 Treasurer

John M. Egan joined the Company in 1973 and has been Chairman of our board of directors since 1997. Mr. Egan was President of ARRIS from 1980 to 1997 and Chief Executive Officer of ARRIS and its

predecessors from 1980 through 1999. On January 1, 2000, Mr. Egan stepped down from his role as Chief Executive Officer of ARRIS. He remained a full-time employee until his retirement in May 2002. Currently, Mr. Egan serves on the Executive Committee of the Company. Mr. Egan is on the Board of Directors of the National Cable Television Association, or 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 1998 through 1999, Mr. Stanzione was President and Chief Operating Officer of ARRIS. Mr. Stanzione has been a director of ARRIS since 1998 and serves on the Company's Executive Committee. From 1995 to 1997, he was President and Chief Executive Officer of Arris Interactive. From 1969 to 1995, he held various positions with AT&T Corporation. Mr. Stanzione also serves as a director of Evolve Products, Inc., CoaXmedia, and Georgia CF Foundation.

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. Mr. Margolis serves as a director of Cabletel Communications Corporation.

Gordon E. Halverson has been Corporate Executive Vice President, Domestic Sales since August 2001. From April 1997 to August 2001, Mr. Halverson was Executive Vice President and Chief Executive Officer of ARRIS TeleWire Supply. 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.

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.

Bryant K. Isaacs has been President of ARRIS New Business Ventures since December 2002. Prior to the sale of the Actives product line, Mr. Isaacs was 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.

James D. Lakin has been President of 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.

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, Mr. Puccini served as Vice President, Project Management for ARRIS' AT&T account. Mr. Puccini is a CPA.

David B. Potts has been the Senior Vice President of Finance and Chief Information Officer since the acquisition of Arris Interactive 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.

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since August 6, 2001, ARRIS' common stock has traded 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 18 of Notes to 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
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
2002		
First Quarter	$10.70	$7.71
Second Quarter	9.90	3.13
Third Quarter	5.10	3.04
Fourth Quarter	4.09	1.50

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

As of March 25, 2003, there were approximately 241 record holders of our common stock. This number excludes shareholders holding stock under nominee or street name accounts with brokers.

ITEM 6. SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

Discontinued Operations. On April 24, 2002, we sold our Keptel product line. Keptel designed and marketed network interface systems and fiber optic cable management products primarily for traditional residential and commercial telecommunications applications. The transaction generated cash proceeds of $30.0 million. Additionally, we retained a potential earn-out over a twenty-four month period based on sales achievements. The transaction also included a distribution agreement whereby we will continue to distribute Keptel products. The Keptel product line had approximately $51.1 million of revenue in 2001 and approximately $6.3 million of revenue for the three months ended March 31, 2002. Total assets of approximately $31.1 million were disposed of, which included inventory, fixed assets, intangibles (formerly classified as goodwill), and other assets. We incurred approximately $7.4 million of related closure costs, including severance, vendor liabilities, outside consulting fees, and other shutdown expenses. During the second quarter of 2002, a net loss of $8.5 million was recorded in connection with the sale of the Keptel product line. This net loss was reported in restructuring and other in the Consolidated Statement of Operations during the second quarter due to the overall immateriality of Keptel's results of operations and assets to the consolidated results and assets of the company. During the fourth quarter of 2002, we reduced the loss by $2.4 million as a result of the resolution of certain estimated costs associated with the sale.

On November 21, 2002, we sold our Actives product line to Scientific-Atlanta for net proceeds of $31.8 million. The Actives product line had approximately $68.2 million of revenue in 2001, and approximately $44.3 million of revenue for the nine months ended September 30, 2002. The agreement provided for the transfer of inventory and equipment attributable to the product line, plus the transfer of approximately 34 employees. Total assets of approximately $20.3 million were disposed of, which included inventory, fixed assets, and other assets attributable to the product line. Additionally, ARRIS incurred approximately $9.3 million of related closure costs, including severance, vendor liabilities, professional fees, and other shutdown expenses. In connection with the sale, we recognized a gain of approximately $2.2 million during the fourth quarter of 2002.

As the sale of Actives and Keptel product lines represented a majority of the transmission, optical and outside plant product category, we have reclassified the results of these product lines to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets for all periods. The balance of the product lines previously reported in transmission, optical, and outside plant product category have been combined with our supplies and services category. All prior period revenues have been aggregated to conform to the new product categories.

The selected consolidated financial data as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 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, 2000, 1999 and 1998 and for the years ended December 31, 1999 and 1998 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 17 of the

Notes to the Consolidated Financial Statements for a summary of our quarterly consolidated financial information.

	2002	2001	2000	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED OPERATING DATA:					
Net sales	$ 651,883	$ 628,323	$749,972	$587,439	$341,028
Cost of sales(1)(2)(3)(4)(5)(6)	425,231	479,663	624,720	479,252	266,654
Gross profit	226,652	148,660	125,252	108,187	74,374
Selling, general, administrative and development expenses(2)(3)(7)(8)	200,574	129,743	86,721	71,136	68,226
Impairment of goodwill(9)	70,209	--	--	--	--
Amortization of goodwill	--	3,256	3,300	3,324	3,293
Amortization of intangibles	34,494	7,012	--	--	--
In-process R&D write-off(10)	--	18,800	--	--	--
Restructuring and other(1)(4)(11)(12)(13)	7,113	11,602	--	1,421	6,896
Operating income (loss)	(85,738)	(21,753)	35,231	32,306	(4,041)
Interest expense	8,383	11,068	12,184	13,529	10,402
Membership interest	10,409	4,110	--	--	--
Loss on debt retirement(14)(20)	7,302	1,853	--	--	--
Other expense (income), net	(5,513)	8,120	(1,271)	(1,837)	(2,123)
Loss on investments(15)	14,894	767	773	275	--
Income (loss) from continuing operations before income taxes	(121,213)	(47,671)	23,545	20,339	(12,320)
Income tax expense (benefit)(16)(17)	(6,800)	35,588	9,622	9,202	(7,095)
Net income (loss) from continuing operations	(114,413)	(83,259)	13,923	11,137	(5,225)
Discontinued Operations:					
Income (loss) from discontinued operations (including a net loss on disposals of $4.0 million for the year ended December 31, 2002) (1)(4)(5)(8)(11)(18)(19)	(18,794)	(92,441)	11,409	10,177	26,056
Income tax expense (benefit)	--	(7,969)	4,663	4,604	15,006
Income (loss) from discontinued operations	(18,794)	(84,472)	6,746	5,573	11,050
Net income (loss) before cumulative effect of an accounting change	(133,207)	(167,731)	20,669	16,710	5,825
Cumulative effect of an accounting change (21)	57,960	--	--	--	--
Net income (loss)	$(191,167)	$(167,731)	$ 20,669	$ 16,710	$ 5,825

	2002	2001	2000	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
NET INCOME (LOSS) PER COMMON SHARE:					
Basic:					
Income (loss) from continuing operations	$ (1.40)	$ (1.55)	$ 0.37	$ 0.30	$ (0.14)
Income (loss) from discontinued operations	(0.23)	(1.58)	0.18	0.15	0.30
Cumulative effect of accounting change	(0.71)	--	--	--	--
Net income (loss)	$ (2.33)	$ (3.13)	$ 0.54	$ 0.46	$ 0.16
Diluted:					
Income (loss) from continuing operations	$ (1.40)	$ (1.55)	$ 0.35	$ 0.29	$ (0.13)
Income (loss) from discontinued operations	(0.23)	(1.58)	0.17	0.14	0.29
Cumulative effect of accounting change	(0.71)	--	--	--	--
Net income (loss)	$ (2.33)	$ (3.13)	$ 0.52	$ 0.43	$ 0.15

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(1) In 1999, we recorded pre-tax charges of approximately $16.0 million in conjunction with the closure of our New Jersey facility and the discontinuance of certain products, of which approximately $10.7 million relates to and is classified in discontinued operations. The charges included approximately $2.6 million related to personnel costs and approximately $3.0 million related to lease termination and other costs. Of the total charge of $5.6 million, approximately $1.4 million is reflected in restructuring and $4.2 million is classified in discontinued operations. The charges also included an inventory write-down of approximately $10.4 million, of which $6.5 million is classified in discontinued operations and $3.9 million is reflected in cost of sales. In 2000, we recorded an additional $3.5 million pre-tax charge to cost of sales related to the 1999 reorganization.

(2) During 2001, we significantly reduced our 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 selling, general, administrative and development expenses.

(3) During 2002, we recorded severance charges related to general reductions in force of approximately $5.1 million, of which $1.1 million is reflected in cost of goods sold and $4.0 million is reflected in selling, general, administrative and development expenses.

(4) In 2001, we recorded pre-tax restructuring and impairment charges of approximately $66.2 million. Of this total charge, approximately $50.1 million is classified in discontinued operations, $8.5 million is reflected in cost of goods sold, and $7.6 million is reflected in restructuring. Of the $50.1 million classified in discontinued operations, approximately $25.1 million related to the write-down of inventories, $14.8 million related to the impairment of fixed assets, $4.5 million related to lease termination and other shutdown expenses, and $5.7 million related to severance and associated personnel costs. The remaining $16.1 million related to continuing operations, of which approximately $8.5 million related to the write-down of inventories and certain purchase order and warranty obligations and was charged to cost of goods sold, and approximately $7.6 million related to the impairment of goodwill and lease termination expenses and was reflected in restructuring. In 2002, we recorded an additional $2.4 million pre-tax charge to discontinued operations related to the 2001 restructuring.

(5) Due to the economic disturbances in Argentina, we recorded a write-off of $4.4 million related to unrecoverable inventory amounts due from a customer in that region during the fourth quarter of 2001, of which approximately

$1.6 million relates to and is classified in discontinued operations, and $2.8 million is reflected in cost of goods sold.

(6) During 2002, we wrote off the remaining $2.1 million of power inventories that had not been transferred to the buyer. This charge is reflected in cost of goods sold.

(7) In 2000, we recorded a pre-tax gain of $2.1 million as a result of the curtailment of our defined benefit pension plan.

(8) During the first half of 2002, we established a reserve of $20.2 million in connection with our Adelphia receivables of which approximately $1.3 million relates to and is classified in discontinued operations, and approximately $18.9 million is reflected in selling, general, administrative and development expenses. Adelphia filed for bankruptcy in June 2002. During the third quarter of 2002, we sold a portion of our Adelphia accounts receivables to an unrelated third party, resulting in a net gain of approximately $4.3 million. Of this total gain, approximately $0.3 million relates to and is classified in discontinued operations, and $4.0 million is reflected in selling, general and administrative and development expense.

(9) During the fourth quarter of 2002, based upon management's analysis including an independent valuation, we recorded a goodwill impairment charge of $70.2 million with respect to our supplies and services product line.

(10) During 2001, we recorded a pre-tax write-off of in-process research and development of $18.8 million in connection with the Arris Interactive acquisition.

(11) In 1998, we recorded pre-tax charges of approximately $10.0 million in conjunction with the consolidation of our corporate and administrative functions, of which approximately $2.2 million relates to and is classified in discontinued operations and $7.8 million is reflected in restructuring expense. The charges included approximately $7.6 million related to personnel costs and approximately $2.4 million related to lease termination and other costs. Subsequently, during the fourth quarter of 1998 we reduced this charge by $0.9 million as a result of the ongoing evaluation of the estimated costs associated with these actions.

(12) During 2002, a restructuring charge of approximately $7.1 million was recorded in connection with the closure of our development and repair facility in Andover, Massachusetts.

(13) During 2001, we 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) During 2002, we recorded a loss of $9.3 million associated with the 4 1/2% note exchanges, in accordance with SFAS No. 84, Induced Conversions of Convertible Debt. This loss was partially offset with a gain of approximately $2.0 million related to cash repurchases of the 4 1/2% notes in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

(15) We hold certain investments in the common stock of publicly traded companies totaling approximately $0.1 million and $0.8 million at December 31, 2002 and 2001, respectively, which are classified as trading securities. Changes in the market value of these securities and gains or losses on related sales of these securities are recognized in income and resulted in pre-tax losses of approximately $0.6 million and $0.8 million during the years ended December 31, 2002 and 2001, respectively.

We recorded a $13.5 million charge to income during 2002 on our available

for sale securities as a result of market value declines considered by management to be other than temporary.

(16) During 2002, we recognized a $6.8 million income tax benefit as a result of a change in tax legislation, allowing us to carry back losses for five years versus the previous limit of two years.

(17) During 2001, as a result of the restructuring and impairment charges during that period, a valuation allowance of approximately $38.1 million against deferred tax assets was recorded in accordance with SFAS No. 109, Accounting for Income Taxes.

(18) 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 of which all relates to and is classified in discontinued operations. We do not anticipate any further warranty expenses to be incurred in connection with this product.

(19) During 2002, a loss of $6.2 million was recorded in connection with the sale of the Keptel product line. Additionally, during 2002, a gain of $2.2 million was recorded in connection with the sale of the Actives product line. The net loss of $4.0 million relates to and is classified in discontinued operations.

(20) During 2001, we recorded pre-tax charges of $1.9 million 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 acquisition. In 2002, this loss was reclassified to loss from continuing operations as a result of the gain on cash repurchases recognized in the fourth quarter of 2002 in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

(21) During 2002, we posted a loss of approximately $58.0 million due to the cumulative effect of an accounting change. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, and upon management's analysis of our intangibles including an independent valuation, we recorded a reduction in the value of our goodwill of approximately $58.0 million, primarily related to our Keptel product line.

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.

Discontinued Operations. On April 24, 2002, we sold our Keptel product line. Keptel designed and marketed network interface systems and fiber optic cable management products primarily for traditional residential and commercial telecommunications applications. The transaction generated cash proceeds of $30.0 million. Additionally, we retained a potential earn-out over a twenty-four month period based on sales achievements. The transaction also includes a distribution agreement whereby we will continue to distribute Keptel products. The Keptel product line had approximately $51.1 million of revenue in 2001 and approximately $6.3 million of revenue for the three months ended March 31, 2002. Total assets of approximately $31.1 million were disposed of, which included inventory, fixed assets, intangibles (formerly classified as goodwill), and other assets. We incurred approximately $7.4 million of related closure costs, including severance, vendor liabilities, outside consulting fees, and other shutdown expenses. During the second quarter of 2002, a net loss of $8.5 million was recorded in connection with the sale of the Keptel product line. This net loss was reported in restructuring and other in the Consolidated Statement of Operations during the second quarter due to the overall immateriality of Keptel's results of operations and assets to the consolidated results and assets of the company. During the fourth quarter of 2002, we reduced the loss by $2.4 million as a result of the resolution of certain estimated costs associated with the sale.

On November 21, 2002, we sold our Actives product line to Scientific-Atlanta for net proceeds of $31.8 million. The Actives product line had approximately $68.2 million of revenue in 2001, and approximately $44.3 million of revenue for the nine months ended September 30, 2002. The agreement provided for the transfer of inventory and equipment attributable to the product line, plus the transfer of approximately 34 employees. Total assets of approximately $20.3 million were disposed of, which included inventory, fixed assets, and other assets attributable to the product line. Additionally, ARRIS incurred approximately $9.3 million of related closure costs, including severance, vendor liabilities, professional fees, and other shutdown expenses. In connection with the sale, we recognized a gain of approximately $2.2 million during the fourth quarter of 2002.

As the sale of Actives and Keptel product lines represent a majority portion of the Transmission, Optical and Outside Plant product category, we have reclassified the results of these product lines to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets for all periods. The balance of the product lines previously reported in Transmission, Optical and Outside Plant product category have been combined with our Supplies and Services product category.

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 $104.2 million as of December 31, 2002. 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 of approximately $10.7 million as of December 31, 2002 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. To the extent that unexpected collectibility problems with any of our customers occur in the future, the reserves that we have established may not be sufficient, and an additional bad debt charge may be necessary. For example, we established a reserve of $20.2 million during 2002 in connection with our Adelphia receivables. Adelphia filed for bankruptcy in June 2002. As a result of selling a portion of our Adelphia accounts receivables to an unrelated third party later in 2002, this charge was reduced by approximately $4.3 million.

(c) Investments

We hold certain investments in the common stock of publicly traded companies totaling approximately $0.1 million and $0.8 million at December 31, 2002 and 2001, respectively, which are classified as trading securities. Changes in the market value of these securities and gains or losses on related sales of these securities are recognized in income. We recorded pre-tax losses of approximately $0.6 million and $0.8 million during the years ended December 31, 2002 and 2001, respectively, related to these investments.

We hold certain additional investments in the common stock of publicly traded companies totaling approximately $1.8 million and $2.1 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. In addition, we hold a number of non-marketable equity securities totaling approximately $2.8 million and $12.0 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. At December 31, 2002 and 2001, we had unrealized losses related to these available for sale securities of approximately $0 and $3.2 million, respectively, included in comprehensive income. During the years ended December 31, 2002, 2001, and 2000, we recorded impairment charges of approximately $13.5 million, $0, and $1.3 million on our available for sale securities as a result of market value declines considered by management to be other than temporary.

We offer a deferred compensation arrangement, which allows certain employees to defer a portion of their earnings and defer the related income taxes. These deferred earnings are invested in a "rabbi trust", and are

accounted for in accordance with Emerging Issues Task Force 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested. A rabbi trust is a funding vehicle used to protect deferred compensation benefits from events (other than bankruptcy). The investment in the rabbi trust is classified as a current asset on our balance sheet. During the year ended December 31, 2002, we recognized a loss of approximately $0.8 million in connection with realized losses on the related investments.

(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.

Prior to January 1, 2002, we assessed the recoverability of goodwill and other long-lived assets whenever events or changes in circumstances indicated 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 were less than a business' carrying amount, an asset was determined to be impaired, and a loss was recorded for the amount by which the carrying value of the asset exceeded its fair value. Fair value was based on discounting estimated future cash flows or using other valuation methods as appropriate. Non-cash amortization expense was 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 adopted SFAS No. 142, Goodwill and Other Intangible Assets. In general, SFAS No. 142 requires that 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 are required to reduce the amount of the goodwill. In our initial assessment of our goodwill in accordance with SFAS No. 142, we recorded a transitional goodwill impairment loss of approximately $58.0 million, primarily related to our Keptel product line, which was reflected in our statement of operations as a cumulative effect of an accounting change as of January 1, 2002. In addition, SFAS No. 142 requires that we assess the valuation of goodwill on an annual basis. The Company's remaining goodwill was reviewed in the fourth quarter of 2002, and based upon management's analysis including an independent valuation, a charge of $70.2 million was taken with respect to our supplies and services product category. SFAS No. 142 also requires that we discontinue the amortization of our acquisition related goodwill. As of December 31, 2002, our financial statements included remaining acquisition related goodwill of $151.3 million.

As of December 31, 2002, our financial statements included intangibles of $64.8 million, net of accumulated amortization of $41.5 million. These intangibles are primarily related to the existing technologies acquired from Arris Interactive on August 3, 2001 and Cadant, Inc. on January 8, 2002, and are amortized over a three-year period. Also included is an intangible pension asset of $1.8 million, which is not being amortized. The valuation process to determine the fair market value of the existing technologies by management included valuations by an outside valuation service. The values assigned were calculated using an income approach utilizing the cash flow expected to be generated by these technologies.

(e) Warranty

We provide, by a current charge to cost of sales in the period in which the related revenue is recognized, an estimate of future warranty obligations. 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 we had a warranty expense related to a single product and recorded a charge of $4.7 million, now classified in discontinued operations. To the extent that other unexpected warranty claims occur in the future, the reserves

that we have established may not be sufficient, cost of sales may have been understated, and a charge against future costs of sales may be necessary.

(f) Income Taxes

We use 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.

We established a valuation allowance in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. We continually review the adequacy of the valuation allowance and recognize 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

Over the past two years, we have significantly changed our business through acquisitions, product line rationalizations and cost reduction actions, allowing us to focus on our long-term business strategy. As a result of our acquisitions and dispositions, 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 suggest.

Acquisitions

During the third quarter of 2001, we acquired Nortel Networks' interest in the joint venture Arris Interactive. In January 2002, we purchased substantially all the assets and assumed certain liabilities of Cadant, Inc., a manufacturer of cable modem termination systems that had developed a leading design in the industry for enabling voice over IP telephony and high-speed data. In March 2003, we purchased certain assets of Atoga Systems, a developer of optical transport systems for metropolitan area networks.

Product Line Rationalizations

Upon evaluation and review of our product portfolio, we concluded that the Keptel product line was not core to our long-term strategy, thus we sold the product line during the second quarter of 2002. The Keptel product line had approximately $51.1 million of revenue in 2001 and approximately $6.3 million of revenue for the three months ended March 31, 2002. In November 2002, upon continued review and evaluation of our product portfolio, we sold our Actives product line to Scientific-Atlanta. This product line had approximately $68.2 million of revenue in 2001, and approximately $44.3 million of revenue for the nine months ended September 30, 2002. Both of these product lines were included in our Transmission, Optical & Outside Plant product category and the results of these operations for all periods have been reclassified to discontinued operations.

Cost Reduction Actions

During 2001 and 2002, we implemented significant cost reduction actions. In the third quarter of 2001, we concluded that it would be more cost effective to outsource manufacturing of our Actives and Keptel product lines. This resulted in the closure of four factories in Juarez, Mexico and El Paso, Texas. In conjunction with the purchase of Cadant, we closed our facility in Raleigh, North Carolina. The Raleigh location was a development facility where duplicative work to that being done by the Cadant organization was being performed. In 2001 and 2002, we continuously reviewed our cost structure with the goal of improving both our effectiveness and efficiency of operations. As a result, in October 2002, we announced the closure of our development and repair facility in Andover, Massachusetts and implemented other expense reduction actions including general reductions in force. These actions were in part facilitated by the simplification of our business model as a result of the closure of factories and product line rationalizations.

Debt Reduction and Refinancing Actions

Notes due 2003. In 1998, we issued $115.0 million of 4 1/2% convertible subordinated notes due May 15, 2003. Between April 1, 2002 and December 31, 2002 we purchased approximately $75.7 million of the notes for an aggregate purchase price of $73.7 million in cash and exchanged approximately 1.6 million shares of our

common stock for $15.4 million of the notes. Between January 1, 2003 and March 10, 2003, we purchased approximately $12.4 million of the notes for cash. In order for these transactions to be permitted under the terms of our credit

facility, we modified our credit facility on several occasions.

We recorded the exchanges in accordance with SFAS No. 84, Induced Conversions of Convertible Debt, which requires the recognition of an expense equal to the fair value of additional shares of common stock issued in excess of the number of shares that would have been issued upon conversion under the original terms of the notes. In connection with these exchanges, we recorded a non-cash loss of approximately $8.7 million, based upon a weighted average common stock value of $9.10 per share (as compared with a common stock value of $24.00 per share in the original conversion ratio for the notes). We also incurred associated fees of $0.6 million related to these exchanges, resulting in an overall net loss of $9.3 million. We recorded a $2.0 million gain in 2002 on the notes purchased during the year in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. We anticipate recording neither a gain nor a loss for the notes purchased in 2003.

We intend to repurchase or repay the remaining notes (approximately $11.5 million as of March 10, 2003) on or before their maturity on May 15, 2003. Our credit facility imposes certain conditions on our ability to purchase or redeem the notes, although we currently meet all of those conditions and expect to continue to do so.

Notes due 2008. On March 18, 2003, we issued $125.0 million of 4 1/2% convertible subordinated notes due March 15, 2008 under Rule 144A. These notes are convertible at the option of the holder into our common stock at $5.00 per share, subject to adjustment. We are entitled to call the notes for redemption at any time, subject to our making a "make whole" payment if we call them for redemption prior to March 15, 2006. In addition, we are required to repurchase the notes in the event of a "change in control."

We used approximately $88.4 million of the proceeds, including the reduction in the forgiveness of the Class B membership interest, of the notes issuance to redeem the entire Class B membership interest in Arris Interactive held by Nortel Networks. We used approximately $28.0 million of the proceeds of the issuance to repurchase and retire 8 million shares of our common stock held by Nortel Networks at a discount.

Credit Facility. As noted above, on several occasions during 2002 we modified our credit facility in order to allow us to use existing cash reserves and proceeds of asset sales to purchase or redeem our outstanding 4 1/2% convertible subordinated notes due 2003. These modifications imposed certain conditions on the use of such cash to purchase or redeem additional notes. On March 11, 2003, we amended the credit facility to permit us to issue up to $125.0 million of new convertible subordinated notes due 2008 and to use the proceeds of the new notes to redeem the Class B membership interest in Arris Interactive held by Nortel Networks and to purchase shares of the our common stock held by Nortel Networks, subject to certain limitations. The amendment also reduced the revolving loan commitments to $115.0 million.

Nortel Networks

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 Networks and us in 1995, and immediately prior to the acquisition we owned 18.75% and Nortel Networks owned the remainder. As part of this transaction:

- A new holding company, ARRIS, was formed;

- ANTEC, our predecessor, merged with our subsidiary and the outstanding ANTEC common stock was converted, on a share-for-share basis, into ARRIS common stock;

- Nortel Networks and our 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 Networks 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 Class B membership interest in Arris Interactive with a face amount of $100 million;

- ANTEC, now our wholly-owned subsidiary, changed its name to Arris International, Inc.;

- Nortel Networks designated two new members to our board of directors;

- We issued approximately 2.1 million options and 95,000 shares of restricted stock to Arris Interactive employees.

In connection with this transaction, we entered into an agreement with Nortel Networks whereby we pay Nortel Networks an agency fee of approximately, on average, 10% for all sales of Arris Interactive legacy products made to certain domestic and international customers. This agreement for domestic agency fees expired December 31, 2001. The agreement for international agency fees was terminated on December 6, 2002.

Membership Interest. In connection with the acquisition of Arris Interactive in August 2001, Nortel Networks exchanged its remaining ownership interest in Arris Interactive for 37 million shares of our common stock and a subordinated redeemable Class B membership interest in Arris Interactive with a face amount of $100.0 million. The Class B membership interest earned an accreting non-cash return of 10% per annum, compounded annually, and was redeemable in approximately four quarterly installments commencing February 3, 2002, provided that certain availability and other tests are met under our revolving credit facility. Those tests were not met. The balance of the Class B membership interest as of December 31, 2002 was approximately $114.5 million. In June 2002, we entered into an option agreement with Nortel Networks that permitted us to redeem the Class B membership interest in Arris Interactive at a discount of 21% prior to June 30, 2003. To further induce us to redeem the Class B membership interest, Nortel Networks offered to forgive approximately $5.9 million of the earnings on the Class B membership interest if we redeemed it prior to March 31, 2003. As noted elsewhere, we used approximately $88.4 million of the proceeds of the March 2003 convertible note offering to redeem the Class B membership interest, including the reduction in the forgiveness of the interest.

Common Stock. Of the 37 million shares of our common stock that Nortel Networks received in 2001, it sold 15 million in a registered public offering in June 2002. In order to reduce its holdings further, in March 2003 Nortel Networks granted us an option to purchase up to 16 million shares at a 10% discount to market, subject to a minimum purchase price of $3.50 per share for 8 million shares and $4.00 per share for the remainder. In addition, to the extent that we purchased shares at a price of less than $4.00 per share, we were obligated to return to Nortel Networks a portion of the return that was forgiven with respect to the Class B membership interest, up to a maximum of $2.0 million. Pursuant to this option, on March 24, 2003, we purchased 8 million shares for an aggregate purchase price of $28.0 million. Contemporaneously with this transaction, we paid Nortel Networks $2.0 million, which represented the reduction in the forgiveness of the Class B membership interest. We have not decided when or whether we will exercise the option to repurchase the additional 8 million shares offered by Nortel Networks.

Amendment to Investor Rights Agreement. In connection with the sale of shares of our common stock by Nortel Networks in June 2002, effective September 30, 2002, we agreed to relax certain restrictions in the Investor Rights Agreement governing Nortel Networks' ownership and disposition of our stock that will make it easier for Nortel Networks to sell its remaining shares of our stock. Additionally, Nortel Networks and Liberty Media (our other large

shareholder), entered into a "standstill" agreement under which each of them has agreed that it will not exercise its registration rights or, except under certain circumstances, sell any shares of our common stock until July 31, 2003, unless prior to then we both redeem our outstanding convertible notes and repurchase at least 66% of Nortel Networks' Class B membership interest, in which case the restrictions expire 30 days after the later of those two events. As a result of the repurchase of the Class B membership interest, those restrictions will expire on April 17, 2003.

ACQUISITION OF CADANT, INC.

On January 8, 2002, we acquired substantially all of the assets of Cadant, Inc., a privately held designer and manufacturer of next generation CMTS. Under the terms of the transaction, we issued 5.25 million shares of our common stock and assumed approximately $16.5 million in liabilities in exchange for the assets. We issued 2.0 million options to purchase our common stock and 250,000 shares of restricted stock to Cadant employees. We also agreed to issue up to 2.0 million additional shares of our common stock based upon the achievement of future sales targets through 2003 for the CMTS product. These sales targets were not achieved and no additional shares of our common stock will be issued.

ACQUISITION OF ATOGA SYSTEMS

-- On March 21, 2003, we purchased certain assets of Atoga Systems, a Fremont, California-based developer of optical transport systems for metropolitan area networks. Under the terms of the agreement, we obtained certain inventory, fixed assets, and intellectual property in consideration for approximately $0.5 million of cash and the assumption of certain lease obligations. Further, we retained approximately 30 employees and issued a total of 500,000 shares of restricted stock to those employees. We anticipate the transaction to be slightly dilutive to our earnings per share in 2003.

SALE OF KEPTEL PRODUCT LINE

-- On April 24, 2002, we sold our Keptel product line. Keptel designed and marketed network interface systems and fiber optic cable management products primarily for traditional telecommunications residential and commercial applications. The transaction generated cash proceeds of $30.0 million. Additionally, we retained a potential earnout over a twenty-four month period based on sales achievements. The transaction also includes a distribution agreement whereby we will continue to distribute Keptel products. The Keptel product line had approximately $51.1 million of revenue in 2001 and approximately $6.3 million of revenue for the three months ended March 31, 2002. Total assets of approximately $31.1 million were disposed of, which included inventory, fixed assets, intangibles (formerly classified as goodwill), and other assets. We incurred approximately $7.4 million of related closure costs, including severance, vendor liabilities, outside consulting fees, and other shutdown expenses. The net result of the transaction was a loss on the sale of the product line of approximately $8.5 million. During the fourth quarter of 2002, we reduced the loss by $2.4 million as a result of the resolution of certain estimated costs associated with the sale.

SALE OF ACTIVES PRODUCT LINE

-- On November 21, 2002, we sold our Actives product line, excluding receivables and payables, to Scientific-Atlanta for $31.8 million in net proceeds. This product line had approximately $68.2 million of revenue in 2001 and approximately $44.3 million of revenue for the first nine months of 2002, prior to the closing of the sale. The agreement provided for the transfer of inventory and equipment attributable to the product lines, plus the transfer of approximately 34 employees. Total assets of approximately $20.3 million were disposed of, which included inventory, fixed assets, and other assets attributable to the product line. Additionally, ARRIS incurred approximately $9.3 million of related closure costs, including severance, vendor liabilities, professional fees, and other shutdown expenses. In connection with the sale, we

recognized a gain of approximately $2.2 million.

INDUSTRY CONDITIONS

-- Our performance is largely dependent on capital spending for constructing, rebuilding, maintaining and upgrading broadband communications systems. After a period of intense consolidation and rapid capital expenditures within the industry through the fourth quarter of 2000, there was a tightening of credit availability throughout the telecommunications industry and a broad-based and severe drop in market capitalization for the sector. This caused broadband system operators to become more judicious in their capital spending, adversely affecting us and other equipment providers.

-- Developments in the industry and in the capital markets over the past two years have reduced access to funding for new and existing customers, causing delays in the timing and scale of deployments of our equipment, as well as the postponement or cancellation of certain projects by our customers. In addition, during the same period, we and other vendors received notification that several customers were canceling new projects or scaling back existing projects or delaying new orders to allow them to reduce inventory levels which were in excess of their current deployment requirements.

This industry downturn and other factors have adversely affected several of our largest customers. In June 2002, Adelphia filed bankruptcy at a time when it owed us approximately $20.2 million in accounts receivable. As a result, we incurred a $20.2 million charge during the second quarter 2002. However, we sold a portion of the Adelphia receivables during the third quarter 2002 to an unrelated third party, resulting in net gain of approximately $4.3 million. For the year ended December 31, 2002, the net result was a loss of $15.9 million related to the Adelphia situation.

In addition, as of March 10, 2003, Cabovisao, a Portugal-based customer owed us approximately 18.6 million euros in accounts receivable, a substantial portion of which was past due. This customer accounted for approximately 6% of our sales in 2002. On October 17, 2002, the parent company of Cabovisao, CSii, issued an announcement that suggested it may have difficulty in accessing or refinancing its senior credit facility in the future. On February 3, 2003, CSii announced that it had obtained an extension of the maturity date of its credit facility to February 28, 2003, and that it was continuing negotiations with respect to a long term financing solution. On March 1, 2003, CSii announced that it had formed a special committee of its board of directors to review and evaluate alternatives to meet the financial needs of CSii and Cabovisao, including: debt restructuring, recapitalization, capital infusion and court supervised restructuring. We are uncertain what effect, if any, these developments will have on our existing accounts receivable or future relationship with Cabovisao.

Further, in the fourth quarter of 2002 Comcast completed its purchase of AT&T Broadband. Historically, AT&T Broadband has been our largest customer. AT&T Broadband, with the deployment of telephony as part of its core strategy, had been using our CBR products in many of its major markets. Comcast has announced that as its initial priority after its acquisition of AT&T Broadband, it will emphasize video and high-speed data operations and focus on improving the profitability of its telephony operations at the expense of subscriber growth. As a result, we have experienced a significant decline in sales of our CBR telephony product to Comcast in the fourth quarter of 2002, which we expect to continue into 2003. On June 27, 2002, Comcast announced that it had chosen us to provide an initial DOCSIS 1.1 C4 CMTS to be installed at the headend of a Comcast cable system in the Philadelphia area. On January 13, 2003, we announced that Comcast had ordered an additional fifty C4 CMTS chassis for immediate data service deployment.

In response to this downturn, we have rationalized our product portfolio and have significantly reduced expense levels through the actions previously described.

RESULTS OF OPERATIONS

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Cost of sales	65.2	76.3	83.3
Gross profit	34.8	23.7	16.7
Selling, general, administrative and development expenses	30.8	20.6	11.6
In process R&D write-off	--	3.0	--
Restructuring and impairment charges	1.1	1.8	--
Impairment of goodwill	10.8	--	--
Amortization of goodwill	--	0.5	0.4
Amortization of intangibles	5.3	1.1	--
Operating income (loss)	(13.2)	(3.4)	4.7
Interest expense	1.3	1.8	1.6
Membership interest	1.6	0.7	--
Loss on debt retirement	1.1	0.3	--
Loss (gain) on investments	2.3	0.1	0.1
Other expense (income), net	(0.9)	1.3	(0.1)
Income (loss) from continuing operations	(18.6)	(7.6)	3.1
Income tax expense (benefit)	(1.0)	5.7	1.3
Net income (loss) from continuing operations	(17.6)	(13.3)	1.9
Gain (loss) from discontinued operations	(2.9)	(13.4)	0.9
Net income before cumulative effect of accounting change	(20.4)	(26.7)	2.8
Cumulative effect of an accounting change	8.9	--	--
Net income (loss)	(29.3)%	(26.7)%	2.8%

SIGNIFICANT CUSTOMERS

Our two largest customers are Comcast (after giving effect to its acquisition of AT&T Broadband) and Cox Communications. Sales to these two customers for the years ended December 31, 2002, 2001, and 2000 were as follows (in millions):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Comcast (including AT&T Broadband)	$250.2	$245.6	$387.2
% of sales	38.4%	39.1%	51.8%
Cox Communications	$106.7	$110.9	$116.5
% of sales	16.4%	17.7%	15.6%

As described above, we have uncertainties surrounding our future transactions with Adelphia and Cabovisao. Sales to these two customers for the years ended December 31, 2002, 2001, and 2000 were as follows (in millions):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Adelphia Communications	$25.9	$54.1	$48.7
% of sales	4.0%	8.6%	6.5%
Cabovisao	$39.1	$16.2	$ 2.5
% of sales	6.0%	2.6%	0.3%

COMPARISON OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

As the sale of our Actives and Keptel product lines represent a majority of the transmission, optical and outside plant product category, we have reclassified the results of these product lines to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Our products and services are summarized in the following two product categories, broadband, and supplies and services, instead of the previous three categories. The balance of the product lines previously reported in the former transmission, optical and outside plant product category have been combined with our supplies and services product category. All prior period amounts have been aggregated to conform to the new product categories.

Net Sales. ARRIS' sales for 2002 increased by $23.6 million or 3.8% to $651.9 million, as compared to sales of $628.3 million in 2001. The increase in revenue is driven by an increase in international sales for the Broadband product category, primarily in Europe and Asia Pacific. The increase internationally was partially offset by reduced sales of supplies and services products, partly due to the bankruptcy filing by Adelphia Communications.

- Broadband product revenues increased by approximately $81.2 million or 22.0% to $449.7 million in 2002, as compared to sales of $368.5 million in 2001. Broadband product revenues accounted for approximately 69.0% of 2002 sales as compared to 58.7% for 2001. Broadband revenues for 2002 included a full year of international revenue for the Cornerstone product line whereas 2001 included only five months of international revenues due to the timing of the acquisition of Arris Interactive L.L.C. on August 3, 2001. Under the previous joint venture agreement, Nortel (not ARRIS) sold the Cornerstone products internationally. This agreement terminated upon our acquisition of Nortel's share of Arris Interactive L.L.C. on August 3, 2001. Additionally, sales in 2002 included a full year of Cadant revenues following the acquisition in January 2002. However, these increases in sales were partially offset with a reduction in broadband sales to Comcast, following its acquisition of AT&T Broadband during the fourth quarter of 2002. Historically, AT&T Broadband had been our largest customer. AT&T Broadband, with the deployment of telephony as part of its core strategy, had been using our CBR products in many of its major markets. Comcast has announced that as its initial priority after its acquisition of AT&T Broadband, it will emphasize video and high-speed data operations and focus on improving the profitability of its telephony operations at the expense of subscriber growth. As a result, we have experienced a significant decline in sales of our CBR telephony product to Comcast in the fourth quarter of 2002, which we expect to continue into 2003.

- Supplies and services product revenues decreased by approximately $57.6 million or 22.2% to $202.2 million in 2002, as compared to $259.8 million in 2001. Supplies and services product revenue accounted for approximately 31.0% of 2002 sales as compared to 41.3% for 2001. The bankruptcy filing by Adelphia and the resulting reduced sales to Adelphia accounted for approximately 52.8% of the overall decrease in supplies and services product revenue year over year. Additionally, a general slowdown in MSO's infrastructure spending contributed to the decrease in supplies and services sales year over year. We also experienced significantly reduced sales of other product lines within this category, including

fiber optic cable, outside plant, and installation materials and tools, which decreased by approximately 96.6%, 25.8%, and 25.9%, respectively.

International sales increased by approximately $75.4 million or 104.9% to $147.3 million for the year ended December 31, 2002, as compared to sales of $71.9 million during 2001. The Asia Pacific and Europe regions accounted for approximately 88.3% of the overall increase. The overall increase was primarily the result of the inclusion of a full year of international sales of the Cornerstone product line for 2002, whereas 2001 included only five months of Cornerstone international sales following our acquisition of Arris Interactive L.L.C. Under a previous agreement with Nortel Networks, we had not been able to sell Cornerstone products internationally. This agreement terminated upon our acquisition of Nortel's share of Arris Interactive L.L.C. on August 3, 2001.

Gross Profit. Gross profit increased by $78.0 million or 52.5% to $226.7 million in 2002, as compared to $148.7 million in 2001. Gross profit margins for the year ended December 31, 2002 increased 11.1 percentage points to 34.8% as compared to 23.7% for 2001. The overall increase in gross margin is primarily due to the fact that gross margins were positively impacted by the Arris Interactive acquisition in August 2001. Prior to the acquisition, ANTEC, the predecessor to ARRIS, was a distributor of Arris Interactive Cornerstone products. Beginning in August 2001, the new ARRIS earned much higher margins as the manufacturer of Cornerstone products on both domestic and international sales. The year ended December 31, 2002 included a full year of this positive impact, whereas 2001 included only five months. The increase in gross margin is also attributable to the increased weighting of the broadband product, which contribute higher margins, within the overall product mix. The broadband product line accounted for 69% of total revenues in 2002, as compared to approximately 59% of total revenues in 2001.

Impacting the 2002 gross margin were charges of $2.1 million to write off the balance of power product line inventory (this product line was sold in late 2001), and $1.1 million of severance costs related to employee reductions. Impacting the 2001 gross margin were charges of $8.5 million related to inventory write downs and $1.3 million related to severance, both as a result of the planned restructuring of manufacturing operations. Also negatively impacting gross margins in 2001 was a charge of approximately $2.8 million related to unrecoverable amounts of inventory due from a customer in Argentina due to the economic disturbances in that region.

Selling, General, Administrative, and Development, or SGA&D, Expenses. SGA&D expenses increased by $70.9 million or 54.7% to $200.6 million in 2002, as compared to $129.7 million in 2001. The primary reason for the increase in SGA&D expenses year over year was the inclusion in 2002 of additional expenses due to the acquisitions of Arris Interactive L.L.C. and Cadant, Inc. Also impacting SGA&D for 2002 was approximately $4.0 million of severance costs related to workforce reductions, and a net $14.9 million bad debt write-off due to Adelphia's bankruptcy. SGA&D expenses for 2001 include approximately $3.8 million of severance costs related to workforce reductions.

Write-off of in-process R&D. During the third quarter of the year ended December 31, 2001, we wrote off acquired in-process research and development totaling $18.8 million in connection with the Arris Interactive acquisition.

Restructuring and Impairment Charges. On October 30, 2002, we announced the closure of our office in Andover, Massachusetts, which is primarily a product development and repair facility. We decided to close the office in order to reduce operating costs through consolidations of our facilities. The closure affected approximately 75 employees and is expected to be completed during the second quarter of 2003. In connection with this facility closure, we recorded a charge of approximately $7.1 million in the fourth quarter of 2002. Included in this restructuring charge was approximately $2.1 million related to remaining lease payments, $2.7 million of fixed asset write-offs, $2.1 million of severance, and $0.2 million of other costs associated with these actions.

In the fourth quarter of 2001, we closed a research and development facility in Raleigh, North Carolina and recorded a $4.0 million charge. 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 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.

In the third quarter of 2001, we recorded a charge of $5.9 million related to the impairment of goodwill due to the sale of the power product lines. Additionally, we recorded a restructuring charge of approximately $1.6 million related to lease terminations of office space.

Impairment of Goodwill. We adopted SFAS No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. 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. Upon adoption of SFAS No. 142, we recorded a transitional goodwill impairment loss of approximately $58.0 million, primarily related to our Keptel product line. During the fourth quarter of 2002, our remaining goodwill was reviewed, and based upon management's analysis including an independent valuation, an impairment charge of $70.2 million was recorded with respect to our supplies and services product category primarily due to a decline in current purchasing by Adelphia, as well as the industry in general. The valuation was determined using a combination of the income and market approaches on an invested capital basis, which is the market value of equity plus interest-bearing debt.

Amortization of Goodwill. Total goodwill amortization expense for the year ended December 31, 2001 was $3.3 million. Beginning January 1, 2002, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment, or more frequently if impairment indicators arise.

Amortization of Intangibles. Total intangibles amortization expense for the years ended December 31, 2002 and 2001 was $34.5 million and $7.0 million, respectively. The majority of our intangibles represent existing technology acquired as a result of the Arris Interactive L.L.C. acquisition in the third quarter 2001 and the Cadant, Inc. acquisition in the first quarter 2002.

Interest Expense. Interest expense for the years ended December 31, 2002 and 2001 was $8.4 million and $11.1 million, respectively. Interest expense for all periods reflects the cost of borrowings on our revolving line of credit, amortization of deferred finance fees, and the interest paid on the 4 1/2 % convertible subordinated notes due 2003. During 2002, we did not have a balance outstanding under our credit facility, and our outstanding convertible subordinated notes were reduced by $91.1 million to $23.9 million, primarily in the fourth quarter of 2002.

Membership Interest Expense. In conjunction with the acquisition of Arris Interactive L.L.C. in August 2001, we issued to Nortel Networks a subordinated redeemable Class B 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 years ended December 31, 2002 and 2001, we recorded membership interest expense of $10.4 million and $4.1 million, respectively.

Loss on Debt Retirement. In 2002, we exchanged 1,593,789 shares of our common stock for approximately $15.4 million of the convertible subordinated notes due 2003. The exchanges were recorded in accordance with SFAS No. 84, Induced Conversions of Convertible Debt, which requires the recognition of an expense equal to the fair value of additional shares of common stock issued in excess of the number of shares that would have been issued upon conversion under the original terms of the notes. As a result, in connection with these exchanges, we recorded a non-cash loss of approximately $8.7 million, based upon a weighted average common stock value of $9.10 (as compared with a common stock value of $24.00 per share in the original conversion ratio for the notes). In

connection with the exchanges, we also incurred associated fees of $0.6 million, resulting in an overall net loss of $9.3 million.

During 2002, we redeemed $75.7 million of the notes using cash from operations and cash generated from the sale of our Actives product line. The notes were redeemed at a discount, resulting in a gain on the debt retirement of $2.0 million and was recorded in continuing operations in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. As of December 31, 2002, there were approximately $23.9 million of the notes outstanding.

During 2001, we recorded pre-tax charges of $1.9 million 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 acquisition. In 2002, this loss was reclassified to loss from continuing operations as a result of the gain on cash repurchases recognized in the fourth quarter of 2002 in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

Loss on Investments. We hold certain investments in the common stock of publicly traded companies totaling approximately $0.1 million and $0.8 million at December 31, 2002 and 2001, respectively, which are classified as trading securities. Changes in the market value of these securities and gains or losses on related sales of these securities are recognized in income and resulted in pre-tax losses of approximately $0.6 million and $0.8 million during the years ended December 31, 2002 and 2001, respectively.

We hold certain investments in the common stock of publicly traded companies totaling approximately $1.8 million and $2.1 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. Changes in the market value of these securities are recorded in other comprehensive income. These securities are also subject to a periodic impairment review; however, and the impairment analysis requires significant judgment. As these investments have been below their cost basis for a period greater than six months, an unrealized loss of $3.5 million was considered "other than temporary" and recognized through income in the fourth quarter of 2002.

In addition, we hold a number of non-marketable equity securities totaling approximately $2.8 million and $12.0 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. These non-marketable equity securities are subject to a periodic impairment review; however, there are no open-market valuations, and the impairment analysis requires significant judgment. During the second quarter 2002, we wrote off a $1.0 million investment in a technology start-up company, as it was unable to raise further financing and filed for bankruptcy during the second quarter. During the fourth quarter of 2002, we recorded a $3.0 million impairment for an investment in a technology start-up, as its assets were sold to another company. An additional impairment charge of $6.0 million was recorded in the fourth quarter of 2002 relating to other non-marketable equity securities deemed to be impaired based on various factors.

ARRIS offers a deferred compensation arrangement, which allows certain employees to defer a portion of their earnings and defer the related income taxes. These deferred earnings are invested in a "rabbi trust", and are accounted for in accordance with Emerging Issues Task Force 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested. A rabbi trust is a funding vehicle used to protect deferred compensation benefits from events (other than bankruptcy). The investment in the rabbi trust is classified as a current asset on our balance sheet. During the year ended December 31, 2002, we recognized a loss of approximately $0.8 million in connection with realized losses on the related investments.

Loss (Gain) in Foreign Currency. During 2002, we recorded a foreign currency gain of approximately $5.7 million, primarily related to the strengthening of the euro as we have several European customers whose receivables and collections are denominated in euros. During the third quarter 2002, we have evaluated and implemented a hedging strategy using forward contracts.

Other Expense (Income). Other expense (income) for the years ended December 31, 2002 and 2001 was $0.2 million and $8.1 million, respectively. During 2002, we recorded bank charges of $0.6 million and a loss on disposal of fixed assets of $0.3 million. These charges were partially offset with interest income of $0.5 million and other miscellaneous income of $0.2 million. During 2001, we recorded an equity loss in Arris Interactive L.L.C. of $8.6 million. The operations of Arris Interactive have been consolidated upon the acquisition of Nortel Networks' interest in Arris Interactive in August 2001. Additionally, bank charges of approximately $1.1 million were recorded during 2001. These losses were offset with a gain on the disposal of fixed assets of approximately $0.4 million, interest income of $0.9 million, and other miscellaneous income of $0.3 million.

Income Tax Expense. We recognized an income tax benefit of $6.8 million for the year ended December 31, 2002 as compared to income tax expense of approximately $27.6 million for 2001. The income tax benefit in 2002 was due to a change in the tax laws allowing NOL carry-backs for five years, which allowed

the company to record a tax benefit. The income tax expense in 2001 was primarily the result of the restructuring and impairment charges during that period, and a valuation allowance of approximately $38.1 million against deferred tax assets was recorded in accordance with SFAS No. 109, Accounting for Income Taxes. Of the net income tax expense of $27.6 million in 2001, approximately $35.6 million expense related to continuing operations, and a benefit of $8.0 million was reclassified to discontinued operations.

Discontinued Operations. We have adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, with respect to our Actives and Keptel product line disposals. As a result, these two product lines have been accounted for as discontinued operations and, where noted, current and historical results have been reclassified accordingly. Revenues from the discontinued operations were $68.8 million and $119.3 million for the years ended December 31, 2002 and 2001, respectively. The income (loss) from discontinued operations, net of taxes, for the years ending December 31, 2002 and 2001 was $(18.8) million and $(84.5) million, respectively. During 2002, we recorded a net loss on disposals of $4.0 million.

Cumulative Effect of an Accounting Change -- Goodwill. We adopted SFAS No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. Under the transitional provisions of SFAS No. 142, we recorded a goodwill impairment loss of approximately $58.0 million. The impairment loss has been recorded as a cumulative effect of a change in accounting principle on the accompanying Consolidated Statements of Operations for the year ended December 31, 2002.

Net Income (Loss). A net loss of $(191.2) million or $(2.33) per diluted share was recorded for the year ended December 31, 2002. The net loss from continuing operations was $(114.4) million or $(1.40) per diluted share, the net loss from discontinued operations was $(18.8) million or $(0.23) per diluted share, and the net loss from a cumulative effect of an accounting change was $(58.0) million or $(0.71) per diluted share.

A net loss of $(167.7) million or $(3.13) per diluted share was recorded for the year ended December 31, 2001. The net loss from continuing operations was $(83.3) million or $(1.55) per diluted share and the net loss from discontinued operations was $(84.5) million or $(1.58) per diluted share.

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

Net Sales. Our consolidated sales for 2001 decreased by $121.7 million or 16.2% to $628.3 million as compared to 2000 sales of $750.0 million. The overall reduction in sales was primarily due to the widespread slowdown in MSO's infrastructure spending. The slowdown in spending began in the fourth quarter of 2000 and continued throughout 2001. However, broadband sales for the year were up over 2000 due to the addition of international sales as a result of the acquisition of Arris Interactive in August 2001. Supplies and services product sales were down significantly from 2000, resulting in the overall sales decreased year over year.

Our products and services are summarized in the following two product categories, instead of the previous three categories: broadband; and supplies and services. As the sale of Actives and Keptel product lines represents a majority of the former transmission, optical and outside plant product category, we have reclassified the results of these product lines to discontinued operations for all periods presented in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The balance of the product lines previously reported in the former transmission, optical and outside plant product category has been combined with our supplies and services product category. All prior period amounts have been aggregated to conform to the new product categories.

- Broadband product revenues increased by approximately $56.2 million or 18.0% to $368.5 million for the year ended December 31, 2001 as compared to $312.3 million for 2000. Broadband product revenues accounted for approximately 58.7% of sales for the year ended December 31, 2001 as compared to 41.6% of sales for the year ended December 31, 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.

- Supplies and services revenue decreased approximately $177.9 million or 40.6% to $259.8 million for the year ended December 31, 2001 as compared to $437.7 million for 2000. We experienced reduced sales of all products lines within this category, including engineering services, fiber optic cable, outside plant, and installation materials and tools. Supplies and service revenue accounted for approximately 41.3% of sales for year ended December 31, 2001 as compared to 58.4% for 2000.

International sales increased approximately $39.5 million or 121.8% to $71.9 million in 2001 from $32.4 million in 2000. 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 Networks, we had not been able to sell Cornerstone products internationally. This agreement terminated upon our acquisition of Nortel's share of Arris Interactive L.L.C. on August 3, 2001. International sales in 2001 represented approximately 11.4% of total sales, as compared to international sales of 4.3% of our total revenue in 2000.

Gross Profit. Gross profit increased approximately $23.4 million or 18.7% to $148.7 million for year ended December 31, 2001 from $125.3 million for 2000. Gross profit margins for the year ended December 31, 2001 increased 7.0 percentage points to 23.7% as compared to 16.7% for 2000. The overall increase in gross margin is primarily due to the fact that gross margins were positively impacted by the Arris Interactive acquisition during the year ended December 31, 2001. For all of 2000 and for the first seven months of 2001, ANTEC, the predecessor to ARRIS, was a distributor of Arris Interactive Cornerstone products. Beginning in August 2001, the new ARRIS earned much higher margins as the manufacturer of Cornerstone products on both domestic and international sales. The increase in gross margin is also attributable to the increased weighting of sales of the broadband product, which contribute higher margins, within the overall product mix. The broadband product line accounted for approximately 59% of total revenues in 2001, as compared to approximately 42% of

total revenues in 2000.

Impacting the 2001 gross margin were charges of $8.5 million related to inventory write downs and $1.3 million related to severance, both as a result of the planned restructuring of manufacturing operations. Also negatively impacting gross margins in 2001 was a charge of approximately $2.8 million related to unrecoverable amounts of inventory due from a customer in Argentina due to the economic disturbances in that region. Impacting the 2000 gross margin was a charge of $3.5 million related to product discontinuations.

Selling, General, Administrative and Development ("SGA&D") Expenses. SGA&D expenses increased approximately $43.0 million or 49.6% to $129.7 million in 2001 from $86.7 million in 2000. As a percentage of sales, SGA&D was 20.6% in 2001 as compared with 11.6% in 2000. The increase year over year is primarily the result of the additional expenses for five months following the acquisition of Arris Interactive.

SGA&D expenses for 2001 include approximately $3.8 million of severance costs related to workforce reductions. The SGA&D expenses for 2000 included a pre-tax gain of $2.1 million as a result of employee elections associated with a new and enhanced benefit plan and the resulting effect on our defined benefit pension plan.

Restructuring. In the fourth quarter of 2001, we 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. 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.

In the third quarter of 2001, we announced a restructuring plan to outsource the functions of most of our manufacturing facilities. This decision to reorganize was due in part to the ongoing weakness in industry spending patterns. The plan entailed the implementation of an expanded manufacturing outsourcing strategy and the related closure of the four factories located in El Paso, Texas and Juarez, Mexico. As a result, we recorded restructuring and impairment charges of $66.2 million, of which approximately $50.1 million relates to and is classified in discontinued operations. Included in these charges was approximately $33.7 million related to the write-down of inventories, and remaining warranty and purchase order commitments of which

approximately $8.6 million was reflected in cost of goods sold and $25.1 million was reflected in discontinued operations. Additional charges incurred were 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. Of these charges, approximately $7.5 million is reflected in restructuring expense and $25.0 million is reflected in discontinued operations. We offered terminated employees separation amounts in accordance with our severance policy and provided the employees with specific separation dates.

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

Amortization of Goodwill and Intangibles. Total goodwill amortization expense for the years ended December 31, 2001 and 2000 was $3.3 million for each year. Total intangibles amortization expense for the year ended December 31, 2001 was $7.0 million. The intangibles as of December 31, 2001 were acquired as a result of the Arris Interactive acquisition in the third quarter 2001.

Interest Expense. Interest expense for the years ended December 31, 2001 and 2000 was $11.1 million and $12.2 million, respectively. Interest expense for all periods reflects the cost of borrowings on our revolving line of credit, amortization of deferred finance fees, and the interest paid on the 4 1/2% 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, we issued to Nortel Networks a subordinated redeemable Class B 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.

Loss on Debt Retirement. During 2001, we recorded pre-tax charges of $1.9 million 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 acquisition. In 2002, this loss was reclassified to loss from continuing operations as a result of the gain on cash repurchases recognized in the fourth quarter of 2002 in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

Loss on Investments. 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 our investments 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, we recognized pre-tax losses of $0.8 million for each year ended December 31, 2001 and 2000.

Loss (Gain) in Foreign Currency. During 2001, we recorded a foreign currency gain of approximately $10 thousand, as compared to a loss of $(125) thousand during 2000.

Other Expense (Income). Other expense (income) for the years ended December 31, 2001 and 2000 was $8.1 million and $(1.4) million, respectively. During 2001, we recorded an equity loss in Arris Interactive

of $8.6 million. The results of operations of Arris Interactive were consolidated upon the acquisition of Nortel Networks' interest in Arris Interactive in August 2001. Additionally, bank charges of approximately $1.1 million were recorded during 2001. These losses were offset with a gain on the disposal of fixed assets of approximately $0.4 million, interest income of $0.9 million, and other miscellaneous income of $0.3 million. During 2000, we recorded bank fees of $0.4 million. These expenses were offset with interest income of $1.8 million during 2000.

Income Tax Expense. Income tax expense (benefit) for the year ended December 31, 2001 was approximately $27.6 million, of which an expense of $35.6 million related to continuing operations and a benefit of $(8.0) related to discontinued operations. For the year ended December 31, 2000, income tax

expense of approximately $14.3 million was recorded, of which $9.6 million related to continuing operations and $4.7 million related to discontinued operations. The increase in income tax expense in 2001 was due primarily to the requirement to take a full valuation allowance against the deferred tax assets as of the third quarter 2001.

Discontinued Operations. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, our Actives and Keptel product lines have been accounted for as discontinued operations and, where noted, current and historical results have been reclassified accordingly. Revenues from the discontinued operations were $119.3 million and $248.8 million for the years ended December 31, 2001 and 2000, respectively. The income (loss) from discontinued operations, net of taxes, for the years ending December 31, 2001 and 2000 was $(84.5) million and $6.8 million, respectively.

Net Income (Loss). A net loss of $(167.7) million or $(3.13) per diluted share was recorded for the year ended December 31, 2001. The net loss from continuing operations was $(83.3) million or $(1.55) per diluted share and the net loss from discontinued operations was $(84.5) million or $(1.58) per diluted share.

Net income of $20.7 million or $0.52 per diluted share was recorded for the year ended December 31, 2000. The net income from continuing operations was $13.9 million or $0.35 per diluted share and the net income from discontinued operations was $6.8 million or $0.17 per diluted share.

MATERIAL 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 13 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 $1.5 million, subject to adjustment, through 2009. See Item 2, 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 have been filed as exhibits to previous reports filed with the Securities and Exchange Commission.

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 Networks 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 significant.

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 2002, we continued to manage 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 and 2002. We believe industry capital spending for 2003 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 2003. 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.

As of December 31, 2002, we had outstanding $23.9 million of 4 1/2% convertible subordinated notes due May 15, 2003, down from $115.0 million at December 31, 2001. During the third and fourth quarters of 2002, we amended our revolving credit facility to enable us to use our existing cash reserves to retire these notes. We are continuing that process as the notes become available in the market place. At the present time we have sufficient cash reserves to retire these notes in full.

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

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

Liquidity Table

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(DOLLARS IN MILLIONS)		
Working capital	$173.3	$250.0	$305.9
Current ratio	2.4	3.1	2.7
Cash provided by operations	$117.3	$111.5	$ 4.7
Proceeds from issuance of common stock	$ 1.0	$ 1.1	$ 5.5
Capital expenditures	$ (7.9)	$ (9.6)	$(15.5)
Borrowings (reductions) on debt obligations	$(73.7)	$(89.0)	$ 20.5
Days sales outstanding	55.2	72.6	65.3
Inventory turnover	3.5	3.5	4.5

Financing

In connection with the Arris Interactive acquisition in 2001, all of the our existing bank indebtedness was refinanced. The facility, as subsequently amended, is an asset-based revolving credit facility permitting us to borrow up to $115.0 million, based upon availability under a borrowing base calculation. In general, the borrowing base is limited to 85% of net eligible receivables (with a cap of $5.0 million in relation to foreign receivables), subject to a reserve of $10.0 million. In addition, upon obtaining appropriate asset appraisals we may include in the borrowing base calculation 80% of the orderly liquidation value of net eligible inventory (not to exceed $60.0 million). The facility contains traditional financial covenants, including fixed charge coverage, senior debt leverage, minimum net worth, and minimum inventory turns ratios. The credit facility was amended in January 2003 to provide that the minimum net worth covenant applied only to the period prior to December 31, 2002. The facility is secured by substantially all of our assets. The credit facility has a maturity date of August 3, 2004. The commitment fee on unused borrowings is 0.75%. The availability under the credit facility at December 31, 2002 was approximately $18.9 million, and we had no borrowings under the facility.

The credit facility was modified in 2002 to allow the Company to use existing cash reserves and proceeds of asset sales to purchase or redeem the outstanding notes. These modifications imposed certain conditions on the use of such cash to redeem additional notes including the requirement that, giving effect to such purchase or redemption, (1) there must not be any event of default, (2) no loans may be outstanding under the credit facility, and (3) the Company must retain at least $50.0 million in cash on deposit in accounts pledged as security for the credit facility. The Company met the applicable conditions and was able to expend approximately $73.7 million in cash to redeem approximately $75.7 million of notes. In order to redeem additional notes, the Company must meet all of the conditions for such purchase. However, since the Company had cash on hand of $98.4 million as of December 31, 2002, it anticipates being able to meet such conditions.

On March 11, 2003, we amended our credit facility to permit the company to issue up to $125.0 million of subordinated convertible notes due 2008, to use the proceeds of such notes to redeem the Class B membership interest in Arris Interactive held by Nortel Networks and to purchase shares of ARRIS common stock held by Nortel Networks, subject to certain limitations. The amendment also reduced the revolving loan commitments from $125.0 million to $115.0 million.

As of December 31, 2002, we had no borrowings outstanding under our credit facility and $18.9 million of available capacity. We were in compliance with all covenants contained in the credit facility.

Contractual Obligations and Commercial Commitments

Following is a summary of our contractual obligations and commercial commitments, excluding routine items such as purchase orders, as of December 31, 2002:

	PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	1-3 YEARS	3-5 YEARS	AFTER 5 YEARS	TOTAL
	(IN MILLIONS)			
Current portion of long term debt(1)	$23.9	$ --	$ --	$ 23.9
Operating leases	20.9	6.5	2.3	29.7
Sublease income	(2.2)	--	--	(2.2)
Capital leases	1.3	--	--	1.3
Membership interest(2)	--	114.5	--	114.5
Total contractual cash obligations	$43.9	$121.0	$2.3	$167.2

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(1) Between January 1, 2003 and March 10, 2003, we purchased approximately $12.4 million of our outstanding 4 1/2% convertible subordinated notes due 2003 for cash.

(2) In the first quarter of 2003, we raised $125.0 million from a convertible note offering under Rule 144A. Approximately $88.4 million of the proceeds, including the reduction in the forgiveness of the Class B membership interest, were used to retire the Nortel Networks Class B membership interest in Arris Interactive at a $28.5 million discount. We used approximately $28.0 million of the proceeds of the issuance to repurchase and retire 8 million shares of our common stock held by Nortel Networks at a discount.

Cash Flow

Cash levels increased by approximately $93.1 million during 2002 as compared to a decrease of approximately $3.5 million during 2001. Operating activities in 2002 provided approximately $117.4 million in positive cash flow and investing activities provided $51.2 million, while financing activities used

approximately $75.5 million in cash flow.

Operating activities provided cash of $117.4 million during the year ended December 31, 2002. A net loss used $191.2 million in cash flow during this period. Other non-cash items, including depreciation, amortization, provisions for doubtful accounts, loss on investments, loss on debt retirement, a net loss on sales of

product lines, loss on disposal of fixed assets, impairment of goodwill, and the cumulative effect of an accounting change, accounted for positive adjustments of approximately $244.0 million during 2002. Decreases in accounts receivable, other receivables, inventory, and income taxes recoverable provided positive cash flows of $91.8 million; and an increase in accrued membership interest provided positive cash flows of $10.4 million. These net cash inflows were offset by a decrease in accounts payable and accrued liabilities of $36.8 million, and an aggregate change in various other assets and liabilities of $0.9 million during the year ended December 31, 2002.

Operating activities provided cash of $111.5 million during the year ended December 31, 2001. A net loss used $167.7 million in cash flow during this period. Other non-cash items, including depreciation, amortization, provisions for doubtful accounts, deferred income taxes, a loss on an equity investment, a gain on the disposal of fixed assets, a write-off of in-process R&D, impairment of fixed assets, a write-down of inventory, and a loss on investments accounted for positive adjustments of approximately $147.5 million during 2001. Decreases in accounts receivable, inventory, and income taxes recoverable provided positive cash flows of $161.6 million; and an aggregate change in various other assets and liabilities provided positive cash of $0.8 million. An increase in accrued membership interest provided positive cash flows of $4.1 million. These net cash inflows were offset by an increase in other receivables of $10.1 million and a decrease in accounts payable and accrued liabilities of $24.6 million through December 31, 2001.

Days sales outstanding ("DSO") was approximately 55 days during the year ended December 31, 2002 as compared to 73 days during 2001.

Inventory at December 31, 2002 was $104.2 million, as compared to $137.1 million at December 31, 2001. Additionally, inventory related to discontinued operations at December 31, 2001 was $53.8 million. The net inventory decrease, including inventories of discontinued operations, was $86.7 million for the twelve months ended December 31, 2002. Of this decrease, approximately $33.9 million related to inventory sold to the buyers of the Keptel and Actives product lines, which was offset by an adjustment to Cadant purchase price of $0.6 million. The net result was an inventory reduction of $53.4 million from ongoing operations during the year ended December 31, 2002. Inventory levels related to operating activities during 2001 decreased by approximately $125.9 million, net of the effects of the acquisition and the inventory write-downs in the third quarter of 2001. This inventory decrease was reflective of the abrupt slow down in our business late in 2000. Changes in both the financial markets in general and in the telecommunications equipment market specifically, created a slow down in capital spending by our customers late in 2000. With these events unfolding during the fourth quarter, we were unable to adjust our inventory levels to account for the delays in equipment spending from key customers. Inventory turns remained level during 2002 and 2001, with 3.5 turns recorded for each year.

A decrease in accounts payable and accrued liabilities used approximately $36.8 million, while an increase in accrued membership interest provided $10.4 million in cash during 2002. Accounts payable and accrued liabilities used approximately $24.6 million in cash while an increase in accrued membership interest provided $4.1 million in cash during 2001.

Cash flows provided by investing activities were $51.2 million for the year ended December 31, 2002, as compared to a net cash use of $19.3 million for the same period in 2001. The investments made during 2002 included approximately

$7.9 million to purchase capital assets and $0.9 million in funds paid for the Cadant acquisition, net of the cash acquired in the transaction. These outlays were offset with cash proceeds of $60.0 million in connection with the disposals of the Keptel and Actives product lines. The investments during 2001 included $9.6 million spent on capital assets, $6.9 million in funds paid for the Arris Interactive acquisition, and approximately $3.9 million spent in strategic investments. These cash outflows were partially offset with cash proceeds of $1.1 million from the sale of property and equipment.

Cash flows used in financing activities were $75.5 million for the year ended December 31, 2002 as compared to a cash use of $95.7 million for the same period in 2001. During 2002, we used approximately $73.7 million of cash to purchase $75.7 million in 4 1/2% convertible subordinated notes. Also during 2002, we paid approximately $0.9 million in capital lease payments, $1.7 million in deferred financing fees, and $0.1 million to repurchase director stock units. During 2001, we paid down approximately $89.0 million on our

credit facility, whereas in 2002 we had no balance outstanding on our revolving debt. Financing fees of $7.8 million were paid in 2001. The results for both 2002 and 2001 were affected by the issuance of common stock that provided positive cash flows of approximately $1.0 million and $1.1 million, respectively.

Interest Rates

As of December 31, 2002, we did not have any floating rate indebtedness. At December 31, 2002, we did not have any outstanding interest rate swap agreements.

Foreign Currency

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

We have certain international customers who are billed in their local currency. The monetary value of this business has increased since the acquisition of Arris Interactive and its corresponding international customer base formerly served through Nortel Networks. Since the acquisition of Arris Interactive, the monetary exchange fluctuations from the time of invoice to the time of payment have not been significant. However, during the second quarter of 2002, the euro increased in value relative to the US dollar enough to cause a significant foreign exchange gain. Beginning in the third quarter of 2002, we implemented a hedging strategy and entered into forward contracts based on a percentage of expected foreign currency receipts. The percentage can vary, based on the predictability of cash receipts. In July 2002, we entered into five forward contracts for approximately 31.0 million euros with expirations from August to December 2002. We will periodically review our accounts receivable in foreign currency and purchase additional forward contracts when appropriate. As of December 31, 2002, we had one foreign currency forward purchase contract outstanding. The contract was entered into on December 26, 2002 for 250.0 million Yen and was due January 31, 2003. The contract was taken out in anticipation of receiving a substantial yen payment from one of our customers, which we received on a timely basis. The fair value adjustment at December 31, 2002 was not significant.

Financial Instruments

In the ordinary course of business, we, 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, 2002, we had approximately $3.0 million outstanding under letters of credit with our banks.

Investments

In the ordinary course of business, we may make strategic investments in the equity securities of various companies, both public and private. We hold certain investments in the common stock of publicly traded companies totaling approximately $0.1 million and $0.8 million at December 31, 2002 and 2001, respectively, which are classified as trading securities. Changes in the market value of these securities and gains or losses on related sales of these securities are recognized in income. We recorded pre-tax losses of approximately $0.6 million and $0.8 million during the years ended December 31, 2002 and 2001, respectively, related to these investments.

We hold certain additional investments in the common stock of publicly traded companies totaling approximately $1.8 million and $2.1 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. In addition, we hold a number of non-marketable equity securities totaling approximately

$2.8 million and $12.0 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. At December 31, 2002 and 2001, we had unrealized losses related to these available for sale securities of approximately $0 and $3.2 million, respectively, included in comprehensive income. During the years ended December 31, 2002, 2001, and 2000, we recorded impairment charges of approximately $13.5 million, $0, and $1.3 million on its available for sale securities as a result of market value declines considered by management to be other than temporary.

We offer a deferred compensation arrangement, which allows certain employees to defer a portion of their earnings and defer the related income taxes. These deferred earnings are invested in a "rabbi trust", and are accounted for in accordance with Emerging Issues Task Force 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested. A rabbi trust is a funding vehicle used to protect deferred compensation benefits from events (other than bankruptcy). The investment in the rabbi trust is classified as a current asset on our balance sheet. During the year ended December 31, 2002, we recognized a loss of approximately $0.8 million in connection with realized losses on the related investments.

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS' capital expenditures were $7.9 million in 2002 as compared to $9.6 million in 2001 and $15.5 million in 2000. ARRIS had no significant commitments for capital expenditures at December 31, 2002. Management expects to invest approximately $8.0 million in capital expenditures for the year 2003.

Net Operating Loss Carryforwards

As of December 31, 2002, ARRIS had net operating loss ("NOL") carryforwards for domestic and foreign income tax purposes of approximately $78.2 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, 2002, tax benefits arising from NOL carryforwards of approximately $2.4 million, originating prior to TSX's quasi-reorganization, will 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 we operate and management's beliefs and assumptions regarding these markets. These and any other statements in this document that are not statements about historical facts are "forward-looking statements." We caution investors that forward-looking statements made by us are not guarantees of future performance and that a variety of factors could cause our actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. Important factors that could cause results or events to differ from current expectations are described in the risk factors 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 our

business. In providing forward-looking statements, ARRIS expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law.

RISK FACTORS

OUR BUSINESS IS DEPENDENT ON CUSTOMERS' CAPITAL SPENDING ON BROADBAND COMMUNICATION SYSTEMS, AND REDUCTIONS BY CUSTOMERS IN CAPITAL SPENDING COULD ADVERSELY AFFECT OUR BUSINESS.

Our 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, our 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.

Developments in the industry and in the capital markets over the past two years have reduced access to funding for new and existing customers, causing delays in the timing and scale of deployments of our equipment, as well as the

postponement or cancellation of certain projects by our customers. In addition, during the same period, we and other vendors received notification from several customers that they were canceling new projects or scaling back existing projects or delaying new orders to allow them to reduce inventory levels which were in excess of their current deployment requirements.

Further, several of our customers have accumulated significant levels of debt and have recently announced, or are expected to announce, financial restructurings, including bankruptcy filings. For example, Adelphia has been operating under bankruptcy since the first half of 2002. Even if the financial health of that company and other customers improve, we cannot assure you that these customers will be in a position to purchase new equipment at levels we have seen in the past. In addition, the bankruptcy filing of Adelphia in June 2002 has further heightened concerns in the financial markets about the domestic cable industry. The concern, coupled with the current uncertainty and volatile capital markets, has affected the market values of domestic cable operators and may further restrict their access to capital.

DEVELOPMENTS RELATING TO CABOVISAO MAY ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.

Cabovisao, a Portugal-based MSO, accounted for approximately 6% of our total sales in 2002. As of March 10, 2003, Cabovisao owed us 18.6 million euros in accounts receivable. Cabovisao committed to a schedule of 2003 payments to us for our products and services. Cabovisao made its January 2003 payment of 2.0 million euros to us according to the schedule. However, Cabovisao failed to make the scheduled 2.5 million euros February payment to us by its due date. On March 1, 2003, Cabovisao's parent company, CSii, issued a press release that suggested it may have difficulty in accessing or refinancing its senior credit facility and that its bankers again extended the waivers pertaining to the maturity date of its credit facility until March 26, 2003. CSii also indicated that it would not make the scheduled March 3, 2003 interest payment on its senior unsecured notes. The announcement further indicated that CSii had formed a special board committee to consider alternatives to meet its financial needs, including debt restructuring or a possible court-supervised restructuring, among other alternatives. We will not deliver further products to Cabovisao until we have a satisfactory payment plan with Cabovisao and are considering what actions should be taken regarding

the situation. We cannot assure you that Cabovisao will pay us according to any schedule or that it will continue to place orders with us in the future.

THE MARKETS IN WHICH WE OPERATE ARE INTENSELY COMPETITIVE, AND COMPETITIVE PRESSURES MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

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

- ADC Telecommunications, Inc.;
- Broadband Services, Inc.;
- Cisco Systems, Inc.;
- Juniper Networks, Inc.;
- Motorola, Inc.;
- Riverstone Networks, Inc.;

- Scientific-Atlanta, Inc.;

- Tellabs, Inc.;

- Terayon Communications Systems, Inc.; and

- TVC Communications, Inc.

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

Further, many of our larger competitors are in a better position to withstand any significant 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 our competitors have been in operation longer than we have been, and therefore they have more long-standing and established relationships with domestic and foreign broadband service users. We may not be able to compete successfully in the future, and competition may harm our business.

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

Our two largest customers are Comcast (primarily through the recently acquired AT&T Broadband business) and Cox Communications. For the year ended December 31, 2002, sales to Comcast (including AT&T Broadband) accounted for approximately 38.4% of our total revenues, while sales to Cox Communications accounted for approximately 16.4%. We currently are the exclusive provider of telephony products for both Cox Communications and, in eight metro areas, Comcast, as successor to AT&T Broadband. In addition, we have two other customers who accounted for more than 5% each of our total revenues for the year ended December 31, 2002, one of which is Cabovisao. The loss of Comcast, 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 our business. In addition, as a result of the merger of Comcast with AT&T Broadband in late 2002, we may experience possible interruptions in purchasing by the resulting Comcast company in 2003.

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

We and certain of our subsidiaries have entered into a revolving credit facility providing for borrowing up to a committed amount of $115.0 million, as amended in March 2003, with borrowing also limited by a borrowing base determined by reference to eligible accounts receivable and, subject to certain conditions, eligible inventory. As of December 31, 2002, the borrowing base was $18.9 million. The 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. As of March 16, 2003, we had no borrowings outstanding under the credit facility, and our borrowing base was $15.9 million. Any acceleration of the maturity date of the credit facility could have a material adverse effect on our business.

The credit facility was modified on several occasions during 2002 to allow us to use existing cash reserves and proceeds of asset sales to purchase or redeem the outstanding 4 1/2% convertible subordinated notes. These modifications imposed certain conditions on the use of such cash to purchase or redeem additional 4 1/2% notes. We recently amended our credit facility to permit the redemption of the Nortel Networks' membership interest and to repurchase a limited number of shares of our common stock from Nortel Networks, subject to certain conditions.

WE HAVE SIGNIFICANT STOCKHOLDERS THAT MAY NOT ACT CONSISTENTLY WITH THE INTERESTS OF OUR OTHER STOCKHOLDERS.

As of March 25, 2003, Nortel Networks owned approximately 18.8% of our common stock and Liberty Media Group beneficially owned approximately 10.3% of our common stock. These respective ownership interests result in both Nortel Networks and Liberty Media having a significant influence over us. Nortel Networks and Liberty Media may exert their respective influences or sell their respective shares at a time or in a manner that is inconsistent with the interests of our other stockholders.

Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, could have a depressive effect on the market price of our common stock.

WE HAVE ANTI-TAKEOVER DEFENSES THAT COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY.

On October 3, 2002, our board of directors approved the adoption of a shareholder rights plan (commonly known as a "poison pill"). This plan is not intended to prevent a takeover, but is intended to protect and maximize the value of shareholders' interests. This poison pill could make it more difficult for a third party to acquire us or may delay that process.

WE MAY DISPOSE OF EXISTING PRODUCT LINES OR ACQUIRE NEW PRODUCT LINES IN TRANSACTIONS THAT MAY ADVERSELY IMPACT US AND 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 acquisitions will not be integrated or otherwise perform as expected;

- 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; and

- the risk that the purchase price obtained will not be equal to the book value of the assets for the product line that we sell.

PRODUCTS CURRENTLY UNDER DEVELOPMENT MAY FAIL TO REALIZE ANTICIPATED BENEFITS.

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

- are not cost-effective;

- are not brought to market in a timely manner;

- fail to achieve market acceptance; or

- fail to meet industry certification standards.

Furthermore, our competitors may develop similar or alternative new technology applications that, if successful, could have a material adverse effect on us. Our strategic alliances are based on business relationships that have not been the subject of written agreements expressly providing for the alliance to continue for a significant period of time. The loss of a strategic 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 WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

The telecommunications industry has experienced the consolidation of many industry participants, and this trend is expected to continue. We and one or more of our competitors may each supply products to businesses that have merged, such as AT&T Broadband and Comcast, or will merge in the future. Consolidations could result in delays in purchasing decisions by the merged businesses, and we could play either 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 our business. For example, we experienced delays while the Comcast and AT&T Broadband deal was pending.

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 we would be put at a disadvantage to compete. The larger breadth of product offerings by these consolidated suppliers could result in customers electing to trim their supplier base for the advantages of one-stop shopping solutions for all of their product needs. Consolidation of the supplier base could have a material adverse effect on our business.

OUR SUCCESS DEPENDS IN LARGE PART ON OUR ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL IN ALL FACETS OF OUR OPERATIONS.

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

WE ARE SUBSTANTIALLY DEPENDENT ON CONTRACT MANUFACTURERS, AND AN INABILITY TO OBTAIN ADEQUATE AND TIMELY DELIVERY OF SUPPLIES COULD ADVERSELY AFFECT OUR BUSINESS.

Many components, subassemblies and modules necessary for the manufacture or integration of our products are obtained from a sole supplier or a limited group of suppliers. Our reliance on sole or limited suppliers, particularly foreign suppliers, and our reliance on subcontractors involves several risks including a

potential inability to obtain an adequate supply of required components, subassemblies or modules and reduced control over pricing, quality and timely delivery of components, subassemblies or modules. Historically, we have not 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.

OUR INTERNATIONAL OPERATIONS MAY BE ADVERSELY AFFECTED BY ANY DECLINE IN THE DEMAND FOR BROADBAND SYSTEMS DESIGNS AND EQUIPMENT IN INTERNATIONAL MARKETS.

Sales of broadband communications equipment into international markets are an important part of our business. The entire line of our 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 our products are manufactured may pass laws that impair our operations, such as laws that impose exorbitant tax obligations or nationalize these manufacturing facilities.

WE FACE RISKS RELATING TO CURRENCY FLUCTUATIONS AND CURRENCY EXCHANGE.

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.

We are exposed to various market risk factors such as fluctuating interest rates and changes in foreign currency rates. These risk factors can impact results of operations, cash flows and financial position. We manage these risks through regular operating and financing activities and periodically use derivative financial instruments such as foreign exchange forward contracts. There can be no assurance that our risk management strategies will be effective.

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

We have experienced several years with significant operating losses. Although we have been profitable in the past, 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 our stock price. In addition, our operating results may be adversely affected by timing of sales or a shift in our product mix.

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

Our future success depends in part upon our proprietary technology, product development, technological expertise and distribution channels. We cannot predict whether we can protect our technology or whether competitors can develop similar technology independently. We have received and may continue to receive from third parties, including some of our competitors, notices claiming that we 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 us is successful and we fail to obtain a license or develop non-infringing technology, our business and operating results could be adversely affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

In the past, we have used interest rate swap agreements, with large creditworthy financial institutions, to manage our 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, 2002, we did not have any outstanding interest rate swap agreements.

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

We have certain international customers who are billed in their local currency. The monetary value of this business has increased since the acquisition of Arris Interactive and its corresponding international customer base formerly served through Nortel Networks. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes. The euro is the predominant currency of those customers who are billed in their local currency. Taking into account the effects of foreign currency fluctuations of the euro versus the dollar, a hypothetical 10% weakening of the U.S. dollar (as of December 31, 2002) would provide a gain on foreign currency of approximately $2.7 million. Conversely, a hypothetical 10% strengthening of the U.S. dollar would provide a loss on foreign currency of approximately $2.7 million. As of December 31, 2002, we had no material contracts, other than accounts receivable, denominated in foreign currencies.

We will periodically review our accounts receivable in foreign currency and purchase additional forward contracts when appropriate. As of December 31, 2002, we had one foreign currency forward purchase contract outstanding. The contract was entered into on December 26, 2002 for 250.0 million Yen and was due January 31, 2003. The contract was taken out in anticipation of receiving a substantial yen payment from one of our customers, which we received on a timely basis. The fair value adjustment at December 31, 2002 was not significant.

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

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, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of ARRIS' management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, 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 adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities in 2002.

/s/ ERNST & YOUNG LLP

Atlanta, Georgia
February 4, 2003, except for Note 19,
as to which the date is March 24, 2003

ARRIS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2002	2001
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,409	$ 5,337
Accounts receivable (net of allowances for doubtful accounts of $10,698 in 2002 and $9,409 in 2001)	78,743	118,264
Accounts receivable from Nortel Networks	2,212	18,857
Other receivables	3,154	10,049
Inventories	104,203	137,132
Income taxes recoverable	--	5,066
Investments held for resale	137	795
Current assets -- discontinued operations	--	64,835
Other current assets	14,834	19,185
Total current assets	301,692	379,520
Property, plant and equipment (net of accumulated depreciation of $44,810 in 2002 and $19,600 in 2001)	34,540	41,623
Goodwill (net of accumulated amortization of $0 in 2002 and $56,430 in 2001)	151,265	259,062
Intangibles (net of accumulated amortization of $41,506 in 2002 and $7,012 in 2001)	64,843	44,488
Investments	4,594	14,037
Other assets	6,478	13,385
	$ 563,412	$752,115
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,253	$ 18,620
Accrued compensation, benefits and related taxes	23,423	32,747
Accounts payable and accrued expenses -- Nortel Networks	11,303	25,411
Current portion of long-term debt	23,887	--
Current portion of capital lease obligations	1,120	--
Other accrued liabilities	44,360	41,684
Total current liabilities	128,346	118,462
Capital lease obligations, net of current portion	158	--
Long-term debt	--	115,000
Total liabilities	128,504	233,462
Membership interest -- Nortel Networks	114,518	104,110
Total liabilities & membership interest	243,022	337,572
Stockholders' equity:		
Preferred stock, par value $1.00 per share, 5.0 million shares authorized; none issued and outstanding	--	--
Common stock, par value $0.01 per share, 320.0 million shares authorized; 82.5 million and 75.2 million shares issued and outstanding in 2002 and 2001, respectively	831	755
Capital in excess of par value	603,563	507,650
Accumulated deficit	(281,329)	(90,162)

Unrealized holding gain (loss) on marketable securities...	227	(3,211)
Unearned compensation.....	(1,649)	(577)
Unfunded pension losses.....	(1,219)	--
Cumulative translation adjustments.....	(34)	88
Total stockholders' equity.....	320,390	414,543
	$ 563,412	$752,115

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net sales (includes sales to Nortel Networks of $3.2 million, $23.4 million and $1.6 million for the years ended December 31, 2002, 2001, and 2000, respectively)...	$ 651,883	$ 628,323	$749,972
Cost of sales.....	425,231	479,663	624,720
Gross profit.....	226,652	148,660	125,252
Operating expenses:			
Selling, general, administrative and development expenses.....	200,574	129,743	86,721
In-process R&D write-off.....	--	18,800	--
Restructuring and impairment charges.....	7,113	11,602	--
Impairment of goodwill.....	70,209	--	--
Amortization of goodwill.....	--	3,256	3,300
Amortization of intangibles.....	34,494	7,012	--
	312,390	170,413	90,021
Operating income (loss).....	(85,738)	(21,753)	35,231
Other expense (income):			
Interest expense.....	8,383	11,068	12,184
Membership interest.....	10,409	4,110	--
Loss on debt retirement.....	7,302	1,853	--
Loss on investments.....	14,894	767	773
(Gain) loss on foreign currency.....	(5,739)	(10)	125
Other expense (income), net.....	226	8,130	(1,396)
Income (loss) from continuing operations before income taxes.....	(121,213)	(47,671)	23,545
Income tax expense (benefit).....	(6,800)	35,588	9,622
Net income (loss) from continuing operations.....	(114,413)	(83,259)	13,923
Discontinued Operations:			
Income (loss) from discontinued operations (including a net loss on disposals of $4.0 million for the year ended December 31, 2002).....	(18,794)	(92,441)	11,409
Income tax expense (benefit).....	--	(7,969)	4,663
Income (loss) from discontinued operations.....	(18,794)	(84,472)	6,746
Net income (loss) before cumulative effect of an accounting change.....	(133,207)	(167,731)	20,669
Cumulative effect of an accounting change -- goodwill.....	57,960	--	--
Net income (loss).....	$(191,167)	$(167,731)	$ 20,669
Net income (loss) per common share:			
Basic:			
Income (loss) from continuing operations.....	$ (1.40)	$ (1.55)	$ 0.37
Income (loss) from discontinued operations.....	(0.23)	(1.58)	0.18
Cumulative effect of an accounting change.....	(0.71)	--	--
Net income (loss).....	$ (2.33)	$ (3.13)	$ 0.54

Diluted:			
Income (loss) from continuing operations	$ (1.40)	$ (1.55)	$ 0.35
Income (loss) from discontinued operations	(0.23)	(1.58)	0.17
Cumulative effect of an accounting change	(0.71)	--	--
Net (loss) income	$ (2.33)	$ (3.13)	$ 0.52
Weighted average common shares:			
Basic	81,934	53,624	37,965
Diluted	81,934	53,624	39,571

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Operating activities:			
Net (loss) income	$(191,167)	$(167,731)	$ 20,669
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation	20,400	18,089	13,551
Amortization of goodwill	--	4,872	4,917
Amortization of intangibles	34,494	7,012	--
Amortization of deferred finance fees	2,859	1,772	1,163
Amortization of unearned compensation	1,850	1,076	950
Loss from equity investment	--	8,607	--
Provision for doubtful accounts	29,744	5,820	1,117
Loss (gain) on disposal of fixed assets	322	(448)	--
Deferred income taxes	--	19,273	30
Loss on investments	14,894	788	773
Cash proceeds from sale of trading securities	60	--	--
Write-off of acquired in-process R&D	--	18,800	--
Impairment of goodwill	70,209	5,877	--
Impairment of fixed assets	--	14,722	--
Write-down of inventories	--	31,970	--
Loss on debt retirement	7,302	--	--
Loss on sale of power product line	--	9,225	--
Loss on sale of discontinued product lines	3,959	--	--
Cumulative effect of an accounting change -- goodwill	57,960	--	--
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:			
(Increase) decrease in accounts receivable	26,422	17,771	36,034
(Increase) decrease in other receivables	6,895	(10,049)	--
(Increase) decrease in inventories	53,431	125,891	(48,467)
(Increase) decrease in income taxes recoverable	5,066	17,895	(7,492)
Increase (decrease) in accounts payable and accrued liabilities	(36,820)	(24,644)	(21,629)
Increase (decrease) in accrued Class B membership interest	10,409	4,110	--
Increase (decrease) in other, net	(897)	795	3,106
Net cash provided by (used in) operating activities	117,392	111,493	4,722
Investing activities:			
Purchases of property, plant and equipment	(7,923)	(9,556)	(15,498)
Cash proceeds from sale of property & equipment	--	1,061	--
Cash proceeds from sale of Keptel product line	30,000	--	--
Cash proceeds from sale of Actives product line	30,000	--	--
Cash paid for acquisition, net of cash acquired	(874)	(6,852)	--
Other	(50)	(3,930)	(8,198)
Net cash provided by (used in) investing activities	51,153	(19,277)	(23,696)
Financing activities:			
Borrowings under credit facilities	--	302,726	352,000
Reductions in borrowings under credit facilities	--	(391,726)	(331,500)
Payments on capital lease obligations	(903)	--	--
Payments on debt obligations	(73,737)	--	--
Deferred financing costs paid	(1,725)	(7,813)	(1,163)

Repurchase of stock units	(115)	--	--
Proceeds from issuance of common stock	1,007	1,146	5,454
Net cash provided by (used in) financing activities	(75,473)	(95,667)	24,791
Net increase (decrease) in cash and cash equivalents	93,072	(3,451)	5,817
Cash and cash equivalents at beginning of year	5,337	8,788	2,971
Cash and cash equivalents at end of year	$ 98,409	$ 5,337	$ 8,788
Noncash investing and financing activities:			
Net tangible assets acquired, excluding cash	$ 5,063	$ 55,284	$ --
Net liabilities assumed	(14,955)	--	--
Intangible assets acquired, including goodwill	79,339	195,193	--
Noncash purchase price, including 5,250,000 shares of common stock in 2002 and 37,000,000 shares of common stock in 2001, and fair market value of stock options issued	(68,573)	(243,625)	--
Cash paid for acquisition, net of cash acquired	$ 874	$ 6,852	$ --
Equity received in exchange for services provided	$ --	$ 1,000	$ --
Equity issued in exchange for 4 1/2% convertible subordinated notes due 2003	$ 14,497	$ --	$ --
Supplemental cash flow information:			
Interest paid during the year	$ 1,131	$ 8,952	$ 10,966
Income taxes paid during the year	$ 2,831	$ 465	$ 15,286

See accompanying notes to the consolidated financial statements.

ARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (ACCUMULATED DEFICIT)	UNREALIZED LOSS ON MARKETABLE SECURITIES	UNEARNED COMPENSATION	UNFUNDED PENSION LOSSES	CUMULATIVE TRANSLATION ADJUSTMENTS	TOTAL
				(IN THOUSANDS)				
Balance, December 31, 1999	$378	$252,245	$ 56,900	$ --	$ (184)	$ --	$ (1)	$ 309,338
Comprehensive income:								
Net income	--	--	20,669	--	--	--	--	20,669
Unrealized loss on marketable securities	--	--	--	(1,668)	--	--	--	(1,668)
Translation adjustment	--	--	--	--	--	--	81	81
Comprehensive income								19,082
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
Comprehensive (loss)								
Net (loss)	--	--	(191,167)	--	--	--	--	(191,167)
Unrealized loss on marketable securities	--	--	--	(86)	--	--	--	(86)
Recognized unrealized loss on marketable								

securities.....	--	--	--	3,524	--	--	--	3,524
Minimum liability on unfunded pension.....	--	--	--	--	--	(1,219)	--	(1,219)
Translation adjustment....	--	--	--	--	--	--	(122)	(122)
Comprehensive (loss).....								(189,070)
Shares granted under stock award plan.....	1	3,139	--	--	(3,140)	--	--	--
Compensation under stock award plan.....	--	--	--	--	1,850	--	--	1,850
Repurchase of stock units.....	--	(237)	--	--	122	--	--	(115)
Forfeiture of restricted stock.....	--	(96)	--	--	96	--	--	--
Issuance of common stock in acquisition of Cadant, Inc.	53	55,760	--	--	--	--	--	55,813
Issuance of stock options in acquisition of Cadant, Inc.	--	12,760	--	--	--	--	--	12,760
Issuance of common stock in conversion of 4 1/2% notes.....	16	24,042	--	--	--	--	--	24,058
Issuance of common stock and other.....	6	545	--	--	--	--	--	551
Balance, December 31, 2002.....	$831	$603,563	$(281,329)	$ 227	$(1,649)	$(1,219)	$ (34)	$ 320,390

See accompanying notes to the consolidated financial statements.

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, data, 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 November 21, 2002, ARRIS sold the Actives portion of its transmission, optical and outside plant product lines, which included laser transmitters, optical nodes and RF amplifiers, to Scientific-Atlanta for net proceeds of $31.8 million. The Actives product line had approximately $68.2 million of revenue in 2001, and approximately $44.3 million of revenue for the nine months ended September 30, 2002. Total assets of approximately $20.3 million were disposed of, which included inventory, fixed assets, and other assets attributable to the product line. Additionally, ARRIS incurred approximately $9.3 million of related closure costs, including severance, vendor liabilities, professional fees, and other shutdown expenses. In connection with the sale, the Company recognized a gain of approximately $2.2 million during the fourth quarter of 2002. As of December 31, 2002, approximately $1.8 million of the proceeds are receivable. As of December 31, 2002, approximately $1.1 million related to severance, $7.5 million related to vendor liabilities, $0.2 million related to professional fees, and $0.9 million related to other shutdown expenses remained in an accrual to be paid. The remaining payments are expected to be complete by the end of 2003.

On April 24, 2002, ARRIS sold its Keptel product line. Keptel designed and marketed network interface systems and fiber optic cable management products primarily for traditional telco residential and commercial applications. The transaction generated cash proceeds of $30.0 million. Additionally, the Company

retained a potential earnout over a twenty-four month period based on sales achievements. The transaction also includes a distribution agreement whereby ARRIS will continue to distribute Keptel products. The Keptel product line had approximately $51.1 million of revenue in 2001 and approximately $6.3 million of revenue for the three months ended March 31, 2002. Total assets of approximately $31.1 million were disposed of, which included inventory, fixed assets, intangibles (formerly classified as goodwill), and other assets. The Company incurred approximately $7.4 million of related closure costs, including severance, vendor liabilities, outside consulting fees, and other shutdown expenses. The net result of the transaction was a loss on the sale of the product line of approximately $8.5 million in the second quarter of 2002. During the fourth quarter of 2002, the loss was reduced by $2.4 million as a result of the resolution of certain estimated costs associated with the sale. As of December 31, 2002, approximately $0.1 million related to severance, $0.9 million related to vendor liabilities, $1.0 million related to outside consulting fees, and $0.1 million related to other shutdown expenses remained in an accrual to be paid. The remaining payments are expected to be complete by the end of 2003.

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, with respect to its Actives and Keptel product line disposals. As a result, these two product lines have been accounted for as discontinued operations and current and historical results have been reclassified accordingly for all periods presented. Revenues from the discontinued operations were $68.8 million, $119.3 million, and $248.7 million for the years ended December 31, 2002, 2001, and 2000, respectively. The income (loss) from discontinued operations, net of taxes, for

the years ending December 31, 2002, 2001, and 2000 was $(18.8) million, $(84.5) million, and $6.7 million, respectively. During 2002, the Company recorded a net loss on disposals of $4.0 million.

On October 30, 2002, ARRIS announced that it would close its office in Andover, Massachusetts, which is primarily a product development and repair facility. The Company decided to close the office in order to reduce operating costs through consolidations of its facilities. The closure affected approximately 75 employees and is expected to be completed during the second quarter of 2003. In connection with these actions, the Company recorded a charge of approximately $7.1 million in the fourth quarter of 2002. Included in this restructuring charge was approximately $2.1 million related to remaining lease payments, $2.7 million of fixed asset write-offs, $2.1 million of severance, and $0.2 million of other costs associated with these actions.

Further, in November 2002, ARRIS implemented other cost reduction actions, including a reduction in force at various locations affecting an additional 113 employees. These actions were prompted by the change in scale and complexity of the business as a result of the Actives sale and the Company's desire to lower its expense overhead to be in line with the revenue forecast.

On January 8, 2002, ARRIS completed the acquisition of substantially all of the assets of Cadant, Inc., a privately held designer and manufacturer of next generation cable modem termination systems ("CMTS"). The Company issued 5.25 million shares of ARRIS common stock for the purchase of substantially all of Cadant's assets and certain liabilities. Additionally, ARRIS agreed to pay up to 2.0 million shares based upon future sales targets of the CMTS product through January 8, 2003. These targets were not met as of January 8, 2003, and therefore, no further shares were issued. As of December 31, 2002, Cadant, Inc. shareholders owned approximately 6.1% of the Company's outstanding common stock.

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 the Company in 1995. Nortel exchanged its ownership interest in Arris Interactive L.L.C. for a subordinated redeemable Class B membership interest in Arris Interactive L.L.C. with a face amount of $100 million and 37 million shares of ARRIS common

stock. Following the Arris Interactive L.L.C. acquisition, Nortel designated two new members to ARRIS' Board of Directors. In June 2002, Nortel sold 15 million of its shares of ARRIS through a public offering. As of December 31, 2002, Nortel owned approximately 26.7% of the Company's outstanding common stock.

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.

(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 is comprised of material, labor, and manufacturing overhead.

(f) Investments

The Company holds certain investments in the common stock of publicly traded companies totaling approximately $0.1 million and $0.8 million at December 31, 2002 and 2001, respectively, which are classified as trading securities. Changes in the market value of these securities and gains or losses on related sales of these securities are recognized in income. The Company recorded pre-tax losses of approximately $0.6 million and $0.8 million during the years ended December 31, 2002 and 2001, respectively, related to these investments.

The Company holds certain additional investments in the common stock of publicly traded companies totaling approximately $1.8 million and $2.1 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. In addition, ARRIS holds a number of non-marketable equity securities totaling approximately $2.8 million and $12.0 million at December 31, 2002 and 2001, respectively, which are classified as available for sale. At December 31, 2002 and 2001, ARRIS had unrealized losses related to these available for sale securities of approximately $0 and $3.2 million, respectively, included in comprehensive income. During the years ended December 31, 2002, 2001, and 2000, the Company recorded impairment charges of approximately $13.5 million, $0, and $1.3 million, respectively, on its available for sale securities as a result of market value declines considered by management to be other than temporary.

ARRIS offers a deferred compensation arrangement, which allows certain employees to defer a portion of their earnings and defer the related income

taxes. These deferred earnings are invested in a "rabbi trust", and are accounted for in accordance with Emerging Issues Task Force 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested. A rabbi trust is a funding vehicle used to protect deferred compensation benefits from events (other than bankruptcy). The investment in the rabbi trust is classified as a current asset on the consolidated balance sheet. During the year ended December 31, 2002, the Company recognized a loss of approximately $0.8 million in connection with realized losses on the related investments.

(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 as well as internally developed software. 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) Shipping and Handling Fees

Shipping and handling costs for the years ended December 31, 2002, 2001, and 2000 were approximately $5.3 million, $7.3 million and $18.0 million, respectively, and are classified in net sales and cost of sales.

(i) Depreciation of Property, Plant and Equipment

The Company provides for depreciation of property, plant and equipment principally on the straight-line basis over 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 or useful life for leasehold improvements. Depreciation expense for the years ended December 31, 2002, 2001, and 2000 was approximately $20.4 million, $18.1 million and $13.6 million, respectively.

(j) 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 adopted SFAS No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. 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. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. Upon adoption of SFAS No. 142, the Company recorded a goodwill impairment loss of approximately $58.0 million, based on management's analysis including an independent valuation. The resulting impairment loss has been recorded as a cumulative effect of a change in accounting principle on the accompanying Consolidated Statements of Operations for the year ended December 31, 2002. The valuation was determined using a combination of the income and market approaches on an invested capital basis, which is the market value of equity plus interest-bearing debt. The Company's remaining goodwill was reviewed in the fourth quarter of 2002, and based upon management's analysis including an independent valuation, an impairment charge of $70.2 million was recorded with respect to its supplies and services product category.

As of December 31, 2002, the financial statements included intangibles of $64.8 million, net of amortization of $41.5 million. These intangibles are primarily related to the existing technology acquired from Arris Interactive L.L.C. on August 3, 2001 and from Cadant, Inc. on January 8, 2002, and are being amortized over a three year period. The valuation process to determine the fair market values of the existing technology by management included valuations by an outside valuation service. The values assigned were calculated using an income approach utilizing the cash flow expected to be generated by these technologies.

(k) Advertising and Sales Promotion

Advertising and sales promotion costs are expensed as incurred. Advertising expense, predominantly from continuing operations, was approximately $0.6 million, $1.3 million and $1.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(l) Research and Development

Research and development ("R&D") costs are expensed as incurred. ARRIS' research and development expenditures for the years ended December 31, 2002, 2001 and 2000 were approximately $64.8 million, $26.9 million and $9.1 million, respectively. Additionally, 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.

(m) Warranty

ARRIS provides, by a current charge to income in the period, an amount it estimates will be needed to cover future warranty obligations related to embedded base, failure rate, and costs to repair of its products already deployed in the field.

(n) 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.

(o) 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.

The Company has certain international customers who are billed in their local currency. The monetary value of this business has increased since the acquisition of Arris Interactive and its corresponding international customer base formerly served through Nortel Networks. Since the acquisition of Arris Interactive, the monetary exchange fluctuations from the time of invoice to the time of payment have not been significant. However, during the second quarter of 2002, the euro increased in value relative to the US dollar enough to cause a significant foreign exchange gain. During 2002, the Company recorded a foreign currency gain of approximately $5.7 million, primarily related to the strengthening of the euro as it has several European customers whose receivables and collections are denominated in euros. During the third quarter 2002, the Company have evaluated and implemented a hedging strategy using forward

contracts. During 2001, the Company recorded a foreign currency gain of approximately $10 thousand.

(p) Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure. This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company uses the intrinsic value method for valuing its awards of stock options and restricted stock and recording the related compensation expense, if any, in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations. No stock-based employee or director compensation cost for stock options is reflected in net income, as all options granted have exercise prices equal to the market value of the underlying common stock on the date of grant. The Company records compensation expense related to its restricted stock awards and director stock units. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	2002	2001	2000
Net income (loss), as reported	$(191,167)	$(167,731)	$20,669
Add: Stock-based employee compensation included in reported net income, net of taxes	1,850	1,076	950
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of taxes	(26,770)	(15,710)	(7,165)
Net income (loss), pro forma	$(216,087)	$(182,365)	$14,454
Net income (loss) per common share:			
Basic -- as reported	$ (2.33)	$ (3.13)	$ 0.54
Basic -- pro forma	$ (2.64)	$ (3.40)	$ 0.38
Diluted -- as reported	$ (2.33)	$ (3.13)	$ 0.52
Diluted -- pro forma	$ (2.64)	$ (3.40)	$ 0.37

(q) Interest Rate Agreements

As of December 31, 2002, the Company had no outstanding floating rate indebtedness or interest rate swap agreements.

(r) 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 generally significantly diminishes the risk of loss from extension of credit. The Company's credit

policy generally does not require collateral from its customers. ARRIS closely monitors extensions of credit to other parties and, where necessary, utilizes common financial instruments to mitigate risk or requires cash on delivery terms. Overall financial strategies and the effect of using a hedge are reviewed periodically. When deemed uncollectible, accounts receivable balances are written off.

Due to the economic disturbances in Argentina, the Company recorded a write-off of $4.4 million related to unrecoverable amounts of inventory due from a customer in that region during 2001. Of this total charge, approximately $2.8 million is reflected in cost of sales and $1.6 million is reflected in discontinued operations. In 2002, the industry downturn and other factors have adversely affected several of our largest customers. As a result, the Company incurred a $20.2 million charge related to its Adelphia receivable during the second quarter 2002. However, the Company sold a portion of the Adelphia receivables during the third quarter 2002 to an unrelated third party, resulting in net gain of approximately $4.3 million. For the year ended December 31, 2002, the net result was a loss of $15.9 million related to Adelphia, of which approximately $14.9 million is reflected in selling, general, administrative, and development expenses and $1.0 million is reflected in discontinued operations.

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. We establish a reserve for doubtful accounts based upon our historical experience in collecting accounts receivable.

- Marketable securities: The fair values for trading and available-for-sale equity securities are based on quoted market prices.

- Non-marketable securities: Non-marketable equity securities are subject to a periodic impairment review; however, there are no open-market valuations, and the impairment analysis requires significant judgment. This analysis includes assessment of the investee's financial condition, the business outlook for its products and technology, its projected results and cash flow, recent rounds of financing, and the likelihood of obtaining subsequent rounds of financing.

- Long-term debt: The 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 $16.7 million and $89.7 million at December 31, 2002 and 2001, 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, 2002, the Company had one foreign exchange contract; the Company sold 250.0 million

Japanese yen (US$2.1 million) for delivery on January 31, 2003. The contract was taken out in anticipation of receiving a substantial yen payment from one of ARRIS' customers. The Company received the yen needed to close the contract on a timely basis. The fair value adjustment at

December 31, 2002 was not significant. The Company had no interest rate swap agreements outstanding as of December 31, 2002.

(s) 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 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, 2002, 2001 and 2000, respectively.

NOTE 3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company has adopted SFAS No. 146 in connection with the closure of its facility in Andover, Massachusetts during the fourth quarter of 2002. See Note 5 of Notes to Consolidated Financial Statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement relates to accounting for debt extinguishments, leases, and intangible assets of motor carriers. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002 with earlier adoption encouraged. The Company has adopted SFAS No. 145 in connection with the $2.0 million gain on the retirement of debt (see Note 9 of Notes to the Consolidated Financial Statements) resulting in the classification of this gain in other expense (income) on the Consolidated Statements of Operations. In accordance with provisions of SFAS No. 145, the $1.9 million loss on debt retirement recorded as an extraordinary item in 2001 has been reclassified to other expense (income) on the Consolidated Statements of Operations for comparative purposes.

In October 2001, the FASB issued 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. The Company has adopted SFAS No. 144, and as a result, the Actives and Keptel product lines, which were sold in 2002, have been accounted

for as discontinued operations and current and historical results have been reclassified for all periods presented. See Note 4 of Notes to Consolidated Financial Statements for further discussion.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. The Company adopted SFAS No. 142 on January 1, 2002. See Note 8 of Notes to Consolidated Financial Statements.

NOTE 4. DISCONTINUED OPERATIONS

Upon evaluation and review of the ARRIS product portfolio, the Company concluded that the Keptel product line was not core to its long-term strategy and thus sold the product line on April 24, 2002. Keptel designed and marketed network interface systems and fiber optic cable management products primarily for traditional residential and commercial telecommunications applications. The transaction generated cash proceeds of $30.0 million. Additionally, ARRIS retained a potential earn-out over a twenty-four month period based on sales achievements. The transaction also includes a distribution agreement whereby the Company will continue to distribute Keptel products. The Keptel product line had approximately $51.1 million of revenue in 2001 and approximately $6.3 million of revenue for the three months ended March 31, 2002. Total assets of approximately $31.1 million were disposed of, which included inventory, fixed assets, intangibles (formerly classified as goodwill), and other assets. ARRIS incurred approximately $7.4 million of related closure costs, including severance, vendor liabilities, outside consulting fees, and other shutdown expenses. During the second quarter of 2002, a net loss of $8.5 million was recorded in connection with the sale of the Keptel product line. This net loss was previously reported in restructuring and other expense in the Consolidated Statement of Operations during the second quarter due to the overall immateriality of Keptel's results of operations and assets to the consolidated results and assets of the Company. During the fourth quarter of 2002, the loss was reduced by $2.4 million as a result of the resolution of certain estimated costs associated with the sale. As of December 31, 2002, approximately $0.1 million related to severance, $0.9 million related to vendor liabilities, $1.0 million related to outside consulting fees, and $0.1 million related to other shutdown expenses remained in an accrual to be paid. The remaining payments are expected to be complete by the end of 2003.

Upon continued review of ARRIS' product portfolio, the Company sold its Actives product line to Scientific-Atlanta on November 21, 2002, for net proceeds of $31.8 million. The Actives product line had approximately $68.2 million of revenue in 2001, and approximately $44.3 million of revenue for the nine months ended September 30, 2002. Total assets of approximately $20.3 million were disposed of, which included inventory, fixed assets, and other assets attributable to the product line. Additionally, ARRIS incurred approximately $9.3 million of related closure costs, including severance, vendor liabilities, professional fees, and other shutdown expenses. In connection with the sale, the Company recognized a gain of approximately $2.2 million during the fourth quarter of 2002. As of December 31, 2002, approximately $1.8 million of the proceeds are receivable. As of December 31, 2002, approximately $1.1 million related to severance, $7.5 million related to vendor liabilities, $0.2 million related to professional fees, and $0.9 million related to other shutdown expenses remained in an accrual to be paid. The remaining payments are expected to be complete by the end of 2003.

The Company's Actives and Keptel product lines, as a whole, constituted the majority of its transmission, optical and outside plant product category and qualified as discontinued operations in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, the results of these product lines have been reclassified to discontinued operations for all periods presented.

Revenues from discontinued operations were $68.8 million, $119.3 million,

and $248.7 million for the years ended December 31, 2002, 2001, and 2000, respectively. The income (loss) from discontinued operations, net of taxes, for the years ending December 31, 2002, 2001, and 2000 was $(18.8) million, $(84.5) million, and $6.7 million, respectively. During 2002, the Company recorded a net loss on these disposals of $4.0 million.

The balance sheet as of December 31, 2001 includes $64.8 million of current assets of discontinued operations, comprised of approximately $11.1 million of fixed assets and $53.7 million of inventory.

NOTE 5. RESTRUCTURING AND OTHER CHARGES

On October 30, 2002, the Company announced that it would close its office in Andover, Massachusetts, which is primarily a product development and repair facility. The Company decided to close the office in order to reduce operating costs through consolidations of its facilities. The closure affected approximately 75 employees and is expected to be completed during the second quarter of 2003. In connection with these actions, the Company recorded a charge of approximately $7.1 million in the fourth quarter of 2002. Included in this restructuring charge was approximately $2.1 million related to remaining lease payments, $2.7 million of fixed asset write-offs, $2.1 million of severance, and $0.2 million of other costs associated with these actions. The remaining payments are expected to be complete by the second quarter of 2006 (end of lease). The estimated savings as a result of the Andover, Massachusetts closure is approximately $8.6 million annually, primarily related to employee costs. During the second quarter of 2002, ARRIS established a bad debt reserve in connection with its Adelphia accounts receivable. Adelphia declared bankruptcy in June 2002. The reserve resulted in a charge of approximately $20.2 million in the second quarter of 2002, of which $18.9 million is classified in selling, general, administrative, and development and $1.3 million is classified in discontinued operations. In the third quarter of 2002, ARRIS sold a portion of its Adelphia accounts receivable to an unrelated third party, resulting in a net gain of approximately $4.3 million, of which approximately $4.0 million was recorded as a reduction of the provision for doubtful accounts included in selling, general and administrative and development expenses, and the remaining gain of $0.3 million is classified in discontinued operations.

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. 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, 2002, approximately $0.6 million related to lease commitments, and $0.1 million related to other shutdown costs remained in an accrual to be paid. Due to a change in estimate, the original liability was reduced by approximately $0.4 million. The remaining payments are expected to be complete by the third quarter of 2004 (end of lease). The estimated savings as a result of the Raleigh, North Carolina closure is approximately $5.5 million annually, primarily related to employee costs.

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 entailed the implementation of an expanded manufacturing outsourcing strategy and the related closure of the four factories located in El Paso, Texas and Juarez, Mexico. As a result, the Company recorded restructuring and impairment charges of $66.2 million, of which approximately $50.1 million relates to and is classified in discontinued operations. Included in these charges was approximately $33.7 million related to the write-down of inventories, and remaining warranty and purchase order commitments of which approximately $8.6 million was reflected in cost of goods sold and $25.1 million

was reflected in discontinued operations. Additional charges incurred were 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. Of these charges, approximately $7.5 million is reflected in restructuring expense and $25.0 million is reflected in discontinued operations. 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. Due to unforeseen delays in

exiting the facility after the shutdown, during the fourth quarter of 2002 the Company recorded an additional charge of $2.4 million to discontinued operations. As of December 31, 2002, of the remaining $2.8 million balance in the restructuring reserve, approximately $0.6 million related to severance and associated personnel costs, and $2.2 million related to lease terminations of factories and office space and other shutdown costs. The remaining costs are expected to be expended by the end of 2003.

During the second quarter of 2000, ARRIS recorded a pre-tax charge of $3.5 million to cost of sales related to the 1999 consolidation of the New Jersey facility to Georgia and the Southwest, coupled with the discontinuance of certain product offerings.

NOTE 6. INVENTORIES

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

	DECEMBER 31,	
	2002	2001
Raw material	$ 3,941	$ 17,627
Finished goods	100,262	119,505
Total inventories	$104,203	$137,132

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

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

	DECEMBER 31,	
	2002	2001
Land	$ 1,822	$ 1,964
Buildings and leasehold improvements	7,295	10,120
Machinery and equipment	70,233	49,139

	79,350	61,223
Less: Accumulated depreciation	(44,810)	(19,600)
Total property, plant and equipment, net	$ 34,540	$ 41,623

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

ARRIS adopted SFAS No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. 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. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. Upon adoption of SFAS No. 142, the Company recorded a goodwill impairment loss of approximately $58.0 million, primarily related to the Keptel product line, based upon management's analysis including an independent valuation. The resulting impairment loss has been recorded as a cumulative effect of a change in accounting principle on the accompanying Consolidated Statements of Operations for the year ended December 31, 2002. The valuation was determined using a combination of the income and market approaches on an invested capital basis, which is the market value of equity plus interest-bearing debt. The Company's remaining goodwill was reviewed in the fourth quarter of 2002, and based upon management's analysis including an independent valuation, an impairment charge of $70.2 million was recorded with respect to our supplies and services product category primarily due to a decline in current purchasing by Adelphia, as well as the industry in general. Application of the non-amortization provision of SFAS No. 142 resulted in the elimination of approximately $10.5 million of amortization expense in fiscal 2002.

The following sets forth a reconciliation of net income and earnings per share information for the years ended December 31, 2002, 2001, and 2000, as adjusted for the non-amortization provisions of SFAS No. 142:

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Net income (loss):			
Net income (loss)	$(191,167)	$(167,731)	$ 20,669
Add: Goodwill amortization from continuing operations	--	3,256	3,300
Add: Goodwill amortization from discontinued operations	--	1,616	1,617
Adjusted net income (loss)	$(191,167)	$(162,859)	$ 25,586
Diluted earnings per share:			
Adjusted net income (loss)	$ (2.33)	$ (3.04)	$ 0.65

The changes in the carrying amount of goodwill for the years ended December 31, 2001 and 2002 are as follows (in thousands):

Balance as of December 31, 2000	$144,919
Goodwill acquired from Arris Interactive L.L.C.	

acquisition	124,892
Goodwill written off related to sale of power product line	(5,877)
Amortization	(4,872)
Balance as of December 31, 2001	$259,062
Transitional impairment charge	(57,960)
Purchase price allocation adjustment -- Arris Interactive L.L.C.	33
Goodwill acquired from Cadant, Inc. acquisition	26,339
Transferred to intangible asset upon adoption of SFAS No. 142	(6,000)
Goodwill impairment charge, October 1, 2002	(70,209)
Balance as of December 31, 2002	$151,265

The gross carrying amount and accumulated amortization of the Company's intangible assets, other than goodwill, as of December 31, 2002 and December 31, 2001 are as follows (in thousands):

	DECEMBER 31, 2002			DECEMBER 31, 2001		
	GROSS AMOUNT	ACCUMULATED AMORTIZATION	NET BOOK VALUE	GROSS AMOUNT	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Existing technology acquired:						
Arris Interactive L.L.C.	$ 51,500	$(24,178)	$27,322	$51,500	$(7,012)	$44,488
Cadant, Inc.	53,000	(17,328)	35,672	--	--	--
Pension asset	1,849	--	1,849	--	--	--
Total	$106,349	$(41,506)	$64,843	$51,500	$(7,012)	$44,488

Amortization expense recorded on the intangible assets listed in the above table for the years ended December 31, 2002 and 2001 was $34.5 million and $7.0 million, respectively. The estimated total amortization expense for each of the next five fiscal years is as follows (in thousands):

2003	$34,833
2004	$27,822
2005	$ 339
2006	$ --
2007	$ --

NOTE 9. LONG-TERM OBLIGATIONS

Debt, capital lease obligations and membership interest consist of the following (in thousands):

	DECEMBER 31,

	2002	2001
Revolving credit facility	$ --	$ --
Capital lease obligations	1,278	--
Membership interest -- Nortel Networks	114,518	104,110
4 1/2% convertible subordinated notes	23,887	115,000
Total debt, capital lease obligations and membership interest	139,683	219,110
Less current portion	(25,007)	--
Total long term debt, capital lease obligations and membership interest	$114,676	$219,110

In 1998, the Company issued $115.0 million of 4 1/2% 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 at a conversion price of $24.00 per share. In 2002, ARRIS exchanged 1,593,789 shares of its common stock for approximately $15.4 million of the Notes. The Company recorded the exchanges in accordance with SFAS No. 84, Induced Conversions of Convertible Debt, which requires the recognition of an expense equal to the fair value of additional shares of common stock issued in excess of the number of shares that would have been issued upon conversion under the original terms of the Notes. As a result, in connection with these exchanges, ARRIS recorded a non-cash loss of approximately $8.7 million, based upon a weighted average common stock value of $9.10 (as compared with a common stock value of $24.00 per share in the original conversion ratio for the Notes). In connection with the exchanges, the Company also incurred associated fees of $0.6 million, resulting in an overall loss of approximately $9.3 million.

During the fourth quarter of 2002, the Company redeemed $75.7 million of the Notes using cash from operations and cash generated from the sale of its Actives product line. The Notes were redeemed at a discount, resulting in a gain on the debt retirement of $2.0 million recorded in continuing operations in accordance with SFAS 145. As of December 31, 2002, there were approximately $23.9 million of the Notes outstanding.

In connection with the Arris Interactive L.L.C. acquisition in 2001, all of the Company's existing bank indebtedness was refinanced. The facility, as subsequently amended, is an asset-based revolving credit facility (the "Credit Facility") permitting the Company to borrow up to $125.0 million (which can be increased under certain conditions by up to $25.0 million), based upon availability under a borrowing base calculation. In general, the borrowing base is limited to 85% of net eligible receivables (with a cap of $5.0 million in relation to foreign receivables), subject to a reserve of $10.0 million. In addition, upon obtaining appropriate asset appraisals the Company may include in the borrowing base calculation 80% of the orderly liquidation value of net eligible inventory (not to exceed $60.0 million). The Credit Facility was modified in 2002 to allow the Company to use existing cash reserves and proceeds of asset sales to purchase or redeem the outstanding Notes. These modifications imposed certain conditions on the use of such cash to redeem additional Notes including the requirement that, giving effect to such purchase or redemption, (1) there must not be any event of default, (2) no loans may be outstanding under the Credit Facility, and (3) the Company must retain at least $50.0 million in cash on deposit in accounts pledged as security for the Credit Facility. During the fourth quarter of 2002, the Company met the applicable conditions imposed by these modifications and was able to expend approximately $73.7 million in cash to redeem approximately $75.7 million of Notes. In order to redeem additional Notes, the Company must continue to meet all of the conditions for such purchase. Since the Company had cash of $98.4 million as of December 31, 2002, it anticipates being able to meet such conditions. The Credit Facility contains traditional financial covenants, including fixed charge coverage, senior debt leverage, minimum net worth, and minimum inventory turns ratios. The Credit Facility was amended in January 2003 to provide that the minimum net worth covenant applied only to the period prior to

December 31, 2002. The facility is secured by substantially all of the Company's assets. The Credit Facility has a maturity date of August 3, 2004. The commitment fee on unused borrowings is 0.75%. The availability under the Credit Facility at December 31, 2002 was approximately $18.9 million, and the Company had no borrowings under the facility.

In conjunction with the acquisition of Arris Interactive L.L.C., the Company issued to Nortel Networks a subordinated redeemable Class B membership interest in Arris Interactive L.L.C. with a face amount of $100.0 million. This membership interest earns an accreting non-cash return of 10% per annum, compounded annually, and is due six months after the maturity date of the Company's Credit Facility, as amended or extended. The Class B membership interest is redeemable in approximately four quarterly installments commencing February 3, 2002, provided that certain availability and other tests are met under the Credit Facility. Those tests were not met in 2002. No amounts were redeemed during the year ended December 31, 2002. In June 2002, the Company entered into an option agreement with Nortel Networks that permits Arris Interactive L.L.C. to redeem Nortel Networks' membership interest in Arris Interactive at a discount of 21% prior to June 30, 2003. The balance of the Class B membership interest as of December 31, 2002 was approximately $114.5 million. For the year ended December 31, 2002, the Company recorded membership interest expense of approximately $10.4 million, as compared to membership interest of approximately $4.1 million for the year ended December 31, 2001.

In conjunction with the acquisition of Cadant, Inc. in January 2002, the Company assumed approximately $2.3 million in capital lease obligations related to machinery and equipment. The leases require future rental payments until 2004. The balance of the capital lease obligations at December 31, 2002 was approximately $1.3 million.

ARRIS has not paid cash dividends on its common stock since its inception. The Company's credit agreement contains covenants that prohibit them from paying such dividends. On October 3, 2002, to implement its shareholder rights plan, its board of directors declared a dividend consisting of one right for each share of its common stock outstanding at the close of business on October 25, 2002. Each right represents the right to purchase one one-thousandth of a share of its Series A Participating Preferred Stock and becomes exercisable only if a person or group acquires beneficial ownership of 15% or more of its common stock or announces a tender or exchange offer for 15% or more of its common stock or under other similar circumstances.

NOTE 10. COMMON STOCK

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

	DECEMBER 31,		
	2002	2001	2000
Convertible subordinated notes	995,292	4,791,667	4,791,667
Stock options, stock units, and restricted stock	16,545,445	14,711,306	7,292,275
Employee stock purchase plan	419,841	727,165	448,298
Liberty Media options	854,341	854,341	854,341
Total	18,814,919	21,084,479	13,386,581

NOTE 11. EARNINGS PER SHARE

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

	FOR THE YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Basic:			
Income (loss) from continuing operations	$(114,413)	$ (83,259)	$13,923
Income (loss) from discontinued operations	(18,794)	(84,472)	6,746
Cumulative effect of an accounting change	(57,960)	--	--
Net income (loss)	$(191,167)	$(167,731)	$20,669
Weighted average shares outstanding	81,934	53,624	37,965
Basic earnings (loss) per share	$ (2.33)	$ (3.13)	$ 0.54
Diluted:			
Income (loss) from continuing operations	$(114,413)	$ (83,259)	$13,923
Income (loss) from discontinued operations	(18,794)	(84,472)	6,746
Cumulative effect of an accounting change	(57,960)	--	--
Net income (loss)	$(191,167)	$(167,731)	$20,669
Weighted average shares outstanding	81,934	53,624	37,965
Net effect of dilutive stock options	--	--	1,606
Total	81,934	53,624	39,571
Diluted earnings (loss) per share	$ (2.33)	$ (3.13)	$ 0.52

The 4 1/2% Convertible Subordinated Notes were antidilutive for all periods presented. The effects of the options and warrants were not presented for the years ended December 31, 2002 and 2001 as the Company incurred net losses during those periods and inclusion of these securities would be antidilutive.

NOTE 12. INCOME TAXES

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Current -- Federal	$ (6,800)	$ (4,636)	$ 12,496
State	--	(430)	1,759
	(6,800)	(5,066)	14,255
Deferred -- Federal	--	29,908	26
State	--	2,777	4
	--	32,685	30
	$ (6,800)	$ 27,619	$ 14,285

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Statutory Federal income tax expense (benefit)	(35.0)%	(35.0)%	35.0%
Effects of:			
Amortization of goodwill	0.0%	1.1%	4.4%
Goodwill impairment	23.3%	0.0%	0.0%
State income taxes, net of Federal benefit	(3.3)%	(3.3)%	2.1%
Meals and entertainment	0.2%	0.3%	1.1%
Write-off of acquired in-process R&D	0.0%	4.7%	0.0%
Change in valuation allowance	4.4%	50.1%	(2.8)%
Amortization of intangibles	6.9%	1.8%	0.0%
Other, net	(0.1)%	0.0%	1.1%
	(3.6)%	19.7%	40.9%

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

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

	DECEMBER 31,	
	2002	2001
Current deferred tax assets:		
Inventory costs	$ 5,706	$ 16,853
Merger, disposal and restructuring related reserves	10,270	6,481
Allowance for uncollectible accounts	4,092	3,599
Accrued pension	3,591	4,707
Other, principally operating expenses	22,711	14,274
Total current deferred tax assets	46,370	45,914
Long-term deferred tax assets:		
Federal/state net operating loss carryforwards	31,367	19,521
Foreign net operating loss carryforwards	2,358	2,358
Plant and equipment, depreciation and basis differences	(1,854)	7,687
Total long-term deferred tax assets	31,871	29,566
Long-term deferred tax liabilities:		
Purchased technology	(24,095)	(17,017)
Goodwill and other	3,665	(2,040)
Total long-term deferred tax liabilities	(20,430)	(19,057)
Net deferred tax assets	57,811	56,423
Valuation allowance on deferred tax assets	(57,811)	(56,423)
Net deferred tax assets	$ --	$ --

As of December 31, 2002, ARRIS has estimated federal and foreign tax loss carryforwards of $78.2 million and $6.9 million, respectively. The federal and

foreign tax loss carryforwards expire through 2022 and 2005, respectively. Tax benefits arising from loss carryforwards of approximately $2.4 million, originating prior to TSX's quasi-reorganization on November 22, 1985, will be credited directly to additional paid in capital if and when realized.

ARRIS established a valuation allowance in accordance with the provisions of SFAS 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. The Company had U.S. and foreign net operating loss carryforwards at December 31, 2002 expiring as follows (in thousands):

EXPIRATION IN CALENDAR YEAR	U.S. AMOUNT	FOREIGN AMOUNT
2004	$ 501	$ --
2005	1,967	6,935
2007	2,745	--
2008	1,605	--
2021	42,587	--
2022	28,760	--
	$78,165	$6,935

NOTE 13. COMMITMENTS

ARRIS leases office, distribution, and manufacturing facilities as well as equipment under long-term leases expiring at various dates through 2009. The cost of equipment that is acquired under terms of leases, which substantially transfer all of the rights and risks of ownership, is capitalized by the Company. Assets acquired under capital leases are depreciated principally on the same basis as other similar assets or over the lease term, if shorter. The original cost and related accumulated depreciation on equipment under capital leases included in property, plant and equipment on the balance sheet are approximately $2.0 million and $1.0 million, respectively, at December 31, 2002. The Company had no assets under capital leases as of December 31, 2001. Future minimum lease payments under non-cancelable leases at December 31, 2002 were as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
2003	$1,178	$ 8,940
2004	162	6,725
2005	--	5,273
2006	--	4,197
2007	--	2,309
Thereafter	--	2,265
Less sublease income	--	(2,192)
Total minimum lease payments	$1,340	$27,517
Less interest included in lease payments	(62)	

Principal amount of lease payments.....	$1,278

Total rental expense for all operating leases amounted to approximately $11.0 million, $7.8 million and $5.3 million for the years ended December 31, 2002, 2001 and 2000, 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, 2002, the Company had approximately $3.0 million outstanding under letters of credit with its banks.

NOTE 14. 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 2002 Stock Incentive Plan ("2002 SIP") as well as from 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 ("2000 SIP"), the 2000 Mid-Level Stock Option Plan ("MIP"), the 1997 Stock Incentive Plan ("SIP"), the 1993 Employee Stock Incentive Plan ("ESIP"), the Director Stock Option Plan ("DSOP"), and the TSX Long-Term Incentive Plan ("LTIP"). All options granted under the previous plans are still exercisable. These plans are described below.

As required by SFAS No. 123, ARRIS presents 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 2002 SIP, 2001 SIP, 2000 SIP, MIP, SIP, ESIP, DSOP and LTIP for 2002, 2001 and 2000 were as follows: risk-free interest rates of 3.97%, 4.27% and 5.03%, respectively; a dividend yield of 0%; volatility factor of the expected market price of ARRIS' common stock of .83, .71 and .64, respectively; and a weighted average expected life of 5, 4, and 5 years, respectively. The weighted average assumptions used to estimate the fair value of purchase rights granted under the ESPP for 2002, 2001, and 2000 were as follows: risk-free interest rates of 1.88%, 2.70% and 5.52% respectively; a dividend yield of 0%; volatility factor of the expected market price of ARRIS' common stock of .83, .71 and .64, respectively; and a weighted average expected life of .5, .5 and 1 year, respectively. See Note 2 of Notes to Consolidated Financial Statements for pro forma presentation.

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.

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

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

In 2001, the Board of Directors approved a proposal to grant truncated options to employees and board members having previous stock options with exercise prices more than 33% higher than the market price of the Company's stock at $10.20 per share. The truncated options to purchase stock of the Company pursuant to the Company's 2001 SIP, have the following terms: (a) one fourth of each option shall be exercisable immediately and an additional one fourth shall become exercisable or vest on each anniversary of this grant;

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

In 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.

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.

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 were 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 2002 SIP, 2001 SIP, 2000 SIP, MIP, SIP, ESIP, DSOP, and LTIP is presented below:

	2002		2001		2000	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Beginning balance.....	8,912,226	$13.34	5,378,727	$16.27	3,940,717	$14.34

Grants.....	7,359,432	$ 6.76	4,169,778	$10.17	2,389,017	$21.11
Exercises.....	(11,925)	$ 8.00	(59,328)	$11.80	(490,337)	$10.71
Terminations.....	(1,421,471)	$ 9.38	(535,227)	$17.45	(460,003)	$30.85
Expirations.....	(405,049)	$18.43	(41,724)	$22.22	(667)	$15.88
Ending balance.....	14,433,213	$10.24	8,912,226	$13.34	5,378,727	$16.27
Vested at period end.....	4,929,486	$13.40	3,605,738	$13.64	2,261,708	$12.46
Weighted average fair value of options granted during year.....	$ 4.64		$ 5.71		$ 21.11	

The following table summarizes information about 2002 SIP, 2001 SIP, 2000 SIP, MIP, SIP, ESIP, DSOP, and LTIP options outstanding at December 31, 2002.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/02	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/02	WEIGHTED AVERAGE EXERCISE PRICE
$ 2.00 to $ 4.00.....	2,402,069	9.86 years	$ 2.52	20,000	$ 2.00
$ 5.00 to $ 8.68.....	3,081,737	8.70 years	$ 8.08	574,599	$ 8.00
$ 8.88 to $10.32.....	6,605,628	7.79 years	$10.05	2,371,808	$ 9.72
$10.50 to $15.88.....	1,024,103	1.32 years	$12.70	1,021,853	$12.70
$16.60 to $19.75.....	153,001	2.89 years	$16.99	153,001	$16.99
$22.88 to $59.31.....	1,166,675	6.66 years	$29.90	788,225	$28.93
$ 2.00 to $59.31.....	14,433,213	7.73 years	$10.24	4,929,486	$13.40

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 on either the first day of the purchase period or the last day of the purchase period. Under the ESPP, employees of ARRIS purchased 18,709 shares of ARRIS common stock in 2000. 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 were available. Under the

new plan, employees of ARRIS purchased 307,324 and 72,835 shares of ARRIS common stock in 2002 and 2001, respectively. At December 31, 2002, approximately 198,957 shares are subject to purchase under the new ESPP at a price of no more than $3.15 per share, to be settled March 31, 2003.

In 2002, 2001, and 2000, 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, 2002, 2001, and 2000 there were 123,800 units, 71,200 units and 40,300 units issued and outstanding, respectively. In conjunction with the acquisitions of Arris Interactive L.L.C. and Cadant, Inc., the Company issued approximately 345,000 shares of restricted stock, which are being amortized to compensation expense over two-year periods. In 2002, the Company issued a total of 30,000 shares of restricted stock to members of its newly formed Technical Advisory Board, which are being amortized to compensation expense over a two-year period. Compensation expense for the stock units and restricted stock discussed above was approximately $1.9 million, $1.1 million, and $1.0 million for the years ending December 31, 2002, 2001, 2000, respectively.

NOTE 15. EMPLOYEE BENEFIT PLANS

The Company sponsors two non-contributory defined benefit pension plans that cover 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 SFAS 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. Liabilities for amounts in excess of these funding levels are accrued and reported in the consolidated balance sheet.

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

	YEARS ENDED DECEMBER 31,	
	2002	2001
	(IN THOUSANDS)	
Change in Benefit Obligation:		
Benefit obligation at the beginning of year	$ 28,973	$ 17,851
Service cost	898	431
Interest cost	1,587	1,269
Plan amendment	--	3,955
Actuarial (gain) loss	(3,423)	2,207
Benefit payments	(310)	(329)
Settlements	(6,485)	--
Curtailment	(483)	3,589
Benefit obligation at end of year	$ 20,757	$ 28,973

	YEARS ENDED DECEMBER 31,	
	2002	2001
	(IN THOUSANDS)	
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 11,140	$ 11,513
Actual return on plan assets	(1,371)	(56)
Company contributions	6,585	11
Settlements	(6,485)	--
Benefits paid from plan assets	(310)	(328)

Fair value of plan assets at end of year.....	$ 9,559	$ 11,140
Funded Status:		
Funded status of plan.....	$(11,198)	$(17,833)
Unrecognized actuarial loss.....	1,279	1,486
Unamortized prior service cost.....	3,584	4,106
Minimum pension liability.....	(1,849)	--
Unfunded pension loss.....	(1,219)	--
(Accrued) benefit cost.....	$ (9,403)	$(12,241)

The settlement in 2002 represents the payment of the accrued benefit to a former participant of the plan. The plans' assets consist of corporate and government debt securities and equity securities. Net periodic pension cost for 2002, 2001 and 2000 for pension and supplemental benefit plans includes the following components (in thousands):

	2002	2001	2000
Service cost.....	$ 898	$ 431	$ 597
Interest cost.....	1,587	1,269	1,143
Return on assets (expected).....	(882)	(914)	(901)
Recognized net actuarial (gain) loss.....	(198)	(23)	(141)
Amortization of prior service cost.....	550	313	308
Net periodic pension cost.....	1,955	1,076	1,006
Additional pension (income) due to curtailment.....	(483)	3,589	(2,108)
Net periodic pension cost (income).....	$1,472	$4,665	$(1,102)

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

	2002	2001	2000
Assumed discount rate for active participants.....	6.75%	7.25%	7.75%
Assumed discount rate for inactive participants.....	6.5%	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 $2.0 million, $1.1 million and $1.1 million in 2002, 2001, and 2000, respectively. In conjunction with the Company's reorganization in August 2001, all the terms and conditions of the plan remain the same.

NOTE 16. SALES INFORMATION

A significant portion of ARRIS' revenue is derived from sales to Comcast (including AT&T Broadband) and Cox Communications. Sales to these two customers for 2002, 2001, and 2000 are set forth below:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Comcast (including AT&T Broadband)	$250.2	$245.6	$387.2
% of sales	38.4%	39.1%	51.8%
Cox Communications	$106.7	$110.9	$116.5
% of sales	16.4%	17.7%	15.6%

In the fourth quarter of 2002, Comcast completed its purchase of AT&T Broadband. AT&T Broadband was the Company's largest customer in terms of revenues in the first three quarters of 2002. AT&T Broadband, with the deployment of telephony as part of its core strategy, had been using ARRIS' CBR products in many of its major markets. Comcast has announced that as its initial priority after its acquisition of AT&T Broadband, it will emphasize video and high-speed data operations and focus on improving the profitability of its telephony operations at the expense of subscriber growth.

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 two product categories instead of the previous three categories: Broadband, and Supplies and Services. As a result of the sale of the Company's Keptel and Actives product lines in 2002, revenues from the remaining product lines within the former Transmission, Optical, and Outside Plant product category are now reported with the Supplies and Services product revenues. 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, 2002, 2001 and 2000, respectively were as follows (in thousands):

	BROADBAND	SUPPLIES AND SERVICES	TOTAL
Annual sales			
December 31, 2002	$449,703	$202,180	$651,883
December 31, 2001	$368,511	$259,812	$628,323
December 31, 2000	$312,310	$437,662	$749,972

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 primarily includes China, Hong Kong, Japan, Korea, and Singapore. The European market primarily includes Austria, Germany, France, Netherlands, Poland, Portugal, Romania, Spain, and Switzerland. The Latin American market primarily includes Argentina, the Bahamas, Chile, Colombia, Mexico, and Puerto Rico. Sales to international customers were approximately 22.6%, 11.4% and 4.3% of total sales for the years ended December 31, 2002, 2001 and 2000, respectively. International sales for the years ended December 31, 2002, 2001 and 2000 were as follows (in thousands):

	DECEMBER 31, 2002	DECEMBER 31, 2001	DECEMBER 31, 2000
International region			
Asia Pacific	$ 51,328	$ 20,484	$ 2,721
Europe	67,363	31,613	6,592
Latin America	20,266	14,125	19,789
Canada	8,387	5,679	3,308

Total international sales	147,344	71,901	32,410
Total domestic sales	504,539	556,422	717,562
Total sales	$651,883	$628,323	$749,972

Total identifiable international assets were immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 17. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following table summarizes ARRIS' quarterly consolidated financial information (in thousands, except share data). Quarters in 2002 and 2001 ended March 31, June 30, and September 30 are restated to comply with the reporting requirements of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

	QUARTERS IN 2002 ENDED			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
Net sales	$172,397	$176,502	$180,577	$122,407
Gross profit(10)(11)	58,231	60,479	65,217	42,725
Operating income (loss)(10)(12)(13)(14)	2,678	(16,491)	10,403	(82,328)
Income (loss) from continuing operations((7)(17)(18)	3,443	(27,032)	4,893	(95,717)
Income (loss) from discontinued operations(3)(12)(15)(16)	(5,377)	(13,682)	(1,406)	1,671
Net income (loss) before cumulative effect of accounting change	(1,934)	(40,714)	3,487	(94,046)
Net income (loss)(19)	$(59,894)	$(40,714)	$ 3,487	$(94,046)
Net (loss) per basic and diluted share:				
Income (loss) from continuing operations	$ 0.04	$ (0.33)	$ 0.06	$ (1.16)
Income (loss) from discontinued operations	(0.07)	(0.17)	(0.02)	0.02
Cumulative effect of accounting change	(0.72)	--	--	--
Net income (loss)	$ (0.75)	$ (0.50)	$ 0.04	$ (1.14)

	QUARTERS IN 2001 ENDED			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
Net sales	$178,248	$141,423	$ 146,521	$162,131
Gross profit(1)(3)(9)	31,350	25,413	38,374	53,523
Operating income (loss)(1)(3)(4)(8)	6,162	(1,059)	(28,484)	1,628
Income (loss) from continuing operations(5)(6)(7)	145	(5,150)	(75,137)	(3,116)
Income (loss) from discontinued operations(2)(3)(9)	(7,363)	(9,338)	(57,328)	(10,444)
Net income (loss) before cumulative effect of accounting change	(7,218)	(14,488)	(132,465)	(13,560)
Net income (loss)	$ (7,218)	$(14,488)	$(132,465)	$(13,560)
Net (loss) per basic and diluted share:				
Income (loss) from continuing operations	$ 0.00	$ (0.13)	$ (1.21)	$ (0.04)
Income (loss) from discontinued operations	(0.19)	(0.24)	(0.92)	(0.14)

Cumulative effect of accounting change	--	--	--	--
Net income (loss)	$ (0.19)	$ (0.38)	$ (2.13)	$ (0.18)

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(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 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 of which

all relates to and is classified in discontinued operations. The Company does not anticipate any further warranty expenses to be incurred in connection with this product.

(3) In the third quarter of 2001, in connection with the outsourcing of most of our manufacturing functions, the Company recorded pre-tax restructuring and impairment charges of approximately $66.2 million, of which approximately $50.1 million relates to and is classified in discontinued operations. Included in these charges was approximately $33.7 million related to the write-down of inventories and remaining warranty and purchase order commitments, of which approximately $8.6 million was reflected in cost of goods sold and $25.1 million was reflected in discontinued operations. Additional charges incurred were 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. Of these charges, approximately $7.5 million is reflected in restructuring expense and $25.0 million is reflected in discontinued operations. In 2002, the Company recorded an additional $2.4 million pre-tax charge to discontinued operations related to the 2001 restructuring.

(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 of 2001, unamortized deferred finance fees of $1.9 million were recorded as a 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. This charge was originally recorded as an extraordinary loss, but was reclassified to income (loss) from continuing operations in connection with the adoption in 2002 of SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

(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 SFAS No. 109, Accounting for Income Taxes. (See Note 4 of Notes to the Consolidated Financial Statements.)

(7) The Company recorded pre-tax losses of approximately $0.6 million and $0.8 million during the years ended December 31, 2002 and 2001, respectively, related to changes in market value of its trading securities.

The Company recorded a $1.0 million and $12.5 million charge to income

during the second quarter of 2002 and fourth quarter of 2002, respectively, on its available for sale securities as a result of market value declines considered by management to be other than temporary.

(8) 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.

(9) Due to the economic disturbances in Argentina, the Company recorded a write-off of $4.4 million related to unrecoverable inventory amounts due from a customer in that region during the fourth quarter of 2001, of which approximately $1.6 million relates to and is classified in discontinued operations, and $2.8 million is reflected in cost of goods sold.

(10) During 2002, the Company recorded severance charges related to general reductions in force of approximately $5.1 million, of which $1.1 million is reflected in cost of goods sold and $4.0 million is reflected in selling, general, administrative and development expenses.

(11) During 2002, ARRIS wrote off the remaining $2.1 million of power inventories that had not been transferred to the buyer. This charge is reflected in cost of goods sold.

(12) During the second quarter of 2002, the Company established a reserve of $20.2 million in connection with its Adelphia receivables of which approximately $1.3 million relates to and is classified in discontinued operations, and approximately $18.9 million is reflected in selling, general, administrative and development expenses. Adelphia filed for bankruptcy in June 2002. During the third quarter of

2002, the Company sold a portion of its Adelphia accounts receivables to an unrelated third party, resulting in a net gain of approximately $4.3 million. Of this total gain, approximately $0.3 million relates to and is classified in discontinued operations, and $4.0 million is reflected in selling, general and administrative and development expense.

(13) During the fourth quarter of 2002, based upon management's analysis including an independent valuation, the Company recorded a goodwill impairment charge of $70.2 million with respect to our supplies and services product line.

(14) During the fourth quarter of 2002, a restructuring charge of approximately $7.1 million was recorded in connection with the closure of our development and repair facility in Andover, Massachusetts.

(15) During the second quarter of 2002, a loss of $8.5 million was recorded in connection with the sale of the Keptel product line and is classified in discontinued operations. During the fourth quarter of 2002, the Company reduced this loss by $2.4 million as a result of the resolution of certain estimated costs associated with the sale.

(16) During the fourth quarter of 2002, a gain of $2.2 million was recorded in connection with the sale of the Actives product line and is classified in discontinued operations.

(17) During the second quarter of 2002, the Company recorded a loss of approximately $9.3 million associated with the 4 1/2% note exchanges, in accordance with SFAS No. 84. This loss was partially offset with a gain of $2.0 million recorded in the fourth quarter of 2002, related to cash repurchases of the 4 1/2% notes, which was classified in continuing operations in accordance with SFAS No. 145.

(18) During the first quarter of 2002, the Company recorded a $6.8 million income tax benefit as a result of a change in tax legislation, allowing

ARRIS to carry back losses for five years versus the previous limit of two years.

(19) The Company posted a goodwill impairment loss of approximately $58.0 million in the first quarter of 2002, due to the cumulative effect of an accounting change in accordance with SFAS No. 142 and upon management's analysis of its intangibles including an independent valuation.

NOTE 18. BUSINESS ACQUISITIONS

ACQUISITION OF ARRIS INTERACTIVE L.L.C.

On August 3, 2001, ARRIS 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 Networks 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 believes that the growth prospects for conveyed telecommunications networks offering cable telephony and high speed are significant, and that the transaction enables the combined company to acquire new products or technology to expand ARRIS' total product offering. Immediately prior to the acquisition the Company owned 18.75% and Nortel Networks owned the remainder. As part of this transaction:

- A new holding company, ARRIS, was formed;

- ANTEC, its predecessor, merged with its subsidiary and the outstanding ANTEC common stock was converted, on a share-for-share basis, into ARRIS common stock;

- Nortel Networks 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 Networks exchanged its remaining ownership interest in Arris Interactive for 37.0 million shares of ARRIS common stock (approximately 49.2% of the total shares outstanding following the transaction) and a subordinated redeemable Class B interest in Arris Interactive with a face amount of $100 million;

- ANTEC, now the Company's wholly-owned subsidiary, changed its name to Arris International, Inc.;

- Nortel Networks designated two new members to the Company's board of directors;

- The Company issued approximately 2.1 million options and 95,000 shares of restricted stock to Arris Interactive employees

In connection with this transaction, the Company entered into an agreement with Nortel Networks whereby it paid Nortel Networks an agency fee of approximately, on average, 10% for all sales of Arris Interactive legacy products made to certain domestic and international customers. This agreement for domestic agency fees expired December 31, 2001. The agreement for international agency fees was terminated on December 6, 2002.

The Class B 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 9 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 were specific risks associated with this in-process technology. As the MSAS had a unique capability to perform hardware sparing through its functionality via use of a radio frequency switching matrix, there was 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 were 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 was dependent on a third party for reference design software critical to this product. Since development of this reference design software was currently in

process at the time of valuation, the ordinary risks associated with the completion and timely delivery of the software were 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. The Packet Port II project was completed in 2002.

The following table identifies specific assumptions for the projects, at the acquisition date, 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 was anticipated that the acquired in-process technologies would yield similar prices and margins that had 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.

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 provides significant product and technology extensions to complement its broadband product offerings and 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. These targets were not met as of January 8, 2003, and therefore, no further shares were issued.

The following is a summary of the 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.

	(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)	874
Fair value of stock options to Cadant, Inc. employees	12,760
Assumption of certain liabilities of Cadant, Inc.	14,955
Adjusted purchase price	$84,402
Allocation of Purchase Price:	
Net tangible assets acquired	$ 5,063
Existing technology (to be amortized over 3 years)	53,000
Goodwill (not deductible for income tax purposes)	26,339
Total allocated purchase price	$84,402

SUPPLEMENTAL PRO FORMA INFORMATION

Presented below is summary unaudited pro forma combined financial information for the Company, Arris Interactive L.L.C. and Cadant, Inc. to give effect to the transactions. This summary unaudited pro forma combined financial information is derived from the historical financial statements of the Company, Arris Interactive L.L.C. and Cadant, Inc. This information assumes the transactions were consummated at the beginning of the applicable period. This information is presented for illustrative purposes only and does not purport to represent what the financial position or results of operations of the Company, Arris Interactive L.L.C., Cadant, Inc., or the combined entity would actually have been had the transactions occurred at the applicable dates, or to project the Company's, Arris Interactive L.L.C.'s, Cadant, Inc.'s or the combined entity's results of operations for any future period or date. The actual results of Arris Interactive L.L.C. are included in the Company's operations from August 4, 2001 to December 31, 2002. The actual results of Cadant, Inc. are included in the Company's operations from January 8, 2002 to December 31, 2002.

	(UNAUDITED) YEARS ENDED DECEMBER 31,	
	2002	2001
	(IN THOUSANDS, EXCEPT FOR EARNINGS PER SHARE DATA)	
Net sales	$ 651,883	$ 670,174
Gross profit	226,652	173,927
Operating income (loss) (1)	(86,475)	(112,148)
Income (loss) before income taxes	(121,950)	(140,408)
Income (loss) from continuing operations	(115,150)	(175,996)

Income (loss) from discontinued operations	(18,794)	(84,472)
Net income (loss) before cumulative effect of accounting change	(133,944)	(260,468)
Net income (loss)	(191,904)	(260,468)
Net income (loss) per common share:		
Basic and diluted	$ (2.34)	$ (3.23)
Weighted average common shares:		
Basic and diluted	82,049	80,669

(1) In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is no longer amortized, but reviewed annually for impairment. The provisions of SFAS 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 these transactions.

The following table represents the amount assigned to each major asset and liability caption of Arris Interactive L.L.C. as of August 3, 2001 and Cadant, Inc. as of January 8, 2002, as adjusted:

	AS OF ACQUISITION DATE (IN THOUSANDS)	
	ARRIS INTERACTIVE L.L.C.	CADANT, INC.
Total current assets	$179,909	$ 782
Property, plant and equipment, net	$ 23,209	$ 4,281
Goodwill	$124,926	$26,339
Intangible assets (existing technology)	$ 51,500	$53,000
Total assets	$379,544	$84,402
Total current and long-term liabilities	$ 67,208	$14,955
Total liabilities and membership interest	$167,208	$14,955

NOTE 19. SUBSEQUENT EVENTS

REDEMPTION OF CONVERTIBLE SUBORDINATED NOTES DUE 2003

Between January 1, 2003 and March 10, 2003, the Company purchased approximately $12.4 million of its 4 1/2% convertible subordinated notes due 2003 in exchange for cash. No gain or loss was recognized on these purchases. As of March 10, there were approximately $11.5 million of the 4 1/2% convertible subordinated notes due 2003 outstanding.

CABOVISAO DEVELOPMENTS

As of March 10, 2003, Cabovisao, a Portugual-based customer owed ARRIS approximately 18.6 million euros in accounts receivable, a substantial portion of which was past due. On October 17, 2002, the parent company of Cabovisao, CSii, issued an announcement that suggested it may have difficulty in accessing or refinancing its senior credit facility in the future. On February 3, 2003, CSii announced that it had obtained an extension of the maturity date of its credit facility to February 28, 2003, and that it was continuing negotiations with respect to a long term financing solution. On March 1, 2003, CSii announced that it had formed a special committee of its board of directors to review and evaluate alternatives to meet the financial needs of CSii and Cabovisao, including: debt restructuring, recapitalization, capital infusion, court supervised restructuring. The Company is uncertain what effect, if any, these developments will have on its existing accounts receivable or future

relationship with Cabovisao.

AMENDMENT TO CREDIT FACILITY

On March 11, 2003, ARRIS amended its credit facility to permit the Company to issue up to $125.0 million of subordinated convertible notes due 2008, to use the proceeds of such notes to redeem the Class B membership interest in Arris Interactive held by Nortel Networks and to purchase shares of the ARRIS common stock held by Nortel Networks, subject to certain limitations. The amendment also reduced the revolving loan commitments to $115.0 million.

CONVERTIBLE SUBORDINATED NOTE OFFERING

On March 18, 2003, the Company issued a $125.0 million of convertible subordinated notes due 2008. The convertible subordinated notes will pay interest semi-annually based on an annual rate of 4.5%. The conversion rate is equivalent to $5.00 per share. The Company used approximately $88.4 million of the proceeds from the issuance, including the reduction in the forgiveness of the Class B membership interest, to redeem the Class B membership interest in Arris Interactive held by Nortel Networks. On March 24, 2003, the Company used approximately $28.0 million of the proceeds of the issuance to repurchase and retire 8 million shares of our common stock held by Nortel Networks at a discount.

REDEMPTION OF CLASS B MEMBERSHIP INTEREST HELD BY NORTEL NETWORKS

In connection with the acquisition of Arris Interactive in August 2001, Nortel Networks exchanged its remaining ownership interest in Arris Interactive for 37 million shares of ARRIS common stock and a subordinated redeemable Class B membership interest in Arris Interactive with a face amount of $100.0 million. The Class B membership interest earned an accreting non-cash return of 10% per annum, compounded annually, and was redeemable in approximately four quarterly installments commencing February 3, 2002, provided that certain availability and other tests are met under the Company's Credit Facility. Those tests were not met. The balance of the Class B membership interest as of December 31, 2002 was approximately $114.5 million. In June 2002, ARRIS entered into an option agreement with Nortel Networks that permitted ARRIS to redeem the Class B membership interest in Arris Interactive at a discount of 21% prior to June 30, 2003. To further induce the Company to redeem the Class B membership interest, Nortel Networks offered to forgive approximately $5.9 million of the earnings on the Class B membership interest if ARRIS redeemed it prior to March 31, 2003. The Company used approximately $88.4 million, including the reduction in the forgiveness of the Class B membership interest, of the proceeds of the March 2003 offering of its 4 1/2% convertible subordinated notes due 2008 to redeem the Class B membership interest, at a $28.5 million discount.

REPURCHASE OF SHARES HELD BY NORTEL NETWORKS

Of the 37 million shares of ARRIS common stock that Nortel Networks received in 2001, it sold 15 million in a registered public offering in June 2002. In order to reduce its holdings further, in March 2003 Nortel Networks granted the Company an option to purchase up to 16 million shares at a 10% discount to market, subject to a minimum purchase price of $3.50 per share for 8 million shares and $4.00 per share for the remainder. In addition, to the extent that the Company purchases shares at a price of less than $4.00 per share, it is obligated to return to Nortel Networks a portion of the return that was forgiven with respect to the Class B membership interest, up to a maximum of $2.0 million. Pursuant to this option, on March 24, 2003, the Company purchased and retired 8 million shares for an aggregate purchase price of $28.0 million. The Company has not decided when or whether it will exercise the remainder of the option.

ACQUISITION OF ATOGA SYSTEMS

On March 21, 2003, the Company purchased certain assets of Atoga Systems, a Fremont, California-based of optical transport systems for metropolitan area networks. Under the terms of the agreement, ARRIS obtained certain inventory, fixed assets, and intellectual property in consideration for approximately $0.5 million of cash and the assumption of certain lease obligations. Further, the Company retained approximately 30 employees and issued a total of 500,000 shares of restricted stock to those employees.

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 2003 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 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.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to our company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Exchange Act.

(b) Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect such controls.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) EXHIBITS.

The exhibits listed below in Item 15(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.

On October 3, 2002, we filed a report on Form 8-K relating to Item 5, Other Events and Item 7, Financial Statements, Pro Forma Financial Information and Exhibits, to describe the Rights Agreement, dated October 3, 2002.

On October 10, 2002, we filed a report on Form 8-K relating to Item 5, Other Events and Item 7, Financial Statements, Pro Forma Financial Information and Exhibits, to disclose the fifth amendment to our credit agreement, dated September 30, 2002.

On November 15, 2002, we filed a report on Form 8-K relating to Item 5, Other Events and Item 7, Financial Statements, Pro Forma Financial Information and Exhibits, to announce the definitive agreement to sell our transmission, optical, and outside plant product lines.

ITEM 15(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.

FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statement schedule of ARRIS is included in Item 15(a) 2 pursuant to paragraph (d) of Item 15:

Schedule II -- Valuation and Qualifying Accounts

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

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	RESERVES FROM ACQUISITION	CHARGE TO EXPENSES	DEDUCTIONS(1)	BALANCE AT END OF PERIOD
			(IN THOUSANDS)		
YEAR ENDED DECEMBER 31, 2002					
Reserves and allowance deducted from asset accounts:					
Allowance for uncollectible accounts	$ 9,409	$ --	$29,744	$28,455	$10,698
Reserve for obsolescence and excess inventory(2)	$23,373	$ --	$10,697	$19,152	$14,918
YEAR ENDED DECEMBER 31, 2001					
Reserves and allowance deducted from asset accounts:					
Allowance for uncollectible Accounts	$ 6,686	$ 2,046	$ 5,820	$ 5,143	$ 9,409
Reserve for obsolescence and excess inventory(2)	$20,000	$14,704	$16,540	$27,871	$23,373
YEAR ENDED DECEMBER 31, 2000					
Reserves and allowance deducted from asset accounts:					
Allowance for uncollectible Accounts	$ 7,505	$ --	$ 1,117	$ 1,936	$ 6,686
Reserve for obsolescence and excess inventory(2)	$20,852	$ --	$18,480	$19,332	$20,000

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(1) Uncollectible accounts written off, net of recoveries

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

ITEM 15(A)3. EXHIBIT LIST

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

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	THE FILINGS REFERENCED FOR INCORPORATION BY REFERENCE ARE ARRIS (FORMERLY KNOWN AS BROADBAND PARENT, INC.) FILINGS UNLESS OTHERWISE NOTED
3.1	Amended and Restated Certificate of Incorporation	Registration Statement #333-61524, Exhibit 3.1.
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation	August 3, 2001 Form 8-A, Exhibit 3.2.
3.3	By-laws	Registration Statement #333-61524, Exhibit 3.2, filed by Broadband Parent Corporation

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	THE FILINGS REFERENCED FOR INCORPORATION BY REFERENCE ARE ARRIS (FORMERLY KNOWN AS BROADBAND PARENT, INC.) FILINGS UNLESS OTHERWISE NOTED
4.1	Form of Certificate for Common Stock	Registration Statement #333-61524, Exhibit 4.1.
4.2	Rights Agreement dated October 3, 2002	October 3, 2002 Form 8-K Exhibit 4.1
4.3	Indenture dated March 18, 2003	Filed herewith.
10.1	Credit Agreement, dated August 3, 2001	August 3, 2001 Form 8-K, Exhibit 10.1.
10.1(a)	First Amendment to Credit Agreement dated January 8, 2002	December 31, 2001 Form 10-K,

		Exhibit 10.1(a).
10.1(b)	Second Amendment to Credit Agreement dated April 19, 2002.....	March 31, 2002 Form 10-Q, Exhibit 10.1(b).
10.1(c)	Third Amendment to Credit Agreement dated April 24, 2002.....	March 31, 2002 Form 10-Q, Exhibit 10.1(c).
10.1(d)	Fourth Amendment to Credit Agreement dated May 31, 2002.....	June 7, 2002 Form 8-K, Exhibit 10.1.
10.1(e)	Acknowledgment from Lenders, dated June 25 2002....	June 30, 2002 Form 10-Q, Exhibit 10.1(e).
10.1(f)	Fifth Amendment to Credit Agreement dated September 30, 2002.....	September 30, 2002 Form 8-K, Exhibit 10.1.
10.1(g)	Sixth Amendment to Credit Agreement dated November 21, 2002.....	November 21, 2002 Form 8-K, Exhibit 10.1.
10.1(i)	Limited Waiver to Credit Agreement dated December 5, 2002.....	November 21, 2002 Form 8-K, Exhibit 10.2.
10.1(h)	Seventh Amendment to Credit Agreement dated January 2, 2003.....	November 21, 2002 Form 8-K, Exhibit 10.3.
10.1(j)	Eighth Amendment to Credit Agreement dated March 11, 2003.....	March 11, 2003 Form 8-K, Exhibit 10.1
10.2	Second Amended and Restated Investor Rights Agreement Dated June 7, 2002.....	June 7, 2002 Form 8-K Exhibit 10.3.
10.2(a)	Option Agreement Dated June 7, 2002.....	June 7, 2002 Form 8-K Exhibit 10.2.
10.2(b)	Letter Agreement with Nortel Networks dated March 11, 2003.....	March 11, 2003 Form 8-K, Exhibit 10.2.
10.3	(Nortel Networks) Registration Rights Agreement....	August 3, 2001 Form 8-K, Exhibit 10.3.

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	THE FILINGS REFERENCED FOR INCORPORATION BY REFERENCE ARE ARRIS (FORMERLY KNOWN AS BROADBAND PARENT, INC.) FILINGS UNLESS OTHERWISE NOTED
10.3(a)	Letter Agreement with Nortel Networks dated March 11, 2003.....	March 11, 2003 Form 8-K, Exhibit 10.4.
10.4	(Liberty Media) Registration Rights Agreement.....	Filed herewith.
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	March 31, 2002, Form 10-Q, Exhibit 10.9.
10.10*	Consulting Agreement dated February 1, 1998 for James L. Faust	December 31, 1998 Form 10-K, Exhibit 10.14, filed by ANTEC Corporation.
10.11*	Stock Option Agreement with William H. Lambert dated March 14, 1994	April 30, 1994 TSX Corporation Form 10-K, Exhibit 10(A)(1)(3)

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT	THE FILINGS REFERENCED FOR INCORPORATION BY REFERENCE ARE ARRIS (FORMERLY KNOWN AS BROADBAND PARENT, INC.) FILINGS UNLESS OTHERWISE NOTED
10.12*	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.
10.13*	Management Incentive Plan	July 2, 2001 Appendix IV of Proxy Statement filed as part of Registration Statement #333-61524, filed by Broadband Parent Corporation.
10.14	Solectron Manufacturing Agreement and Addendum	December 31, 2001 Form 10-K, Exhibit 10.15.
10.15	Mitsumi Agreement	December 31, 2001 Form 10-K, Exhibit 10.16.
10.16*	Form of Employment Agreement with Ronald M. Coppock	December 31, 2001 Form 10-K, Exhibit 10.17.
10.17	Keptel, Inc. Asset Purchase Agreement	March 31, 2002 Form 10-Q, Exhibit 10.18.
10.18	Actives Purchase Agreement dated November 13, 2002	Filed herewith.
10.19*	Employment Agreement with James D. Lakin and Supplement dated August 5, 2001	Filed herewith.
10.20*	Employment Agreement with David B. Potts dated August 5, 2001	Filed herewith.
10.21	Settlement and Release Agreement dated March 11, 2003	March 11, 2003 Form 8-K, Exhibit 10.3
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of Ernst & Young LLP	Filed herewith.
24	Powers of Attorney	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 26, 2003

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.

	Chairman and Director	
John M. Egan		
/s/ ROBERT J. STANZIONE	President, Chief Executive Officer and Director	March 26, 2003
Robert J. Stanzione		
/s/ LAWRENCE A. MARGOLIS	Executive Vice President, Chief Financial Officer	March 26, 2003
Lawrence A. Margolis		
/s/ DAVID B. POTTS	Senior Vice President of Finance, Chief Information Officer	March 26, 2003
David B. Potts		
/s/ ALEX B. BEST*	Director	March 26, 2003
Alex B. Best		
/s/ HARRY L. BOSCO*	Director	March 26, 2003
Harry L. Bosco		
/s/ JOHN IAN ANDERSON CRAIG*	Director	March 26, 2003
John Ian Anderson Craig		
	Director	
Randy K. Dodd		
/s/ JAMES L. FAUST*	Director	March 26, 2003
James L. Faust		
/s/ MATTHEW B. KEARNEY*	Director	March 26, 2003
Matthew B. Kearney		
	Director	
William H. Lambert		
/s/ JOHN R. PETTY*	Director	March 26, 2003
John R. Petty		

/s/ LARRY ROMRELL*	Director	March 26, 2003
Larry Romrell		
	Director	
Bruce Van Wagner		

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

CERTIFICATION PURSUANT TO SEC. 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Stanzione, certify that:

1. I have reviewed this annual report on Form 10-K of ARRIS Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ ROBERT J. STANZIONE

Robert J. Stanzione
President and Chief Executive Officer

CERTIFICATION PURSUANT TO SEC. 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lawrence A. Margolis, certify that:

1. I have reviewed this annual report on Form 10-K of ARRIS Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ LAWRENCE A. MARGOLIS

Lawrence A. Margolis
Executive Vice President, Chief Financial Officer and Secretary

EXECUTION COPY

EXHIBIT 4.3

ARRIS GROUP, INC.,

ISSUER,

AND

THE BANK OF NEW YORK,

TRUSTEE

INDENTURE

Dated as of March 18 , 2003

$125,000,000 Principal Amount

4 1/2% Convertible Subordinated Notes due 2008

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INDENTURE, dated as of March 18, 2003, between Arris Group, Inc., a Delaware corporation (the "Company"), and The Bank of New York, a New York banking corporation, as trustee (the "Trustee").

Each party hereto agrees 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 2008:

ARTICLE I

DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1 Definitions.

"Affiliate" means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. For purposes of this definition, the terms "control," "controlling" and "controlled" mean the power to direct the management and policies of a Person, directly or through one or more intermediaries, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" means the Trustee and any Registrar, Paying Agent, co-Registrar, authenticating agent or Securities Custodian.

"Bankruptcy Law" means Title 11, U.S. Code, or any similar federal, state or foreign law for the relief of debtors.

"Beneficial Owner" for purposes of the definition of Change of Control has the meaning attributed to it in Rules 13d-3 and 13d-5 under the Exchange Act, whether or not applicable.

"Board of Directors" means, with respect to any Person, the Board of Directors of such person or any committee of the Board of Directors of such Person authorized, with respect to any particular matter, to exercise the power of the Board of Directors of such person.

"Board Resolution" means, with respect to any Person, a duly adopted resolution of the Board of Directors of such person.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

"Capital Stock" means, with respect to any Person, any and all shares, interests, rights to purchase (other than convertible or exchangeable Indebtedness), warrants, options,

participations or other equivalents of or interests (however designated) in stock issued by that Person.

"Capitalized Lease Obligation" means, as to any Person, the obligation of such Person to pay rent or other amounts under a lease to which such Person is a party that is required to be classified and accounted for as a capital lease obligation under GAAP.

"Cash" means such coin or currency of the United States of

America as at the time of payment shall be legal tender for the payment of public and private debts.

"Change of Control" means (i) an event or series of events as a result of which any "person" or "group" (as such terms are used in Sections 13(d)(3) and 14(d) of the Exchange Act) (excluding the Company or any wholly owned Subsidiary thereof or any employee benefit plan of the Company or those of any such Subsidiary) is or becomes, directly or indirectly, the Beneficial Owner of more than 50% of the Voting Stock, (ii) the completion of any consolidation or merger of the Company with or into any other Person, or sale, conveyance, transfer or lease by the Company of all or substantially all of its assets to any Person, or any merger of any other Person into the Company in a single transaction or series of related transactions, and, in the case of any such transaction or series of related transactions, the outstanding Common Stock of the Company is changed or exchanged as a result, unless the shareholders of the Company immediately before such transaction own, directly or indirectly, immediately following such transaction, at least a majority of the combined voting power of the outstanding voting securities of the Person resulting from such transaction in substantially the same proportion as their ownership of the Voting Stock immediately before such transaction, or (iii) such time as the Continuing Directors do not constitute a majority of the Board of Directors of the Company (or, if applicable, a successor corporation to the Company).

"Common Stock" means the Company's common stock, $0.01 par value per share, or as such stock may be reconstituted from time to time.

"Company" means the party named as such in the introductory paragraph to this Indenture until a successor replaces it pursuant to this Indenture, and thereafter means such successor.

"Continuing Director" means at any date a member of the Company's Board of Directors (i) who was a member of such board on the Issue Date or (ii) who was nominated or elected by at least a majority of the directors who were Continuing Directors (as described in clause (i) hereto) at the time of such nomination or election or whose election to the Company's Board of Directors was recommended or endorsed by at least a majority of the directors who were Continuing Directors (as described in clause (i) hereto) at the time of such nomination or election.

"Conversion Agent" means any Person authorized by the Company to convert Securities in accordance with Article XIII. The Company has initially appointed the Trustee as its Conversion Agent.

"Conversion Price" shall have the meaning specified in Section 13.4.

"Conversion Shares" shall have the meaning specified in Section 13.5(l).

"Corporate Trust Office" means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the dated hereof is located at 101 Barclay Street, Floor 8 West, New York, New York 10286, Attention: Corporate Trust Administration, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Holders and the Company).

"Credit Facility" shall mean that certain Credit Agreement, dated as of August 3, 2001, among Arris International, Inc., Arris Interactive L.L.C., and certain subsidiaries of Arris International, Inc., as borrowers; the various lenders party thereto; the CIT Group/Business Credit, Inc., as administrative agent and collateral agent; and Credit Suisse First Boston, as

syndication agent, lead arranger and book running manager, as such agreement may be amended, restated, modified, renewed, refunded, replaced or refinanced from time to time thereafter, including any notes, guaranties, security or pledge agreements, letters of credit and other documents or instruments executed pursuant thereto and any exhibits or schedules to any of the foregoing, as the same may be in effect from time to time, in each case, as such agreements may be amended, modified, supplemented, renewed, refunded, replaced, refinanced (including increasing the amount of available borrowings thereunder or adding additional Subsidiaries of the Company as additional and/or replacement borrowers or guarantors), extended or restated from time to time (whether with the original agents and lenders or other agents and lenders or otherwise, and whether provided under the original credit agreement or other credit agreements or otherwise), including any appendices, exhibits or schedules to any of the foregoing.

"Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

"Date of Conversion" shall have the meaning specified in Section 13.2.

"Default" means any event or condition that is, or after notice or passage of time or both would be, an Event of Default.

"Defaulted Interest" shall have the meaning specified in Section 2.12.

"Definitive Securities" means Securities that are in the form of Security attached hereto as Exhibit A that do not include the information called for by footnotes 1 and 3 thereof.

"Depositary" shall mean, with respect to the Securities issuable or issued in whole or in part in global form, The Depository Trust Company, until a successor, registered under the Exchange Act or other applicable statute or regulation, shall have been appointed and become such pursuant to the applicable provision of this Indenture, and, thereafter, "Depositary" shall mean or include such successor.

"Designated Senior Indebtedness" means (i) any Indebtedness outstanding under the Credit Facility and (ii) any other Senior Indebtedness, the principal amount of which is $10 million or more and that has been designated by the Company as "Designated Senior Indebtedness" (it being expressly understood, however, that on the Issue Date, the Credit Facility prohibits the Company from designating any Indebtedness other than Indebtedness evidenced by the Credit Facility as "Designated Senior Indebtedness").

"Disqualified Capital Stock" means, with respect to the Company, Capital Stock of the Company that, by its terms or by the terms of any security into which it is convertible, exercisable or exchangeable, is, or upon the happening of an event or the passage of time would be, required to be redeemed or repurchased (including at the option of the holder thereof) by the Company, in whole or in part, on or prior to the Stated Maturity of the Notes, provided that only the portion of such Capital Stock which is so convertible, exercisable, exchangeable or redeemable or subject to repurchase prior to such Stated Maturity shall be deemed to be Disqualified Capital Stock.

"Distribution Date" shall have the meaning specified in Section 13.5(1).

"Event of Default" shall have the meaning specified in Section 6.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC thereunder.

"Expiration Time" shall have the meaning specified in Section 13.5(f).

"GAAP" means United States generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession which are in effect in the United States; provided, however, that for purposes of determining compliance with covenants in the Indenture, "GAAP" means such generally accepted accounting principles which are in effect as of the Issue Date.

"Global Security" means a Security that contains the paragraph referred to in footnote 1 and the additional schedule referred to in footnote 3 to the form of Security attached hereto as Exhibit A.

"Holder" or "Securityholder" means the person in whose name a Security is registered on the Registrar's books.

"Indebtedness" of any person means, without duplication, (a) all liabilities and Obligations, contingent or otherwise, of any such Person, (i) in respect of borrowed money including, without limitation, Senior Indebtedness (whether or not the lender has recourse to all or any portion of the assets of such Person), (ii) evidenced by credit or loan agreements, bonds, notes, debentures or similar instruments (including, without limitation, notes or similar instruments given in connection with the acquisition of any business, properties or assets of any kind), (iii) evidenced by bankers' acceptances or similar instruments issued or accepted by banks, (iv) for the payment of money relating to a Capitalized Lease Obligation, or (v) evidenced by a letter of credit, bank guarantee or a reimbursement obligation of such Person with respect to any letter of credit; (b) all obligations of such Person issued or assumed as the deferred purchase price of property or services (but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business); (c) all net obligations of such person under Interest Swap and Hedging Obligations; (d) all liabilities of others of the kind described in the preceding clauses (a), (b) or (c) that such Person has guaranteed or that is otherwise its legal liability, or which is secured by a lien on property of such Person, and all obligations to purchase, redeem or acquire any Capital Stock; and (e) any and all deferrals, renewals, extensions, modifications, replacements, restatements, refinancings and refundings (whether direct or indirect) of, or any indebtedness or obligation issued in exchange for, any liability of the kind described in any of the preceding clauses (a), (b), (c) or (d), or this clause (e), whether or not between or among the same parties.

"Indenture" means this Indenture, as amended or supplemented from time to time in accordance with the terms hereof.

"Initial Purchaser" means CIBC World Markets Corp.

"Interest Make-Whole Payment" means, with respect to any Security on any applicable Redemption Date, the present value (which the Company shall cause to be calculated and provided to the Trustee) at such Redemption Date of the aggregate amount all required interest payments due on the Security through the third anniversary of the Issue Date, computed using a discount rate equal to the Treasury Rate as of the applicable Redemption Notice Date.

"Interest Payment Date" means the stated due date of an installment of interest on the Securities.

"Interest Swap and Hedging Obligation" means the obligations of any Person under any interest rate or currency protection agreement, future agreement, option agreement, swap agreement, cap agreement or other interest

rate or currency hedge agreement, collar agreement or other similar agreement or arrangement to which such Person is a party or beneficiary.

"Issue Date" means March 18, 2003.

"Junior Securities" means any Qualified Capital Stock of the Company and any Indebtedness of the Company, in each case that is fully subordinated to all Senior Indebtedness (and any equity and debt securities issued in exchange for Senior Indebtedness) to substantially the same extent as, or to a greater extent than, the Notes are subordinated to Senior Indebtedness pursuant to the Indenture.

"Last Sale Price" shall have the meaning specified in Section 13.3.

"Legal Holiday" shall have the meaning specified in Section 14.7.

"Lien" means any mortgage, lien, pledge, charge, security interest or other encumbrance of any kind, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement and any lease deemed to constitute a security interest and any option or other agreement to give any security interest).

"Liquidated Damages" shall have the meaning specified in the Registration Rights Agreement. The aggregate amount of all Liquidated Damages shall not exceed 200 basis points per annum at any time.

"Non-electing Share" shall have the meaning specified in Section 13.6.

"Non-Payment Default" shall have the meaning specified in Section 12.2(b).

"Notice of Default" shall have the meaning specified in Section 6.1(3), (4) or (5).

"Obligations" means all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Offer" shall have the meaning specified in Section 13.5(f).

"Offering Circular" means the final Offering Circular, dated as of March 12, 2003, in connection with which the Securities were offered and sold by the Company.

"Officer" means, with respect to the Company, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, the Controller, or the Secretary or the Assistant Secretary of the Company.

"Officers' Certificate" means, with respect to the Company, a certificate signed by two Officers of the Company and otherwise complying with the requirements of Section 2.2, if applicable, and Sections 14.4 and 14.5.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee and which complies with the requirements of Sections 14.4 and 14.5.

"Paying Agent" shall have the meaning specified in Section 2.3.

"Payment Blockage Period" shall have the meaning specified in Section 12.2(b).

"Payment Default" shall have the meaning specified in Section 12.2(a).

"Payment Notice" shall have the meaning specified in Section 12.2(b).

"Person" or "person" means any corporation, individual, limited liability company, joint stock company, joint venture, partnership, unincorporated association, governmental regulatory entity, country, state or political subdivision thereof, trust, municipality or other entity.

"Principal" of any Indebtedness means the principal of such Indebtedness plus, without duplication, any applicable premium, if any, on such Indebtedness.

"property" means any right or interest in or to property or assets of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Purchase Agreement" means that certain Purchase Agreement, dated March 12, 2003, by and among the Company and the Initial Purchaser, as such agreement may be amended from time to time.

"Purchased Shares" shall have the meaning specified in Section 13.5(f).

"Qualified Capital Stock" means any Capital Stock of the Company that is not Disqualified Capital Stock.

"Record Date" means a record date specified in the Securities whether or not such record date is a Business Day.

"Redemption" shall have the meaning specified in Section 3.1.

"Redemption Date," shall have the meaning specified in Section 3.1.

"Redemption Notice Date" shall have the meaning specified in Section 3.1.

"Redemption Price," shall have the meaning specified in Section 3.1.

"Registrar" shall have the meaning specified in Section 2.3.

"Registration Rights Agreement" means the Registration Rights Agreement, dated the date hereof, by and among the Initial Purchaser and the Company, as such agreement may be amended, modified or supplemented from time to time in accordance with the terms thereof.

"Representative" means the trustee, agent or representative in respect of any Designated Senior Indebtedness; provided that if, and for so long as, any Designated Senior Indebtedness lacks such a representative, then the Representative for such Designated Senior Indebtedness shall at all times constitute the holders of a majority in outstanding principal amount of such Designated Senior Indebtedness.

"Repurchase Date" shall have the meaning specified in Section

11.1(a).

"Repurchase Offer" shall have the meaning specified in Section 11.1(b).

"Repurchase Price" shall have the meaning specified in Section 11.1(a).

"Repurchase Put Date" shall have the meaning specified in Section 11.1(b).

"Restricted Security" means a Security, unless or until it has been (i) disposed of in a transaction effectively registered under the Securities Act or (ii) distributed to the public pursuant to Rule 144 (or any similar provision then in force) under the Securities Act.

"SEC" means the Securities and Exchange Commission.

"Securities" means, collectively, the 4 1/2% Convertible Subordinated Notes due 2008, as supplemented from time to time in accordance with the terms hereof, issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

"Securities Custodian" means the Trustee, as Custodian with respect to the Securities in global form, or any successor entity thereto.

"Senior Indebtedness" means all Obligations of the Company to pay the principal of, premium, if any, interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding at the rate provided for in the documentation with respect thereto, whether or not a claim for post-petition interest is allowed as a claim in any such proceeding) and rent payable on or in connection with, and all letters of credit, reimbursement obligations and fees, costs, expenses and other amounts and liabilities accrued or due on or in connection with the Credit Facility and any other Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed, guaranteed or in effect guaranteed by the Company, unless the instrument creating or evidencing such Indebtedness expressly provides that such Indebtedness is not senior or superior in right of payment to the Securities or is pari passu with, or subordinated to, the Securities; provided that in no event shall Senior Indebtedness include (a) Indebtedness of the Company owed or owing to any Subsidiary of the Company, (b) Indebtedness of the Company representing or with respect to any account payable or other accrued current liability or obligation incurred in the ordinary course of business in

connection with the obtaining of materials or services, (c) any liability for taxes owed or owing by the Company or any Subsidiary of the Company, or (d) the Securities.

"Shareholder Rights Plan" shall have the meaning specified in Section 13.5(l).

"Shelf Registration Statement" shall have the meaning specified in the Registration Rights Agreement.

"Significant Subsidiary" means any Subsidiary which is a "significant subsidiary" of the Company within the meaning of Rule 1-02(w) of Regulation S-X promulgated by the Commission as in effect as of the date of the Indenture.

"Special Record Date" for payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 2.12.

"Stated Maturity," when used with respect to any Security, means March 15, 2008.

"Subordinated Obligations" shall have the meaning set specified in Section 12.2(a).

"Subsidiary" with respect to any Person, means (i) a corporation a majority of whose Capital Stock with voting power normally entitled to vote in the election of directors is at the time, directly or indirectly, owned by such Person, by such Person and one or more Subsidiaries of such Person or by one or more Subsidiaries of such Person, (ii) a partnership in which such Person or a Subsidiary of such Person is, at the time, a general partner and owns alone or together with one or more Subsidiaries of such Person a majority of the partnership interests, or (iii) any other Person (other than a corporation) in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has at least majority ownership interest.

"TIA" means the Trust Indenture Act of 1939 (15 U.S. Code Section 77aaa-77bbbb) as in effect on the date of the execution of this Indenture, except as provided by Section 9.3 hereof pursuant to which the term "TIA" will mean such Trust Indenture Act as amended through and including the date specified by such Section 9.3 for purposes thereof.

"Trading Day" means each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which securities are not traded on the Nasdaq National Market (or, if the Common Stock is not listed thereon, on the principal national securities exchange on which the Common Stock is listed or admitted to trading).

"Transfer Restricted Securities" means Securities that bear or are required to bear the legend set forth in Section 2.6 hereof.

"Treasury Rate" means, as of the applicable Redemption Notice Date, the yield to maturity as of such Redemption Notice Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available prior to such Redemption Notice Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the Redemption Date to the third anniversary of the Issue Date; provided, however, that if the period from such redemption date to the third anniversary of the Issue Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"Trustee" means the party named as such in the introductory paragraph to this Indenture until a successor replaces it in accordance with the provisions of this Indenture and thereafter means such successor.

"Trust Officer" means any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee customarily performing functions similar to those performed by the Persons who at that time shall be such officers, and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such trust matter is referred because of his knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"U.S. Government Obligations" means direct noncallable obligations of, or noncallable obligations guaranteed by, the United States of America for the payment of which obligation or guarantee the full faith and credit of the United States of America is pledged.

"Voting Stock" means the combined voting power of the then outstanding securities entitled to vote generally in elections of directors, managers or trustees, as applicable, of the Company or any successor entity.

Section 1.2 Incorporation by Reference of TIA.

Whenever this Indenture refers to a provision of the TIA, such provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"Indenture securities" means the Securities.

"Indenture securityholder" means a Holder or a Securityholder.

"Indenture to be qualified" means this Indenture.

"Indenture trustee" or "institutional trustee" means the Trustee.

"Obligor" on the indenture securities means the Company.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule and not otherwise defined herein have the meanings so assigned to them thereby.

Section 1.3 Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) words in the singular include the plural, and words in the plural include the singular;

(5) provisions apply to successive events and transactions;

(6) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(7) references to Sections or Articles means reference to such Section or Article in this Indenture, unless stated otherwise.

ARTICLE II

THE SECURITIES

Section 2.1 Form and Dating.

The Securities and the Trustee's certificate of authentication in respect thereof shall be substantially in the form set forth in Exhibit A hereto, which is incorporated in and forms a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company shall approve the form of Security and any notation, legend or endorsement on them. Any such notations, legends or

endorsements not contained in the form of Security attached as Exhibit A hereto shall be delivered in writing to the Trustee. Each Security shall be dated the date of its authentication.

The terms and provisions contained in the form of Security shall constitute, and are hereby expressly made, a part of this Indenture and, to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby. If any term or provision of a Security limits, qualifies, or conflicts with the terms of this Indenture, the terms of this Indenture shall control.

Securities offered and sold in reliance on Rule 144A and Securities offered and sold in reliance on Regulation S shall be issued initially in the form of one or more Global Securities. The aggregate principal amount of the Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee, as Custodian for the Depositary, as hereinafter provided.

Section 2.2 Execution and Authentication.

Two Officers shall sign the Security for the Company by manual or facsimile signature. The Company's seal may be, but is not required to be, impressed, affixed, imprinted or reproduced on the Securities and may be in facsimile form.

If an Officer whose signature is on a Security was an Officer at the time of such execution but no longer holds that or any office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless and the Company shall nevertheless be bound by the terms of the Securities and this Indenture.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. Such signature shall be conclusive evidence that the Security has been authenticated pursuant to the terms of this Indenture.

Upon a written order of the Company signed by two Officers, the Trustee shall authenticate the Securities for original issue in the aggregate principal amount of up to $125,000,000. The aggregate principal amount of Securities outstanding at any time may not exceed $125,000,000 except as provided in Section 2.7. Upon the written order of the Company in the form of an Officers' Certificate, the Trustee shall authenticate Securities in substitution of Securities originally issued to reflect any name change of the Company.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. Unless otherwise provided in the appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company, any Affiliate of the Company, or any of their respective Subsidiaries, and has the same protections under the Indenture.

Securities shall be issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. The Securities shall bear interest at the rate, calculated and paid, as provided in the form of Security set forth in Exhibit A.

Section 2.3 Registrar and Paying Agent.

The Company shall maintain an office or agency in New York, New York, where Securities may be presented for registration of transfer or for exchange ("Registrar") an office or agency where Securities may be presented for payment ("Paying Agent") and an office or agency where Securities may be presented for conversion ("Conversion Agent") and where notices and demands to or upon the Company in respect of the Securities may be served. The Company may act as Registrar or Paying Agent, except that, for the purposes of Articles III, VIII and XI and as otherwise specified in the Indenture, neither the Company nor any Affiliate of the Company shall act as Paying Agent. The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-Registrars and one or more additional Paying Agents. The term "Paying Agent" includes any additional Paying Agent. The Company hereby initially appoints the Trustee as Registrar and Paying Agent, and the Trustee hereby initially agrees so to act.

The Company shall enter into an appropriate written agency agreement with any Agent not a party to this Indenture, which agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall promptly notify the Trustee in writing of the name and address of any such Agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such.

The Company initially appoints the Trustee to act as Securities Custodian with respect to the Global Securities.

Section 2.4 Paying Agent to Hold Assets in Trust.

The Company shall require each Paying Agent other than the Trustee to agree in writing that each Paying Agent shall hold in trust for the benefit of Holders or the Trustee all assets held by the Paying Agent for the payment of principal of, premium, if any, interest on or Liquidated Damages with respect to, the Securities (whether such assets have been distributed to it by the Company or any other obligor on the Securities), and shall notify the Trustee in writing of any Default in making any such payment. If either of the Company or a Subsidiary of the Company acts as Paying Agent, it shall segregate such assets and hold them as a separate trust fund for the benefit of the Holders or the Trustee. The Company at any time may require a Paying Agent to distribute all assets held by it to the Trustee and account for any assets disbursed and the Trustee may at any time during the continuance of any Payment Default, upon written request to a Paying Agent, require such Paying Agent to distribute all assets held by it to the Trustee and to account for any assets distributed. Upon distribution to the Trustee of all assets that shall have been delivered by the Company to the Paying Agent, the Paying Agent (if other than the Company or an Affiliate of the Company) shall have no further liability for such assets.

Section 2.5 Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee on or before the third Business Day preceding each Interest Payment Date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee reasonably may require of the names and addresses of Holders.

Section 2.6 Transfer and Exchange.

(a) Transfer and Exchange of Definitive Securities. When Definitive Securities are presented to the Registrar or a co-Registrar with a request:

(x) to register the transfer of such Definitive Securities; or

(y) to exchange such Definitive Securities for an equal principal amount of Definitive Securities of other authorized denominations;

the Registrar or co-Registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Definitive Securities surrendered for transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Registrar or co-Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(ii) in the case of a Definitive Security that is a Transfer Restricted Security, shall be accompanied by the following additional information and documents, as applicable:

(A) if such Definitive Security is being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect (in substantially the form set forth on the reverse of the Security); or

(B) if such Definitive Security is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act, a certification to that effect (in substantially the form set forth on the reverse of the Security); or

(C) if such Definitive Security is being transferred to an institutional investor that is an "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act, a certification to that effect (in substantially

the form set forth on the Security) accompanied by a certificate in the form of Exhibit B hereto to the Trustee and if either the Trustee or the Company so requests, an Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act;

(D) if such Definitive Security is being transferred in accordance with Regulation S under the Securities Act, a certification to that effect (in substantially the form set forth on the Security) and if either the Trustee or the Company so requests, an Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; or

(E) if such Definitive Security is being transferred in reliance on another exemption from the registration requirements of the Securities Act, a certification to that effect (in substantially the form set forth on the Security) and if either the Trustee or the Company so requests, an Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act.

(b) Restrictions on Transfer of a Definitive Security for

a Beneficial Interest in a Global Security. A Definitive Security may not be exchanged for a beneficial interest in a Global Security, except upon satisfaction of the requirements set forth below. Upon receipt by the Trustee of a Definitive Security, duly endorsed or accompanied by appropriate instruments of transfer in form reasonably satisfactory to the Company and the Registrar or Co-Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing, together with:

(i) if such Definitive Security is a Transfer Restricted Security, certification, substantially in the form set forth on the Security, that such Definitive Security is being transferred (x) to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act or (y) in accordance with Regulation S under the Securities Act; and

(ii) whether or not such Definitive Security is a Transfer Restricted Security, written instructions directing the Trustee to make, or to direct the Securities Custodian to make, an endorsement on the Global Security to reflect an increase in the aggregate principal amount of the Securities represented by the applicable Global Security;

then the Trustee shall cancel such Definitive Security and cause, or direct the Securities Custodian to cause, in accordance with the standing instructions and procedures existing between the Depositary and the Securities Custodian, the aggregate principal amount of Securities represented by the appropriate Global Security to be increased accordingly. If no Global Securities are then outstanding, the Company shall issue and the Trustee, upon receipt of the authentication order of the Company in the form of an Officers' Certificate, shall authenticate an appropriate new Global Security in the appropriate principal amount.

(c) Transfer and Exchange of Global Securities. The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depositary, in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depositary therefor.

(d) Transfer of a Beneficial Interest in a Global Security for a Definitive Security. (i) Upon receipt by the Trustee:

(A) of written instructions or such other form of instructions as is customary for the Depositary from the Depositary or its nominee on behalf of any Person having a beneficial interest in a Global Security and

(B) of a written order or such other form of instructions as is customary for the Depositary or the Person designated by the Depositary as having such a beneficial interest in a Transfer Restricted Security only, accompanied by the following additional information and documents (all of which may be submitted by facsimile):

(1) if such beneficial interest is being transferred to the Person designated by the Depositary as being the beneficial owner, a certification from such person to that effect (in substantially the form set forth on the reverse of the Security); or

(2) if such beneficial interest is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act, a certification to that effect from the transferor (in

substantially the form set forth on the reverse of the Security); or

(3) if such beneficial interest is being transferred to an institutional investor that is an "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act, a certification to that effect (in substantially the form set forth on the reverse of the Security) accompanied by a certificate in the form of Exhibit B to the Indenture to the Trustee and if either the Trustee or the Company so requests, an Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; or

(4) if such beneficial interest is being transferred in accordance with Regulation S under the Securities Act, a certification to that effect (in substantially the form set forth on the reverse of the Security) and if either the Trustee or the Company so requests, an Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; or

(5) if such beneficial interest is being transferred in reliance on another exemption from the registration requirements of the Securities Act, a certification to that effect from the transferee or transferor (in substantially the form set forth on the reverse of the Security) and if either the Trustee or the Company so requests, an Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act;

the Trustee or the Securities Custodian, at the direction of the Trustee, will cause, in accordance with the standing instructions and procedures existing between the Depositary and the Securities Custodian, the aggregate principal amount of the applicable Global Security to be reduced and, following such reduction, the Company will execute and, upon receipt of an authentication order in the form of an Officers' Certificate, the Trustee will authenticate and deliver to the transferee a Definitive Security.

(ii) Definitive Securities issued in exchange for a beneficial interest in a Global Security pursuant to this Section 2.6(d) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall make such Definitive Securities available for delivery to the persons in whose names such Securities are so registered.

(e) Restrictions on Transfer and Exchange of Global Securities. Notwithstanding any other provisions of this Indenture (other than the provisions set forth in subsection (f) of this Section 2.6), a Global Security may not be transferred as a whole except (i) by the Depositary to a nominee of the Depositary, (ii) by a nominee of the Depositary to the Depositary or another nominee of the Depositary or (iii) by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(f) Authentication of Definitive Securities in Absence of Depositary. If at any time:

(i) the Depositary for the Securities notifies the Company and the Company notifies the Trustee in writing that the Depositary is no longer willing or able to continue as Depositary for the Global Securities and a successor Depositary for the Global Securities is not appointed by the Company within 90 days after delivery of such notice;

(ii) the Company, in its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of Definitive Securities under this Indenture; or

(iii) a Default entitling Holders to accelerate the Stated Maturity has occurred and is continuing;

then the Company will execute, and the Trustee, upon receipt of an Officers' Certificate requesting the authentication and delivery of Definitive Securities, will authenticate and make available for delivery Definitive Securities, in an aggregate principal amount equal to the principal amount of the Global Securities, in exchange for such Global Securities.

(g) Legends. (i) Except as permitted by the following paragraph (ii), each Security certificate evidencing the Global Securities and the Definitive Securities (and all Securities issued in exchange therefor or substitution thereof) shall bear a legend in substantially the following form:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH BELOW. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB") OR (B) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "IAI")), (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (C) TO AN IAI THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE TRANSFER OF THIS SECURITY (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) AND, IF THE COMPANY SO REQUESTS, AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT, IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (D) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 UNDER THE SECURITIES ACT, (E) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY) OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS

SECURITY OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY

RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS SECURITY IN VIOLATION OF THE FOREGOING."

(ii) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Global Security) pursuant to Rule 144 under the Securities Act or an effective registration statement under the Securities Act:

(A) in the case of any Transfer Restricted Security that is a Definitive Security or that is represented by a Global Security, the Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Definitive Security that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Security (1) in the case of a sale or transfer pursuant to Rule 144 under the Securities Act, after delivery of a customary Opinion of Counsel satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act or (2) in the case of a sale or transfer pursuant to an effective registration statement under the Securities Act; and

(B) any such Transfer Restricted Security represented by a Global Security shall not be subject to the provisions set forth in (i) above (such sales or transfers being subject only to the provisions of Section 2.6(c) hereof).

(h) Cancellation and/or Adjustment of Global Security. At such time as all beneficial interests in a Global Security have either been exchanged for Definitive Securities, redeemed, repurchased or canceled, such Global Security shall be returned to or retained and canceled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for Definitive Securities, redeemed, repurchased or canceled, the principal amount of Securities represented by such Global Security shall be reduced and an endorsement shall be made on such Global Security, by the Trustee or the Securities Custodian, at the written direction of the Trustee, to reflect such reduction.

(i) Obligations with respect to Transfers and Exchanges of Definitive Securities. (1) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee, upon receipt of the authentication order of the Company in the form of an Officers' Certificate, shall authenticate Definitive Securities and Global Securities at the Registrar's or co-Registrar's written request.

(2) No service charge shall be made for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith (other than any such

transfer taxes, assessments, or similar governmental charge payable upon exchanges or transfers pursuant to Section 2.2 (fourth paragraph), 2.10, 3.7, 9.5, or 11.1 (final paragraph)).

(3) The Registrar or co-Registrar shall not be required to register the transfer of or exchange of (a) any Definitive Security selected for redemption in whole or in part pursuant to Article III, except the unredeemed portion of any Definitive Security being redeemed in part, or (b) any Security for a period beginning 15 days before the mailing of a notice of an offer to repurchase pursuant to Article XI or the mailing of a notice of redemption of Securities pursuant to Article III and ending at the close of business on the day of such mailing.

(j) General. The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Depositary participants or beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

Section 2.7 Replacement Securities.

If a mutilated Security is surrendered to the Trustee or if the Holder of a Security claims and submits an affidavit or other evidence, satisfactory to the Trustee, to the effect that the Security has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee, upon receipt of the authentication order of the Company in the form of an Officers' Certificate, shall authenticate a replacement Security if the Trustee's requirements are met. If required by the Trustee or the Company, such Holder must provide an indemnity bond or other indemnity, sufficient in the judgment of both the Company and the Trustee, to protect the Company, the Trustee or any Agent from any loss which any of them may suffer if a Security is replaced. The Company may charge such Holder for its reasonable, out-of-pocket expenses in replacing a Security.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion, but subject to any conversion rights, may, instead of issuing a new Security, pay such Security, upon satisfaction of the conditions set forth in the preceding paragraph.

Every new Security issued pursuant to this Section 2.7 in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security shall be at any time enforceable by anyone, and such new Security shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.7 are exclusive and shall preclude (to the extent lawful) all other rights and remedies of any Holder with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 2.8 Outstanding Securities.

Securities outstanding at any time are all the Securities that have been authenticated by the Trustee (including any Security represented by a Global Security) except those canceled by it, those delivered to it for cancellation, those reductions in the interest in a Global Security effected by the Trustee hereunder and those described in this Section 2.8 as not outstanding. A Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security, except as provided in Section 2.9.

If a Security is replaced or paid pursuant to Section 2.7 (other than a mutilated Security surrendered for replacement), the replaced or paid Security ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced or paid Security is held by a bona fide purchaser. A mutilated Security ceases to be outstanding upon surrender of such Security and replacement thereof pursuant to Section 2.7.

If on a Redemption Date the Paying Agent (other than the Company or an Affiliate of the Company) holds Cash or U.S. Government Obligations sufficient to pay all of the principal and interest due on the Securities payable on that date in accordance with Section 3.6 hereof and payment of the Securities called for redemption is not otherwise prohibited pursuant to Article XII or otherwise, then on and after that date, such Securities cease to be outstanding and interest on them ceases to accrue.

Section 2.9 Treasury Securities.

In determining whether the Holders of the required principal amount of Securities have concurred in any direction, amendment, supplement, waiver or consent, Securities owned by the Company or an Affiliate of the Company (including any Person that would become an Affiliate of the Company (or its successor) as a consequence of the event or series of events that otherwise would be treated as a Change of Control for purposes of the Indenture) shall be disregarded, except that, for the purposes of determining whether the Trustee shall be protected in relying on any such direction, amendment, supplement, waiver or consent, only Securities that a Trust Officer of the Trustee actually knows are so owned shall be disregarded.

Section 2.10 Temporary Securities.

Until Definitive Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of Definitive Securities but may have variations that the Company reasonably and in good faith considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate Definitive Securities in exchange for

temporary Securities. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as permanent Securities authenticated and delivered hereunder.

Section 2.11 Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Securities surrendered to them for transfer, exchange or payment. The Trustee, or at the direction of the Trustee, the Registrar or the Paying Agent (other than the Company or an Affiliate of the Company), and no one else, shall cancel and return all Securities surrendered for transfer, exchange, payment or cancellation to the Company. Subject to Section 2.7, the Company may not issue new Securities to replace Securities that have been paid or delivered to the Trustee for cancellation. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section 2.11, except as expressly permitted in the form of Securities and as permitted by this Indenture.

Section 2.12 Defaulted Interest.

Interest on any Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the person in whose name that Security (or one or more predecessor Securities) is registered at the close of business on the Record Date for such interest.

Any interest on any Security that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date plus, to the extent lawful, any interest payable on the defaulted interest (collectively, herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant Record Date, and such Defaulted Interest shall be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the persons in whose names the Securities (or their respective predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of Cash equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such Cash when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as provided in this clause (1). Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall be not more than 15 Business Days and not less than 10 Business Days prior to the date of the proposed payment and not less than 10 Business Days after the receipt by the Trustee of the notice of the proposed

payment ("Special Record Date"). The Trustee shall promptly notify the Company in writing of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears in the Security register not less than 10 Business Days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the persons in whose names the Securities (or their respective predecessor Securities) are registered on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, if, after written notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 2.12, each Security delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Notwithstanding the foregoing, any interest which is paid prior to the expiration of the grace period provided in Section 6.1 shall be paid to the Holders of the Securities as of the regular Record Date for such Interest Payment Date for which interest has not been paid.

Section 2.13 CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE III

REDEMPTION

Section 3.1 Right of Redemption.

Redemption of Securities, as permitted by any provision of this Indenture, shall be made in accordance with Paragraph 5 of the Securities and this Article III.

The Securities may be redeemed in whole or in part at any time at the option of the Company (the "Redemption") for a price (the "Redemption Price") equal to 100% of the principal amount of the Securities to be redeemed, plus accrued and unpaid interest (and Liquidated Damages, if any) to, but excluding the date fixed for such redemption (the "Redemption Date") if (1) the closing price of the Common Stock has exceeded 150% of the Conversion Price then in effect for at least 20 Trading Days within a period of 30 consecutive Trading Days ending on the Trading Day immediately before the date of mailing of the Redemption notice (the "Redemption Notice Date") and (2) the registration statement covering the resale of the Securities and the shares of Common Stock issuable upon conversion of the Securities is effective and available for use and is expected to remain effective and available for use for 30 days following the Redemption Notice Date, unless registration is not required. If a Redemption occurs on or before the third anniversary of the Issue Date, the Company will pay to the Holders the Redemption Price, plus an Interest Make-Whole Payment (as defined below) with respect to the Securities called for redemption to Holders on the Redemption Notice Date. The Company shall make the Interest Make-Whole Payment on all Securities converted into Common Stock between the Redemption Notice Date and the Redemption Date. If a Redemption occurs after the third anniversary of Issue Date, the Company will pay to the Holders the Redemption Price with respect to the Securities called for redemption to Holders on the Redemption Notice Date.

At the Company's option, instead of paying the Interest Make-Whole Payment solely in Cash, it may pay the Interest Make-Whole Payment solely in shares of Common Stock, valued at 95% of the average of the closing prices for the five Trading Days immediately preceding and including the third Trading Day preceding the Redemption Date. The Interest Make-Whole Payment may be paid in shares of Common Stock only if the following conditions are satisfied:

(1) such shares have been registered under the Securities Act or are freely transferable without such registration;

(2) the issuance of Common Stock does not require registration or qualification with or approval of any governmental authority under any state law or any other federal law, which registration or qualification or approval has not been made or obtained;

(3) such shares have been approved for quotation on The Nasdaq National Market or listing on a national securities exchange; and

(4) such shares will be issued out of the Company's authorized but unissued common stock and upon issuance, will be duly and validly issued and fully paid and non-assessable and free of any preemptive rights.

Section 3.2 Notices to Trustee.

If the Company elects to redeem Securities pursuant to Paragraph 5 of the Securities, it shall notify the Trustee in writing of the Redemption Date, the principal amount of Securities to be redeemed, the Redemption Price and whether it wants the Trustee, on behalf of the Company, to give notice of redemption to the Holders.

If the Company elects to reduce the principal amount of Securities to be redeemed pursuant to Paragraph 5 of the Securities by crediting against any such redemption Securities it has not previously delivered to the Trustee for cancellation, it shall so notify the Trustee in writing of the amount of the reduction and deliver such Securities with such notice.

The Company shall give each notice to the Trustee provided for in this Section 3.2 at least 30 days but not more than 60 days before the Redemption Date (unless a shorter notice period shall be satisfactory to the Trustee). Any such notice to the Trustee may be canceled at any time prior to notice of such redemption being mailed to any Holder and shall thereby be void and of no effect.

Section 3.3 Selection of Securities to Be Redeemed.

If less than all of the Securities are to be redeemed pursuant to Paragraph 5 thereof, the Trustee shall select the Securities to be redeemed on a pro rata basis, by lot or by such other method as the Trustee shall determine to be fair and appropriate and in such manner as complies with any applicable depositary, legal and stock exchange or automated quotation system requirements.

The Trustee shall make the selection from the Securities outstanding and not previously called for redemption and shall promptly notify the Company in writing of the Securities selected for redemption and, in the case of any Security selected for partial redemption, the principal amount thereof to be redeemed. Securities in denominations of $1,000 may be redeemed only in whole. The Trustee may select for redemption portions (equal to $1,000 or any integral multiple thereof) of the principal of Securities that have denominations larger than $1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption.

Section 3.4 Notice of Redemption.

At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first-class mail, postage prepaid, to the Trustee and each Holder whose Securities are to be redeemed at such Holder's address as it appears on the

security register maintained by the Registrar. At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense. Each notice of redemption shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date, and that the Securities called for redemption may not be converted after the Business Day immediately prior to the Redemption Date;

(2) the Redemption Price, including the amount of accrued and unpaid interest and Liquidated Damages, if any, and Interest Make-Whole Payment, if any, to be paid upon such redemption;

(3) if an Interest Make-Whole Payment is required to be made, whether such payment will be made in Cash or Common Stock;

(4) the name, address and telephone number of the Paying Agent;

(5) that Securities called for redemption must be surrendered to the Paying Agent at the address specified in such notice to collect the Redemption Price;

(6) that, unless (a) the Company defaults in making payment of the Redemption Price or (b) such redemption payment is prohibited pursuant to Article XII or otherwise, interest on, and Liquidated Damages with respect to, Securities called for redemption ceases to accrue on and after the Redemption Date and the only remaining right of the Holders of such Securities is to receive payment of the Redemption Price, including accrued and unpaid interest and Liquidated Damages, if any, to, but excluding the Redemption Date, upon surrender to the Paying Agent of the Securities called for redemption and to be redeemed;

(7) if any Security is being redeemed in part, the portion of the principal amount, equal to $1,000 or any integral multiple thereof, of such Security to be redeemed and that, on or after the Redemption Date, upon surrender of such Security, a new Security or Securities in aggregate principal amount equal to the unredeemed portion thereof will be issued;

(8) if less than all the Securities are to be redeemed, the identification of the particular Securities (or portion thereof) to be redeemed, as well as the aggregate principal amount of such Securities to be redeemed and the aggregate principal amount of Securities to be outstanding after such partial redemption;

(9) the CUSIP number of the Securities to be redeemed; and

(10) that the notice is being sent pursuant to this Section 3.4 and pursuant to the redemption provisions of Paragraph 5 of the Securities.

Section 3.5 Effect of Notice of Redemption.

Once notice of redemption is mailed in accordance with Section 3.4, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price, including accrued and unpaid interest, Liquidated Damages and Interest Make-Whole Payment, if any, to, but excluding, the Redemption Date. Upon surrender to the Trustee or Paying Agent, such Securities called for redemption shall be paid at the Redemption Price, including accrued and unpaid interest and Liquidated Damages, if any, to, but excluding, the Redemption Date; provided that if the Redemption Date is after a regular Record Date and on or prior to the corresponding Interest Payment Date, the accrued interest, Liquidated Damages and Interest Make-Whole Payment, if any, shall be payable to the Holder of the redeemed Securities registered on the relevant Record Date; and provided, further, that if a Redemption Date is a Legal Holiday, payment shall be made on the next succeeding Business Day and no interest shall accrue for the period from such Redemption Date to such succeeding Business Day.

Section 3.6 Deposit of Redemption Price.

Prior to 10:00 a.m. New York time on the Redemption Date, the Company shall deposit with the Paying Agent (other than the Company or an Affiliate of the Company) Cash sufficient to pay the Redemption Price of, including accrued and unpaid interest on, and Liquidated Damages, if any, with respect to, all Securities to be redeemed on such Redemption Date (other than Securities or portions thereof called for redemption on that date that have been delivered by the Company to the Trustee for cancellation). The Paying Agent shall promptly return to the Company any Cash so deposited which is not required

for that purpose upon the written request of the Company.

If the Company complies with the preceding paragraph and the other provisions of this Article III and payment of the Securities called for redemption is not prohibited under Article XII or otherwise, interest on the Securities to be redeemed will cease to accrue on and after the applicable Redemption Date, whether or not such Securities are presented for payment. Notwithstanding anything herein to the contrary, if any Security surrendered for redemption in the manner provided in the Securities shall not be so paid upon surrender for redemption because of the failure of the Company to comply with the preceding paragraph, interest shall continue to accrue and be paid from the Redemption Date until such payment is made on the unpaid principal, and, to the extent lawful, on any interest not paid on such unpaid principal, in each case at the rate and in the manner provided in Section 4.1 hereof and the Security.

Section 3.7 Securities Redeemed in Part.

Upon surrender of a Security that is to be redeemed in part, the Company shall execute and the Trustee, upon receipt of a written order of the Company in the form of an Officers' Certificate, shall thereafter authenticate and make available for delivery to the Holder, without service charge to the Holder, a new Security or Securities equal in principal amount to the unredeemed portion of the Security surrendered.

ARTICLE IV

COVENANTS

Section 4.1 Payment of Securities.

The Company shall pay the principal of, interest on, and Liquidated Damages with respect to, the Securities on the dates and in the manner provided in this Indenture and the Securities, as applicable. An installment of principal of, interest on, or Liquidated Damages with respect to, the Securities shall be considered paid on the date it is due if the Trustee or Paying Agent (other than the Company or an Affiliate of the Company) holds for the benefit of the Holders, on or before 10:00 a.m. New York time on that date, Cash deposited and designated for and sufficient to pay the installment.

The Company shall pay interest on overdue principal and on overdue installments of interest at the rate specified in the Securities compounded semi-annually, to the extent lawful.

Section 4.2 Maintenance of Office or Agency.

The Company shall maintain in New York, New York, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and for conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 14.2.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in New York, New York, for such purposes. The Company shall give prior written notice to the Trustee of any such designation or rescission and of any change in

the location of any such other office or agency. The Company hereby initially designates the Corporate Trust Office of the Trustee in New York, New York, as such office.

Section 4.3 Corporate Existence.

Subject to Article V, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence in accordance with its organizational documents and the rights (charter and statutory) and corporate franchises of the Company; provided, however, that the Company shall not be required to preserve, with respect

to itself, any right or franchise, if (a) the Company shall, in good faith, reasonably determine that the preservation thereof is no longer desirable in the conduct of the business of such entity and (b) the loss thereof is not disadvantageous in any material respect to the Holders.

Section 4.4 Payment of Taxes and Other Claims.

Except with respect to immaterial items, the Company shall, and shall cause each of its Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges (including withholding taxes and any penalties, interest and additions to taxes) levied or imposed upon the Company or any of its Subsidiaries or any of their respective properties and assets and (ii) all lawful claims, whether for labor, materials, supplies, services or anything else, which have become due and payable and which by law have or may become a Lien upon the property and assets of the Company or any of its Subsidiaries; provided, however, that neither the Company nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which disputed amounts adequate reserves have been established in accordance with GAAP.

Section 4.5 Maintenance of Properties and Insurance.

The Company shall cause all material properties used or useful to the conduct of its business and the business of each of its Subsidiaries to be maintained and kept in good condition, repair and working order (reasonable wear and tear excepted) and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals and replacements thereof, all as in its reasonable judgment may be necessary, so that the business carried on in connection therewith may be properly conducted at all times; provided, however, that nothing in this Section 4.5 shall prevent the Company or any Subsidiary from discontinuing any operation or maintenance of any of such properties, or disposing of any of them, if such discontinuance or disposal is (a), in the judgment of the Company, desirable in the conduct of the business of such entity and (b) would not have a material adverse effect on the financial condition of the Company or on the Company's ability to perform its obligations hereunder or under the Securities.

The Company shall provide, or cause to be provided, for itself and each of its Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds that, in the reasonable, good faith opinion of the Company is adequate and appropriate for the conduct of the business of the Company and such Subsidiaries in a prudent manner, with (except for self-insurance) reputable insurers or with the government of the United States of America or an agency or instrumentality thereof, in such amounts, with such deductibles, and by such methods as shall be customary, in the reasonable, good faith opinion of the Company and adequate and appropriate for the conduct of the business of the Company and such Subsidiaries in a prudent manner for entities similarly situated in the industry, unless failure to provide such insurance (together with all other such failures) would not have a material adverse effect on the financial condition or results of operations of the Company or such

Subsidiary.

Section 4.6 Compliance Certificate; Notice of Default.

(a) The Company shall deliver to a Trust Officer of the Trustee within 120 days after the end of its fiscal year an Officers' Certificate complying with Section 314(a)(4) of the TIA and stating that a review of its activities and the activities of its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining, without regard to notice periods or periods of grace, whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture and further stating, as to each such Officer signing such certificate, whether or not the signer knows of any failure by the Company or any Subsidiary of the Company to comply with any conditions or covenants in this Indenture and, if such signor does know of such a failure to comply, the certificate shall describe such failure with reasonable particularity. The Officers' Certificate shall also notify the Trustee should the relevant fiscal year end on any date other than the current fiscal year end date.

(b) The Company shall, so long as any of the Securities are outstanding, deliver to a Trust Officer of the Trustee, promptly upon becoming aware of any Default, Event of Default or fact which would prohibit the making of any payment to or by the Trustee in respect of the Securities, an Officers' Certificate specifying such Default, Event of Default or fact and what action the Company is taking or proposes to take with respect thereto. The Trustee shall not be deemed to have knowledge of any Default, any Event of Default or any such fact unless one of its Trust Officers receives written notice thereof from the Company or any of the Holders.

Section 4.7 Reports.

Whether or not the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall deliver to the Trustee and to each Holder, as their names and addresses appear on the security register maintained by the Registrar, within 15 days after it is or would have been required to file such with the SEC, annual and quarterly consolidated financial statements substantially equivalent to financial statements that would have been included in reports filed with the SEC if the Company were subject to the requirements of Section 13 or 15(d) of the Exchange Act, including, with respect to annual information only, a report thereon by the Company's certified independent public accountants as such would be required in such reports to the SEC and, in each case, together with a management's discussion and analysis of financial condition and results of operations which would be so required.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 4.8 Limitation on Status as Investment Company.

Neither the Company nor any of its Subsidiaries shall become an "investment company" (as that term is defined in the Investment Company Act of 1940, as amended), or otherwise become subject to regulation under the Investment Company Act.

Section 4.9 Waiver of Stay, Extension or Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of, premium of, interest on, or Liquidated Damages with respect to, the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.10 Rule 144A Information Requirement.

If at any time there are Transfer Restricted Securities outstanding and the Company shall cease to have a class of equity securities registered under Section 12(g) of the Exchange Act or shall cease to be subject to Section 15(d) of the Exchange Act, the Company shall furnish, within a reasonable period of time, to the Holders or beneficial holders of the Securities or the underlying Common Stock and prospective purchasers of Securities or the underlying Common Stock designated by the Holders of Transfer Restricted Securities, upon their written request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act until such time as the Shelf Registration Statement has become effective under the Securities Act. The Company shall also furnish such information during the pendency of any suspension of effectiveness of the Shelf Registration Statement.

ARTICLE V

SUCCESSOR CORPORATION

Section 5.1 Limitation on Merger, Sale or Consolidation.

(a) The Company shall not, directly or indirectly, consolidate with or merge with or into another Person or sell, lease, convey or transfer all or substantially all of its assets (computed on a consolidated basis), whether in a single transaction or a series of related transactions, to another Person or group of affiliated Persons (other than to its wholly owned Subsidiaries), unless (i) either (a) in the case of a merger or consolidation, the Company is the surviving entity or (b) the resulting, surviving or transferee entity is a corporation organized under the laws

of the United States, any state thereof or the District of Columbia and expressly assumes by supplemental indenture all of the obligations of the Company in connection with the Securities and the Indenture; (ii) no Default or Event of Default shall exist or shall occur immediately before or after giving effect to such transaction; and (iii) except in the case of clause (i)(a), the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and, if a supplemental indenture is required, such supplemental indenture comply with the Indenture and that all conditions precedent relating to such transactions have been satisfied.

(b) For purposes of clause (a) of this Section 5.1 and Section 13.6, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company, unless such disposition is to the Company.

Section 5.2 Successor Corporation Substituted.

Upon any permitted consolidation or merger or any permitted sale, lease, conveyance or transfer of all or substantially all of the assets of the Company in accordance with the foregoing, the successor corporation formed by such consolidation or into which the Company is merged or to which such sale, lease, conveyance or transfer is made, shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture with the same effect as if such successor corporation had been named therein as the Company, and when a successor corporation duly assumes all of the obligations of the Company pursuant hereto and pursuant to the Securities, the predecessor shall be released from such obligations (except with respect to any obligations that arise from or as a result of such transaction).

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.1 Events of Default.

"Event of Default," wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be caused voluntarily or involuntarily or effected, without limitation, by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) failure to pay any installment of interest on or Liquidated Damages, if any, with respect to the Securities as and when the same becomes due and payable, or to perform any conversion of the Securities required under this Indenture, and the continuance

of such failure for a period of 30 days, whether or not such payment is prohibited by Article XII;

(2) failure to pay all or any part of the principal of, or premium, if any, on the Securities when and as the same become due and payable at maturity, redemption, by acceleration or otherwise, including, without limitation, failure to pay all or any part of the Repurchase Price on the Repurchase Date in accordance with Article XI, whether or not such payment is prohibited by Article XII;

(3) failure by the Company to observe or perform any covenant or agreement contained in the Securities or this Indenture (other than a default in the performance of any covenant or agreement which is specifically dealt with elsewhere in this Section 6.1), and continuance of such failure for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by Holders of at least 25% in aggregate principal amount of the then outstanding Securities, a written notice;

(4) failure by the Company or any Significant Subsidiary to pay principal, premium or interest when due (after giving effect to any applicable period of grace) at maturity of any Indebtedness (other than non-recourse obligations), in an amount in excess of $20,000,000 and the continuance of such failure for 30 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the then outstanding Securities, a written notice;

(5) default by the Company or any Significant Subsidiary with respect to any Indebtedness (other than non-recourse obligations),

which default results in the acceleration of Indebtedness having a principal amount in excess of $20,000,000 without such Indebtedness having been discharged or such acceleration having been rescinded or annulled for 30 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the then outstanding Securities, a written notice;

(6) a decree, judgment, or order by a court of competent jurisdiction shall have been entered adjudging the Company or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Company or any of its Significant Subsidiaries under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court of competent jurisdiction over the appointment of a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of the Company, any of its Significant Subsidiaries, or of the property of any such Person, or for the winding up or liquidation of the affairs of any such Person, shall have been entered, and such decree, judgment, or order shall have remained in force undischarged and unstayed for a period of 60 days; or

(7) the Company or any of its Significant Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a Custodian, receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of it or any of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any Bankruptcy Law, become insolvent, fail generally to pay its debts as they become due, or take any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing.

Notwithstanding the 60-day period and notice requirement contained in Section 6.1(3) above, with respect to a default under Article XI the 60-day period referred to in Section 6.1(3) shall be deemed to have begun as of the date the Change of Control notice is required to be sent in the event that the Company has not complied with the provisions of Section 11.1 and the Trustee or Holders of at least 25% in principal amount of the outstanding Securities thereafter give the Notice of Default referred to in Section 6.1(3) to the Company and, if applicable, the Trustee; provided, however, that if the breach or default is a result of a default in the payment when due of the Repurchase Price on the Repurchase Date, such Event of Default shall be deemed, for purposes of this Section 6.1, to arise no later than on the final Repurchase Date.

Notwithstanding anything to the contrary contained herein, nothing contained herein shall limit the ability of any one or more holders of Senior Indebtedness to perform any of the obligations of the Company or any of its Subsidiaries hereunder in order to prevent an Event of Default; it being agreed that no holder of Senior Indebtedness shall be under any obligation to perform any covenant on behalf of the Company or any of its Subsidiaries hereunder.

Section 6.2 Acceleration of Maturity Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Section 6.1(6) or (7) relating to the Company) occurs and is continuing, then in every such case, unless the principal of all of the Securities shall have already become due and payable, either the Trustee or the

Holders of at least 25% in aggregate principal amount of then outstanding Securities, by notices in writing to the Company and the Representative (and to the Trustee if given by Holders), may declare all principal, premium, if any, accrued interest and Liquidated Damages, if any, of the Securities (or the Repurchase Price if the Event of Default includes failure to pay the Repurchase Price, determined as set forth below), with respect thereto, to be due and payable on the earlier of (x) five Business Days following delivery of Acceleration Notices to the Company and the Representative and (y) the date of acceleration of the Designated Senior Indebtedness. If an Event of Default specified in Section 6.1(6) or (7) relating to the Company occurs, all principal, premium, if any, accrued interest and Liquidated Damages on or with respect thereto will be

immediately due and payable on all outstanding Securities without any declaration or other act on the part of Trustee or the Holders.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article VI, the Holders of no less than a majority in aggregate principal amount of then outstanding Securities, by written notice to the Company and the Trustee, may rescind, on behalf of all Holders, any such declaration of acceleration if:

(1) the Company has paid or deposited with the Trustee Cash sufficient to pay

(A) all overdue interest on, and overdue Liquidated Damages with respect to, all Securities,

(B) the principal of (and premium, if any, applicable to) any Securities which would then be due otherwise than by such declaration of acceleration, and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest and Liquidated Damages at the rate borne by the Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and

(2) all Events of Default, other than the non-payment of the principal of, premium, if any, interest on and Liquidated Damages with respect to Securities that have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 6.12, including, if applicable, any Event of Default relating to the covenants contained in Section 11.1.

Notwithstanding the previous sentence of this Section 6.2, no waiver shall be effective against any Holder for any Event of Default or event which with notice or lapse of time or both would be an Event of Default with respect to any covenant or provision which cannot be modified or amended without the consent of the Holder of each outstanding Security affected thereby, unless all such affected Holders agree, in writing, to waive such Event of Default or other event. No such waiver shall cure or waive any subsequent Default or Event of Default or impair any right consequent thereon.

Section 6.3 Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if an Event of Default in payment of principal, premium, interest or Liquidated Damages specified in clause (1) or (2) of Section 6.1 occurs and is continuing, the Company shall, upon demand of

the Trustee, pay to it, for the benefit of the

Holders of such Securities, the whole amount then due and payable on such Securities for principal, premium (if any), interest, Liquidated Damages and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal (and premium, if any), Liquidated Damages and on any overdue interest, at the rate borne by the Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs, fees and expenses of collection, including compensation to, and expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust in favor of the Holders, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Securities, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 6.4 Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or any other obligor upon the Securities or their creditors, the Trustee (which term as used in this Section shall include any predecessor Trustee) (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal, interest or Liquidated Damages) shall be entitled and empowered, by intervention in such proceeding or otherwise to take any and all actions under the TIA, including

(1) to file and prove a claim for the whole amount of principal (and premium, if any), interest and Liquidated Damages owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim under Section 7.7 for the compensation, fees, expenses, disbursements and advances of the Trustee, its agent and counsel) and of the Holders allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same in accordance with Section 6.6;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the compensation, expenses, fees, disbursements and advances of the Trustee, its agents and counsel, and any other

amounts due the Trustee under Section 7.7. To the extent that the payment of such compensation, expenses, fees, disbursements and advances of Trustee, its agents and counsel and any other amounts due to the Trustee under Section 7.7 hereof out of the estate in any such judicial proceeding shall be denied for any reason, payment of the same shall be secured by a perfected first priority security interest in and lien on, and shall be paid out of, any and all distributions, dividends, money securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise, and any such security interest and lien in favor of any predecessor Trustee shall be senior to the security interest and lien in favor of the current Trustee.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 6.5 Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust in favor of the Holders, and any recovery of judgment shall, after provision for the payment of compensation to, and expenses, fees, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 6.6 Priorities.

Any money collected by the Trustee pursuant to this Article VI shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal, premium (if any), interest or Liquidated Damages, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the Trustee (including any predecessor Trustee) in payment of all amounts due pursuant to Section 7.7;

SECOND: To the holders of Senior Indebtedness of the Company to the extent provided in Article XII;

THIRD: To the Holders in payment of the amounts then due and unpaid for principal of, premium (if any), interest on and Liquidated Damages with respect to, the Securities in respect or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium (if any), interest and Liquidated Damages, respectively; and

FOURTH: To whomsoever may be lawfully entitled thereto, the remainder, if any.

Section 6.7 Limitation on Suits.

No Holder of any Security shall have any right to order or direct the Trustee to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(A) such Holder has previously given written notice to

the Trustee of a continuing Event of Default;

(B) the Holders of not less than 25% in principal amount of then outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(C) such Holder or Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred or reasonably probable to be incurred in compliance with such request;

(D) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(E) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of then outstanding Securities; it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

Section 6.8 Unconditional Right of Holders to Receive Principal, Premium, Interest Make-Whole Payment and Interest.

Notwithstanding any other provision of this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of,

premium, Interest Make-Whole Payment, if any, and interest on, such Security when due (including, in the case of redemption, the Redemption Price on the applicable Redemption Date, and in the case of the Repurchase Price, on the applicable Repurchase Date), to convert such Security in accordance with Article XIII, and to institute suit for the enforcement of any such payment and right to convert after such respective dates, and such rights shall not be impaired without the consent of such Holder.

Section 6.9 Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in Section 2.7, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 6.10 Delay or Omission Not Waiver.

No delay or omission by the Trustee or by any Holder of any Security to exercise any right or remedy arising upon any Event of Default shall impair the exercise of any such right or remedy or constitute a waiver of any such Event of Default. Every right and remedy given by this Article VI or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 6.11 Control by Holders.

The Holder or Holders of no less than a majority in aggregate principal amount of then outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, provided that

(1) such direction shall be made in writing to the Trustee and shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Holders not taking part in such direction, and

(3) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 6.12 Waiver of Past Default.

The Holder or Holders of not less than a majority in aggregate principal amount of then outstanding Securities may, on behalf of all Holders, prior to the declaration of acceleration of the maturity of the Securities, waive any past default hereunder and its consequences, except a default (A) in the payment of the principal of, premium, if any, or interest on any Security not yet cured as specified in clauses (1) and (2) of Section 6.1, or (B) in respect of a covenant or provision hereof which, under Article IX, cannot be modified or amended without the consent of the Holder of each outstanding Security affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair the exercise of any right arising therefrom.

Section 6.13 Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted to be taken by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 6.13 shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in aggregate principal amount of then outstanding Securities, or to any suit instituted by any Holder for enforcement of the payment of principal of, premium (if any), interest on or Liquidated Damages with respect to, any Security on or after the respective Stated Maturity of such Security (including, in the case of redemption, on or after the Redemption Date).

Section 6.14 Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, then and in every case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall

be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

ARTICLE VII

TRUSTEE

The Trustee hereby accepts the trust imposed upon it by this Indenture and covenants and agrees to perform the same, as herein expressed.

Section 7.1 Duties of Trustee.

(a) If a Default or an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of a Default or an Event of Default:

(1) The Trustee need perform only those duties as are specifically set forth in this Indenture and no others, and no covenants or obligations shall be implied in or read into this Indenture which are adverse to the Trustee.

(2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture.

However, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts purported to be stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) This paragraph does not limit the effect of paragraph (b) of this Section 7.1.

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a written direction received by it pursuant to Section 6.11.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any liability. The Trustee shall be under no obligation to perform any of its rights or duties hereunder or to take or omit to take any action under this Indenture or at the request, order or direction of the Holders or in the exercise of any of its

rights or powers unless such Holders shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

(e) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c), (d) and (f) of this Section 7.1.

(f) The Trustee shall not be liable for interest on any assets received by it except as the Trustee may agree in writing with the Company. Assets held in trust by the Trustee need not be segregated from other assets except to the extent required by law.

Section 7.2 Rights of Trustee.

Subject to Section 7.1:

(a) The Trustee may conclusively rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and if the Trustee shall determine to make such further inquiry or investigation it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on any such Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any attorney or agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its discretion, rights or powers conferred upon it by this Indenture.

(e) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, notice, request, direction, consent, order, bond, debenture, or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be

entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which may be incurred therein or thereby.

(g) Unless otherwise specifically provided for in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(h) The Trustee shall have no duty to inquire as to the performance of the Company's covenants in Article IV hereof. In addition, the Trustee shall not be deemed to have knowledge of any Default or Event of Default, except (i) any Event of Default occurring pursuant to Sections 6.1(1) or 6.1(2), or (ii) any Default or Event of Default of which a Trust Officer of the Trustee shall have received written notification or obtained actual knowledge.

(i) No permissive right of the Trustee to act hereunder shall be construed as a duty.

(j) If in the administration of this Indenture the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting to take any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officers' Certificate, an Opinion of Counsel, or both.

(k) The Trustee shall not be deemed to have notice or knowledge (including actual knowledge) of any matter unless a Trust Officer has actual knowledge thereof or unless written notice thereof is received by the Trustee at the office specified in Section 14.2 and such notice references the Securities generally, the Company or this Indenture.

(l) Any request or direction of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution.

(m) The Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(n) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(o) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

Section 7.3 Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company, any of its Subsidiaries, or their respective Affiliates with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

Section 7.4 Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture, the Registration Rights Agreement, the Offering Circular or the Securities and it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement in the Securities, other than the Trustee's certificate of authentication, or the use or application of any funds received by a Paying Agent other than the Trustee.

Section 7.5 Notice of Default.

If a Default or an Event of Default occurs and is continuing and if it is actually known to the Trustee, the Trustee shall mail to each Holder notice of the uncured Default or Event of Default within 90 days after the later to occur of (i) the occurrence of such Default or Event of Default or (ii) the date the Trustee becomes aware of such Default or Event of Default. Except in the case of a Default or an Event of Default in payment of principal (or premium, if any) of, interest on or Liquidated Damages with respect to, any Security (including the payment of the Repurchase Price on the Repurchase Date and the payment of the Redemption Price on the Redemption Date), the Trustee may withhold the notice if and so long as a Trust Officer in good faith determines that withholding the notice is in the interest of the Holders.

Section 7.6 Reports by Trustee to Holders.

Within 60 days after each May 15 beginning with the May 15 following the date of this Indenture, the Trustee shall, if required by law, mail to each Holder a brief report dated as of such May 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Sections 313(b) and 313(c).

A copy of each report at the time of its mailing to Holders shall be mailed to the Company and, if required, filed with the SEC and each stock exchange, if any, on which the Securities are listed.

The Company shall promptly notify the Trustee in writing if the Securities become listed on any stock exchange or automatic quotation system or of any delisting thereof.

Section 7.7 Compensation and Indemnity.

The Company agrees to pay to the Trustee from time to time such compensation for its services as the parties shall agree from time to time in writing and, in the absence of such agreement, reasonable compensation for its acceptance of this Indenture and services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses, fees and advances incurred or made by it. Such expenses shall include the reasonable compensation, disbursements, fees and expenses of the Trustee's agents, accountants, experts and counsel.

The Company agrees to indemnify the Trustee (in its capacity as Trustee) and each of its officers, directors, employees, attorneys-in-fact and agents for, and hold them harmless against, any and all claims, demands, expenses (including but not limited to reasonable compensation, fees, disbursements and expenses of the Trustee's agents and counsel), losses, damages or liabilities incurred by it without negligence, bad faith or willful misconduct on its part, arising out of, related to, or in connection with the acceptance or administration of this trust and its rights or duties hereunder including the reasonable costs and expenses, the costs and expenses of enforcing this Indenture against the Company and of defending itself against any claim (whether asserted by the Company, or any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Company shall defend the claim and the Trustee shall provide reasonable cooperation at the Company's expense in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel; provided that the Company will not be required to pay such fees and expenses if it assumes the Trustee's defense and, in the reasonable judgment of the Trustee, there is no conflict of interest between the Company and the Trustee in connection with such defense. The Company need not pay for any settlement made

without its written consent. The Company need not reimburse any expense or indemnify against any loss or liability to the extent attributable to the negligence, bad faith or willful misconduct of the Trustee.

To secure the Company's payment obligations in this Section 7.7, the Trustee and each predecessor Trustee shall have a perfected lien prior to the Securities on all assets held or collected by the Trustee, in its capacity as Trustee, except assets held in trust to pay principal and premium, if any, of or interest on particular Securities. Any lien in favor of a predecessor Trustee shall be senior to any lien in favor of the current Trustee.

When the Trustee incurs expenses or fees or renders services after an Event of Default specified in Section 6.1(6) or (7) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

The Company's obligations under this Section 7.7 and any lien arising hereunder shall survive indefinitely, including upon the resignation or removal of the Trustee, the discharge of the Company's obligations pursuant to Article VIII of this Indenture and any rejection or termination of this Indenture under any Bankruptcy Law.

Section 7.8 Replacement of Trustee.

The Trustee may resign by so notifying the Company in writing. The Holder or Holders of a majority in principal amount of then outstanding Securities may remove the Trustee by so notifying the Company and the Trustee in writing. The Company, by Board of Directors resolution, may remove the Trustee if:

(a) the Trustee fails to comply with Section 7.10;

(b) the Trustee is adjudged bankrupt or insolvent;

(c) a receiver, Custodian, or other public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of this Section 7.8.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holder or Holders of a majority in principal amount of then outstanding Securities may, with the Company's consent, appoint a successor Trustee to replace the successor Trustee appointed by the Company.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately upon delivery of such notice and provided that all sums owing to the retiring Trustee provided for in Section 7.7 have been paid, the retiring Trustee shall transfer all property held by it as trustee to the successor Trustee, subject to the lien provided in Section 7.7, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Holder.

If a successor Trustee does not take office within 30 days

after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holder or Holders of at least 10% in principal amount of then outstanding Securities may, at the expense of the Company, petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any bona fide Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding replacement of the Trustee pursuant to this Section 7.8, the Company's obligations under Section 7.7 shall continue indefinitely for the benefit of the retiring Trustee.

Section 7.9 Successor Trustee by Merger, Etc.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the resulting, surviving or transferee corporation without any further act shall, if such resulting, surviving or transferee corporation is otherwise eligible hereunder, be the successor Trustee.

Section 7.10 Eligibility; Disqualification.

The Trustee shall at all times satisfy the requirements of TIA Sections 310(a)(1), (2) and (5). The Trustee and its direct parent or, in the case of a corporation included in a bank holding company system, the related bank holding company, shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA Section 310(b).

Section 7.11 Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated.

Section 7.12 Other Capacities.

All references in this Indenture to the Trustee shall be deemed to refer to the Trustee in its capacity as Trustee and in its capacities as any Agent, to the extent acting in such capacities, and every provision of this Indenture relating to the conduct or affecting the liability or offering protection, immunity or indemnity to the Trustee shall be deemed to apply with the same force and effect to the Trustee acting in its capacity as any Agent.

ARTICLE VIII

SATISFACTION AND DISCHARGE

Section 8.1 Satisfaction and Discharge of Indenture.

The Company may terminate its obligations under this Indenture (subject to the provisions of this Article VIII and Section 7.7) while the Securities remain outstanding if the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel in the United States, each stating that all conditions precedent have been complied with as contemplated by this Section 8.1 and (1) all of the outstanding Securities have or will become due and payable at their Stated Maturity within one year or (2) all of the outstanding Securities are scheduled for redemption within one year, and in either case, the Company has deposited with the Trustee an amount sufficient to pay and discharge all of the outstanding Securities on the date of their Stated Maturity or the Redemption Date.

Section 8.2 Repayment to the Company.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, for the payment of the principal of, premium, if any, interest on or Liquidated Damages with respect to any Security and remaining unclaimed for two years after such principal, premium, if any, interest or Liquidated Damages has become due and payable shall be paid to the Company on its written request; and the Holder of such Security shall thereafter look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease.

ARTICLE IX

AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 9.1 Supplemental Indentures Without Consent of Holders.

Without the consent of any Holder, the Company, when authorized by Board Resolutions, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to cure any ambiguity, defect, or inconsistency, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture, provided that such action pursuant to this clause (1) does not adversely affect the interests of any Holder in any respect;

(2) to create additional covenants of the Company for the benefit of the Holders, or to surrender any right or power herein conferred upon the Company or to make

any other change that does not adversely affect the rights of any Holder, provided that the Company has delivered to the Trustee an Opinion of Counsel stating that such change pursuant to this clause (2) does not adversely affect the rights of any Holder;

(3) to provide for collateral for or guarantors of the Securities;

(4) to evidence the succession of another Person to the Company and the assumption by any such successor of the obligations of the Company herein and in the Securities in accordance with Article V; or

(5) to comply with the TIA.

Section 9.2 Amendments, Supplemental Indentures and Waivers with Consent of Holders.

Subject to the last sentence of this paragraph, with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding, by written act of said Holders delivered to the Company and the Trustee, the Company, when authorized by Board Resolutions, and the Trustee may amend or supplement this Indenture or the Securities or enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or the Securities or of modifying in any manner the rights of the Holders under this Indenture or the Securities. Subject to the last sentence of this paragraph, the Holder or Holders of not less than a majority in aggregate principal amount of then outstanding Securities may, in writing, waive compliance by the Company with any provision of this Indenture or the Securities. Notwithstanding any of the above, however, no such amendment, supplemental indenture or waiver shall, without the consent of the Holder of each outstanding Security affected

thereby:

(1) change the Stated Maturity of any Security or reduce the principal amount thereof or the rate (or extend the time for payment) of interest thereon or any premium payable upon the redemption thereof, or change the place of payment where, or the coin or currency in which, any Security or any premium or the interest thereon with respect thereto is payable, or impair the right to institute suit for the conversion of any Security or the enforcement of any such payment on or after the due date thereof (including, in the case of redemption, on or after the Redemption Date), or reduce the Repurchase Price, or alter the Repurchase Offer or redemption provisions in a manner adverse to the Holders;

(2) reduce the percentage in principal amount of the outstanding Securities, the consent of whose Holders is required for any such amendment, supplemental indenture or waiver provided for in the Indenture;

(3) adversely affect the right of such Holder to convert Securities or the rights of any holder conferred by Article XIII; or

(4) modify any of the waiver provisions, except to increase any required percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each outstanding Security affected thereby.

It shall not be necessary for the consent of the Holders under this Section 9.2 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 9.2 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture or waiver.

After an amendment, supplement or waiver under this Section 9.2 or Section 9.4 becomes effective, it shall bind each Holder.

In connection with any amendment, supplement or waiver under this Article IX, the Company may, but shall not be obligated to, offer to any Holder who consents to such amendment, supplement or waiver, or (at the option of the Company) to all Holders, consideration for consent to such amendment, supplement or waiver.

Section 9.3 Compliance with TIA.

Every amendment, waiver or supplement of this Indenture or the Securities shall comply with the TIA as then in effect.

Section 9.4 Revocation and Effect of Consents.

Until an amendment, waiver or supplement becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of his Security by written notice to the Company, the Trustee or the Person designated by the Company as the Person to whom consents should be sent if such revocation is received by the Company or such Person before the date on which the Trustee receives an Officers' Certificate certifying that the Holders of the requisite principal

amount of Securities have consented (and not theretofore revoked such consent) to the amendment, supplement or waiver.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any amendment, supplement or waiver, which record date shall be the date so fixed by the Company notwithstanding the provisions of the TIA. If a record date is fixed, then notwithstanding the last sentence of the immediately preceding

paragraph, those Persons who were Holders at such record date, and only those Persons (or their duly designated proxies), shall be entitled to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

Notwithstanding the preceding paragraph, after an amendment, supplement or waiver becomes effective, it shall bind every Holder, unless it makes a change described in any of clauses (1) through (4) of Section 9.2, in which case, the amendment, supplement or waiver shall bind only each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security unless consent of all Holders has been obtained pursuant to clauses (1) through (4) of Section 9.2.

Section 9.5 Notation on or Exchange of Securities.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee or require the Holder to put an appropriate notation on the Security. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms. Any failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment, supplement or waiver.

Section 9.6 Trustee to Sign Amendments, Etc.

The Trustee shall execute any amendment, supplement or waiver authorized pursuant to this Article IX; provided that the Trustee may, but shall not be obligated to, execute any such amendment, supplement or waiver which affects the Trustee's own rights, duties or immunities under this Indenture. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of any amendment, supplement or waiver authorized pursuant to this Article IX is authorized or permitted by this Indenture.

ARTICLE X

MEETINGS OF SECURITYHOLDERS

Section 10.1 Purposes for Which Meetings May Be Called.

A meeting of Securityholders may be called at any time and from time to time pursuant to the provisions of this Article X for any of the following purposes:

(a) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to waive or to consent to the waiving of any Default or Event of Default

hereunder and its consequences, or to take any other action authorized to be

taken by Securityholders pursuant to any of the provisions of Article VI;

(b) to remove the Trustee or appoint a successor Trustee pursuant to the provisions of Article VII;

(c) to consent to an amendment, supplement or waiver pursuant to provisions of Section 9.2; or

(d) to take any other action (i) authorized to be taken by or on behalf of the Holder or Holders of any specified aggregate principal amount of the Securities under any other provision of this Indenture, or authorized or permitted by law or (ii) which the Trustee deems necessary or appropriate in connection with the administration of this Indenture.

Section 10.2 Manner of Calling Meetings.

The Trustee may at any time call a meeting of Securityholders to take any action specified in Section 10.1, to be held at such time and at such place in New York, New York or elsewhere as the Trustee shall determine. Notice of every meeting of Securityholders, setting forth the time and place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed at the Company's expense by the Trustee, first-class postage prepaid, to the Company and to the Holders at their last addresses as they shall appear on the registration books of the Registrar, not less than 10 nor more than 60 days prior to the date fixed for a meeting.

Any meeting of Securityholders shall be valid without notice if the Holders of all Securities then outstanding are present in Person or by proxy, or if notice is waived before or after the meeting by the Holders of all Securities outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

Section 10.3 Calling of Meetings by the Company or Holders.

In case at any time the Company or the Holders of not less than 10% in aggregate principal amount of the Securities then outstanding, shall have requested the Trustee to call a meeting of Securityholders to take any action specified in Section 10.1, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such written request, then the Company or the Holders of Securities in the amount above specified may determine the time and place in New York, New York or elsewhere for such meeting and may call such meeting for the purpose of taking such action, by mailing or causing to be mailed notice thereof as provided in Section 10.2, or by causing notice thereof to be published at least once in each of two successive calendar weeks (on any Business Day during such week) in a newspaper or newspapers printed in the English language, customarily published at least five days a week of a general circulation in the City of New York, State of New York, the first such publication to be not less

than 10 nor more than 60 days prior to the date fixed for the meeting.

Section 10.4 Who May Attend and Vote at Meetings.

To be entitled to vote at any meeting of Securityholders, a Person shall be (a) a registered Holder of one or more Securities, or (b) a Person appointed by an instrument in writing as proxy for the registered Holder or Holders of Securities. The only Persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company, and its counsel.

Section 10.5 Regulations May Be Made by Company; Conduct of the Meeting: Voting Rights; Adjournment.

Notwithstanding any other provision of this Indenture, the Company may make such reasonable regulations as it may deem advisable for any action by or any meeting of Securityholders, in regard to proof of the holding of Securities and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, and submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think appropriate. Such regulations may fix a record date and time for determining the Holders of record of Securities entitled to vote at such meeting, in which case those and only those Persons who are Holders of Securities at the record date and time so fixed, or their proxies, shall be entitled to vote at such meeting whether or not they shall be such Holders at the time of the meeting.

The Holders shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Securityholders as provided in Section 10.3, in which case the Company or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Holders of a majority in principal amount of the Securities represented at the meeting and entitled to vote.

At any meeting each Securityholder or proxy shall be entitled to one vote for each $1,000 principal amount of Securities held or represented by him, in whole vote increments; provided, however, that no vote shall be cast or counted at any meeting in respect of any Securities challenged as not outstanding and ruled by the chairman of the meeting to be not then outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Securities held by him or instruments in writing as aforesaid duly designating him as the proxy to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 10.2 or Section 10.3 may be adjourned from time to time by vote of the Holder or Holders of a majority in aggregate principal amount of the Securities represented at the meeting and entitled to vote, and the meeting may be held as so adjourned without further notice.

Section 10.6 Voting at the Meeting and Record to Be Kept.

The vote upon any resolution submitted to any meeting of Securityholders shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities or of their representatives by proxy and the principal amount of the Securities voted by the ballot. The permanent chairman of the meeting shall appoint two inspectors of votes, who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to such record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts, setting forth a copy of the notice of the meeting and showing that such notice was mailed as provided in Section 10.2 or published as provided in Section 10.3. The record shall be signed and verified by the affidavits of the permanent chairman and the secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 10.7 Exercise of Rights of Trustee or Holders May Not Be Hindered or Delayed by Call of Meeting.

Nothing contained in this Article X shall be deemed or

construed to authorize or permit, by reason of any call of a meeting of Securityholders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Securityholders under any of the provisions of this Indenture or of the Securities.

ARTICLE XI

RIGHT TO REQUIRE REPURCHASE UPON A CHANGE OF CONTROL

Section 11.1 Repurchase of Securities at Option of the Holder Upon a Change of Control.

(a) Subject to Section 11.2, in the event that a Change of Control occurs, the Company shall first, offer to repay in full and terminate all commitments under all Indebtedness under the Credit Facility and all such other Senior Indebtedness and to repay the Indebtedness owed to such lender which has accepted such offer and second, offer, subject to the terms and conditions of this Indenture, to purchase all or any part of each Holder's Securities (provided that the principal amount of such Securities must be $1,000 or an integral multiple thereof) on the date (the "Repurchase Date") that is no later than 45 Business Days (except as hereinafter provided) after the occurrence of such Change of Control, at a price (the "Repurchase Price") equal

to 100% of the principal amount thereof, together with accrued and unpaid interest and Liquidated Damages, if any, to (but excluding) the Repurchase Date.

At the Company's option, instead of paying the Repurchase Price solely in Cash, it may pay the Repurchase Price (to the extent not paid in Cash) in shares of Common Stock, valued at 95% of the average of the closing prices for the five Trading Days immediately preceding and including the third Trading Day preceding the Repurchase Date. The Repurchase Price may be paid in shares of Common Stock only if the following conditions are satisfied:

(1) such shares have been registered under the Securities Act or are freely transferable without such registration;

(2) the issuance of Common Stock does not require registration or qualification with or approval of any governmental authority under any state law or any other federal law, which registration or qualification or approval has not been made or obtained;

(3) such shares have been approved for quotation on the Nasdaq National Market or listing on a national securities exchange; and

(4) such shares will be issued out of the Company's authorized but unissued common stock and upon issuance, will be duly and validly issued and fully paid and non-assessable and free of any preemptive rights.

(b) In the event that, pursuant to this Section 11.1, the Company shall be required to commence an offer to purchase Securities (a "Repurchase Offer"), the Company shall follow the procedures set forth in this Section 11.1 as follows:

(1) the Repurchase Offer shall commence within 25 Business Days following a Change of Control;

(2) the Repurchase Offer shall remain open for 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law;

(3) upon the expiration of a Repurchase Offer, the Company shall purchase all Securities tendered in response to the Repurchase Offer;

(4) if the Repurchase Date is on or after an interest payment Record Date and on or before the related Interest Payment Date, any accrued interest and Liquidated Damages will be paid to the Person in whose name a Security is registered at the close of business on such Record Date, and no additional interest or Liquidated Damages will be payable to Securityholders who tender Securities pursuant to the Repurchase Offer;

(5) the Company shall provide the Trustee with written notice of the Repurchase Offer at least 5 Business Days before the commencement of any Repurchase Offer (or such shorter period that is satisfactory to the Trustee); and

(6) on or before the commencement of any Repurchase Offer, the Company or the Trustee (upon the request and at the expense of the Company) shall send, by first-class mail, a notice to each of the Securityholders, which (to the extent consistent with this Indenture) shall govern the terms of the Repurchase Offer and shall state:

(i) that the Repurchase Offer is being made pursuant to such notice and this Section 11.1 and that all Securities, or portions thereof, tendered will be accepted for payment;

(ii) the Repurchase Price (including the amount of accrued and unpaid interest and Liquidated Damages, if any), the Repurchase Date and the Repurchase Put Date;

(iii) the portion of the Repurchase Price, if any, that will be paid in Cash;

(iv) that any Security, or portion thereof, not tendered and accepted for payment will continue to accrue interest and Liquidated Damages, if any;

(v) that, unless the Company defaults in depositing Cash with the Paying Agent in accordance with the last paragraph of this clause (b) or such payment is prevented pursuant to Article XII, any Security, or portion thereof, accepted for payment pursuant to the Repurchase Offer shall cease to accrue interest after the Repurchase Date;

(vi) that Holders electing to have a Security, or portion thereof, purchased pursuant to a Repurchase Offer will be required to surrender the Security, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Security completed, to the Paying Agent (which may not for purposes of this Section 11.1, notwithstanding anything in this Indenture to the contrary, be the Company or any Affiliate of the Company) at the address specified in the notice prior to the close of business on the earlier of (a) the third Business Day prior to the Repurchase Date and (b) the third Business Day following the expiration of the Repurchase Offer (such earlier date being the "Repurchase Put Date");

(vii) that Holders will be entitled to withdraw their election, in whole or in part, if the Paying Agent

(which may not for purposes of this Section 11.1, notwithstanding anything in this Indenture to the contrary, be the Company or any Affiliate of the Company) receives, up to the close of business on the Repurchase Put Date, facsimile transmission or letter setting forth the name of the Holder, the

principal amount of the Securities the Holder is withdrawing and a statement that such Holder is withdrawing his election to have such principal amount of Securities purchased; and

(viii) a brief description of the events resulting in such Change of Control.

Any such Repurchase Offer shall comply with all applicable provisions of federal and state laws, including those regulating tender offers, if applicable, and any provisions of this Indenture which conflict with such laws shall be deemed to be superseded by the provisions of such laws.

On or before the Repurchase Date, the Company will (i) accept for payment Securities or portions thereof properly tendered pursuant to the Repurchase Offer on or before the Repurchase Put Date, (ii) deposit with the Paying Agent Cash and, if the Company has so opted pursuant to clause (a) hereof, shares of Common Stock, sufficient to pay the Repurchase Price (together with accrued and unpaid interest and Liquidated Damages, if any) of all Securities or portions thereof so tendered and (iii) deliver to the Trustee the Securities so accepted together with an Officers' Certificate listing the Securities or portions thereof being purchased by the Company. The Paying Agent shall promptly mail to Holders of Securities so accepted payment in an amount equal to the Repurchase Price (together with accrued and unpaid interest and Liquidated Damages, if any), and the Trustee will promptly authenticate and mail or deliver to such Holders a new Security or Securities equal in principal amount to any unpurchased portion of the Securities surrendered. Any Securities not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. The Company shall publicly announce the results of the Repurchase Offer on or as soon as practicable after the Repurchase Date.

Section 11.2 Rescission of Change of Control Determination.

At any time prior to the close of business on the Business day immediately preceding the Repurchase Date, the Holders of more than 66-2/3% in aggregate principal amount of the then outstanding Securities, by written act of said Holders delivered to the Company and the Trustee, may determine that the event giving rise to the Change of Control shall not be treated as a Change of Control for purposes of Section 11.1, in which event:

(1) the provisions of Section 11.1(a) shall not apply;

(2) if a Repurchase Offer has been made by the Company pursuant to Section 11.1(b), such Repurchase Offer shall be deemed revoked; and

(3) if any Securities have been tendered in response to the revoked Repurchase Offer, such tenders shall be deemed rescinded and the Securities promptly returned to the Holders thereof.

Following a determination by the Holders pursuant to this Section 11.2, the Company shall mail to all Holders a notice briefly describing such determination. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such determination. An effective determination under this Section 11.2 shall be binding on all holders.

ARTICLE XII

SUBORDINATION

Section 12.1 Securities Subordinated to Senior Indebtedness.

Notwithstanding anything to the contrary contained herein, the Company and each Holder, by its acceptance of Securities, agree that (a) the payment of the principal of, premium, if any, and interest on and Liquidated Damages with respect to, the Securities and (b) any other payment in respect of the Securities, including on account of the acquisition or redemption of the Securities by the Company (but specifically excluding payments to the Trustee for its own benefit), is subordinated, to the extent and in the manner provided in this Article XII, to the prior payment in full in cash of all Obligations on Senior Indebtedness of the Company, whether outstanding at the date of this Indenture or thereafter created, incurred, assumed or guaranteed, and that these subordination provisions are for the benefit of the holders of Senior Indebtedness.

This Article XII shall constitute a continuing offer to all Persons who, in reliance upon such provisions, become holders of, or continue to hold, Senior Indebtedness, and such provisions are made for the benefit of the holders of Senior Indebtedness, and such holders are made obligees hereunder and any one or more of them may enforce such provisions. In addition, the payment of cash, property or securities (other than Junior Securities) upon conversion of a Security pursuant to Article XIII will constitute payment on a Security and therefore will be subject to the subordination provisions contained in this Indenture.

Section 12.2 No Payment on Securities in Certain Circumstances.

(a) No payment or distribution of any kind or character (by set-off or otherwise) may be made by or on behalf of the Company directly or through any Subsidiary on account of the principal of, premium, if any, interest on, or Liquidated Damages or any other Obligations under or with respect to, the Securities, or to acquire any of the Securities (including repurchases of Securities at the option of the Holder) for cash or property (other than Junior Securities), or on account of the redemption provisions of the Securities (collectively, the "Subordinated Obligations"), (i) upon the maturity of any Senior Indebtedness by lapse of time, acceleration (unless waived) or otherwise, unless and until all principal of, premium, if any, and interest on, and fees, charges, expenses, indemnifications and all other Obligations payable in respect of Designated Senior Indebtedness are first paid in full in cash, or (ii) in the event of default in the payment of any principal of, premium, if any, or interest in respect of Designated Senior Indebtedness when it becomes due and payable, whether at maturity or at a date fixed for prepayment

or by declaration or otherwise (collectively, a "Payment Default"), unless and until such Payment Default has been cured or waived or otherwise has ceased to exist.

(b) Upon (i) the happening of an event of default (other than a Payment Default) that permits, or would permit, with (w) the passage of time, (x) the giving of notice, (y) the making of any payment of the Securities then required to be made, or (z) any combination thereof (collectively, a "Non-Payment Default"), the holders of Designated Senior Indebtedness or their representative immediately to accelerate the maturity of such Designated Senior Indebtedness and (ii) written notice of such Non-Payment Default given to the Company and the Trustee by the Representative (a "Payment Notice"), then, unless and until such Non-Payment Default has been cured or waived or otherwise has ceased to exist, no payment or distribution of any kind or character in cash or property (by set-off or otherwise) may be made by or on behalf of the Company directly or through any Subsidiary on account of the Subordinated

Obligations, in any such case other than payments made with Junior Securities. Notwithstanding the foregoing, unless (i) the Designated Senior Indebtedness in respect of which such Non-Payment Default exists has been declared due and payable in its entirety within 179 days after the Payment Notice is delivered as set forth above (the "Payment Blockage Period"), and (ii) such declaration has not been rescinded or waived, at the end of the Payment Blockage Period, the Company shall be required to pay to the Holders of the Securities all sums not paid to the Holders of the Securities during the Payment Blockage Period due to the foregoing prohibitions (and upon the making of such payments any acceleration of the Securities made during the Payment Blockage Period shall be of no further force or effect) and to resume all other payments as and when due on the Securities. Not more than one Payment Notice may be given in any consecutive 365-day period, irrespective of the number of defaults with respect to Senior Indebtedness during such period. In no event, however, may the total number of days during which any Payment Blockage Period is or Payment Blockage Periods are in effect exceed 179 days in the aggregate during any consecutive 365 day period.

(c) In furtherance of the provisions of Section 12.1, in the event that, notwithstanding the foregoing provisions of this Section 12.2, any payment or distribution of assets of the Company (other than Junior Securities) shall be received by the Trustee on behalf of the Holders or any Paying Agent for the benefit of the Holders at a time when such payment or distribution is prohibited by the provisions of this Section 12.2, such payment or distribution (subject to the provisions of Sections 12.6 and 12.9) shall be held in trust for the benefit of the holders of Senior Indebtedness, and shall be paid or delivered by such Holders or the Trustee or such Paying Agent, as the case may be, to the holders of Senior Indebtedness of the Company remaining unpaid or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness of the Company may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness of the Company held or represented by each, for application to the payment of all Senior Indebtedness of the Company in full after giving effect to any concurrent payment and distribution to the holders of such Senior Indebtedness.

Section 12.3 Securities Subordinated to Prior Payment of All Senior Indebtedness on Dissolution Liquidation or Reorganization.

Upon any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, upon any dissolution, winding up, total or partial liquidation or reorganization of the Company, whether voluntary or involuntary, in bankruptcy, insolvency, receivership or a similar proceeding or upon assignment for the benefit of creditors or any marshaling of assets or liabilities:

(a) the holders of all Senior Indebtedness of the Company shall first be entitled to receive payments on all Obligations due on the Senior Indebtedness in full in cash before the Holders are entitled to receive any payment or distribution of any kind or character on account of the Subordinated Obligations (other than Junior Securities);

(b) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (other than Junior Securities) to which the Holders or the Trustee on behalf of the Holders would be entitled (by setoff or otherwise), except for the provisions of this Article XII, shall be paid by the liquidating trustee or agent or other Person making such a payment or distribution directly to the holders of Senior Indebtedness or their representative to the extent necessary to make payment in full in cash of all such Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness (but this Section 12.3(b) shall not apply to payments or distributions to the Trustee for its own benefit); and

(c) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (other than Junior Securities), shall be received by the Trustee for the benefit of the Holders or the Holders or any Paying Agent for the benefit of the Holders (or, if the Company or any Affiliate of the Company is acting as its own Paying Agent, money for any such payment or distribution shall be segregated or held in trust) on account of Subordinated Obligations before all Senior Indebtedness is paid in full in cash, such payment or distribution (subject to the provisions of Sections 12.6 and 12.9) shall be received and held in trust by the Trustee or such Holder or Paying Agent for the benefit of the holders of such Senior Indebtedness, or their respective representative, and shall be paid over to or delivered to the holders of the Senior Indebtedness, ratably according to the respective amounts of such Senior Indebtedness held or represented by each, to the extent necessary to make payment as provided herein of all such Senior Indebtedness remaining unpaid after giving effect to all concurrent payments and distributions to or for the holders of such Senior Indebtedness, but only to the extent that as to any holder of such Senior Indebtedness, as promptly as practical following notice from the Trustee to the holders of such Senior Indebtedness that such prohibited payment has been received by the Trustee, Holder(s) or Paying Agent (or has been segregated as provided above), such holder (or a representative therefor) notifies the Trustee of the amounts then due and owing on such Senior Indebtedness, if any, held by

such holder and only the amounts specified in such notices to the Trustee shall be paid to the holders of such Senior Indebtedness.

Section 12.4 Securityholders to Be Subrogated to Rights of Holders of Senior Indebtedness.

Subject to the payment in full in cash of all Senior Indebtedness of the Company as provided herein, the Holders of Securities shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness until all amounts owing on the Securities shall be paid in full, and for the purpose of such subrogation no such payments or distributions to the holders of such Senior Indebtedness by the Company, or by or on behalf of the Holders by virtue of this Article XII, which otherwise would have been made to the Holders shall, as between the Company and the Holders, be deemed to be payment by the Company or on account of such Senior Indebtedness, it being understood that the provisions of this Article XII are and are intended solely for the purpose of defining the relative rights of the Holders, on the one hand, and the holders of such Senior Indebtedness, on the other hand.

If any payment or distribution to which the Holders would otherwise have been entitled but for the provisions of this Article XlI shall have been applied, pursuant to the provisions of this Article XII, to the payment of amounts payable under Senior Indebtedness of the Company, then the Holders shall be entitled to receive from the holders of such Senior Indebtedness any payments or distributions received by such holders of Senior Indebtedness in excess of the amount sufficient to pay all amounts payable under or in respect of such Senior Indebtedness in full.

Section 12.5 Obligations of the Company Unconditional.

Nothing contained in this Article XII or elsewhere in this Indenture or in the Securities is intended to or shall impair as between the Company and the Holders, the obligation of each such Person, which is absolute and unconditional, to pay to the Holders the principal of, premium, if any, and interest on, the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders and creditors of the Company other than the holders of the Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if

any, under this Article XII, of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy. Notwithstanding anything to the contrary in this Article XII or elsewhere in this Indenture or in the Securities, upon any distribution of assets of the Company referred to in this Article XII, the Trustee, subject to the provisions of Sections 7.1 and 7.2, and the Holders shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the liquidating trustee or agent or other Person making any distribution to the Trustee or to the Holders for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior In-

debtedness and other Indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article XII so long as such court has been apprised of the provisions of, or the order, decree or certificate makes reference to, the provisions of this Article XII. Nothing in this Section 12.5 shall apply to the claims of, or payments to, the Trustee under or pursuant to Section 7.7 or otherwise for its own benefit.

Section 12.6 Trustee and Other Agents Entitled to Assume Payments Not Prohibited in Absence of Notice.

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Securities. The Trustee and all other Agents shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee unless and until a Trust Officer of the Trustee or any Paying Agent shall have actually received, no later than one Business Day prior to such payment, written notice thereof in compliance with Section 14.2 from the Company or from one or more holders of Senior Indebtedness or from any representative therefor and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Sections 7.1 and 7.2, shall be entitled in all respects conclusively to assume that no such fact exists.

Section 12.7 Subordination Rights Not Impaired by Acts or Omissions of the Company or Holders of Senior Indebtedness.

No right of any present or future holders of any Senior Indebtedness to enforce subordination provisions contained in this Article XII shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with. Without the consent of or notice to the Trustee or the Holders, the holders of Senior Indebtedness may (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Indebtedness, or otherwise amend or supplement in any manner Senior Indebtedness, or any instrument evidencing the same or any agreement under which Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Indebtedness; (iii) release any Person liable in any manner for the payment or collection of Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

Section 12.8 Securityholders Authorize Trustee to Effectuate Subordination of Securities.

Each Holder of the Securities by his acceptance thereof authorizes the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provisions contained in this Article XII pursuant to this Indenture, and appoints the Trustee his attorney-in-fact for such purpose, including, in the event of any dissolution,

winding up, liquida-

tion or reorganization of the Company (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors of the Company), the immediate filing of a claim for the unpaid balance of his Securities in the form required in said proceedings and cause said claim to be approved. If the Trustee does not file a proper claim or proof of debt in the form required in such proceeding prior to 30 days before the expiration of the time to file such claim or claims, then the holders of the Senior Indebtedness or their representative are or is hereby authorized to have the right to file and are or is hereby authorized to file an appropriate claim for and on behalf of the Holders of said Securities. Nothing herein contained shall be deemed to authorize the Trustee or the holders of Senior Indebtedness or their representative to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee or the holders of Senior Indebtedness or their representative to vote in respect of the claim of any Securityholder in any such proceeding.

Section 12.9 Right of Trustee to Hold Senior Indebtedness.

The Trustee shall be entitled to all of the rights set forth in this Article XII in respect of any Senior Indebtedness at any time held by it to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

Nothing in this Article XII shall apply to claims of, or payments to, the Trustee under or pursuant to Section 7.7.

Section 12.10 Article XII Not to Prevent Events of Default.

The failure to make a payment on account of principal of, premium, if any, interest on, or Liquidated Damages with respect to, the Securities by reason of any provision of this Article XII shall not be construed as preventing the occurrence of a Default or an Event of Default under Section 6.1 or in any way prevent the Holders from exercising any right hereunder other than the right to receive payment on the Securities.

Section 12.11 No Duty of Trustee and Other Agents to Holders of Senior Indebtedness.

The Trustee and the other Agents shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness, and shall not be liable to any such holders (other than for its willful misconduct or negligence) if it shall in good faith mistakenly pay over or distribute to the Holders of Securities or the Company or any other Person, cash, property or securities to which any holders of Senior Indebtedness shall be entitled by virtue of this Article XII or otherwise. Nothing in this Section 12.12 shall affect the obligation of any other such Person receiving such payment or distribution from the Trustee or any other Agent to hold such payment for the benefit of, and to pay such payment over to, the holders of Senior Indebtedness or their representative.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants or obligations as are specifically set forth in this Article XII and no implied covenants or obligations with respect to holders of Senior Indebtedness shall be read into this Indenture as against the Trustee.

Section 12.12 Amendments.

The provisions of this Article XII may not be amended or modified without the written consent of the holders of Designated Senior Indebtedness or their representatives in accordance with the instruments governing the terms of such Designated Senior Indebtedness.

Section 12.13 Reliance on Judicial Order or Certificate of Liquidating Agent.

Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Section 7.1, and the Holders of the Securities shall be entitled to conclusively rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, Custodian, receiver, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of Securities, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of Designated Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article XII.

ARTICLE XIII

CONVERSION OF SECURITIES

Section 13.1 Conversion Privilege.

Subject to and upon compliance with the provisions of this Article XIII, at the option of the Holder thereof, any Security may at any time, be converted, in whole, or in part in multiples of $1,000 principal amount, into fully paid and non-assessable shares of Common Stock issuable upon conversion of the Securities, at the conversion price in effect at the Date of Conversion, until and including, but not after the close of business on the Stated Maturity, unless such Security or some portion thereof shall have been called for redemption or delivered for repurchase prior to such date and no default is made in making due provision for the payment of the Redemption Price in accordance with the terms of this Indenture, in which case, with respect to such Security or portion thereof as has been so called for redemption or delivered for repurchase, such Security or portion thereof may be so converted until and including, but not after, the close of business on the Business Day immediately prior to the Redemption Date or Repurchase

Date, as applicable, for such Security, unless the Company subsequently fails to pay the applicable Redemption Price or Repurchase Price, as the case may be.

Section 13.2 Exercise of Conversion Privilege.

In order to exercise the conversion privilege, the Holder of any Security to be converted shall surrender such Security to the Company at any time during usual business hours at its office or agency maintained for the purpose as provided in this Indenture, accompanied by a fully executed written notice, in substantially the form set forth on the reverse of the Security a copy of which may be obtained from the Trustee, that the Holder elects to convert such Security or a stated portion thereof constituting a multiple of $1,000 principal amount, and, if such Security is surrendered for conversion during the period between the close of business on any Record Date and the opening of business on the next following Interest Payment Date and has not been called for redemption on a Redemption Date or repurchase on a Repurchase Date which occurs within such period, accompanied also by payment of an amount equal to the interest payable on such Interest Payment Date on the principal amount of the Security being surrendered for conversion, notwithstanding such conversion. Such notice of conversion shall also state the name or names (with

address) in which the certificate or certificates for shares of Common Stock shall be issued. Securities surrendered for conversion shall (if reasonably required by the Company or the Trustee) be duly endorsed by, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company duly executed by, the Holder or his attorney duly authorized in writing. As promptly as practicable after the receipt of such notice and the surrender of such Security as aforesaid, the Company shall, subject to the provisions of Section 13.8 hereof, issue and deliver at such office or agency to such Holder, or on his written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion of Securities in accordance with the provisions of this Article XIII and Cash, as provided in Section 13.3 hereof, in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion. Such conversion shall be deemed to have been effected immediately prior to the close of business on the date (herein called the "Date of Conversion") on which such Security shall have been surrendered as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become on the Date of Conversion the holder or holders of record of the shares represented thereby; provided, however, that any such surrender on any date when the stock transfer books of the Company shall be closed shall cause the person or persons in whose name or names the certificate or certificates for such shares are to be issued to be deemed to have become the record holder or holders thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open but such conversion shall nevertheless be at the conversion price in effect at the close of business on the date when such Security shall have been so surrendered with the conversion notice. In the case of conversion of a portion, but less than all, of a Security, the Company shall as promptly as practicable execute, and the Trustee shall thereafter authenticate and deliver to the Holder thereof, at the expense of the Company, a Security or Securities in the aggregate principal amount of the unconverted portion of the Security surrendered. Except as otherwise expressly provided in this Indenture, no payment or ad-

justment shall be made for interest accrued on any Security (or portion thereof) converted or for dividends or distributions on any Common Stock issued upon conversion of any Security.

Section 13.3 Fractional Interests.

No fractions of shares or scrip representing fractions of shares shall be issued upon conversion of Securities. If more than one Security shall be surrendered for conversion at one time by the same holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Securities so surrendered. If any fraction of a share of Common Stock would, except for the foregoing provisions of this Section 13.3, be issuable on the conversion of any Security or Securities, the Company shall make payment in lieu thereof in an amount of Cash equal to the value of such fraction computed on the basis of the last sale price of the Common Stock as reported on the Nasdaq National Market (or if not listed for trading thereon, then on the principal national securities exchange or on the principal automated quotation system on which the Common Stock is listed or admitted to trading) at the close of business on the Date of Conversion or if no such sale takes place on such day, the last sale price for such day shall be the average of the closing bid and asked prices regular way on the Nasdaq National Market (or if not listed for trading thereon, on the principal national securities exchange or on the principal automated quotation system on which the Common Stock is listed or admitted to trading) for such day (any such last sale price being hereinafter referred to as the "Last Sale Price"). If on such Trading Day the Common Stock is not quoted by any such organization, the fair value of such Common Stock on such day, as reasonably determined in good faith by the Board of Directors of the Company, shall be used.

Section 13.4 Conversion Price.

The conversion price per share of Common Stock issuable upon conversion of the Securities (as such price may be adjusted, herein called the "Conversion Price") shall initially be $5.00 (which reflects a conversion rate of 200 shares of Common Stock per $1,000 in principal amount of Securities).

Section 13.5 Adjustment of Conversion Price.

The Conversion Price shall be subject to adjustment from time to time as follows:

(a) In case the Company shall make or pay a dividend or make a distribution in shares of Common Stock on any class of Capital Stock of the Company, the Conversion Price in effect immediately following the record date fixed for the determination of shareholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on such date and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution. An adjustment made pursuant to this

subsection (a) shall become effective immediately, except as provided in subsections (i) and (j) below, after such record date.

(b) In case the Company shall (1) subdivide its outstanding shares of Common Stock into a greater number of shares or (2) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect immediately following the effectiveness of such action shall be adjusted by multiplying such Conversion Price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately prior to such subdivision or combination and the denominator shall be the number of shares outstanding immediately after giving effect to such subdivision or combination. An adjustment made pursuant to this subsection (b) shall become effective immediately, except as provided in subsection (i) and (j) below, after the effective date of a subdivision or combination.

(c) In case the Company shall issue rights, options or warrants to all or substantially all holders of Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the then current market price per share of the Common Stock (as determined pursuant to subsection (g) below) on the record date fixed for determination of the shareholders entitled to receive such rights, option or warrants, the Conversion Price in effect immediately following such record date shall be adjusted to a price, computed to the nearest cent, so that the same shall equal the price determined by multiplying:

(i) such Conversion Price by a fraction, of which

(ii) the numerator shall be (A) the number of shares of Common Stock outstanding on such record date plus (B) the number of shares which the aggregate offering price of the total number of shares so offered for subscription or purchase would purchase at such current market price (determined by multiplying such total number of shares by the exercise price of such rights, options or warrants and dividing the product so obtained by such current market price), and of which

(iii) the denominator shall be (A) the number of

shares of Common Stock outstanding on such record date plus (B) the number of additional shares of Common Stock which are so offered for subscription or purchase.

Such adjustment shall become effective immediately, except as provided in subsections (i) and (j) below, after the record date for the determination of holders entitled to receive such rights, options or warrants; provided, however, that if any such rights, options or warrants issued by the Company as described in this subsection (c) are only exercisable upon the occurrence of certain triggering events, then the Conversion Price will not be adjusted as provided in this subsection (c) until such triggering events occur. Upon the expiration or termination of any rights, options or warrants without the exercise of such rights, options or warrants, the Conver-

sion Price then in effect shall be adjusted immediately to the Conversion Price which would have been in effect at the time of such expiration or termination had such rights, options or warrants, to the extent outstanding immediately prior to such expiration or termination, never been issued.

(d) In case the Company or any Subsidiary of the Company shall distribute to all or substantially all holders of Common Stock, any of its assets, evidences of indebtedness, cash or securities (other than (x) dividends or distributions exclusively in cash, (y) any dividend or distribution for which an adjustment is required to be made in accordance with subsection (a) or (c) above and in mergers and consolidations to which Section 13.6 applies, or (z) any distribution of rights or warrants subject to subsection (l) below or any distribution in connection with a liquidation, dissolution or winding up of the Company or any Subsidiary) then in each such case the Conversion Price in effect immediately following the record date fixed for the determination of the shareholders entitled to such distribution shall be adjusted so that the same shall equal the price determined by multiplying such Conversion Price by a fraction of which the numerator shall be the then current market price per share of the Common Stock (determined as provided in subsection (g) below) on such record date less the then fair market value (as reasonably determined in good faith by the Board of Directors of the Company) of the portion of the assets so distributed applicable to one share of Common Stock, and of which the denominator shall be such current market price per share of the Common Stock. Such adjustment shall become effective immediately, except as provided in subsections (i) and (j) below, after the record date for the determination of shareholders entitled to receive such distribution.

(e) In case the Company or any Subsidiary of the Company shall make any distribution consisting exclusively of cash (excluding any cash portion of distributions for which an adjustment is required to be made in accordance with subsection (d) above, or cash distributed upon a merger or consolidation to which Section 13.6 applies) to all or substantially all holders of Common Stock in an aggregate amount that, combined together with (i) all other such all-cash distributions made within the then preceding 12 months in respect of which no adjustment pursuant to this subsection (e) has been made and (ii) any cash and the fair market value of other consideration paid or payable in respect of any tender offer by the Company or any of its Subsidiaries for Common Stock concluded within the preceding 12 months in respect of which no adjustment has been made, exceeds 10% of the Company's market capitalization (defined as being the product of the then current market price of the Common Stock (determined as provided in subsection (g) below) times the number of shares of Common Stock then outstanding) on the record date fixed for the determination of the shareholders entitled to such distribution, in each such case the Conversion Price immediately following such record date shall be adjusted so that the same shall equal the price determined by multiplying such Conversion Price by a fraction of which

the numerator shall be the then current market price per share of the Common Stock on such record date less the amount of the cash and/or fair market value (as reasonably determined in good faith by the Board of Directors of the Company) of other consideration so distributed applicable to one share of Common Stock, and of

which the denominator shall be such current market price per share of the Common Stock. Such adjustment shall become effective immediately, except as provided in subsections (i) and (j) below, after the record date for the determination of shareholders entitled to receive such distribution.

(f) In case the Company or any Subsidiary of the Company shall complete a tender offer for all or any portion of the Common Stock (any such tender offer being referred to as an "Offer") that involves an aggregate consideration having a fair market value as of the expiration of such Offer (the "Expiration Time") that, together with (i) any cash and the fair market value of any other consideration payable in respect of any other tender offer, as of the expiration of such other tender offer, expiring within the 12 months preceding the expiration of such Offer and in respect of which no Conversion Price adjustment pursuant to this subsection (f) has been made and (ii) the aggregate amount of any all-cash distributions referred to in subsection (e) of this Section 13.5 to all holders of Common Stock within the 12 months preceding the expiration of such Offer for which no conversion price adjustment pursuant to such subsection (e) has been made, exceeds 10% of the product of the then current market price per share (determined as provided in subsection (g) below) of the Common Stock on the Expiration Time times the number of shares of Common Stock outstanding (including any tendered shares) on the Expiration Time, the Conversion Price in effect immediately following such Expiration Time shall be reduced by multiplying such Conversion Price by a fraction of which the numerator shall be (i) the product of the then current market price per share (determined as provided in subsection (g) below) of the Common Stock on the Expiration Time times the number of shares of Common Stock outstanding (including any tendered shares) on the Expiration Time minus (ii) the fair market value of the aggregate consideration payable to shareholders based on the acceptance (up to any maximum specified in the terms of the Offer) of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted being referred to as the "Purchased Shares") and the denominator shall be the product of (i) such current market price per share on the Expiration Time times (ii) such number of outstanding shares on the Expiration Time less the number of Purchased Shares, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Time.

For purposes of this subsection (f), the fair market value of any consideration with respect to an Offer shall be reasonably determined in good faith by the Board of Directors of the Company and described in a Board Resolution.

(g) For the purpose of any computation under subsections (c), (d), (e) and (f) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the Last Sale Prices of a share of Common Stock for the five consecutive Trading Days selected by the Company commencing not more than 20 Trading Days before, and ending not later than, the earlier of the date in question and the date before the "'ex' date," with respect to the issuance, distribution or Offer requiring such

computation. If on any such Trading Day the Common Stock is not quoted by any organization referred to in the definition of Last Sale Price in Section 13.3 hereof, the fair value of the Common Stock on such day, as reasonably determined in good faith by the Board of Directors of the Company, shall be used. For purposes of this paragraph, the term "'ex' date," when used with respect to any issuance, distribution or payments with respect to an Offer, means the first date on which the Common Stock trades regular way on the Nasdaq National Market (or if not listed or admitted to trading thereon, then on the principal national securities exchange or the Nasdaq Stock Market's National Market if the Common Stock is listed or admitted to trading thereon) without the right to receive such issuance, distribution or Offer.

(h) In addition to the foregoing adjustments in subsections (a), (b), (c), (d), (e) and (f) above, the Company, from time to time and to the extent permitted by law, may reduce the Conversion Price by any amount for at least 20 Business Days, if the Board of Directors has made a determination, which determination shall be conclusive, that such reduction would be in the best interests of the Company. The Company shall cause notice of such reduction to be mailed to each Holder of Securities, in the manner specified in Section 13.7, at least 15 days prior to the date on which such reduction commences. The Company may, at its option, also make such reductions in the Conversion Price in addition to those set forth above, as the Board of Directors deems advisable to avoid or diminish any income tax to holders of shares of Common Stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for United States federal income tax purposes.

(i) In any case in which this Section 13.5 shall require that an adjustment be made immediately following a record date, the Company may elect to defer the effectiveness of such adjustment (but in no event until a date later than the effective time of the event giving rise to such adjustment), in which case the Company shall, with respect to any Security converted after such record date and on and before such adjustment shall have become effective (i) defer paying any Cash payment pursuant to Section 13.3 hereof or issuing to the Holder of such Security the number of shares of Common Stock and other capital stock of the Company (or other assets or securities) issuable upon such conversion in excess of the number of shares of Common Stock and other Capital Stock of the Company issuable thereupon only on the basis of the Conversion Price prior to adjustment, and (ii) not later than five Business Days after such adjustment shall have become effective, pay to such Holder the appropriate Cash payment pursuant to Section 13.3 hereof and issue to such Holder the additional shares of Common Stock and other Capital Stock of the Company issuable on such conversion. Notwithstanding the foregoing, no adjustment of the Conversion price shall be made if the event giving rise to such adjustment does not occur.

(j) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1.0% of the Conversion Price;

provided that any adjustments which by reason of this subsection (i) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article XIII shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. In no event shall the Conversion Price be less than the par value of a share of the Company's Common Stock.

(k) Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly (i) file with the Trustee and

each Conversion Agent an Officers' Certificate setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment, which certificate shall be conclusive evidence of the correctness of such adjustment, and (ii) mail or cause to be mailed a notice of such adjustment to each holder of Securities at his address as the same appears on the registry books of the Company. Unless and until a Trust Officer has received an Officers' Certificate setting forth an adjustment of the Conversion Price, the Trustee may assume that no such adjustment has been made and that the last Conversion Price for which the Trustee has received an Officers' Certificate is the current Conversion Price.

(l) In the event that the Company distributes rights or warrants (other than those referred to in subsection (c) above, and including any rights issued or issuable pursuant to the Rights Agreement, dated as of October 3, 2002, between the Company and The Bank of New York, as Rights Agent, as such agreement may be amended, restated, modified, supplemented or replaced from time to time (the "Shareholder Rights Plan") pro rata to holders of Common Stock, so long as any such rights or warrants have not expired or been redeemed by the Company, instead of making an adjustment in the Conversion Price, the Company shall make proper provision so that the Holder of any Note surrendered for conversion will be entitled to receive upon such conversion, in addition to the shares of Common Stock issuable upon such conversion (the "Conversion Shares"), a number of rights or warrants to be determined as follows: (i) if such conversion occurs on or prior to the date for the distribution to the holders of rights or warrants of separate certificates evidencing such rights or warrants (the "Distribution Date"), the same number of rights or warrants to which a holder of a number of shares of Common Stock equal to the number of Conversion Shares is entitled at the time of such conversion in accordance with the terms and provisions of and applicable to the rights or warrants, and (ii) if such conversion occurs after such Distribution Date, the same number of rights or warrants to which a holder of the number of shares of Common Stock into which the principal amount of such Note so converted was convertible immediately prior to such Distribution Date would have been entitled on such Distribution Date in accordance with the terms and provisions of and applicable to the rights or warrants; provided, however, any Holder who is a holder of shares of Common Stock (or direct or indirect interests therein) at the time of conversion of any Note, but who is not entitled as a holder of Common Stock to hold or receive rights pursuant to the terms of the Shareholder Rights Plan, shall not be eligible to receive any such rights thereunder. Any distribution of rights pursuant to the Shareholder Rights plan complying with the requirements set forth in this subsec-

tion (l) shall not constitute a distribution of rights for the purposes of the other provisions of this Article XIII.

Section 13.6 Continuation of Conversion Privilege in Case of Reclassification, Change, Merger, Consolidation or Sale of Assets.

If any of the following shall occur, namely: (a) any reclassification or change of outstanding shares of Common Stock issuable upon conversion of the Securities (other than a change in par value, or from par value to no par value, or from no par value, to par value, or as a result of a subdivision or combination), (b) any consolidation or merger of the Company with or into any other Person, or the consolidation or merger of any other Person with or into the Company (other than a merger which does not result in any reclassification, change, conversion, exchange or cancellation of outstanding shares of Common Stock) or (c) any sale, transfer or conveyance of all or substantially all of the assets of the Company (computed on a consolidated basis), then the Company, or such successor or purchasing entity,

as the case may be, shall, as a condition precedent to such reclassification, change, consolidation, merger, sale or conveyance, execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right to convert such Security only into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, consolidation, merger, sale, transfer or conveyance by a holder of the number of shares of Common Stock issuable upon conversion of such Security immediately prior to such reclassification, change, consolidation, merger, sale, transfer or conveyance assuming such holder of Common Stock of the Company failed to exercise his rights of an election, if any, as to the kind or amount of securities, cash and other property receivable upon such reclassification, change, consolidation, merger, sale, transfer or conveyance (provided that if the kind or amount of securities, cash, and other property receivable upon such reclassification, change, consolidation, merger, sale, transfer or conveyance is not the same for each share of Common Stock of the Company held immediately prior to such reclassification, change, consolidation, merger, sale, transfer or conveyance in respect of which such rights of election shall not have been exercised ("Non-electing Share"), then for the purpose of this Section 13.6 the kind and amount of securities, cash and other property receivable upon such reclassification, change, consolidation, merger, sale, transfer or conveyance by each Non-electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-electing Shares). Such supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article XIII. If, in the case of any such consolidation, merger, sale or conveyance, the stock or other securities and property (including cash) receivable thereupon by a holder of shares of Common Stock includes shares of stock or other securities and property (including cash) of a corporation other than the successor or purchasing corporation, as the case may be, in such consolidation, merger, sale or conveyance, then such supplemental indenture shall also be executed by such other corporation and shall contain such additional provisions to protect the interests of the Holders of the Securities as the Board of Directors of the Company shall reasonably consider necessary by reason of the foregoing. The provisions of this Section 13.6 shall similarly apply to successive consolidations, mergers, sales

or conveyances.

Notice of the execution of each such supplemental indenture shall be mailed to each Holder of Securities at his address as the same appears on the registry books of the Company.

Neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any such supplemental indenture relating either to the kind or amount of shares of stock or securities or property (including cash) receivable by Holders of Securities upon the conversion of their Securities after any such reclassification, change, consolidation, merger, sale or conveyance or to any adjustment to be made with respect thereto, but, subject to the provisions of Article VIII hereof, may accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officers' Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto.

Section 13.7 Notice of Certain Events.

In case:

(a) the Company shall declare a dividend (or any other distribution) payable to the holders of Common Stock (other than cash dividends);

(b) the Company shall authorize the granting to all or

substantially all the holders of Common Stock of rights, warrants or options to subscribe for or purchase any shares of stock of any class or of any other rights;

(c) the Company shall authorize any reclassification or change of the Common Stock (including a subdivision or combination of its outstanding shares of Common Stock), or any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or the sale or conveyance of all or substantially all the property or business of the Company;

(d) there shall be proposed any voluntary or involuntary dissolution, liquidation or winding-up of the Company; or

(e) the Company or any of its Subsidiaries shall complete an Offer, as defined in Section 13.5;

then, the Company shall cause to be filed at the office or agency maintained for the purpose of conversion of the Securities as provided in Section 13.2 hereof, and shall cause to be mailed to each Holder of Securities, at his address as it shall appear on the registry books of the Company, at least 20 days before the date hereinafter specified (or the earlier of the dates hereinafter specified, in the event that more than one date is specified), a notice stating the date on which (1) a

record is expected to be taken for the purpose of such dividend, distribution, rights, warrants or options or Offer, or if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights, warrants or options or to participate in such Offer are to be determined, or (2) such reclassification, change, consolidation, merger, sale, conveyance, dissolution, liquidation or winding-up is expected to become effective and the date, if any is to be fixed, as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, change, consolidation, merger, sale, conveyance, dissolution, liquidation or winding-up.

Section 13.8 Taxes on Conversion.

The Company will pay any and all documentary, stamp or similar taxes payable to the United States of America or any political subdivision or taxing authority thereof or therein in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant thereto; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the Holder of the Securities to be converted and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid. The Company extends no protection with respect to any other taxes imposed in connection with conversion of Securities.

Section 13.9 Company to Provide Stock.

The Company shall reserve, free from pre-emptive rights, out of its authorized but unissued shares, sufficient shares to provide for the conversion of the Securities from time to time as such Securities are presented for conversion, provided that nothing contained in this Section 13.9 shall be construed to preclude the Company from satisfying its obligations in respect of the conversion of Securities by delivery of repurchased shares of Common Stock which are held in the treasury of the Company.

If any shares of Common Stock to be reserved for the purpose of conversion of Securities hereunder require registration with or approval of

any governmental authority under any Federal or state law before such shares may be validly issued or delivered upon conversion, then the Company covenants that it will in good faith and as expeditiously as possible use its reasonable efforts to secure such registration or approval, as the case may be; provided, however, that nothing in this Section 13.9 shall be deemed to limit in any way the obligations of the Company provided in this Article XIII.

Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value, if any, of the Common Stock, the Company will take all corporate action which may, in the Opinion of Counsel, be necessary in order that the Company

may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Conversion Price.

The Company covenants that all shares of Common Stock which may be issued upon conversion of Securities will upon issue be fully paid and non-assessable by the Company and free of preemptive rights.

Section 13.10 Disclaimer of Responsibility for Certain Matters.

Neither the Trustee nor any agent of the Trustee shall at any time be under any duty or responsibility to any Holder of Securities to determine whether any facts exist which may require any adjustment of the Conversion Price, or with respect to the Officers' Certificate referred to in Section 13.5 hereof, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. Neither the Trustee nor any agent of the Trustee shall be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock, or of any securities or property (including cash), which may at any time be issued or delivered upon the conversion of any Security; and neither the Trustee nor any Conversion Agent makes any representation with respect thereto. Neither the Trustee nor any agent of the Trustee shall be responsible for any failure of the Company to issue, register the transfer of or deliver any shares of Common Stock or stock certificates or other securities or property (including cash) upon the surrender of any Security for the purpose of conversion or, subject to Article VIII hereof, to comply with any of the covenants of the Company contained in this Article XIII.

Section 13.11 Return of Funds Deposited for Redemption of Converted Securities.

Any funds which at any time shall have been deposited by the Company or on its behalf with the Trustee or any other Paying Agent for the purpose of paying the principal of and interest on any of the Securities and which shall not be required for such purposes because of the conversion of such Securities, as provided in this Article XIII, shall after such conversion be repaid to the Company by the Trustee or such other Paying Agent.

ARTICLE XIV

MISCELLANEOUS

Section 14.1 TIA Controls.

If any provision of this Indenture limits, qualifies, or conflicts with the duties imposed by operation of the TIA, the imposed duties, whether or not this Indenture has been qualified under the TIA, shall control.

Section 14.2 Notices.

Any notices or other communications to the Company or the Trustee required or permitted hereunder shall be in writing, and shall be sufficiently given if made by hand delivery, by telecopier, nationally-recognized courier service (freight prepaid) or registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

if to the Company:

Arris Group, Inc.
11450 Technology Circle
Duluth, Georgia 30097
Attention: Chief Financial Officer
Telecopy: (678) 473-8470

if to the Trustee:

The Bank of New York
101 Barclay Street, Floor 8 West
New York, New York 10286
Attention: Corporate Trust Administration
(212) 815-5704

Any party by notice to each other party may designate additional or different addresses as shall be furnished in writing by such party. Any notice or communication to any party shall be deemed to have been given or made as of the date so delivered, if personally delivered; when receipt is acknowledged, if telecopied or sent by nationally-recognized courier service; and five Business Days after mailing if sent by registered or certified mail, postage prepaid (except that a notice of change of address shall not be deemed to have been given until actually received by the addressee).

Any notice or communication mailed to a Securityholder shall be mailed to him by first class mail or other equivalent means at his address as it appears on the registration books of the Registrar and shall be sufficiently given to him if so mailed within the time prescribed. In lieu of mailing any notice, financial statement, report, supplemental indenture, or other communication required hereby to a Security Holder, at its option, the Company may instead file such notice, financial statement, report, supplemental indenture, or other communication with the SEC in a manner that makes it publicly available, including through the filing thereof utilizing the EDGAR system.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee re-

ceives it except for notices and communications to the Trustee which shall be effective only upon actual receipt thereof.

Section 14.3 Communications by Holders with Other Holders.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and any other Person shall have the protection of TIA Section 312(c).

Section 14.4 Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action (other than the original issuance of the Securities pursuant to this Indenture) under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate (in form and substance reasonably satisfactory to the Trustee) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) upon the Trustee's request, an Opinion of Counsel (in form and substance reasonably satisfactory to the Trustee) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been complied with.

Section 14.5 Statements Required in Certificate or Opinion.

Each certificate or Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include: (1) a statement that the Person1making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of each such Person, such condition or covenant has been complied with; provided, however, that with respect to matters of fact an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

Section 14.6 Rules by Trustee, Paying Agent, Registrar.

The Trustee may make reasonable rules for action by or at a meeting of Securityholders. The Paying Agent or Registrar may make reasonable rules for its functions.

Section 14.7 Legal Holidays.

A "Legal Holiday" is a Saturday, a Sunday or any day that is not a Business Day. If a payment date is a Legal Holiday at such place, payment may be made at such place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

Section 14.8 Governing Law.

THIS INDENTURE AND THE SECURITIES 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. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE AND THE SECURITIES, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE TRUSTEE OR ANY SECURITYHOLDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION.

Section 14.9 No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another

indenture, loan or debt agreement of the Company or any of its Subsidiaries. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 14.10 No Recourse Against Others.

No direct or indirect partner, employee, shareholder, director or officer, as such, past, present or future of the Company or any successor corporation, shall have any personal liability in respect of the obligations of the Company under the Securities or this Indenture by reason of his, her or its status as such partner, shareholder, employee, director or officer. Each Securityholder by accepting a Security waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Securities.

Section 14.11 Successors.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

Section 14.12 Duplicate Originals.

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

Section 14.13 Severability.

In case any one or more of the provisions in this Indenture or in the Securities shall be held invalid, illegal or unenforceable, in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions shall not in any way be affected or impaired thereby, it being intended that all of the provisions hereof shall be enforceable to the full extent permitted by law.

Section 14.14 Table of Contents, Headings, Etc.

The Table of Contents and headings of the Articles and the Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

Section 14.15 Qualification of Indenture.

The Company shall qualify this Indenture under the TIA in accordance with the terms and conditions of the Registration Rights Agreement and shall pay all costs, fees and expenses (including attorneys' fees and expenses for the Company and the Trustee) incurred in connection therewith, including, but not limited to, costs, fees and expenses of qualification of the Indenture and the Securities and printing this Indenture and the Securities. The Trustee shall be entitled to receive from the Company any such Officers' Certificates, Opinions of Counsel or other documentation as it may reasonably request in connection with any such qualification of this Indenture under the TIA.

Section 14.16 Registration Rights.

Certain Holders of the Securities are entitled to certain registration rights with respect to such Securities pursuant to, and subject to the terms of, the Registration Rights Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

ARRIS GROUP, INC., a Delaware corporation

By: /s/ David B. Potts

Name: David B. Potts
Title: SVP Finance

The Bank of New York, as Trustee

By: /s/ Mary LaGumina

Name: Mary LaGumina
Title: Vice President

EXHIBIT A

[FORM OF SECURITY]

ARRIS GROUP, INC.

4-1/2% CONVERTIBLE SUBORDINATED NOTES DUE 2008

No. CUSIP No.

$_____

Arris Group, Inc., a Delaware corporation (hereinafter called the "Company," which term includes any successors under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars, on March 15, 2008.

Interest Payment Dates: March 15 and September 15, commencing September 15, 2003.

Record Dates: March 1 and September 1.

Reference is made to the further provisions of this Note hereinafter set forth, which will, for all purposes, have the same effect as if set forth at this place.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

ARRIS GROUP, INC., a Delaware corporation

By:

Name:
Title:

By:

Name:
Title:

CERTIFICATE OF AUTHENTICATION:

This is one of the 4-1/2% Convertible Subordinated Notes due 2008 described in the within-mentioned Indenture.

Dated:

The Bank of New York, as Trustee

By:

Authorized Signatory

ARRIS GROUP, INC.

4-1/2% Convertible Subordinated Notes due 2008

Unless and until it is exchanged in whole or in part for Notes in definitive form, this Note may not be transferred except as a whole by The Depository Trust Company, a New York corporation ("Depositary"), to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. Unless this certificate is presented by an authorized representative of the Depository to the Company or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of the Depositary (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of the Depositary), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.(1)

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF U S. PERSONS, EXCEPT AS SET FORTH BELOW. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), (B) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A) (1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT (AN "IAI")), OR (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (C) TO AN IAI THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE TRANSFER OF THIS SECURITY (THE FORM OF WHICH CAN BE OBTAINED FROM THE TRUSTEE) AND, IF THE COMPANY SO REQUESTS, AN OPINION OF COUNSEL ACCEPTABLE TO THE

COMPANY THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT, IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (D) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (E) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (F) IN ACCORDANCE WITH

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1 This paragraph should only be added if the Security is issued in global form.

ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY, THE TRUSTEE AND THE REGISTRAR) OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS SECURITY IN VIOLATION OF THE FOREGOING.(2)

1. Interest.

Arris Group, Inc., a Delaware corporation (hereinafter called the "Company," which term includes any successors under the Indenture hereinafter referred to), promises to pay interest on the principal amount of this Note at the rate of 4-1/2% per annum. To the extent it is lawful, the Company promises to pay interest on any interest payment due but unpaid on such principal amount at a rate of 4-1/2% per annum compounded semi-annually.

The Company will pay interest semi-annually in cash in arrears on March 15 and September 15 of each year (each, an "Interest Payment Date"), commencing September 15, 2003. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid on the Notes, from March 18, 2003. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

2. Method of Payment.

The Company shall pay interest on the Notes (except defaulted interest) to the Persons who are the registered Holders at the close of business on the Record Date immediately preceding the Interest Payment Date. Holders must surrender Notes to a Paying Agent to collect principal payments. Any such interest not so punctually paid, and defaulted interest relating thereto, may be paid to the Persons who are registered Holders at the close of business on a Special Record Date for the payment of such defaulted interest, as more fully provided in the Indenture referred to below. Except as provided below, the Company shall pay principal and interest in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts. The Notes will be payable as to principal, premium, interest and Liquidated Damages at the office or agency of the Company maintained for such purpose within or without New York, New York, or at the option of the Company, payment of principal, premium, interest and Liquidated Damages may be made by check mailed to the Holders at their addresses set forth in the registry of Holders, and provided that, upon the request of The Depository Trust Company, a New York corporation (the "Depositary"), payment by

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2 This paragraph should be included only for the Transfer Restricted Securities.

wire transfer to an account within the United States of immediately available funds will be required with respect to principal of, premium and interest on and Liquidated Damages with respect to Global Notes and all other Notes held of record by the Depositary, or its nominee, if the Depositary shall have provided wire transfer instructions to the Company or the Paying Agent.

3. Paying Agent and Registrar.

The Bank of New York (the "Trustee") will act as Paying Agent and Registrar. The Company may change any Paying Agent, Registrar or co-Registrar without notice to the Holders. The Company or any of its Subsidiaries may, subject to certain exceptions, act as Paying Agent, Registrar or co-Registrar.

4. Indenture.

The Company issued the Notes under an Indenture, dated as of March 18, 2003 (as amended or supplemented from time to time the "Indenture"), between the Company and the Trustee. Capitalized terms herein are used as defined in the Indenture unless otherwise defined herein. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act, as in effect on the date of the Indenture. The Notes are subject to all such terms, and Holders of Notes are referred to the Indenture and said Act for a statement of them. The Notes are general unsecured obligations of the Company limited in aggregate principal amount to $125,000,000.

No sinking fund is provided for the Notes.

5. Redemption.

The Notes may be redeemed in whole or in part at any time, upon notice by the Company at least 30 days and no more than 60 days prior to the date fixed for such redemption (the "Redemption Date"), at the option of the Company (the "Redemption") for a price (the "Redemption Price") equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest (and Liquidated Damages (as defined in the Indenture), if any) to, but excluding the Redemption Date if (1) the closing price of the Company's common stock (the "Common Stock") has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day immediately before the date of mailing of the Redemption notice (the "Redemption Notice Date") and (2) the registration statement covering the resale of the Notes and the shares of common stock issuable upon conversion of the Notes is effective and available for use and is expected to remain effective and available for use for 30 days following the Redemption Notice Date, unless registration is no longer required. If a Redemption occurs on or before the third anniversary of the date of the Notes' issuance (the "Issue Date"), the Company will pay to the holders of the Notes (the "Holders") the Redemption Price, plus an Interest Make Whole-Payment (as defined below) with respect to the Notes called for redemption to Holders on the Redemption Notice Date, regardless of whether those Notes are converted prior to the date of the provisional redemption. If the Redemption occurs after the third anniversary of Issue Date, the Company will pay to the Holders the Redemption Price with respect to the Notes called for redemption to holders on the Redemption Notice Date. Any Redemption Price may be paid in cash or, subject to the restrictions in

Section 3.1 of the Indenture, in Common Stock. Any payment in Common Stock will be made by valuing the Common Stock at 95% of the average of the closing bid and asked prices of the Common Stock on The Nasdaq National Market for each of the five trading days ending with the third trading day prior to the date of the provisional redemption.

For purposes of the preceding paragraph, the following terms will have the

following definitions:

"Interest Make-Whole Payment" means, with respect to any Note on any applicable Redemption Date, the present value at such Redemption Date of the aggregate amount all required interest payments due on the Note through the third anniversary of the Issue Date, computed using a discount rate equal to the Treasury Rate as of the applicable Redemption Notice Date.

"Treasury Rate" means, as of the applicable Redemption Notice Date, the yield to maturity as of such Redemption Notice Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available prior to such Redemption Notice Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the Redemption Date to the third anniversary of the Issue Date; provided, however, that if the period from such redemption date to the third anniversary of the Issue Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Any such redemption will comply with Article III of the Indenture.

6. Notice of Redemption.

Notice of redemption will be sent by first class mail, at least 30 days and not more than 60 days prior to the Redemption Date to the Holder of each Note to be redeemed at such Holder's last address as then shown upon the registry books of the Registrar. Notes may be redeemed in part in integral multiples of $1,000 only.

Except as set forth in the Indenture, from and after any Redemption Date, if monies for the redemption of the Notes called for redemption shall have been deposited with the Paying Agent on such Redemption Date and payment of the Notes called for redemption is not prohibited under Article XII of the Indenture, the Notes called for redemption will cease to bear interest and the only right of the Holders of such Notes will be to receive payment of the Redemption Price, plus any accrued and unpaid interest and Liquidated Damages, if any, to the Redemption Date.

7. Denominations; Transfer; Exchange.

The Notes are in registered form, without coupons, in denominations of $1,000 and integral multiples of $1,000. A Holder may register the transfer of or exchange Notes in accordance with, the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Notes selected for redemption.

8. Persons Deemed Owners.

The registered Holder of a Note may be treated as the owner of it for all purposes, subject to the provisions of the Indenture and the Notes with respect to record dates.

9. Unclaimed Money.

If money for the payment of principal, interest or Liquidated Damages remains unclaimed for two years, the Trustee and the Paying Agent(s) will pay the money back to the Company at its written request. After that, all liability of the Trustee and such Paying Agent(s) with respect to such money shall cease.

10. Amendment; Supplement; Waiver.

Subject to specified exceptions, the Indenture or the Notes may be

amended or supplemented, and any existing Default or Event of Default or compliance with any provision may be waived, with the written consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding. Without notice to or consent of any Holder, the parties thereto may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, defect or inconsistency, or make any other change that does not adversely affect the rights of any Holder of a Note.

11. Conversion Rights.

Subject to the provisions of the Indenture, the Holders have the right to convert the principal amount of the Notes into fully paid and nonassessable shares of Common Stock of the Company at the initial conversion price per share of Common Stock of $5.00 (which reflects a conversion rate of approximately 200 shares of Common Stock per $1,000 in principal amount of Notes), or at the adjusted conversion price then in effect, if adjustment has been made as provided in the Indenture, upon surrender of the Note to the Company, together with a fully executed notice in substantially the form attached hereto and, if required by the Indenture, an amount equal to accrued interest payable on such Note.

12. Ranking.

Payment of principal, premium, if any, interest on and Liquidated Damages and other amounts with respect to the Notes is subordinated, in the manner and to the extent set forth in the Indenture, to the prior payment in full of all Senior Indebtedness.

13. Repurchase at Option of Holder Upon a Change of Control.

If there is a Change of Control, the Company shall be required, subject to the provisions of the Indenture, to offer to purchase on the Repurchase Date all outstanding Notes at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Liquidated Damages, if any, to, but excluding, the Repurchase Date. If certain conditions are met, the Company may, at its option, pay the repurchase price in shares of the Company's Common Stock valued at 95% of the Last Sale Price of the Common Stock on The Nasdaq National Market for each of the five trading days ending with the third trading day prior to the date

of the redemption. Holders of Notes will receive a Repurchase Offer from the Company prior to any related Repurchase Date and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" appearing below.

14. Successors.

When a successor assumes all the obligations of its predecessor under the Notes and the Indenture, the predecessor will be released from those obligations.

15. Defaults and Remedies.

If an Event of Default occurs and is continuing (other than an Event of Default relating to certain events of bankruptcy, insolvency or reorganization), then in every such case, unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the Holders of 25% in aggregate principal amount of Notes then outstanding may declare all the Notes to be due and payable immediately in the manner and with the effect provided in the Indenture. Holders of Notes may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in aggregate principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of Notes

notice of any continuing Default or Event of Default (except a Default in payment of principal, interest or Liquidated Damages), if it determines that withholding notice is in their interest.

16. Trustee Dealings with Company.

The Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates as if it were not the Trustee.

17. No Recourse Against Others.

No shareholder, director, officer or employee, as such, past, present or future, of the Company or any successor corporation shall have any personal liability in respect of the obligations of the Company under the Notes or the Indenture by reason of his, her or its status as such shareholder, director, officer or employee. Each Holder of a Note by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

18. Authentication.

This Note shall not be valid until the Trustee or authenticating agent signs the certificate of authentication on this Note.

19. Abbreviations and Defined Terms.

Customary abbreviations may be used in the name of a Holder of a Note or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT

TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

20. Governing Law.

THIS INDENTURE AND THE SECURITIES 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. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE AND THE SECURITIES, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE TRUSTEE OR ANY SECURITYHOLDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION.

21. CUSIP Numbers.

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company will cause CUSIP numbers to be printed on the Notes as a convenience to the Holders of the Notes. No representation is made as to the accuracy of such numbers as printed on the Notes and reliance may be placed only on the other identification numbers printed hereon.

22. Additional Rights of Holders of Transfer Restricted Notes.

In addition to the rights provided to Holders of Notes under the Indenture, Holders of Notes shall have all the rights set forth in the Registration Rights Agreement.

The Company will furnish to any Holder upon written request and without charge a copy of the Indenture and/or the Registration Rights Agreement. Request may be made to:

Arris Group, Inc.
11450 Technology Circle
Duluth, GA 30097
Attention: Secretary

23. Subordination

All Obligations on, or relating to, the Securities are subordinated in right of payment, in the manner and to the extent set forth in the Indenture, to the prior payment in full in cash of all Obligations on Senior Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed (including the Obligations with respect to the Credit Facility). Each Holder by his acceptance hereof agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on his behalf, to take such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee his attorney-in-fact for such purposes.

EXHIBIT B

FORM OF ASSIGNMENT

I or we assign this Note to:

(Print or type name, address and zip code of assignee)

Please insert Social Security or other identifying number of assignee _____ and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Dated: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Note)

Signature Guaranty: _____

Signatures must be guaranteed by an "eligible guarantor institution"

meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guaranty program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT C

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Article XI of the Indenture, check the box: [ ]

If you want to elect to have only part of this Note purchased by the Company pursuant to Article XI of the Indenture, state the amount you want to be purchased:

$_____

Dated: _____ Signed: _____

(Sign exactly as your name appears on the other side of this Note)

Signature Guaranty: _____

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guaranty program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT D

SCHEDULE OF EXCHANGES OF DEFINITIVE NOTES(3)

The following exchanges of a part of this Global Note for Definitive Notes have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal Amount of this Global Note following such decrease (or income)	Signature of authorized signatory of Trustee or Notes Custodial

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(3) This schedule should only be added if the Security is issued in global form.

EXHIBIT E

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF TRANSFER OF NOTES

Re: 4-1/2% CONVERTIBLE SUBORDINATED NOTES DUE 2008 OF ARRIS GROUP, INC.

This Certificate relates to $_____ principal amount of Notes held in *_____ book-entry or * _____ definitive form by _____ (the "Transferor").

1. The Transferor:*

[ ] (a) has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Global Note held by the Depositary a Note or Notes in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Global Note (or the portion thereof indicated above); or

[ ] (b) has requested the Trustee by written order to exchange or register the transfer of a Note or Notes.

2. In connection with any such request and in respect of each such Note, the Transferor does hereby certify that Transferor is familiar with the Indenture relating to the above-captioned Notes and as provided in Section 2.6 of such Indenture, the transfer of this Note does not require registration under the Securities Act because:*

[ ] (a) Such Note is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 2.6(a)(ii)(A) or Section 2.6(d)(i)(A) of the Indenture).

[ ] (b) Such Note is being transferred to a person who the Transferor reasonably believes is a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) purchasing for its own account or for the account of a qualified institutional buyer over which it exercises sole investment discretion that is aware that the transfer is being made in reliance on Rule 144A (in satisfaction of Section 2.6(a)(ii)(B), Section 2.6(b)(i)(x) or Section 2.6(d)(i)(B) of the Indenture).

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* Check applicable box.

[ ] (c) Such Note is being transferred in accordance with Regulation S under the Securities Act (in satisfaction of Section 2.6(a)(ii)(D), Section 2.6(b)(i)(y) or Section 2.6(d)(i)(D) of the Indenture). If requested by either the Company or the Trustee, an Opinion of Counsel to the effect that such transfer does not require registration under the Securities Act accompanies this Certificate (in satisfaction of Section 2.6(a)(ii)(D) or Section 2.6(d)(i)(D) of the Indenture).

[ ] (d) Such Note is being transferred to an institutional investor that is an "accredited investor" within the meaning of Rule 501(a)(1),(2),(3) or (7) under the Securities Act which delivers a certificate in the form of Exhibit B to the Indenture to the Trustee (in satisfaction of Section 2.6(a)(ii)(C) or Section 2.6(d)(i)(C) of the Indenture), and delivers an opinion of counsel, if the Company or the Trustee so requests.

[ ] (e) Such Note is being transferred in reliance on and in compliance with another exemption from the registration requirements of the Securities Act. If requested by either the Company, an Opinion of Counsel to the effect that such transfer does not require registration under the

Securities Act accompanies this Certificate (in satisfaction of Section 2.6(a)(ii)(E) or Section 2.6(d)(i)(E) of the Indenture).

[INSERT NAME OF TRANSFEROR]

By:

Date:
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3. Affiliation with the Company [check if applicable]:

[ ] (a) The undersigned represents and warrants that it is, or at some time during which it held this Note was, an Affiliate of the Company.

[ ] (b) If 3(a) above is checked and if the undersigned was not an Affiliate of the Company at all times during which it held this Note, indicate the periods during which the undersigned was an Affiliate of the Company:

[ ] (c) If 3(a) above is checked and if the Transferee will not pay the full purchase price for the transfer of this Note on or prior to the date of transfer indicate when such purchase price will be paid:

TO BE COMPLETED BY TRANSFEREE IF 2(b) ABOVE IS CHECKED AND THE TRANSFEROR IS NOT A QUALIFIED INSTITUTIONAL BUYER:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information.

Dated:

NOTICE: To be executed by an officer.

TO BE COMPLETED BY TRANSFEREE IF 2(c) ABOVE IS CHECKED:

The undersigned represents and warrants that it is not a "U.S. Person" (as defined in Regulation S under the Securities Act of 1933, as amended).

Dated:

NOTICE: To be executed by an officer.

If none of the boxes under Section 2 of this certificate is checked or if any of the above representations required to be made by the Transferee is not made, the Registrar shall not be obligated to register this Note in the name of any person other than the Holder hereof.

THE UNDERSIGNED HEREBY AGREES THAT, UNLESS THE BOX ABOVE UNDER ITEM 3(a) IS CHECKED, THE UNDERSIGNED SHALL BE DEEMED TO HAVE REPRESENTED THAT IT IS NOT NOR HAS IT BEEN AT ANY TIME DURING WHICH IT HELD THIS SECURITY AN AFFILIATE, AS

DEFINED IN RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OF THE COMPANY.

Dated:

NOTICE: The signature of the Holder to this assignment must correspond with the name as written upon the face of this Note particular, without alteration or enlargement or any change whatsoever.

EXHIBIT F

FORM OF CONVERSION NOTICE

TO: Arris Group, Inc.

The undersigned owner of this Security hereby: (i) irrevocably exercises the option to convert this Security, or the portion hereof below designated, for shares of Common Stock of Arris Group, Inc. in accordance with the terms of this Indenture referred to in this Security and (ii) directs that such shares of Common Stock deliverable upon the conversion, together with any check in payment for fractional shares and any Security(ies) representing any unconverted principal amount hereof, be issued and delivered to the registered holder hereof unless a different name has been indicated below. If shares are to be delivered registered in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and deliver the Certificate to be delivered upon Exchange or Registration of Transfer of Notes. Any amount required to be paid by the undersigned on account of interest accompanies this Security.

Dated:

Signature

Fill in for registration of shares if to be delivered, and of Securities if to be issued, otherwise than to and in the name of the registered holder.

Social Security or other Taxpayer Identifying Number

(Name)

(Street Address)

(City, State and Zip Code)
(Please print name and address)

Principal amount to be converted (if less than all)

$

EXHIBIT 10.4

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of October 29, 1996 (this "Agreement"), by and between the party named on the signature page hereof as the investor ("Investor") and ANTEC Corporation, a Delaware corporation ("ANTEC").

WHEREAS, Investor is the owner of certain shares (the "TSX Shares") of TSX Corporation, a Nevada Corporation ("TSX"), common stock, par value $.01 per share ("TSX Common Stock"), and is entitled to purchase certain additional TSX Shares.

WHEREAS, pursuant to a Plan of Merger between ANTEC, TSX and TSX Acquisition Corporation, all of the TSX Shares will be converted into shares of ANTEC common stock, par value $.01 per share ("Common Stock"), and options to purchase TSX Shares will be converted into options to purchase Common Stock. As used herein, "Shares" shall include the Common Stock issued upon conversion and any additional shares of Common Stock held by Investor from time to time during the term of this Agreement.

WHEREAS, the sale by Investor of Shares has not been registered pursuant to the Securities Act of 1933, as amended (the "Securities Act") but TSX is obligated to provide such registration under certain circumstances.

WHEREAS, in connection with the Plan of Merger, ANTEC desires to provide Investor certain registration rights as provided herein.

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

1. Registration

(a) Investor or any person acquiring by transfer any Shares (a "Permitted Transferee") (Investor and any such Permitted Transferees being hereinafter referred to individually as a "Stockholder" and collectively as the "Stockholders") shall at any time have the right to request registration under the Securities Act, of the Shares and any securities issued in exchange for or in respect of such Shares whether pursuant to a stock dividend, stock split, stock reclassification or otherwise (such Shares and such securities issued in exchange for or in respect of such Shares being collectively referred to herein as the "Registrable Shares") upon the terms and subject to the conditions set forth in this Agreement.

(b) Upon receipt by ANTEC of a written request for registration hereunder, ANTEC shall (i) promptly notify each other Stockholder in writing of its receipt of such initial written request for registration and (ii) as soon as practicable, but in no event more than 45 days after receipt of such written request, file with the Securities and Exchange Commission (the "Commission"), and use its best efforts to cause to become effective, a

registration statement under the Securities Act (a "Registration Statement") which shall cover the Registrable Shares specified in the initial written request and in any written request from any other Stockholder received by ANTEC within 20 days of its giving the notice specified in clause (i) hereof.

(c) If so requested by any Stockholder requesting participation in a public offering or distribution of Registrable Shares (a "Selling Stockholder") pursuant to this Section 1 or Section 2, the Registration Statement shall provide for delayed or continuous

offering of Registrable Shares pursuant to Rule 415 promulgated under the Securities Act or any similar rule then in effect (a "Shelf Offering"). If so requested by Selling Stockholders who own a majority of the Registrable Shares, the public offering or distribution of Registrable Shares under this Agreement shall be pursuant to a firm commitment underwriting, the managing underwriter of which shall be a nationally recognized investment banking firm selected and engaged by the Selling Stockholders and approved by ANTEC, which approval shall not be unreasonably withheld. ANTEC shall enter into the same underwriting agreement as shall the Selling Stockholders, containing representations, warranties and agreements not substantially different from those customarily made by an issuer in underwriting agreements with respect to secondary distributions. ANTEC, as a condition to fulfilling its obligations under this Agreement may require the underwriters to enter into an agreement in customary form indemnifying ANTEC against any Losses (as defined in Section 6 hereof) that arise out of or are based upon an untrue statement or an alleged untrue statement or omission in the Disclosure Documents (as defined in Section 6 hereof) made in reliance upon and in conformity with written information furnished to ANTEC by the underwriters specifically for use in the preparation thereof.

(d) ANTEC shall be entitled to postpone, for a reasonable period of time, but in no event in excess of 120 days after its receipt of an initial request for registration pursuant to this Agreement, the filing of any Registration Statement, if at the time it received a request therefor ANTEC determines, in its reasonable business judgment, that such registration and offering could interfere with any financing, acquisition, corporate reorganization, or other material transaction or development involving ANTEC or any of its affiliates and gives the Selling Stockholders written notice of such determination. If ANTEC shall postpone the filing of any Registration Statement, any of the Selling Stockholders shall have the right to withdraw his or its request for such registration by giving notice to ANTEC within 15 days of the notice of postponement. In the event that all of the Selling Stockholders withdraw their request, such request shall not be counted for purposes of determining the number of registrations to which Stockholders are entitled hereunder.

(e) Each Selling Stockholder may, before such a Registration Statement becomes effective, withdraw his or its Registrable Shares from sale, should the terms of the sale not be satisfactory to such Selling Stockholder; should all Selling Stockholders who are participating in such registration so withdraw, however, such registration shall be deemed to have occurred for the purposes of Section 4 hereof unless such Selling Stockholders

pay (pro rata, in proportion to the number of shares requested to be included) within 20 days after any such withdrawal, all of the out-of-pocket expenses of ANTEC incurred in connection with such registration.

(f) In the event that a Registration Statement requested by a Selling Stockholder pursuant to Section 1 hereof involves a firmly underwritten public offering and the managing underwriter thereof determines reasonably and in good faith that the inclusion in such Registration Statement of any additional shares of Common Stock or other securities of ANTEC to be offered and sold for the account of any person (including ANTEC) other than such Selling Stockholder (each, a "Piggy-Back Seller") would adversely affect the offering of any Registrable Shares by the Selling Stockholder, then the number of shares to be offered for the accounts of each Piggy-Back Seller shall be reduced or limited in proportion to the number of shares owned by each such Piggy-Back Seller (as compared to all such Piggy-Back

Stockholders) to the extent necessary to reduce the total number of shares to be included in such Registration Statement by all Piggy-Back Sellers to the amount that such managing underwriter determines would not adversely affect the offering of the number of Registrable Shares requested to be registered by the Selling Stockholder. Without limiting the foregoing, in no event shall a Selling Stockholder be required to reduce the number of Registrable Shares requested to be registered by such Selling Stockholder pursuant to Section 1 hereof as a result of the inclusion in any Registration Statement of Common Stock or other securities of ANTEC to be offered and sold for the account of any Piggy-Back Seller.

2. Incidental Registrations. Each time that ANTEC proposes to register any of its equity securities under the Securities Act (other than a registration effected solely to implement an employee benefit or stock option plan or to sell shares obtained under any employee benefit or stock option plan or a transaction to which Rule 145 or any other similar rule of the Commission under the Securities Act is applicable) ANTEC will give written notice to the Stockholders of its intention to do so. Each of the Stockholders may give ANTEC a written request to register all or some of its Registrable Shares in the registration described in the written notice from ANTEC as set forth in the foregoing sentence, provided that such written request is given within 20 days after receipt of any such notice from ANTEC (with such request stating (i) the amount of Registrable Securities to be disposed of and the intended method of disposition of such Registrable Securities and (ii) any other information reasonably requested by ANTEC to properly effect the registration of such Registrable Securities). Upon receipt of such request, ANTEC will use its best efforts to cause promptly all such Registrable Securities intended to be disposed of to be registered under the Securities Act so as to permit their sale or other disposition (in accordance with the intended methods set forth in the request for registration), unless the sale is a firmly underwritten public offering and the managing underwriter thereof determines reasonably and in good faith in writing that the inclusion of such securities would adversely affect the offering, in which case the number of shares to be offered for the accounts of the Selling Stockholders shall be reduced or limited in proportion to the number of shares owned by such Selling Stockholders to the extent necessary to reduce the total number of shares to be included in such offering to the amount recommended by such managing underwriting; provided, that if securities are being offered for the account of other persons or entities as well as ANTEC, such

reduction shall be made pro rata from the securities intended to be offered by such persons and from the Selling Stockholders.

ANTEC's obligations under this Section 2 shall apply to a registration to be effected for securities to be sold for the account of ANTEC as well as a registration statement which includes securities to be offered for the account of other holders of ANTEC equity securities.

3. Expenses of Registration. ANTEC shall pay all costs and expenses incurred in connection with the registration of the Registrable Shares pursuant hereto, including all registration and filing fees, printing expenses, fees and disbursements of counsel and accountants of ANTEC and one set of counsel and accountants for all of the Selling Stockholders. Not withstanding the foregoing, all transfer taxes, brokerage commissions and underwriters' discounts attributable to the Registrable Shares being offered and sold by such Selling Stockholders shall be for the account of the Selling Stockholders.

4. Limitations on Registration Rights. Notwithstanding the provisions of Section 1 hereof, ANTEC shall not be required to effect any registration pursuant to Section 1 if (a) the request or requests for registration cover an aggregate number of Registrable Shares having a Market Value of less than $1,000,000 as of the date of the last of such requests; (b) ANTEC has previously filed two registration statements under the Securities Act

pursuant to Section 1 of this Agreement; (c) ANTEC, in order to comply with such request, would be required to (i) undergo a special interim audit or (ii) prepare and file with the Commission, sooner than would otherwise be required, pro forma or other financial statements relating to any proposed or probable transaction, or (d) in the opinion of counsel for the Selling Stockholders, each Stockholder could sell in a single transaction under Rule 144 promulgated under the Securities Act the number of Registrable Shares such Stockholder proposes to have registered pursuant to this Agreement. "Market Value" as used in this Agreement shall mean, as to each Registrable Share at any date, the average of the daily closing prices for the Common Stock for the 10 consecutive trading days before the day in question. The closing price for shares of such class for each day shall be the last reported sale price, or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices, in either case on the composite tape, or if the shares of such class are not quoted on the composite tape, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on which such shares of such class are listed or admitted to trading, or if they are not listed or admitted to trading on any such exchange, the closing sale price (or the average of the quoted closing bid and asked prices if no sale is reported) as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or any comparable system, or if the shares of such class are not quoted on NASDAQ, or any comparable system, the average of the closing bid and asked prices as furnished by any maker in the securities of such class who is a member of the National Association of Securities Dealers, Inc.

5. Obligations with Respect to Registration

(a) If and whenever ANTEC is obligated by the provisions of this Agreement to effect the registration of any Registrable Shares under the Securities Act, ANTEC shall:

(i) prepare and file with the Commission any amendments and supplements to the Registration Statement and to the prospectus used in connection therewith as may be necessary to keep the Registration Statement effective and to comply with the provisions of the Securities Act and the rules and regulations promulgated thereunder with respect to the disposition of all Registrable Shares covered by the Registration Statement for the period required to effect the distribution of such Shares, but in no event shall ANTEC be required to do so for a period of more than 90 days following the effective date of the Registration Statement other than a Shelf Offering and two years following the effective date of a Shelf Offering.

(ii) notify the Selling Stockholders and their underwriter, and confirm such advice in writing, (A) when a Registration Statement becomes effective, (B) when any post-effective amendment to a Registration Statement becomes effective, and (C) of any request by the Commission for any amendment of or supplement to a Registration Statement or any prospectus relating thereto or for additional information;

(iii) furnish at ANTEC's expense to the Selling Stockholders such number of copies of a preliminary, final, supplemental or amended prospectus, in conformity with the requirements of the Securities Act and the rules and regulations promulgated thereunder, as may reasonably be required in order to facilitate the disposition of the Registrable Shares covered by a Registration Statement, but only while ANTEC is required under the provisions hereof to cause a Registration Statement to remain effective;

(iv) register or qualify the Registrable Shares covered by a Registration Statement under such other securities or blue sky laws of such jurisdictions in the United States as the Selling Stockholders shall reasonably request, and do any and all other acts and things which may be necessary to enable each Selling Stockholder whose Registrable Shares are covered by such Registration Statement to consummate the disposition in such jurisdictions of such Registrable Shares; provided, however, that ANTEC shall in no event be required to qualify to do business as a foreign corporation or a dealer in any jurisdiction where it is not so qualified, to conform the composition of its assets at the time to the securities and blue sky laws of such jurisdiction, to exercise or file any general consent to service of process in suits other than those arising out of the offer and sale of the Registrable Shares covered by the Registration Statement, or to subject itself to taxation, in each case in any jurisdiction where it has not theretofore done so; and

(v) cause such Registrable Shares covered by a Registration Statement to be listed on the principal exchange or exchanges on which the Common Stock is then listed upon the sale of such Registrable Shares pursuant to such Registration Statement.

(b) ANTEC's obligations under this Agreement with respect to a Selling Stockholder shall be conditioned upon such Selling Stockholder's compliance with the following:

(i) Such Selling Stockholder shall cooperate with ANTEC in connection with the preparation of the Registration Statement, and for so long as ANTEC is obligated to file and keep effective the Registration Statement, shall provide to ANTEC, in writing, for use in the Registration Statement, all such information regarding the Selling Stockholder and its plan of distribution of the Registrable shares as may be necessary to enable ANTEC to prepare the Registration Statement and prospectus covering the Registrable Shares, to maintain the currency and effectiveness thereof and otherwise to comply with all applicable requirements of law in connection therewith.

(ii) During such time as such Selling Stockholder may be engaged in a distribution of the Registrable Shares, such Selling Stockholder shall comply with Rules 10b-2, 10b-6 and 10b-7 promulgated under the Exchange Act and pursuant thereto it shall, among other things: (A) not engage in any stabilization activity in connection with the securities of ANTEC in contravention of such rules; (B) distribute the Registrable Shares solely in the manner described in the Registration Statement; (C) cause to be furnished to each broker through whom the Registrable Shares may be offered, or to the offeree if an offer is not made through a broker, such copies of the prospectus covering the Registrable Shares and any amendment or supplement thereto and documents incorporated by reference therein as may be required by law; and (D) not bid for or purchase any securities of ANTEC or attempt to induce any person to purchase any securities of ANTEC other than as permitted under the Exchange Act.

(iii) If the Registration Statement provides for a Shelf Offering, then at least nine (9) business days prior to any distribution of the Registrable Shares, any Selling

Stockholder who is an "affiliated purchaser" (as defined in Rule 10b-6 promulgated under the Exchange Act) of ANTEC shall advise ANTEC in writing of the date on which the distribution by such Selling Stockholder will commence, the number of the Registrable Shares to be sold and the manner of sale. Such Selling Stockholder also shall inform ANTEC when each distribution of such Registrable Shares is complete.

6. Indemnification.

(a) By ANTEC. Except as set forth in the last sentence of this Section 6(a), ANTEC agrees to indemnify and hold harmless, to the full extent permitted by law, each Selling Stockholder, its officers and directors and each person who controls such Selling Stockholder (within the meaning of the Securities Act), and any investment adviser thereof against all losses, claims, damages, liabilities and expenses ("Losses") caused by

any untrue or alleged untrue statement of a material fact contained in any registration statement, prospectus or preliminary prospectus or any amendment thereof or supplement thereto (the "Disclosure Documents") or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading, except insofar as the same are caused by or contained in any information with respect to such Selling Stockholder furnished in writing to ANTEC by such Selling Stockholder expressly for use therein. In connection with an underwritten offering, ANTEC will indemnify the underwriters thereof, their officers and directors and each person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the holders of Registrable Shares. ANTEC will reimburse each such indemnified party for all legal or other expenses reasonably incurred by such party in connection with investigating or defending any such claims, including, subject to such indemnified party's compliance with the provisions of the last sentence of subsection (c) of this Section 6, any amounts paid in settlement of any litigation, commenced or threatened. ANTEC shall not be obligated to indemnify any person hereunder to the extent that any such Losses arise out of or are based upon (i) the failure of a Selling Stockholder to give any purchaser of Registrable Shares at or prior to the written confirmation of such sale, a copy of the most recent prospectus relating to the offering and sale of such registrable Shares, or (ii) an untrue statement or alleged untrue statement or omission or alleged omission made in any prospectus used by a Selling Stockholder after such time as ANTEC advised such Selling Stockholder that the filing of a post-effective amendment or supplement thereto was required, except such prospectus as so amended or supplemented.

(b) By the Selling Stockholders. In connection with any registration statement in which a Selling Stockholder is participating, each such Selling Stockholder shall furnish to ANTEC in writing such information and affidavits with respect to such Selling Stockholder as ANTEC reasonably requests for use in connection with any such registration statement or prospectus and agrees to indemnify, to the extent permitted by law, ANTEC, the directors and officers of ANTEC and each person who controls ANTEC (within the meaning of the Securities Act) against any Losses resulting from any untrue or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in the Disclosure Documents or necessary to make the statements therein (in the case of a prospectus, in the light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that such

untrue statement or omission is contained in any information or affidavit with respect to such Selling Stockholder so furnished in writing by such Selling Stockholder expressly for use in the registration statement, provided that the liability of such Selling Stockholder pursuant to this Section 6(b) shall not exceed an amount equal to the proceeds of the sale of Registrable Shares sold pursuant to such registration statement that are received by or for the benefit of such Selling Stockholder. ANTEC shall be entitled to receive indemnities from underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution to the same extent as provided above with respect to information so furnished in writing by such persons

specifically for inclusion in any prospectus or registration statement. The Selling Stockholders shall reimburse each such indemnified party for all legal or other expenses reasonably incurred by such party in connection with investigating or defending any such claim, including, subject to such indemnified party's compliance with the provisions of the last sentence of subsection (c) of this Section 6, any amounts paid in settlement of any litigation, commenced or threatened.

(c) Third Party Claims. Promptly after the receipt by any party hereto of notice of any claim, action, suit or proceeding by any person who is not a party to this Agreement (collectively, an "Action") which is subject to indemnification hereunder, such party (the "Indemnified Party") shall give reasonable written notice to the party from whom indemnification is claimed (the "Indemnifying Party"). The Indemnified Party shall be entitled, at the sole expenses and liability of the Indemnifying Party, to exercise full control of the defense, compromise or settlement of any such Action unless the Indemnifying Party, within a reasonable time after the giving of such notice by the Indemnified Party, shall: (i) admit in writing to the Indemnified Party, the Indemnifying Party's liability to the Indemnified Party for such Action under the terms of this Section 6, (ii) notify the Indemnified Party in writing of the Indemnifying Party's intention to assume the defense thereof, and (iii) retain legal counsel reasonably satisfactory to the Indemnified Party to conduct the defense of such Action. The Indemnified Party and the Indemnifying Party shall cooperate with the party assuming the defense, compromise or settlement of any such Action in accordance herewith in any manner that such party reasonably may request. If the Indemnifying Party so assumes the defense of any such Action, the Indemnified Party shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise, or settlement thereof, but the fees and expenses of such counsel shall be the expenses of the Indemnified Party unless (i) the Indemnifying Party has agreed to pay such fees and expense, (ii) any relief other than the payment of money damages is sought against the Indemnified Party or (iii) the Indemnified Party shall have been advised by its counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Indemnifying Party, and in such case the fees and expenses of such separate counsel shall be borne by the Indemnifying Party. No Indemnifying Party shall settle or compromise any such Action in which any relief other than the payment of money damages is sought against any Indemnified Party unless the Indemnified Party consents in writing to such compromise or settlement. No Indemnified Party shall settle or compromise any such Action for which it is entitled to indemnification hereunder without the prior written consent of the Indemnifying Party, unless the Indemnifying Party shall have failed, after reasonable notice thereof, to undertake control of such Action in the manner provided above in this Section 6.

(d) Contribution. If the indemnification provided for in subsections(a) or (b) of this Section 6 is unavailable to or insufficient to hold the indemnified party harmless under subsections (a) or (b) above in respect of any Losses referred to therein for any reason other than as specified therein, then the indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such Losses in such

proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and such indemnified party on the other in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by (or omitted to be supplied by) ANTEC or the Selling Stockholder (or underwriter) and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by an indemnified party as a result of the Losses referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

7. Miscellaneous.

(a) Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally or mailed, certified or registered mail with postage prepaid, or sent by telex, telegram or telecopier, as follows:

(i) if to Investor:

Tele-Communications, Inc.
5619 DTC Parkway
Englewood, Colorado 80111
Attn: Larry Romrell
Facsimile: (303) 488-3200

with a copy similarly addressed: Attention: Legal Department

and with a copy to:

Sherman & Howard L.L.C.
633 Seventeenth Street
Suite 3000
Denver, Colorado 80202
Attn: Charles Y. Tanabe, Esq.
Facsimile: (303) 298-0940

(ii) if to ANTEC:

ANTEC Corporation

2850 West Golf Road
Rolling Meadows, Illinois 60008
Attn: General Counsel
Facsimile: (847) 439-8559

or to such other person or address as any party shall specify by notice in writing to the other party. Notice of a change of address shall be effective only upon actual receipt thereof.

(b) Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto and supersedes all prior agreements and understandings, oral and written, between the parties hereto with respect to the subject matter hereof.

(c) Binding Effect; Benefit. This Agreement shall insure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, other than rights conferred upon indemnified persons under Section 6 ad rights conferred upon permitted Transferees.

(d) Amendment and Modification. This Agreement may be amended or modified only by an instrument in writing signed by or on behalf of such party and any other person then a Stockholder. Any term or provision of this Agreement may be waived in writing at any time by the party which is entitled to the benefits thereof.

(e) Section Headings. The section headings contained in this Agreement are inserted for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument.

(g) Applicable Law. This Agreement and the legal relations between the parties hereto shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the conflict of laws thereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

INVESTOR

TCI TSX, Inc.

By: /s/ Larry Romrell

Its:

ANTEC CORPORATION

By: /s/ Lawrence A. Margolis

Its: Executive Vice President

EXHIBIT 10.18

AGREEMENT FOR PURCHASE AND SALE OF ASSETS

BY AND AMONG

SCIENTIFIC-ATLANTA, INC.
(a Georgia Corporation)

AND

ARRIS INTERNATIONAL, INC.
(a Delaware Corporation)

TEXSCAN DE MEXICO, S.A. DE C.V.
(a Mexican Company)

November 13, 2002

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EXHIBITS AND SCHEDULES

EXHIBITS TO AGREEMENT FOR PURCHASE AND SALE OF ASSETS:

Exhibit	Description

SCHEDULES TO AGREEMENT FOR PURCHASE AND SALE OF ASSETS:

THIS AGREEMENT is made and entered into as of the 13th day of November, 2002, by and among SCIENTIFIC-ATLANTA, INC., a corporation organized under the laws of the State of Georgia ("PURCHASER"), ARRIS INTERNATIONAL, INC., a corporation organized under the laws of the State of Delaware ("ARRIS INTL"), and TEXSCAN DE MEXICO, S.A. DE C.V., a company organized under the laws of Mexico and the wholly-owned subsidiary of ARRIS Intl ("ARRIS MEXICO") (ARRIS Intl and ARRIS Mexico, being sometimes referred to herein, collectively and jointly and severally, as "SELLER").

W I T N E S S E T H:

WHEREAS, Seller, through that portion of its business generally known as the Actives Electronics Business (the "ACTIVES DIVISION"), is engaged in the business of designing, manufacturing, distributing and selling (i) RF transmission products, including but not limited to RF amplifiers, RF integrators and RF headend management products, and (ii) optical transmission products, including but not limited to optical transmitters and nodes, DWDM transport systems, multi-band block converters, and element management software, including status monitoring and control systems (such business, collectively, the "ACTIVES BUSINESS"); and

WHEREAS, Seller desires to sell and transfer to Purchaser and Purchaser desires to acquire from Seller, the assets and properties of the Actives Division which are used in or otherwise required for the conduct and operation of Seller's Actives Business, upon the terms and conditions contained herein;

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

1. PURCHASE AND SALE OF ASSETS.

1.1 PURCHASE AND SALE. Subject to the terms and conditions contained herein, Seller agrees to sell, transfer, convey and assign to Purchaser, and Purchaser agrees to purchase and acquire from Seller, on the Closing Date (as defined in Section 1.10 below), all of Seller's right, title and interest in and to the assets and properties used primarily in the conduct and operation of Seller's Actives Division, excluding therefrom the Excluded Assets (as defined in Section 1.2(b) below) (such assets to be transferred, the "TRANSFERRED ASSETS"), including, without limitation, the following:

(a) all of Seller's machinery and equipment, tooling, production equipment, test equipment, motor vehicles, furniture and fixtures, computer equipment and computer software (to the extent such software is transferable; provided that, to the extent any software listed in the Fixed Assets Register (hereinbelow defined) cannot be transferred to Purchaser and, in accordance with Section 2.18(a) below, Purchaser determines such software is required for the conduct of the Actives Business, an Adjustment in the purchase price will be made in accordance with Section 1.12(a)(i) below) used primarily in or otherwise required for the conduct and operation of Seller's Actives Business, including, without limitation (i) all such items of machinery and equipment, tooling, production equipment, test equipment, motor vehicles, furniture and fixtures, computer equipment and computer software listed on the "Actives Electronics-AIMS Fixed Assets Register, July 2002" (the "FIXED ASSETS REGISTER"), a copy of which is attached hereto as Schedule 1.1(a) (with such deletions from or additions to the Fixed Assets Register as are made in accordance with the provisions of Section 2.18 below; as so amended by such deletions or additions, the "AMENDED FIXED ASSETS REGISTER"), and (ii) all of such assets included in "Machinery & equipment", "Furniture & fixtures", and "Computer equipment &

software" on the unaudited balance sheet of the Actives Business as of July 31, 2002 (the "JULY 31 BALANCE SHEET", as more fully hereinafter defined in Section

3.7), with only such additions and deletions as may have occurred since July 31, 2002 or may hereafter occur between the date hereof and the Closing Date in the ordinary and necessary course of Seller's Actives Business in accordance with Section 5 below (collectively, the "FIXED ASSETS");

(b) all of the inventories of raw materials, work-in-process, and finished goods or products, of Seller's Actives Division in existence at the close of business on the last business day before the Closing Date, including, without limitation the items of inventory (i) included in the listing of inventory prepared by Purchaser and Seller in connection with the physical count of inventory conducted by the parties on or about October 15, 2002 (the "PHYSICAL COUNT INVENTORY LISTING"), a copy of which is attached hereto as Schedule 1.1(b), and (ii) included in the listing of inventory on Schedule 3.11(a), dated September 30, 2002, attached hereto, with only such additions or deletions as may have occurred since the date of such Schedules, respectively, or may hereafter occur between the date hereof and the Closing Date in the ordinary and necessary course of Seller's Actives Business in accordance with Section 5 below (collectively, the "INVENTORIES");

(c) all of the proprietary and confidential information of Seller used primarily in, or otherwise required for, the conduct and operation of Seller's Actives Business, including, without limitation: (i) trade secrets, technical information, know-how, ideas, designs, processes, procedures, algorithms, discoveries, patents, patent applications, and copyrights, and all improvements thereof, relating to Seller's Actives Business and the products of the Actives Division, including, but not limited to the IP Patents set forth in Schedule 3.13(e), (ii) originals or copies of all data, files, books and records, customer lists, and order information, (iii) any internally-developed software used primarily in, or otherwise required for, the conduct of the Actives Business, and (iv) all other information, intellectual property rights and intangible property rights relating to the operation of the other Transferred Assets or Seller's Actives Business, including but not limited to the rights of Seller under the IP License Agreements set forth in Schedule 3.13(b) and Schedule 3.13(c) (but excluding therefrom any IP License Agreements that are Excluded Contracts (as defined in Section 1.3 below));

(d) all of the trademarks, service marks, and trade names of Seller used primarily in, or otherwise required for, the conduct and operation of Seller's Actives Business (excluding therefrom, any trademark, service mark or trade name incorporating in whole or in part the name "ARRIS" or the name "ANTEC") including the trademarks, service marks and trade names set forth in Schedule 3.13(f) hereto, and all registrations and pending applications therefor, and all goodwill associated therewith;

(e) all of Seller's right, title and interest under the (i) sales agreements, contract manufacturing agreements, OEM agreements, leases, licenses and other agreements which are identified in Schedule 1.1(e) attached hereto, and (ii) the sales or customer orders listed in the sales order backlog which also is identified in Schedule 1.1(e) attached hereto (the "SALES ORDER BACKLOG"), together with sales orders which are issued by customers to Seller and entered into by Seller after the date of such Sales Order Backlog in the ordinary and necessary course of Seller's Active Business in accordance with Section 5 below (all such sales or customer orders, the "SALES ORDERS") (all of the foregoing, together with the Purchase Orders referred to in Section 1.1(f) below, but excluding therefrom the Excluded Contracts (defined in Section 1.3 below), collectively, the "ASSIGNED CONTRACTS");

(f) subject to the provisions of Section 1.3 and Section 2.19 below, all of Seller's right, title and interest under (i) the purchase orders listed on the order entry registered dated October 31, 2002 (the "P.O. REGISTER"), a copy of which is attached hereto as Schedule 1.1(f), that remain open or unfilled in whole or in part as of the Closing Date, together with (ii) purchase orders which are entered into by Seller after the date of the P.O. Register in the

ordinary and necessary course of Seller's Actives Business in accordance with Section 5 below, at prices and on terms consistent with the prior operating practices of Seller's Actives Division (collectively, all of the foregoing, the "PURCHASE ORDERS");

(g) all deposits, prepaids and other assets of similar nature related to the Transferred Assets or otherwise arising from the conduct of the Actives Business (the "PREPAIDS"), if any, but only to the extent such Prepaids are included in the calculation of the Post-Closing Purchase Price Adjustment (as hereinafter defined in Section 1.12); and

(h) all of Seller's right and interest in all rights, choses in action and claims, known or unknown, matured or unmatured, accrued or contingent, against third parties, arising from or relating to any of the other Transferred Assets or any Assigned Contract.

1.2 EXCLUDED ASSETS. Notwithstanding anything in this Agreement to the contrary, the Transferred Assets shall not include the following (collectively, all of the following, the "EXCLUDED ASSETS"):

(a) the assets and properties of Seller's (i) taps and passives business, product lines and developments, (ii) fiber-to-the-business and fiber-to-the-home businesses, product lines and developments, (iii) Atoga product lines and developments, (iv) cable telephone and data businesses (whether CBR, IP, DOCSIS or other transmission protocols), products, product lines and any developments, improvements, enhancements or extensions thereof (including without limitation Host Digital Terminals, Voice Ports, Packet Ports, Telephony Ports, Cable Modem Termination Systems (CMTSs), Cable Modems, Home Gateways, Universal Access Switches, Universal Services Gateways, Commercial Services Gateways whether under Seller's Cornerstone(R), Cadant(R), Touchstone(R), Global Access(TM) marks or any other name), (v) the Keptel business, (vi) the ARRIS Electronic Systems Products business, (vii) the ARRIS Telewire business, and (viii) the ARRIS Powering business (collectively, all of the foregoing, the "EXCLUDED BUSINESSES") (including for these purposes as Excluded Assets, the assets and equipment listed on Schedule 2.18(a) (or part thereof) that, in accordance with the provisions of Section 2.18, are determined by Purchaser not to be required for the conduct of the Actives Business are thereby excluded from the Transferred Assets); and

(b) certain assets of Seller's Active Business that shall be excluded from the Transferred Assets (the "EXCLUDED ACTIVES ASSETS"), including only (i) cash, (ii) any fee interest or leasehold interest in any land or buildings used in the conduct of the Actives Business, or any other interest in real property, (iii) any of the notes and accounts receivable of Seller arising from or as a result of Seller's Actives Business, (iv) any of Seller's rights and interests in or under any Excluded Contract or otherwise in or under any contract or agreement other than the Assigned Contracts, (v) the employee and personnel records of the Actives Business, (vi) any trademark, service mark or trade name of Seller incorporating in whole or in part the name "ARRIS" or the name "ANTEC" regardless of whether such mark or name is used in the conduct of Seller's Actives Business, (vii) all of the assets included within the "Other fixed assets" category on the July 31 Balance Sheet, (viii) subject to the provisions of Section 2.20 below, the Solectron Component Inventory (as defined below in Section 1.3), and (ix) any rights or interests of Seller under any of the insurance policies of Seller.

1.3 EXCLUDED CONTRACTS. Anything herein to the contrary notwithstanding, the Assigned Contracts shall not include any of the following contracts and agreements (and none of the following contracts and agreements shall be listed on, or be construed to be a part of the contracts and agreements listed on, Schedule 1.1(e)): (i) all purchase orders for RF hybrid part number 495118622; (ii) any purchase orders for component parts (or portion of such purchase orders) excluded from the Transferred Assets in accordance with the provisions of Section 2.19 below (if any); (iii) subject to the provisions of Section 2.20 below, that certain purchase order dated on or about October 15, 2002 (or other agreement) with Solectron to repurchase from

Solectron certain excess component inventory at a purchase price of $367,000, approximately (the "SOLECTRON COMPONENT INVENTORY"), (iv) except for the AT&T Broadband Sales Contract dated December 1, 1999, as amended (which agreement is listed on Schedule 1.1(e) and is an Assigned Contract hereunder), and subject to the provisions of Section 2.21 below, any and all customer sales agreements and distribution agreements, including but not limited to that the certain distribution agreement with Antec S.A., providing for the exclusive distribution of the products of the Actives Business in South America by Antec S.A.; (v) the License In Agreement (as hereinafter defined) with Lucent Technologies GRL Corporation dated February 1, 2000, (vi) the License In Agreement with DiTech Communications Corp. dated August 13, 1999; (vii) the Contract Manufacturer & OEM Agreements (as hereinafter defined in Section 2.14) that Purchaser determines, in its sole discretion, are not to be assigned and transferred by Seller to Purchaser at Closing but instead are to be terminated (as defined in Section 2.14, "EARLY CONTRACT TERMINATION") in accordance with the provisions of Section 2.14; (viii) any and all purchase orders issued after the date hereof to any vendor or supplier under any Excluded Contract with any vendor or supplier; and (ix) any sales or customer orders issued under any Excluded Distribution & Sales Agreement (as defined below) (collectively, all of the foregoing contracts and agreements, the "EXCLUDED CONTRACTS").

1.4 PURCHASE PRICE; TOTAL CONSIDERATION.

(a) In connection with the purchase and sale of the Transferred Assets, Purchaser shall pay to Seller, subject to adjustment in accordance with the provisions of Section 1.12 below, an aggregate sum of $37,500,000 (the "TOTAL CONSIDERATION").

(b) The Total Consideration shall be paid by Purchaser to Seller (i) on the Closing Date and (ii) subject to the provisions of Section 1.12 below, on the Additional Payment Date (as defined below), as follows:

(i) On the Closing Date, Purchaser shall pay to Seller, in immediately available funds, an amount equal to $32,500,000 (the "CLOSING PAYMENT"); and

(ii) Subject to the provisions of Section 1.12 below, on that date (the "ADDITIONAL PAYMENT DATE") which is ten (10) days after the Adjustment Date (as hereinafter defined in Section 1.12(a) below), Purchaser shall pay to Seller, in immediately available funds, an amount equal to $5,000,000 (the "ADDITIONAL PAYMENT"), together with interest thereon from the Closing Date until paid at an annual rate of interest equal LIBOR plus 50 basis points.

1.5 ASSUMPTION OF CERTAIN LIABILITIES.

(a) Purchaser agrees to assume on the Closing Date, and to pay or perform in accordance with their terms, the following fixed and determinable obligations and liabilities of Seller relating to Seller's Actives Business or the Transferred Assets (collectively the "ASSUMED LIABILITIES"):

(i) Seller's obligations arising from and after the Closing Date to pay when due amounts owing and perform obligations under the Assigned Contracts; provided that, Purchaser will not assume any obligation or liability resulting from or arising out of any default, breach or non-performance by Seller prior to the Closing Date under or with respect to any of the Assigned Contracts;

(ii) the accrued but unpaid expenses arising from the conduct of Seller's Active Business and relating solely to the Transferred Assets (the "ACCRUALS"), if

any, but only to the extent such Accruals are included in the calculation of the Post-Closing Purchase Price Adjustment; and

(iii) Seller's obligations to perform repair-or-replace service warranty work on products sold by Seller to the customers of Seller's Actives Business prior to the Closing Date (the "PRE-CLOSING WARRANTY OBLIGATIONS"), subject however to the following:

(A) from and after the Closing Date, Purchaser shall assume and perform the Pre-Closing Warranty Obligations of Seller;

(B) from and after the Closing Date, Purchaser shall be solely liable for, incur and pay such Pre-Closing Warranty Obligations up to an amount equal to $2,000,000 (said amount to include only the direct labor, material and conversion costs incurred to satisfy or fulfill such Pre-Closing Warranty Obligations, and to exclude any indirect costs, overheads, or corporate charges or allocations) (the "DIRECT WARRANTY COSTS");

(C) if and to the extent that the Direct Warranty Costs incurred by Purchaser to satisfy or fulfill the Pre-Closing Warranty Obligations exceed $2,000,000, in the aggregate and at any future date, then in such event, Seller shall be liable for and shall reimburse to Purchaser one-half (50%) of the amount of such Direct Warranty Costs in excess of $2,000,000 (as more fully hereinafter defined in Section 2.13(b), the "EXCESS DIRECT WARRANTY COSTS"), subject to and in accordance with the provisions of Section 2.13 below.

(b) Nothing contained in this Section 1.5 or in any instrument of assumption executed by Purchaser at the Closing shall be deemed to release or relieve Seller from its representations, warranties, covenants and agreements contained in this Agreement or in any certificate, schedule, instrument or document executed pursuant hereto or in connection herewith, including, without limitation, the obligations of Seller to indemnify Purchaser in accordance with the provisions of Section 8 below.

1.6 OBLIGATIONS NOT ASSUMED. Except for the Assumed Liabilities, Purchaser shall not assume any obligation or liability of Seller of any kind, and Seller shall pay, satisfy and perform all of its obligations (other than the Assumed Liabilities), whether fixed, contingent, known or unknown and whether existing as of the Closing or arising thereafter, which may affect in any way the Transferred Assets or the operation of the Actives Business. Without limiting the generality of the foregoing, under no circumstances shall Purchaser be deemed to assume any liability or obligation of Seller arising out of or relating to: (a) any actual or alleged tortious conduct of Seller or any of its employees or agents; (b) any product liability claim, or any claim arising out of Seller's infringement or alleged infringement of any third party's Intellectual Property; (c) any claim predicated on strict liability or any similar legal theory; (d) the violation of any law, ordinance or regulation prior to the Closing; (e) any business or business activities of Seller which are not part of Seller's Actives Business; (f) any liability of Seller for any taxes of any kind or character; (g) any liability, expense or accrued expense for salaries, wages, bonus, vacation pay or other item of employee compensation or employee benefits with respect to any employee of Seller, including, but not limited to, any such liability, expense or accrued expenses of Seller existing or accrued as of the Closing with respect to the Transferred Employees to be employed by Purchaser pursuant to Section 2.9 below, or (h) any liability of Seller under or arising by reason of this Agreement. Notwithstanding any other provision of this Agreement, the obligations of Seller pursuant to this paragraph shall survive the Closing and the transactions contemplated by this Agreement.

1.7 SALES TAXES. Seller, on the one hand, and Purchaser, on the other hand, each shall pay fifty percent (50%) of any and all sales, use, excise, transfer, value added and similar taxes imposed by any governmental authority in any jurisdiction in connection with the transactions contemplated herein. The parties agree to cooperate with one another to make application for and secure any exemptions from, or credits in respect of, any such sales, use, excise, transfer, goods and services tax or value-added tax, and to execute such documents, forms and applications as may be required to secure such exemptions or credits.

1.8 PREPAIDS; ACCRUALS. The following accrued but unpaid expenses or prepaid items relating to Seller's Actives Business and the Transferred Assets existing or accrued as of the Closing Date shall be included in the calculation of the Post-Closing Purchase Price Adjustment: (a) ad valorem and similar taxes with respect to the Transferred Assets; (b) rents, royalties and other payments, if any, due under the Assigned Contracts; (c) deposits with respect to the Transferred Assets; (d) license fees relating to any of the Transferred Assets; and (e) governmental assessments and charges for services to or with respect to any of the Transferred Assets.

1.9 ALLOCATION OF PURCHASE PRICE. The parties agree that the Total Consideration is being paid for, and shall be allocated among, the Transferred Assets and noncompetition covenants as set forth on Exhibit A attached hereto, or in accordance with such other allocation as the parties shall mutually agree not later than one hundred twenty (120) days after the Closing Date; and, such allocation shall be made in conformity with Section 1060(b) of the Internal Revenue Code of 1986, as amended (the "INTERNAL REVENUE CODE") the regulations promulgated thereunder (and neither party shall unreasonably withhold its consent from or its agreement to an allocation made in conformity with such statutes, regulations or rules). Purchaser and Seller agree to cooperate in filing all information required by Section 1060(b) of the Internal Revenue Code and the regulations thereunder, and to take no position on any income tax return, report or filing inconsistent with such allocation; provided that nothing herein shall be construed as a warranty by one party to the other than such allocation will be accepted or agreed by any taxing authority.

1.10 CLOSING. Unless otherwise agreed by the parties in writing, the consummation of the transactions contemplated in this Agreement (the "CLOSING") shall take place at the offices of Paul, Hastings, Janofsky & Walker LLP, Suite 2400, 600 Peachtree Street, N.E., Atlanta, Georgia 30308, at 10:00 a.m. local time, on the later of: (a) November 21, 2002; or (b) the second business day after the date on which all conditions to closing contained in Sections 6 and 7 have been satisfied (the "CLOSING DATE"); provided, however, that if the conditions to closing contained in Sections 6 and 7 have not been satisfied or waived by December 31, 2002 (the "TERMINATION DATE"), the obligations of the parties to consummate the transactions contained herein shall terminate. Provided, however, that such termination shall not discharge or otherwise affect any liability of either party for failure to comply with or perform its obligations to satisfy any such conditions.

1.11 TRANSACTIONS AND DOCUMENTS AT CLOSING.

(a) At the Closing:

(i) Seller shall convey to Purchaser all of Seller's right, title and interest in and to the Transferred Assets, free and clear of any and all liens, claims, charges and encumbrances, and in furtherance thereof shall deliver to Purchaser one or more General Bills of Sale and Assignment in substantially the form attached hereto as Exhibit B, together with such other bills of sale, assignments, certificates of title, documents and other instruments of transfer and conveyance as Purchaser and its legal counsel shall reasonably request, including but not limited to any forms or assignments

required to transfer to Purchaser the IP Patents and IP Trademarks, and all registrations thereof; and

(ii) upon such delivery by Seller: Purchaser shall (A) pay the Closing Payment, in accordance with and subject to the provisions of Section 1.4(b)(i) above; and Purchaser shall assume the Assumed Liabilities by delivering to Seller one or more Assumption Agreements in substantially the form attached hereto as Exhibit C.

(b) All deliveries, payments and other transactions and documents relating to the Closing shall be interdependent and none shall be effective unless and until all are effective (except to the extent that the party entitled to the benefit thereof has waived satisfaction or performance thereof as a condition precedent to Closing).

(c) Each party shall, at the request of any other party from time to time and at any time, whether on or after the Closing Date, and without further consideration, execute and deliver such deeds, assignments, transfers, assumptions, conveyances, powers of attorney, receipts, acknowledgements, acceptances and assurances as may be reasonably necessary to procure for the party so requesting, and its successors and assigns, or for aiding and assisting in collecting and reducing to possession, any and all of the Transferred Assets or the Assumed Liabilities, or otherwise to satisfy and perform the obligations of the parties hereunder.

1.12 POST-CLOSING PURCHASE PRICE ADJUSTMENT.

(a) Within sixty (60) days after Closing, Purchaser shall deliver to Seller (the date of such delivery being the "ADJUSTMENT DATE") a statement (the "STATEMENT") showing its calculation of the post-closing purchase price adjustment ("POST-CLOSING PURCHASE PRICE ADJUSTMENT" or "ADJUSTMENT"), as follows:

(i) FIXED ASSETS. The Statement shall itemize the Fixed Assets delivered by Seller to Purchaser on the Closing Date (taking into account, the items of Fixed Assets included or excluded under the provisions of Section 2.18 below), in the same categories or groupings of assets as shown for Fixed Assets on the July 31 Balance Sheet, showing for each such category or grouping of items of Fixed Assets, in the aggregate for all such items in such category, the original cost for such items, the accumulated depreciation for such items, and the resulting net book value for all such items, all determined in accordance with generally accepted accounting principles (the total net book value of all categories of all such Fixed Assets delivered by Seller to Purchaser on the Closing Date, the "TOTAL NET BOOK VALUE OF FIXED ASSETS DELIVERED").

(A) If the Total Net Book Value of the Fixed Assets Delivered exceeds $3,760,021 (the "TARGET NET BOOK VALUE OF FIXED ASSETS", subject to and as the same may be adjusted in accordance with the provisions of Section 2.18 below), then a positive purchase price adjustment (in favor of Seller) shall be made in an amount equal to such excess; or, alternatively (subject to application of the Fixed Asset Threshold Amount, as set forth below),

(B) If the Total Net Book Value of the Fixed Assets Delivered is less than the Target Net Book Value of Fixed Assets (again, as may be adjusted in accordance with the provisions of Section 2.18), then a negative purchase price adjustment (in favor of Purchaser) shall be made in an amount equal to such shortfall (again, subject to application of the Fixed Asset Threshold Amount, as set forth below).

(C) Provided, however, that if an item of Fixed Assets listed in the Fixed Assets Register is not delivered at Closing or otherwise missing (or, in the case of an item of computer software, such item of software cannot be transferred to Purchaser), and (1) if such missing or non-transferable item has been fully depreciated on the Fixed Assets Register or otherwise on Seller's books, and (2) if Purchaser determines, in its reasonable discretion, that such missing or non-transferable item is critical to the conduct of the Actives Business, then in such case the Total Net Book Value of Fixed Assets Delivered shall be reduced by an amount equal to ten percent (10%) of the original cost of such missing item.

Provided that, a Post-Closing Purchase Price Adjustment shall be made pursuant to the provisions of this Section 1.12(a)(i) respecting the Fixed Assets only if, and only to the extent that (i) in the case of an Adjustment in favor of Seller, the Total Net Book Value of Fixed Assets Delivered exceeds the Target Net Book Value of Fixed Assets plus $150,000 (such $150,000 amount, the "FIXED ASSET THRESHOLD AMOUNT"), or (ii) in the case of an Adjustment in favor of Purchaser, the Total Net Book Value of Fixed Assets Delivered is less than the Target Net Book Value of Fixed Assets minus the Fixed Asset Threshold Amount.

(ii) INVENTORIES. The Statement shall also itemize in reasonable detail the Inventories delivered by Seller to Purchaser on the Closing Date, showing for each item or category of items of Inventory (at the part number level), Seller's unit standard cost for such item(s) as of July 31, 2002, being the unit standard cost for such items of inventory as shown on the July 31, 2002 perpetual inventory (and not the net inventory after any reserves), said unit standard cost as of July 31 to also be provided on the Physical Count Inventory Listing (or schedule attached thereto) for each item of inventory listed therein (or, in the case of a new part number, if the unit standard cost as of July 31, 2002, of any item is not available, then such item of inventory shall be valued at its original cost); and, the Statement shall show the total standard cost in the aggregate for all such items of Inventory delivered by Seller to Purchaser on the Closing Date (the "TOTAL STANDARD COST OF INVENTORY DELIVERED").

(A) If the Total Standard Cost of the Inventory Delivered exceeds $32,363,000 (the "TARGET STANDARD COST OF INVENTORY", subject to and as the same may be amended in accordance with the provisions of Section 1.12(a)(ii)(C) below), then a positive purchase price adjustment (in favor of Seller) shall be made in an amount equal to such excess; or, alternatively,

(B) If the Total Standard Cost of the Inventory Delivered is less than the Target Standard Cost of Inventory, then a negative purchase price adjustment (in favor of Purchaser) shall be made in an amount equal to such shortfall.

(C) Schedule 1.12(a)(ii)(C) attached hereto sets forth, by part number for each item of such Inventory, a listing of items of Inventory scrapped since July 31, 2002. If and to the extent that (i) such items of inventory that have been scrapped have been specifically identified as reserved in such Schedule (and not merely charged to a general reserve), and (ii) the aggregate standard cost of all such items of scrapped inventory (determined on the basis of the unit standard cost shown in the July 31, 2002 perpetual inventory)

does not exceed $260,000, then the Target Standard Cost of Inventory shall be reduced by the amount of such aggregate amount of scrapped inventory (such reduction in the Target Standard Cost of Inventory not to exceed, in any event, $260,000).

(iii) PREPAIDS; ACCRUALS. The Statement shall also itemize in reasonable detail the amount of the Prepaids transferred by Seller to Purchaser at Closing and the amount of the Accruals assumed by Purchaser from Seller at Closing.

(A) If the amount of the Prepaids exceed the amount of the Accruals, then a positive purchase price adjustment (in favor of Seller) shall be made in an amount equal to such excess; or, alternatively,

(B) If the amount of the Prepaids is less than the amount of the Accruals, then a negative purchase price adjustment (in favor of Purchaser) shall be made in the amount of such shortfall.

(iv) POST-CLOSING PURCHASE PRICE ADJUSTMENT. The Statement shall calculate the aggregate, net Post-Closing Purchase Price Adjustment, whether it be a net positive purchase price adjustment owing by Purchaser to Seller or, alternatively, a net negative purchase price adjustment owing by Seller to Purchaser, computed in accordance with the foregoing provisions of Section 1.12(a)(i), (ii) and (iii) and taking into account each of the positive and negative purchase price adjustments for Fixed Assets, Inventory, and Prepaids and Accruals.

(b) In rendering the Statement showing the Post-Closing Purchase Price Adjustment, Purchaser and its accountants shall consult with Seller and its accountants as may be necessary to determine such Adjustment in accordance with the terms hereof, and as may be required Seller shall grant to Purchaser and its accountants access to and copies of such of Seller's books and records necessary to determine the Adjustment and prepare the Statement.

(c) Any dispute which may arise between Purchaser and Seller as to the Statement or any part thereof, and the calculation of the Post-Closing Purchase Price Adjustment, shall be resolved in the following manner:

(i) If Seller disputes the Statement or the Post-Closing Purchase Price Adjustment, Seller shall notify the Purchaser in writing within ten (10) days after the Adjustment Date, and shall specify in detail the basis and reason for such dispute and the amount which is in dispute (the "DISPUTED AMOUNT");

(ii) during the twenty (20) day period following the date of such notice, Purchaser and Seller shall attempt to resolve such dispute; and

(iii) if at the end of the twenty (20) day period specified in clause (ii) above, the parties shall have failed to reach agreement with respect to such dispute, the matter shall be referred to the Atlanta office of PriceWaterhouse Coopers, or such other firm of independent certified public accountants as the parties mutually agree, who shall act as an arbitrator. The arbitrator shall be instructed to use every reasonable effort to perform such services within thirty (30) days of the submission to it of the Statement and related dispute and, in any case, as soon as practicable after such submission. Each of the parties shall bear all costs and expenses incurred by it in connection with such arbitration, and the fees of the arbitrator shall be shared

equally by the Purchaser, on the one hand, and Seller, on the other hand. The provision for arbitration shall be specifically enforceable by the parties and the decision of the arbitrator in accordance with the provisions hereof shall be final and binding and there shall be no right of appeal therefrom.

(d) Subject to the provisions of Section 1.12(e) below, within ten (10) days after the Adjustment Date, the amount of the Post-Closing Purchase Price Adjustment shall be paid by Purchaser to Seller, or as the case may be, by Seller to Purchaser, in either case in

immediately available funds. Any payment made under this Section 1.12(d) shall bear interest from the Closing Date until paid at an annual rate of interest equal to the one month London Interbank Offering Rate as published in the Wall Street Journal on the Closing Date ("LIBOR"), plus fifty (50) basis points.

(e) Provided, however, that:

(i) At the election of Seller, any Adjustment payable by Seller to Purchaser under Section 1.12(d) above may be set-off against and reduce the amount otherwise due to Seller from Purchaser on the Additional Payment Date; if, however, such Adjustment payable by Seller to Purchaser exceeds the amount of such Additional Payment, such excess amount shall be paid by Seller to Purchaser in immediately available funds in accordance with the provisions of Section 1.12(d) above (and the balance applied against, so as to reduce to zero, the Additional Payment);

(ii) In the event of a dispute made in accordance with the provisions of Section 1.12(c) above, (A) notwithstanding such dispute, the parties shall make any adjusting payment required under Section 1.12(d) above to the extent that the amount of the Adjustment set forth in the Statement exceeds the Disputed Amount, at the time and in the manner set forth above, (B) the balance (being the Disputed Amount or such different amount compromised by the parties or determined by arbitration (whether more or less than the Disputed Amount) (the "SETTLEMENT AMOUNT"), together with interest thereon from the Closing Date until paid at an annual rate of interest equal to LIBOR, plus fifty (50) basis points, shall be paid within five (5) days of such compromise or determination, (C) if such compromise or determination is made prior to the payment of the Additional Payment, the Settlement Amount, if owing by Seller to Purchaser, may be set-off by Seller against the Additional Payment, subject to the limitations of Section 1.12(e)(i) above and to the extent that any amount of Additional Payment remains payable and outstanding, and (D) pending such dispute and until the Settlement Amount is determined, Purchaser shall have the right to withhold from the Additional Payment an amount equal to the Disputed Amount; and

(iii) Purchaser shall have the right to set-off against and reduce the Additional Payment payable by Purchaser to Seller, by the amount of any Adjustment Amount or Settlement Amount payable by Sellers to Purchaser, if and to the extent such Adjustment Amount or Settlement Amount is not paid in full when due.

2. ADDITIONAL AGREEMENTS.

2.1 PURCHASER'S ACCESS AND INSPECTION. Seller shall provide Purchaser and its authorized representatives reasonable access during normal business hours from and after the date hereof until the Closing to the Transferred Assets and the books and records of Seller relating to Seller's Actives Business for the purpose of making such investigation as Purchaser may require, and Seller shall furnish Purchaser such information concerning Seller's Actives Business or the Transferred Assets as Purchaser may request. Seller

shall assist Purchaser in making such investigation and shall cause its counsel, accountants, engineers, consultants and other non-employee representatives to be reasonably available to and to cooperate with Purchaser for such purposes. No investigation made heretofore or hereafter by Purchaser shall limit or affect the representations, warranties, covenants and indemnities of Seller hereunder, each of which shall survive any such investigation. Purchaser acknowledges that access by Purchaser to the books, records and information of the Excluded Business and to proprietary information of third parties may be restricted.

2.2 CONFIDENTIALITY. If the transactions contemplated herein are not consummated, Purchaser shall return to Seller all documents and other written information furnished by Seller to Purchaser, and Purchaser shall be and remain bound by the provisions of that certain Confidentiality Agreement dated May 15, 2002, by and between S-A and Seller.

2.3 COOPERATION. The parties shall cooperate fully with each other and with their respective counsel and accountants in connection with any steps required to be taken as part of their respective obligations under this Agreement, and all parties shall use their best efforts to consummate the transactions contemplated herein and to fulfill their obligations hereunder, including, without limitation, causing to be fulfilled at the earliest practical date the conditions precedent to the obligations of the parties to consummate the transactions contemplated hereby. Without the prior written consent of the other parties, no party hereto may take any intentional action that would cause the conditions precedent to the obligations of the parties hereto to effect the transactions contemplated hereby not to be fulfilled, including, without limitation, taking or causing to be taken any action which would cause the representations and warranties made by such party herein not to be true, correct and complete as of the Closing.

2.4 EXPENSES.

(a) All expenses incurred by Purchaser in connection with the authorization, preparation, execution and performance of this Agreement, including, without limitation, all fees and expenses of agents, representatives, counsel and accountants for Purchaser, shall be paid by Purchaser. All expenses incurred by Seller in connection with the authorization, preparation, execution and performance of this Agreement, including, without limitation, all fees and expenses of agents, representatives, counsel and accountants for Seller shall be paid by Seller.

(b) The parties understand and agree that (i) Seller shall, with the assistance of Purchaser, pack, palletize, wrap the Inventories, and load the Inventories and the Fixed Assets and other tangible Transferred Assets on Purchaser's trucks at Seller's facilities, and (ii) Purchaser shall be responsible for the shipment, carriage and delivery of such Transferred Assets from Seller's facilities to Purchaser's facilities and the expense and costs thereof, including insurance costs.

2.5 BROKERS. Each party hereto represents and warrants that no broker or finder has acted on its behalf in connection with this Agreement or the transactions contemplated herein. Each party shall indemnify the other parties and hold them harmless from and against any and all claims or demands for commissions or other compensation by any broker, finder or similar agent claiming to have been employed by or on behalf of such party.

2.6 COVENANT AGAINST COMPETITION.

(a) In order to induce Purchaser to enter into this Agreement and purchase the Transferred Assets as provided herein, Seller agrees that, for a period of two (2) years beginning on the Closing Date and ending on the second anniversary date thereof, it will not, without the prior written consent of Purchaser, for its own account or jointly with another, directly or indirectly, for or on behalf of any individual, partnership, corporation or

other legal entity, as principal, agent or otherwise:

(i) engage in, consult with, or own, control, manage or otherwise participate in the ownership, control or management of a business engaged in the manufacture, assembly, purchase for resale, sale, or distribution of any headend-to-home access loop analog HFC products, including: (A) analog optical transmitters including 1310 nm transmitters, 1550 nm transmitters and 1550 nm QAM transmitters; (B) analog DWDM/CWDM products; (C) optical amplifiers; (E) fiber optic nodes; (F) baseband digital

reverse transmitters; (G) RF signal managers and RF integrators; (H) other similar headend-to-node access loop analog HFC products; and (I) element management software, including status monitoring and control systems exclusively for such products (collectively, the "HEADEND-TO-HOME ACCESS LOOP ANALOG HFC PRODUCTS"); or

(ii) solicit, call upon, or attempt to solicit the patronage of any individual, partnership, corporation or other legal entity, for the purpose of obtaining the patronage of any such individual, partnership, corporation or other legal entity for the purchase of any Headend-to-Home Access Loop Analog HFC Products, except on behalf of Purchaser; or

(iii) solicit or induce, or in any manner attempt to solicit or induce, any Transferred Employee to leave his or her employment with Purchaser, whether or not such employment is pursuant to a written contract with Purchaser or otherwise.

(b) The parties acknowledge that Purchaser and Seller are active competitors throughout their respective businesses outside of the Actives Business. The covenants set forth in Section 2.6(a) are to be construed so as to not affect the current or future operations of such other businesses. The covenants set forth in Section 2.6(a) shall not be construed so as to restrict, and shall not restrict, in any way, the operations, business, sales and marketing efforts or other commercial activities of (i) any distribution or resale business which Seller engages in, (ii) any of the Excluded Businesses or their respective products, product lines or any improvements, enhancements or extensions thereof, (iii) any purchaser of Seller or of Seller's assets or businesses (in whole or in part), or (iv) any business acquired by Seller or its parent company (whether through acquisition, merger or otherwise) provided that such acquisition by Seller (or its parent company) occurs after the date that is eighteen (18) months after the Closing Date. In addition, the covenants set forth in Section 2.6(a) shall not restrict the ability of Seller to provide joint bids with other manufacturers or distributors or to provide bids using the products of competitors of Purchaser (and sell products pursuant to such bids or joint bids) when Seller believes in good faith that the likelihood of its achieving sales will be enhanced by using such products of others in such bids.

2.7 PUBLIC ANNOUNCEMENTS. The parties hereto shall consult with each other before issuing any press release or otherwise making any public statements with respect to the transactions contemplated hereby and, except as required by law or applicable securities law regulation, any party planning to make such a press release or public statement shall submit copies of the proposed press release or public statement to the other party for review at least three (3) business days prior to the dissemination thereof and shall include all reasonable revisions requested by the reviewing party. Notwithstanding the foregoing, this Section 2.7 shall not preclude any party from issuing such press releases, making such other public statements or making such filings with or applications to governmental authorities or courts as such party in good faith believes to be required under applicable law or applicable securities law regulations.

2.8 WAIVER OF BULK SALES LAW COMPLIANCE. Compliance with the bulk

sales laws in any jurisdiction where Seller conducts its business applicable to the purchase and sale of the Transferred Assets (if any) is hereby waived by Purchaser, and Seller hereby agrees to defend, indemnify and hold harmless Purchaser and its affiliates from and against any claims by any person arising out of or due to the failure to comply with such bulk sales laws, including, without limitation, any claims by any person against all or any part of the Transferred Assets. The obligations of Seller under this paragraph shall not be subject to any limitations set forth in Section 9.1(a) or Section 10.1 of this Agreement, which shall not apply to the obligations of Seller under this paragraph.

2.9 EMPLOYEES.

(a) From and after the date hereof, Seller shall provide Purchaser and its authorized representatives reasonable access during normal business hours to the employees of the Actives Division, to permit Purchaser to interview such employees, to determine whether Purchaser wishes to offer employment to such employees, and to explain to such employees the terms and conditions of employment, benefits and other matters relating to employment with Purchaser. Prior to the Closing Date, Purchaser shall provide to Seller the names of the employees of Seller's Actives Division to whom Purchaser intends to offer employment with Purchaser effective the Closing Date (the "SELECTED EMPLOYEES"); provided that, Purchaser shall not make offers of employment to any of the employees listed on Schedule 2.9 attached hereto. Seller agrees to cooperate with Purchaser and provide reasonable assistance to Purchaser in extending offers of employment to the Selected Employees, in the manner described in Section 2.9(b) below. In no event shall Seller solicit or induce, or in any manner attempt to solicit or induce, any Selected Employee (i) to be employed by Seller or by Seller's Excluded Businesses, or (ii) otherwise to not accept Purchaser's offer of employment. Seller agrees that any Selected Employee who refuses an offer of employment by Purchaser shall not be entitled to receive any severance pay or benefits from Seller under any severance plan, policy or arrangement of Seller.

(b) The number of Selected Employees will be not less than forty (40). Purchaser shall invite the Selected Employees to apply for consideration for employment with Purchaser upon terms and conditions of employment initially set by Purchaser; in connection therewith, letters will be distributed to the Selected Employees inviting them to apply for consideration for employment with Purchaser, and said letters will generally describe wages, benefits and other terms and conditions being offered by Purchaser. All such offers of employment will be on such terms and conditions as Purchaser, in its sole discretion, may determine and extend to the Selected Employees (or any of them); provided that, each such offer (i) will be at a comparable base salary as such employee has with Seller (as heretofore disclosed by Seller to Purchaser in writing), and (ii) will generally include such benefits as are provided by Purchaser to its employees similarly situated. Purchaser and Seller shall cooperate with one another, and use reasonable efforts to cause or induce each of the Selected Employees listed in Schedule 6.7, or substitutions therefor agreed by Purchaser (the "KEY EMPLOYEES") to accept Purchaser's offer of employment. Any Selected Employee to whom Purchaser offers employment and who elects to become an employee of Purchaser, is hereinafter referred to as a "TRANSFERRED EMPLOYEE". In the event that Purchaser terminates the employment of any Transferred Employee for reasons other than "cause" during the period of time that severance would have been paid by Seller to such employee in accordance with Seller's severance plan, had such employee's employment been terminated by Seller as of the Closing Date in circumstances that such employee would be entitled to severance under Seller's severance plan (the "Severance Period"), Purchaser agrees that it will provide severance pay to such terminated Transferred Employee through the end of the Severance Period. The Transferred Employees who accept Purchaser's offer of employment at the terms and conditions initially set by Purchaser shall become employees of Purchaser immediately following the Closing. Nothing in this Agreement shall be construed as giving any person any right to any terms and conditions of employment, including but

not limited to any type of compensation or benefits, with Purchaser. Nothing in this Agreement is intended to, nor does it, confer any rights or privileges upon any person not a party to this Agreement.

(c) Seller shall be responsible for all liabilities and costs arising from or relating to any claims by or on behalf of persons who at or prior to the Closing are or were employees of Seller, including but not limited to employees of the Actives Business and including all Transferred Employees, in respect of salary, wages, back pay, severance pay, accrued vacation, accrued sick leave, personal days, shut down benefits, and any other similar obligations ("TERMINATION COSTS") relating to such employees' employment with Seller and/or the termination of such employees' employment with Seller, or any break in service or any other event entitling someone to payments for such benefits which occurs on or prior to the Closing. Without limiting the generality of the foregoing, Seller shall be liable for compliance under governing state, federal

and local laws and regulations relating to employment, including but not limited to the Worker Adjustment and Retraining Notification Act ("WARN ACT"), for the termination of the employment of any employees prior to or at Closing.

(d) Purchaser shall only be responsible for all Termination Costs relating to the termination of any Transferred Employee's employment with Purchaser which occurs after the Closing.

2.10 EMPLOYEE BENEFIT PLANS AND OTHER LIABILITIES.

(a) Purchaser will permit the Transferred Employees hired by Purchaser to participate, on the same basis that Purchaser's employees similarly situated participate, in any employee benefit plans and programs, as that term is defined by Section 3(2)(A) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as are maintained or may be established by Purchaser and made available to the employees of Purchaser, excluding therefrom any defined benefit or pension plan. Purchaser shall not be required to recognize prior service or benefit service with Seller for any purpose, plan or welfare benefit.

(b) No assets or liabilities with respect to Transferred Employees shall be transferred, as a result of this Agreement, from any pension plans maintained, sponsored, contributed to, or required to be contributed to by Seller applicable to its employees in the Actives Business to any plan maintained or established by Purchaser, and Seller shall retain all obligations to fund or otherwise provide benefits accrued by Transferred Employees under such pension plans before the Closing.

(c) Except as otherwise provided in this Agreement, Seller shall retain, and Purchaser shall not assume, any liabilities and obligations of Seller relating to employees or employee benefits. Without limiting the foregoing, Seller shall retain, and Purchaser shall not assume, obligations and liabilities with respect to (i) any pension plans, welfare plans and other employee benefit plans or arrangements maintained, sponsored, contributed to, or required to be contributed to by Seller relating to Transferred Employees, or any other present, former or retired employees of Seller, including, without limitation, liabilities and obligations for retiree benefits and (ii) any other employee-related liabilities arising at or before, or by reason of, the Closing, or otherwise in respect of any period at or before the Closing, including without limitation the obligation to provide "continuation coverage" (as defined in Section 4980B(f) of the Internal Revenue Code, as amended) to any such person and Seller shall offer and provide such continuation coverage.

(d) Purchaser shall offer the Transferred Employees who were participants on the Closing Date in Seller's group health plan the option to obtain coverage under a group health plan, which plan will give such

employees credit for their service with Seller towards any waiting period, or exclusion or limitation for preexisting conditions with respect to the benefits provided thereunder to the Transferred Employees, as the case may be. All other terms and conditions of any such plan, including without limitation, eligibility and service requirements, shall be in Purchaser's sole discretion.

2.11 WELFARE PLANS.

(a) Effective immediately after the Closing, each Transferred Employee shall become a participant in such employee welfare benefit plans (as such term is defined in Section 3(1) of ERISA and other benefit arrangements, if any, as may be provided by Purchaser if such Transferred Employee participated on the day prior to the Closing Date in a parallel plan maintained by Seller.

(b) With respect to any disability benefits, Seller's welfare benefit plans shall be responsible for payment of any and all benefits (regardless of whether payment is required to be made after the Closing) for: (i) any individual who is in receipt of such benefits as of the Closing, and (ii) any individual who becomes disabled prior to the Closing and who remains disabled for the length of any qualifying disability period.

(c) Notwithstanding anything contained herein, Purchaser shall not be obligated to provide retiree medical welfare benefits to any Transferred Employee or other present, former, or retired employee of Seller. All retiree medical benefits provided at any time by Seller shall be the sole responsibility of Seller.

2.12 WORKERS' COMPENSATION. Seller will retain liability for all workers' compensation claims filed by the Transferred Employees which are primarily attributable to accidents or events occurring prior to the Closing, whether claims therefor are filed before or after the Closing. Except to the extent retained by Seller as set forth in the foregoing sentence, Purchaser shall be liable for workers' compensation claims arising out of accidents or events occurring after the Closing with respect to Transferred Employees.

2.13 PRE-CLOSING WARRANTY OBLIGATIONS.

(a) In accordance with the provisions of Section 1.5(a)(iii) hereof: (i) Purchaser shall be solely responsible for the Direct Warranty Costs incurred to satisfy or fulfill such Pre-Closing Warranty Obligations up to $2,000,000; and (ii) Purchaser, on the one hand, and Seller, on the other hand, each shall be responsible for one-half of the Direct Warranty Costs in excess of $2,000,000 (as defined in Section 1.5(a)(iii), the "EXCESS DIRECT WARRANTY COSTS").

(b) Purchaser shall invoice Seller for its one-half share of all Excess Direct Warranty Costs, on a monthly basis in arrears, if, and as and when, such Excess Direct Warranty Costs are incurred. Seller shall reimburse and pay to Purchaser the amount of any and all such invoices for Excess Direct Warranty Costs, within thirty (30) days of receipt of such invoice.

(c) Seller shall have the right from time to time, but not more often than quarterly, at Seller's expense on reasonable notice to Purchaser, to inspect and audit the books and records of Purchaser relating, solely, to the Direct Warranty Costs incurred by Purchaser to satisfy or fulfill the Pre-Closing Warranty Obligations, for the purpose of determining and confirming the amount of the Excess Direct Warranty Costs payable by Seller to Purchaser. In connection therewith, Purchaser shall cooperate with Seller and grant to Seller and its accountants access to such banks and records for such purpose.

2.14 AGREEMENTS WITH CONTRACT MANUFACTURERS AND OEMS.

(a) Schedule 2.14 attached hereto sets forth a complete list of each contract or agreement of Seller pursuant to which a third party manufactures or assembles component parts or products for Seller's Actives Business, whether as a contract manufacturer or as an original equipment manufacturer ("OEM") (the "CONTRACT MANUFACTURER AND OEM AGREEMENTS"). Seller has heretofore delivered to Purchasers a true, correct and complete copy of each of the Contract Manufacturer and OEM Agreements. Except as set forth in Schedule 3.5 as a Required Consent, no consent, approval or action of, or any filing with or notice to, any other party or any person is required for Seller to assign to Purchaser its rights and obligations under any Contract Manufacturer and OEM Agreement.

(b) Purchaser shall have the right to determine, at its sole discretion and at any time at or prior to Closing, which Contract Manufacturer and OEM Agreements shall be assigned by Seller to Purchaser at Closing. All Contract Manufacturer and OEM Agreements so

selected by Purchaser to be assigned by Seller to Purchaser shall be Assigned Contracts hereunder, and shall be added or deemed to be part of Schedule 1.1(e) for all purposes of this Agreement. All Contract Manufacturer and OEM Agreements not so selected by Purchaser to be assigned by Seller to Purchaser, shall be terminated by Seller and treated as an Early Contract Termination in accordance with the provisions of this Section 2.14 (and, accordingly, any and all costs incurred with such Early Contract Termination shall be shared in the manner set forth below).

(c) From and after the Closing Date, Seller shall cooperate fully with Purchaser in connection with, and shall use its reasonable best efforts to effectuate the assignment, transfer and transition of each Contract Manufacturer and OEM Agreement that Purchaser has selected to be assigned to Purchaser at Closing. It is understood and agreed that, notwithstanding such assignment, Purchaser shall have the right to determine, solely in its discretion, which of the Contract Manufacturing and OEM Agreements, so assigned by Seller to Purchaser, are to be terminated following Closing prior to the normal expiration of such agreements ("EARLY CONTRACT TERMINATIONS"). The parties shall cooperate with one another and use their reasonable best efforts to effect any such Early Contract Terminations over a phased, transitional period at the lowest possible costs.

(d) Any and all costs incurred in connection with all Early Contract Terminations (whether by reason that (i) such contract was not assigned at Closing or (ii) alternatively, such contract was terminated early by Purchaser after Closing), including but not limited to amounts paid in settlement to the third party contract manufacturer by reason of such early termination, shall be borne by Seller, on the one hand, and Purchaser, on the other hand, equally on a 50%/50% basis; except that Purchaser's share of any such costs incurred in connection with an Early Contract Termination of the JDS Uniphase Development Agreement shall not exceed $250,000.

(e) In the event that in connection with any Early Contract Termination, (i) any item of equipment, tooling or other fixed asset included in the Fixed Assets transferred by Seller to Purchaser at Closing or (ii) any item of inventory included in the Inventory transferred by Seller to Purchaser at Closing, is not transferred by the third party contract manufacturer to Purchaser, then in any and each such event: (A) Seller shall either, at the election of Seller, (A) replace such item of Fixed Assets or Inventory (such replacement item to be reasonably satisfactory to Purchaser) or (B) reimburse Purchaser the amount of the Adjustment respecting Fixed Assets that would result from such item being missing under the provisions of Section 1.12(a)(i) above; (B) such replacement or reimbursement shall be made as a separate purchase price adjustment, without regard to the procedures or the timing set forth in Section 1.12; and (C) such replacement or reimbursement shall not be considered or deemed to be a part of the costs to be shared by Seller and Purchaser pursuant to Section 2.14(d) above, but instead shall be

paid solely by Seller.

2.15 SETTLEMENT OF PATENT DISPUTE; CROSS LICENSE; PATENT LICENSES. (a) At the Closing: (i) Purchaser and Seller shall enter into a Settlement and Cross-License Agreement, substantially in the form of Exhibit D attached hereto (the "SETTLEMENT AND CROSS-LICENSE AGREEMENT"), pursuant to which: (i) the parties will settle all disputes and release all claims relating to the alleged infringement by Seller of U.S. Patent Nos. 5,850,165 and 5,648,745; (ii) the parties will settle all disputes and release all claims relating to the alleged infringement by Purchaser of U.S. Patent No. 6,033,101; and (iii) the parties will cross-license one another as to the use of such patents, on a non-exclusive, royalty-free and perpetual basis.

(b) At the Closing, Purchaser and Seller shall enter into a Limited Patent License Agreement, substantially in the form of Exhibit E attached hereto (the "LIMITED PATENT LICENSE AGREEMENT"), pursuant to which Purchaser will grant to Seller a limited license to use the U.S. patents issuing or that may issue under two patent applications entitled, respectively, "Fiber Tray

Clutch Hinge" and "Module Fiber Optic Connector Cleaning Slide" (being patent applications transferred by Seller to Purchaser at Closing) with respect to the manufacture and sale of certain of Seller's products, on a non-exclusive, royalty-free and perpetual basis.

2.16 DISTRIBUTION AGREEMENT. Purchaser and Seller agree to negotiate and, if mutually agreeable to Purchaser and Seller, execute and enter into a distribution agreement, on and subject to the terms and conditions generally contained in Purchaser's existing distribution agreement with Seller's Telewire business, and such other terms as may be negotiated and mutually agreed, on or after the Closing Date; provided that, notwithstanding this statement of intent, if for any reason the parties shall have not executed and entered into a mutually agreeable distribution agreement on or before January 1, 2003, then this Section 2.16 shall be of no further force or effect and the parties shall have no liability or obligation to one another hereunder.

2.17 TRANSITION SERVICES AGREEMENT. At the Closing, Purchaser and Seller shall enter into a Transition Services Agreement, substantially in the form of Exhibit F attached hereto (the "TRANSITION SERVICES AGREEMENT"), pursuant to which Seller shall provide to Purchaser certain services from and after the Closing, including but not limited to: e-mail, telephone and mail forwarding; information technology support; continued use of certain of Seller's facilities; customer support; transition with respect to order entry and return; and data movement (such as inventory logs and data); in each case, for such period or periods of time as are established in the Transition Services Agreement. The Transition Services Agreement shall also provide (i) for the joint preparation, as between Purchaser and Seller, of notifications to customers, (ii) a limited license granting to Purchaser the right to use the ARRIS and ANTEC trademarks and names, for such period of time (A) as is required to fully consume inventories of parts, packaging and other items transferred to Purchaser that are marked with such trademarks and names and/or (B) reasonably required to replace tooling transferred to Purchaser that stamp or print such trademarks and names, and (iii) the period of time following the Closing in which Purchaser will be allowed to remove the Fixed Assets and Inventories from Seller's facilities, and other matters as more fully set forth in the Transition Services Agreement.

2.18 AMENDMENT TO FIXED ASSETS REGISTER. (a) Schedule 2.18(a) attached hereto lists certain assets, equipment and software, otherwise also listed and contained on the Fixed Assets Register, that (A) Seller uses, in part, in the conduct of the Excluded Businesses and/or (B) in the case of software, Seller cannot transfer to Purchaser. In connection with the determination of the Post-Closing Purchase Price Adjustment for Fixed Assets, if

Purchaser determines, in its reasonable discretion, that the assets, equipment and software listed on Schedule 2.18(a), or any part thereof, are not required for the conduct of the Actives Business, then in such event (but only in such event), (i) the assets, equipment and software, or part thereof, listed on Schedule 2.18(a) and determined by Purchaser not to be required for the conduct of the Actives Business will be excluded and deleted from the Fixed Assets Register, (ii) such assets, equipment and software determined by Purchaser not to be required for the conduct of the Actives Business will not constitute a part of the Transferred Assets hereunder, and (iii) the Target Net Book Value of Fixed Assets (as defined in Section 1.12(a)(i) above) shall be reduced by the net book value of such assets, equipment and software excluded from the Fixed Assets Register (as such net book value of such assets, equipment and software is shown in the Fixed Assets Register), such that no Post-Closing Purchase Price Adjustment will be made in respect of or on account of the exclusion of such assets, equipment and software from the Transferred Assets (notwithstanding that such assets and equipment were listed in the Fixed Assets Register); provided, however, that the aggregate net book value of such assets, equipment and software so excluded (and the associated reduction in the Target Net Book Value of Assets) shall not exceed $360,000.

(b) Schedule 2.18(b) attached hereto lists certain assets and equipment, not otherwise listed or contained in the Fixed Assets Register, that Seller has placed in service since the date of the Fixed Assets Register and that Seller uses in the conduct of the Actives Business.

In connection with the determination of the Post-Closing Purchase Price Adjustment for Fixed Assets, if Purchaser determines, in its reasonable discretion, that the assets and equipment listed on Schedule 2.18(b), or any part thereof, are required for the conduct of the Actives Business, then in such event (but only in such event), (i) the assets and equipment, or part thereof, listed on Schedule 2.18(b) and determined by Purchaser to be required for the conduct of the Actives Business will be included in and added to the Fixed Assets Register, (ii) such assets and equipment determined by Purchaser to be required for the conduct of the Actives Business will constitute a part of the Transferred Assets hereunder, and (iii) the Total Net Book Value of the Fixed Assets Delivered (as defined in Section 1.12(a)(i) above) shall be increased by the net book value of such assets and equipment added to the Fixed Assets Register (but no adjustment shall be made to the Target Net Book Value of Fixed Assets by reason thereof), such that an Adjustment favorable to Seller will be made in respect of or on account of the addition of such assets and equipment to the Transferred Assets (notwithstanding that such assets and equipment were not originally listed in the Fixed Assets Register).

2.19 EXCLUSION OF CERTAIN PURCHASE ORDERS. From and after the Closing Date, Purchaser and Seller shall cooperate with one another and, by not later than sixty (60) days after the Closing Date, conduct and conclude a review of all the Purchase Orders assigned to Purchaser at Closing, so as to determine whether there are any such Purchase Orders on the P.O. Register where the projected demand for products of the Actives Business in the twelve month period following the Closing Date will not, taking into account the Inventories for such component parts in existence and transferred to Purchaser on the Closing Date, fully consume all such inventories of such component parts (whether in existence as of Closing, or resulting from purchases under such Purchase Orders) in the manufacture of products during such twelve month period. In connection therewith, the parties will negotiate with one another in good faith so as to mutually determine the projected demand for the products of the Actives Business during such twelve month period, taking into account historical sales data and current sales trends as of the Closing Date. To the extent that any Purchase Orders are determined by the parties to require the purchase of component parts in excess of the quantity of component parts so required to meet the projected demand during such twelve month period, such excess portion of such Purchase Order shall be excluded from the Transferred Assets and assigned back from Purchaser to Seller and assumed by Seller.

2.20 CONSIGNMENT OF SOLECTRON COMPONENT INVENTORY. Schedule 2.20 attached hereto provides a detailed listing of the Solectron Component Inventory, showing by part number line item the quantity and the return price thereof. Pursuant to and in accordance with the provisions of Section 1.2 and Section 1.3 hereof, the Solectron Component Inventory (having an estimated, aggregate value of $367,000), and the purchase order or other agreements pursuant to which Seller agreed to reacquire such inventory from Solectron, are to be excluded from the Transferred Assets (and excluded from the Inventories to be transferred to Purchaser hereunder). However, Purchaser agrees to take possession of the Solectron Component Inventory on a consignment basis, as follows: (i) on the Closing Date or within sixty (60) days thereafter, Seller shall cause the Solectron Component Inventory to be delivered to a warehouse of Purchaser, as specified by Purchaser, where such inventory shall be segregated from Purchaser's inventories and held by Purchaser until December 31, 2004, on a consignment basis; (ii) from and after such delivery and until December 31, 2004, Purchaser shall use reasonable efforts to sell, or to assist Seller to sell, the Solectron Component Inventory to Solectron, its predecessor-in-interest or to other third parties, on such terms and at such prices as are agreed to or approved by Seller (such agreement or approval not be unreasonably withheld); (iii) within thirty (30) days after the end of each calendar quarter, commencing March 31, 2003 and thereafter each March 31, June 30, September 30 and December 31 through and including December 31, 2004, Purchaser shall remit and pay over to Seller, all proceeds received by Purchaser during the calendar quarter then ending from or in respect of sales of the Solectron Component Inventory; and (iv) all items of the Solectron Component Inventory that remain unsold as of the close of business on December 31, 2004, shall be scrapped by Purchaser.

2.21 FULFILLMENT OF CERTAIN DISTRIBUTION AND CUSTOMER SALES AGREEMENTS. Schedule 2.21 attached hereto sets forth a listing of distribution agreements and/or customer sales agreements relating to the Actives Business that, pursuant to the provisions of Section 1.3 hereof, are to be Excluded Contracts and are not to be assigned to or assumed by Purchaser at Closing (such agreements listed on Schedule 2.21, the "EXCLUDED DISTRIBUTION & SALES AGREEMENTS"). Schedule 2.21 shows, for each such Excluded Distribution & Sales Agreement, the period of time following Closing for which Seller must continue to supply and sell product under such agreement to the third-party thereto (having given to such third-party notice of termination thereunder, or otherwise having exercised any and all rights to terminate such agreement prior to its normal expiration) (such period of time, the "NOTICE PERIOD"). Purchaser agrees that, from and after Closing and, with respect to each Excluded Distribution & Sales Agreement, during and throughout the Notice Period applicable to such Excluded Distribution & Sales Agreement, Purchaser will sell to Seller (on a purchase order basis, subject to Purchaser's standard terms and conditions) any and all product required to be purchased by Seller from Purchaser for the purpose of re-selling such product to the applicable third-party in order to fulfill Seller's minimum contractual requirements under such Excluded Distribution & Sales Agreement during such Notice Period.

2.22 ADDITIONAL PURCHASE ORDERS. Schedule 2.22 attached hereto lists certain purchase orders issued by Seller to vendors or suppliers that relate to the Actives Business (but which are not included in the P.O. Register set forth in Schedule 1.1(f)). From and after the date hereof, Seller and Purchaser shall cooperate with one another, meet, and negotiate in good faith with one another so as to mutually agree and determine, by not later than sixty (60) days after the Closing Date, which of the purchase orders listed on Schedule 2.22 are to be assigned by Seller to Purchaser, and assumed by Purchaser, in consideration of the nature, type and quality of items or services to be acquired pursuant to such purchase orders and their relationship and utility to the Actives Business. All such purchase orders so determined to be assigned to and assumed by Purchaser (the "ADDITIONAL PURCHASE ORDERS") shall, upon such assignment and assumption, constitute Purchase Orders and Assigned Contracts for all purposes hereunder; and, Seller and Purchaser shall execute and deliver such additional documents of conveyance (substantially in the form

of the General Bill of Sale and Assignment and the Assumption Agreement attached hereto as Exhibit B and Exhibit C, respectively), with respect to such Additional Purchase Orders as may be reasonably necessary to evidence such assignment and assumption of such Additional Purchase Orders.

3. REPRESENTATIONS AND WARRANTIES OF SELLER.

To induce Purchaser to enter into this Agreement, to conduct their due diligence and to purchase the Transferred Assets, ARRIS Intl and ARRIS Mexico, jointly and severally, represent and warrant to Purchaser as follows:

3.1 SCHEDULES. All information set forth in this Agreement and the Schedules hereto is true, correct, complete and set forth in a manner that is not misleading as of the date of this Agreement. The information contained in the Schedules hereto shall be deemed to be part of and qualify only those representations and warranties contained in this Section 3 which make specific reference to the Schedules hereto. Unless otherwise indicated, all capitalized terms used in the Schedules hereto shall have the same meanings as in this Agreement. All documents and other writings furnished to Purchasers pursuant to this Agreement or the Schedules hereto are true, correct and complete as of the date furnished and any and all modifications or amendments of the same have been delivered to Purchaser. At all times prior to and including the Closing Date, Seller shall promptly provide Purchaser with written notification of any event, occurrence or other information of any kind whatsoever which affects, or may affect, the continued truth, correctness or completeness of any representation, warranty or covenant made in this Agreement, the Schedules hereto or any other document or writing furnished to Purchaser pursuant to this Agreement. All such written notifications shall specifically identify any and all of

the representations, warranties or covenants affected by the event, occurrence or information that necessitated the giving of such notice. No such notification or other disclosure shall be deemed to amend or supplement this Agreement or the Schedules hereto.

3.2 ORGANIZATION AND COMPLIANCE. ARRIS Intl is a corporation validly existing and in good standing under the laws of the State of Delaware; and ARRIS Mexico is a company validly existing and in good standing under the laws of Mexico. Seller has all requisite corporate power and authority and is entitled to own or lease the Transferred Assets and to carry on Seller's Actives Business as and in all places where such business is now conducted and such properties are owned or leased. Each Seller has complied in all material respects with all laws, rules, regulations and ordinances with respect to the operation and conduct of Seller's Actives Business. ARRIS Intl is duly licensed, qualified or domesticated in all fifty (50) states, and is duly licensed or registered in each foreign country where it conducts the Actives Business. Schedule 3.2 hereto lists (a) all locations where any Transferred Assets are located, or where the Actives Division has an office or place of business or maintains any Inventory, and (b) all names under which either Seller has operated the Actives Division during the past five years, if different from its present corporate name.

3.3 ENFORCEABILITY OF AGREEMENT. Each of ARRIS Intl and ARRIS Mexico has the full corporate power and authority to enter into and execute this Agreement and to carry out the transactions contemplated hereby in accordance with its terms. Except for the Purchase Orders, there are no outstanding contracts, demands, commitments or other agreements or arrangements under which ARRIS Intl or ARRIS Mexico is or may become obligated to sell, transfer or assign any of the Transferred Assets. This Agreement has been duly and validly authorized and approved by all necessary corporate action, and all transactions required hereunder to be performed by each of ARRIS Intl and ARRIS Mexico have been duly and validly authorized and approved by all necessary corporate action. This Agreement has been duly and validly executed and delivered on behalf of each of ARRIS Intl and ARRIS Mexico by its duly authorized officers. This Agreement constitutes the valid and legally binding obligation, subject to

general equity principles, of ARRIS Intl and of ARRIS Mexico, enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the rights of creditors generally.

3.4 NO INCONSISTENT OBLIGATIONS. Except as disclosed in Schedule 3.4 hereto, neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated herein will result in a violation or breach of, or constitute a default under: (a) the certificate of incorporation or bylaws of ARRIS Intl or any similar charter document of ARRIS Mexico; or (b) any (i) term or provision of any indenture, note, mortgage, bond, security agreement, loan agreement, guaranty, pledge, or other instrument, contract, agreement or commitment, (ii) writ, order, judgment, decree, law, rule, regulation, or ordinance, (iii) applicable ruling or order of any administrative or governmental body, or (iv) other commitment or restriction, to which ARRIS Intl or ARRIS Mexico is a party or by which ARRIS Intl, ARRIS Mexico or any of the Transferred Assets is subject or bound; nor will such actions result in (x) the creation of any claim, lien, charge or encumbrance on any of the Transferred Assets, (y) the acceleration or creation of any obligation of ARRIS Intl, or (z) the forfeiture of any material right or privilege of ARRIS Intl or of ARRIS Mexico relating to the Transferred Assets or the Actives Business. Neither ARRIS Intl nor ARRIS Mexico is in default under or in violation of (a) its certificate of incorporation or bylaws, or (b) any writ, order, judgment, decree, law, rule, regulation, or ordinance, or (c) any applicable ruling or order of any administrative or governmental body.

3.5 CONSENTS. The execution and delivery of this Agreement by Seller and the consummation of the transactions contemplated by this Agreement (including but not limited to the assignment to Purchaser of the Assigned Contracts) (a) do not require the consent, approval or action of, or any filing with or notice to, any public, governmental or judicial authority, (b) do not require the consent or approval of ARRIS Intl's or ARRIS Mexico's board of directors, and (c)

except for the consents and approvals (i) required to assign to Purchaser the Assigned Contracts and the Sales Orders and (ii) the other consents and approvals specified in Schedule 3.5 hereto (collectively, the "REQUIRED CONSENTS"), do not require the consent, approval or action of, or any filing with or notice to, any third-party, person, firm or other entity.

3.6 POSSESSION OF FRANCHISES, LICENSES, ETC. Seller possesses all material franchises, certificates, licenses, permits and other authorizations from public, governmental, regulatory or judicial authorities, free from burdensome restrictions, that are necessary for the ownership, maintenance and operation of the Active Business and the properties and assets used in the conduct of the Active Business, and Seller is not in violation of any thereof.

3.7 FINANCIAL STATEMENTS. Prior to the date hereof, Seller has delivered to Purchaser copies of the unaudited Balance Sheet of Seller's Actives Division as at July 31, 2002 (the "JULY 31 BALANCE SHEET") and the unaudited Statement of Income for the seven month period then ended (such statements, including the July 31 Balance Sheet, the "INTERIM FINANCIAL STATEMENTS"). Except as disclosed in Schedule 3.7 hereto, the Interim Financial Statements, and each of them, are true and correct, have been prepared from the books and records of Seller on a basis consistent with prior years, and present fairly the financial condition Seller's Actives Division, as the case may be, as at July 31, 2002 and the results of its operations for the seven-month period then ended.

3.8 LIABILITIES. Seller has no debt, liability or obligation relating to the Transferred Assets, the Actives Division or the conduct of Seller's Actives Business, of a type required to be included in financial statements in accordance with the customary divisional accounting practices of Seller applied consistently, except (i) those reflected on the July 31 Balance Sheet as at July 31, 2002, (ii) liabilities incurred in the ordinary course of

business since July 31, 2002, and (iii) as otherwise specifically disclosed in Schedule 3.8 hereto.

3.9 TITLE TO PROPERTIES; SUFFICIENCY OF ASSETS. The Transferred Assets are all assets, other than the Excluded Actives Assets, necessary to sell, license and use the items and perform the services presently being sold, licensed, used or performed by Seller in connection with Seller's Actives Business, or otherwise necessary to conduct Seller's Actives Business as currently being conducted by Seller and as conducted during the periods covered by the Interim Financial Statements. Seller has, and upon consummation of the transactions contemplated by this Agreement at the Closing, Purchaser will have, good and marketable title to all of the Transferred Assets, free and clear of any and all claims, liens, charges, restrictions and encumbrances of any kind or character, except (i) as disclosed in Schedule 3.9 hereto, and (ii) liens for property, ad valorem or governmental taxes which are not past due.

3.10 INVENTORIES. The Inventories of Seller's Actives Division which constitute part of the Transferred Assets all are of a type and nature used or useable in the conduct of the Actives Business, and, except to the extent of the reserves shown on the July 31 Balance Sheet, (a) if finished goods, are merchantable and conform in all respects to customary trade standards for merchantable goods, and (b) if not finished goods, are of a quality suitable and useable for the production or completion of finished goods, for sale in the ordinary course of Seller's Actives Business. All products manufactured or purchased by Seller for sale to its customers through Seller's Actives Division, including all finished goods which are a part of the Inventory, meet the standards of all applicable laws, rules, regulations and ordinances pertaining to the legality of the manufacture and sale of such products (i) in the United States, and (ii) to the knowledge of Seller, in each foreign country where the products of Seller's Actives Business are manufactured or sold. None of the goods sold or otherwise distributed by Seller or its predecessors through Seller's Actives Division prior to the Closing Date shall be, nor has Seller or its predecessors received any notice claiming the same to be, hazardous or unsafe in design, specification, material, content, function or otherwise. The cost of each item of Inventory set forth in the Physical Count Inventory Listing or otherwise in the books and records of Seller, reflects the standard cost thereof as of

July 31, 2002, and has been determined in accordance with Seller's customary cost accounting practices applied consistently. Notwithstanding the foregoing, this representation shall not be deemed to have been breached except to the extent that the aggregate amount of the dollar loss arising from all breaches hereof exceeds (i) the amount of the inventory reserves reflected on the July 31 Balance Sheet plus (ii) $1,000,000.

3.11 RETURNS AND CONSIGNMENTS; WARRANTY OBLIGATIONS.

(a) Except as set forth in Schedule 3.11(a) hereto, no customer of Seller's Actives Division has any right to return any goods for credit or refund pursuant to any agreement or binding practice that Seller will take back goods which are unsold. Without limiting the generality of the foregoing, Seller's Actives Division does not presently have any goods in the possession of its customers on consignment or on a similar basis.

(b) Except as provided by the terms and conditions of (i) Seller's standard warranty, as set forth in Schedule 3.11(b), and (ii) the additional or different warranties provided by Seller by contract to the customers listed on Schedule 3.11(c) (which Schedule identifies the customers and describes in reasonable detail such additional or differing warranties), Seller has not given any express warranty with respect to any goods or products sold or services performed through Seller's Actives Division prior to the Closing Date. Except for the facts and circumstances set forth in Schedule 3.11(d), to the knowledge of Seller, there is no fact or circumstance, or claim or claims made or threatened to be made, which may cause any catastrophic

failure in any products or product lines of the Actives Business. For these purposes, "catastrophic failure" shall mean that, during the Indemnity Survival Period (as hereinafter defined), a product of the Actives Business experiences a defect of five percent (5%) or more, as a result of the same failure mode. Common defects are all defects with the same failure mechanism, mode and location for the product. Common defects exclude user serviceable parts.

3.12 FIXED ASSETS.

(a) Except as set forth in Schedule 3.12 hereto, all of the machinery, equipment, tooling, furniture and fixtures, vehicles, computer equipment and other Fixed Assets which constitute part of the Transferred Assets or which are leased by Seller pursuant to an Assigned Contract, are in good condition and repair, taken as a whole and subject to normal wear and tear, suited for the use intended and operated in conformity with all applicable laws, rules, regulations and ordinances. The original cost of each item of Fixed Assets set forth in the Fixed Assets Register or otherwise in the books and records of Seller, is true and correct and has been determined in accordance with generally accepted accounting principles. All leases pursuant to which Seller is lessee of any Personal Property which constitute part of the Assigned Contracts, are valid and effective in accordance with their terms. There is not under any of such leases any default by Seller, or any event of default or event which with notice or lapse of time, or both, would constitute a default by Seller and in respect of which Seller has not taken adequate steps to prevent a default on its part from occurring. To the knowledge of Seller, all lessors of any machinery, equipment or other tangible personal property leased by Seller pursuant to an Assigned Contract have fully and completely performed and satisfied their respective duties and obligations under such leases, and Seller has no claims, actions or causes of action against any such lessor for failure to fully and completely perform and satisfy its duties and obligations thereunder.

3.13 AUTHORITY TO CONDUCT BUSINESS AND INTELLECTUAL PROPERTY RIGHTS

(a) "INTELLECTUAL PROPERTY" shall mean: (i) patents, patent applications, invention disclosures, and inventions and improvements thereto (whether patentable or unpatentable and whether or not reduced to practice); (ii) trademarks, service marks, trade dress, logos, trade names, and corporate names, and registrations and applications for registration

thereof; (iii) copyrights, mask works, and registrations and applications for registration thereof; and (iv) trade secrets and confidential technical and business information, including ideas, formulas, compositions, know-how, manufacturing processes and techniques, research and development information, technical and financial data, marketing and business plans, pricing and cost information, and proprietary rights in computer software, engineering design packages, documentation, drawings, specifications, designs, proposals, and customer and supplier lists.

(b) Schedule 3.13(b) lists each material license, contract, or other agreement pursuant to which Seller is granted rights in any Intellectual Property that is presently used in the Actives Business and that is owned by any other party (the "LICENSE IN AGREEMENTS").

(c) Schedule 3.13(c) lists each material license, contract, or other agreement pursuant to which Seller or any affiliate of Seller has granted rights or otherwise licensed to others any Intellectual Property that is presently used in the Actives Business (the "LICENSE OUT AGREEMENTS") (the License In Agreements and the License Out Agreements being sometimes hereinafter referred to, collectively, as the "IP LICENSE AGREEMENTS").

(d) Purchaser has heretofore been provided access to complete and correct copies of each of the IP License Agreements. All of the IP License Agreements are valid and effective in accordance with their terms; and,

to the knowledge of Seller, no condition exists or has occurred which, with the giving of notice or the lapse of time, or both, would constitute a default under any IP License Agreement.

(e) Schedule 3.13(e) lists each U.S. patent and U.S. patent application that is presently used in the Actives Business and that is owned by or registered in the name of Seller or an affiliate of Seller (collectively, including any and all foreign counterparts of any such IP Patent, the "IP PATENTS").

(f) Schedule 3.13(f) lists each trademark and service mark application and registration that is presently used in the Actives Business and that is owned by Seller ("IP TRADEMARKS"). With respect to all trademark applications filed on an intent-to-use basis and pending as of the date hereof, Statements of Use for such applications have been timely filed, or shall be timely filed prior to the Closing Date.

(g) Except as set forth on Schedule 3.13(g), there are no claims or demands of any other person (other than the contractual rights of any licensee or licensor under any of the IP License Agreements) pertaining to infringement or alleged infringement of the Intellectual Property of any third party by reason of the conduct of the Actives Business or the manufacture, sale, importation or other use of the products of the Actives Business, and no proceedings have been instituted or are pending which challenge the rights of the Company in respect thereof.

(h) Seller has taken commercially reasonable steps to establish and preserve its ownership of all of its material copyright, trade secret, and other proprietary rights with respect to its products and technology. Seller regularly requires its consultants and its professional and technical employees to execute agreements pursuant to which ownership of inventions related to the Actives Business and developed by such employees is assigned to Seller.

(i) As of the date of this Agreement, neither Seller nor any affiliate of Seller is party to any legal proceeding filed in connection with any Intellectual Property pertaining to the Actives Business.

(j) Except as set forth in Schedule 3.5 as a Required Consent, the assignment by Seller to Purchaser of the IP License Agreements (or any one of them), does not require the consent, approval or action of, or any filing with or notice to, any person, firm or other entity.

(k) Except for the Excluded Contracts and the Excluded Actives Assets: Seller has, and upon consummation of the transactions contemplated by this Agreement at the Closing, Purchaser will have, the means, rights and information required to manufacture, process, sell, offer for sale and use the items and perform the services as presently being manufactured, processed, offered for sale, sold, used or performed by Seller's Actives Division, including, without limitation, the means, rights and information required to manufacture, process, offer for sale, sell and use all such items and perform all such services without incurring any liability for (i) license fees or royalties, except for such license fees or royalties as are payable under the License In Agreements, or (ii) any claims of infringement of patents, trade secrets, copyrights, trademark, service mark, or other proprietary rights.

3.14 ASSIGNED CONTRACTS.

(a) The Assigned Contracts include all existing contracts and commitments (a) which are necessary to conduct Seller's Actives Business in the same manner as currently conducted by Seller, (b) by which the Transferred Assets may be bound or affected, or (c) which relate to or affect the Transferred Assets. Except for the Assigned Contracts and the Excluded Contracts, there are no distribution agreements or other selling arrangements to

which Seller is a party with respect to the Actives Business, or the marketing and sale of the products of the Actives Business. Seller has heretofore delivered to Purchaser a true, correct and complete copy of each of the written Assigned Contracts and a complete and accurate summary of each oral Assigned Contract. All of the Assigned Contracts have been entered into in the ordinary course of Seller's Actives Business, and are valid and effective in accordance with their terms. None of the Assigned Contracts constitutes a restraint of trade under any applicable law; and none of the Assigned Contracts contain any non-competition or similar restrictive covenant to which Seller or the Actives Business is bound. Seller has performed all obligations to be performed by it as of the date of this Agreement under all Assigned Contracts, and Seller is not in default or in arrears under any of the terms thereof. No condition exists or has occurred which, with the giving of notice or the lapse of time, or both, would constitute a default or accelerate the maturity of, or otherwise modify, any Assigned Contract; and all Assigned Contracts are in full force and effect. To the knowledge of Seller, no default by any other party to any Assigned Contract is known or claimed by Seller to exist.

(b) To the knowledge of Seller, Seller's Actives Business possesses the requisite Intellectual Property, equipment and other resources necessary to perform fully each Assigned Contract, without incurring costs in excess of the compensation to be received by Seller for such performance; and, to the knowledge of Seller, the performance by Seller of any and all Assigned Contracts will not result in or create any "loss contingency" which is either "probable" or "reasonably possible" as all such terms are defined in Statement of Financial Accounting Standards No. 5 of the Financial Accounting Standards Boards ("FASB LOSS CONTINGENCY").

3.15 CONTINGENCIES. Except as set forth in Schedule 3.15 hereto, there are no actions, suits, claims, demands or proceedings pending or threatened against, by or affecting Seller's Actives Division or the Transferred Assets in any court or before any arbitrator, private alternative dispute resolution system or governmental agency, nor do there exist any other FASB Loss Contingencies. Except as set forth in Schedule 3.15 hereto, Seller has not been charged with, nor is it under investigation with respect to any charge concerning, any violation of any provision of any applicable law, rule, regulation, or ordinance, or order, decree or governmental restriction with respect to Seller's Actives Business. There are no unsatisfied judgments against

Seller or any consent decrees, writs, restraining orders, or preliminary or permanent injunctions to which Seller's Actives Division or any of the Transferred Assets are subject.

3.16 TAXES. Except as disclosed in Schedule 3.16 hereto, all taxes (including, without limitation, all income, property, sales, use, customs, franchise, value added, ad valorem, withholding, employees' income withholding, and social security taxes, and all other taxes imposed on Seller or its income, properties, sales, franchises, operations or employee benefit plans or trusts), and all deposits in connection therewith required by applicable law, imposed by any jurisdiction, or by any governmental unit or taxing authority, and all interest and penalties thereon (all of the foregoing hereafter collectively referred to as "TAXES"), which are due and payable by Seller for all periods through the date hereof have been paid in full, and adequate reserves for all other Taxes, whether or not due and payable, and whether or not disputed, have been set up on the books of Seller. From and after the date of this Agreement, Seller will duly file all returns and reports with respect to Taxes, and will pay all Taxes imposed on Seller, which directly or indirectly affect Purchaser's operation of Seller's Actives Business or the Transferred Assets after the Closing Date, or which might create a lien or encumbrance on the Transferred Assets, or which would adversely affect Purchaser's ability to carry on Seller's Actives Business after the Closing Date.

3.17 EMPLOYMENT MATTERS.

(a) Except as set forth in Schedule 3.17(a) hereto, (i) Seller is not a party to any collective bargaining agreement or agreement of any kind with any union or labor organization with respect to the employees of Seller's Actives Business, (ii) no union or other collective bargaining unit has been certified or recognized by Seller as representing any employee of Seller's Actives Business nor, to the knowledge of Seller, is a union or other collective bargaining unit seeking recognition for such purpose, (iii) there are no controversies pending, or to the knowledge of Seller threatened, between Seller and any labor union or collective bargaining unit representing, or seeking to represent, any of the employees of Seller's Actives Business, and (iv) there has been no attempt by any union or other labor organization to organize any of the employees of Seller's Actives Business at any time in the past five years. Seller has complied in all material respects with all obligations under all labor laws and labor related laws applicable to persons employed in connection with Seller's Actives Business, including, without limitation, those laws, rules and regulations relating to wages, hours, health and safety, payment of social security withholding and other taxes, maintenance of workers' compensation insurance, immigration, labor and employment relations and employment discrimination. To the extent that a Transferred Employee is a party to any confidentiality agreement or nondisclosure agreement with Seller, Seller covenants and agrees that effective the Closing Seller waives the provisions of any such agreement insofar as such provisions apply to the Actives Business.

(b) Without limitation as to the provisions of the foregoing Section 3.17(a), except as set forth in Schedule 3.17(b) hereto, Seller has complied in all material respects with all federal, state, national and local laws, rules, regulations and ordinances respecting health, safety and working conditions applicable to the employees of Seller's Actives Business, and has provided Purchaser with copies of all reports filed and notices provided under any such laws, rules, regulations and ordinances during the last five years with respect to any employee of, or the conduct of, Seller's Actives Business. The conduct and operation of Seller's Actives Business does not involve any unusual risk to the health or safety of its employees (including, without limitation, any risk associated with hazardous airborne contaminants or hazardous chemicals or waste materials) and, to the knowledge of Seller, no employee of Seller's Actives Division has suffered any adverse health consequence or personal injury as a result of his or her working conditions or employment by Seller within the past five years.

3.18 EMPLOYEE BENEFIT MATTERS.

(a) Schedule 3.18(a) hereto lists all written and material oral plans, programs, and similar agreements, commitments or arrangements maintained by or on behalf of Seller or any other party that provide benefits or compensation to, or for the benefit of, current or former employees of Seller's Actives Division ("PLAN" or "PLANS"). Except as set forth on Schedule 3.18(a), only current and former employees of Seller's Actives Division participate in the Plans.

(b) With respect to each Plan, except as set forth on Schedule 3.18(b) hereto: (i) no litigation or administrative or other proceeding is pending or threatened involving such Plan; (ii) such Plan has been administered and operated in compliance with, and has been amended to comply with, all applicable laws, rules, and regulations; (iii) Seller and its predecessors, if any, have made and as of the Closing Date will have made or accrued, all payments and contributions required, or reasonably expected to be required, to be made under the provisions of such Plan or required to be made under applicable laws, rules and regulations, with respect to any period prior to the Closing Date, such amounts to be determined using the ongoing actuarial and funding assumptions of the Plan; (iv) such Plan is fully funded in an amount sufficient to pay all liabilities accrued (including liabilities and obligations for health care, life insurance and other benefits after termination of employment) and claims incurred to the date hereof, (v) on the Closing Date such Plan will be fully funded in an amount sufficient to pay all liabilities accrued

(including liabilities and obligations for health care, life insurance and other benefits after termination of employment) and claims incurred to the Closing Date, or adequate reserves will be set up on Seller's books and records, or paid-up insurance will be provided, therefor; and (vi) such Plan has been administered and operated only in the ordinary and usual course and in accordance with its terms, and there has not been in the five years prior hereto any material increase in the liabilities of such Plan.

3.19 ENVIRONMENTAL MATTERS. Seller (including its predecessors for whose acts and omissions it is responsible) has complied in all material respects with all applicable laws, rules, regulations and ordinances relating to pollution and environmental control, as the same relate or are applicable to Seller's Actives Division or Seller's Actives Business. All hazardous or toxic waste, materials and substances on, in, under or off-site from the real property used in the conduct of Seller's Actives Business, have been properly removed and disposed of, and no past or present disposal, spill or other release of, or treatment, transportation or other handling of, hazardous waste, materials or substances on, in, under or off-site from any real property used in the conduct of Seller's Actives Business, or adjacent property, will subject Seller or Purchaser to corrective or compliance action or any other liability. Schedule 3.19 hereto contains a true, correct and complete description of all litigation, investigations and other proceedings, rulings, orders or citations pending, or to the knowledge of Seller, threatened or contemplated by government officials with respect to Seller's Actives Division or the Transferred Assets, in each case relating to releases, emissions or potential releases or emissions into the environment of solids, liquids, gases, heat, light, noise, radiation and other forms of matter or energy or the proper disposal of materials, including solid waste materials.

3.20 ABSENCE OF CERTAIN BUSINESS PRACTICES. To the knowledge of Seller, neither Seller nor any officer, employee or agent of Seller, nor any other person acting on its behalf, has, directly or indirectly, within the past five years given or agreed to give any gift or similar benefit to any customer, supplier, governmental employee or other person who is or may be in a position to help or hinder the business of Seller's Actives Business (or assist Seller in connection with any actual or proposed transaction for Seller's Actives Business) which (a) might subject Seller to any damage or penalty in any civil, criminal or governmental litigation or proceeding or which might have an adverse effect on the Transferred Assets, (b) if not given in the past, might have had an adverse effect on the Transferred Assets or Seller's Actives Business, or (c) if not continued in the future, might adversely affect the Transferred Assets or Seller's Actives Business, or which might subject Seller to suit or penalty in any private or governmental litigation or proceeding.

3.21 AGREEMENTS AND TRANSACTIONS WITH RELATED PARTIES. Except as set forth in Schedule 3.21 hereto, Seller's Actives Division is not directly or indirectly a party to any contract, agreement, or lease with, or any other commitment to, (a) any subsidiary or affiliate of Seller, (b) any director or officer of Seller, (c) any corporation or other entity in which any of the foregoing parties has, directly or indirectly, at least a five percent (5.0%) beneficial interest in the share capital or other type of equity interest in such corporation, or (d) any partnership in which any such party is a general partner (any or all of the foregoing being herein referred to as "RELATED PARTIES"). Without limiting the generality of the foregoing, except as disclosed in Schedule 3.21 hereto, (i) no Related Party, directly or indirectly, owns or controls any assets or properties which are or have been used in Seller's Actives Business, and (ii) no Related Party, directly or indirectly, engages in or has any significant interest in or connection with any business (X) which is or which within the last three years has been a competitor, customer or supplier of Seller's Actives Division or has done business with Seller's Actives Division, or (Y) which as of the date hereof sells or distributes products or services which are similar or related to the products or services of Seller's Actives Division.

3.22 ABSENCE OF CHANGES. Except as expressly provided for in this Agreement or as may be set forth in Schedule 3.22 hereto, since July 31, 2002 (the "REFERENCE DATE"):

(a) there has been no change in the business, assets, liabilities, results of operations or financial condition of Seller's Actives Division or in its relationships with suppliers, customers, employees, lessors or others, other than changes in the ordinary course of business, none of which have been or will be, in the aggregate, materially adverse to the Transferred Assets or the business or condition (financial or otherwise) of Seller's Actives Division;

(b) there has been no damage, destruction or loss to the properties or business of Seller's Actives Division, whether or not covered by insurance, which has or will have a materially adverse effect on such properties or business, or the operations, or prospects of Seller's Actives Division;

(c) the business of Seller's Actives Division has been operated in the ordinary course and consistent with its prior practices, and not otherwise;

(d) the Transferred Assets have been maintained in good order, repair and condition, taken as a whole and ordinary wear and tear excepted;

(e) the books, accounts and records of Seller's Actives Division have been maintained in the usual, regular and ordinary manner on a basis consistent with prior years;

(f) there has been no labor dispute, organizational effort by any union or unfair labor practice charge involving Seller's Actives Division or its employees;

(g) there has been no mortgage, charge, lien, claim or other encumbrance or security interest (other than liens for current taxes which are not past due) created on or in any of the Transferred Assets or assumed by Seller with respect to any Transferred Assets;

(h) there has been no sale, transfer, lease or other disposition of any asset or assets of Seller's Actives Division, except sales of inventory in the ordinary course of Seller's Actives Business, and no debt to, or claim or right of, Seller's Actives Division has been canceled, compromised, waived or released;

(i) there has been no amendment, termination or waiver of, or any notice of any amendment, termination or waiver of, any material right of Seller under any contract,

agreement or lease, or governmental license, permit or permission arising from or relating to Seller's Actives Business;

(j) there have been no amendments or other corporate actions having the effect of an amendment increasing past or future contributions of any kind whatsoever to any employee benefit plan of Seller's Actives Division; and

(k) Seller has not transferred or granted any rights under, or entered into any settlement regarding the breach or infringement of, any license, patent, copyright, trademark, trade name, trade secret, invention or similar rights used or useable in Seller's Actives Business, or modified any existing rights with respect thereto.

3.23 FULL DISCLOSURE. No representation, warranty or covenant of Seller contained in this Agreement or in the Schedules hereto or in any other

written statement or certificate delivered by Seller pursuant to this Agreement or in connection with the transactions contemplated herein contains, at the time it is made, any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

4. REPRESENTATIONS AND WARRANTIES OF PURCHASER.

As an inducement to Seller to enter into this Agreement and to sell the Transferred Assets to Purchaser, Purchaser hereby represents, warrants and covenants as follows:

4.1 ORGANIZATION. Purchaser is a corporation, validly existing and in good standing under the laws of the State of Georgia.

4.2 AUTHORIZATION; NO INCONSISTENT AGREEMENTS. Purchaser has full corporate power and authority to make, execute and perform this Agreement, and the transactions contemplated hereby. This Agreement and all transactions required hereunder to be performed by Purchaser have been duly and validly authorized and approved by all necessary corporate action on the part of Purchaser. This Agreement has been duly and validly executed and delivered on behalf of Purchaser by its duly authorized officers, and this Agreement constitutes the valid and legally binding obligation of Purchaser enforceable, subject to general equity principles, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the rights of creditors generally. Neither the execution and delivery of this Agreement nor the consummation of the transactions hereby contemplated will constitute a violation or breach of the articles of incorporation or the bylaws of Purchaser or any provision of any contract or other instrument to which Purchaser is a party or by which any of the assets of Purchaser may be affected or secured, or any order, writ, injunction, decree, statute, rule or regulation to which Purchaser is subject, or will result in the creation of any lien, charge, or encumbrance on any of the assets of Purchaser or acceleration of any debt.

4.3 FULL DISCLOSURE. No representation, warranty or covenant of Purchaser contained in this Agreement, or in any other written statement or certificate delivered by Purchaser pursuant to this Agreement or in connection with the transactions contemplated herein, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading.

5. CONDUCT OF SELLER'S ACTIVES BUSINESS PENDING CLOSING.

Seller covenants and agrees that, except as may otherwise be provided herein, without the prior written consent of Purchaser, between the date hereof and the Closing Date:

5.1 BUSINESS IN THE ORDINARY COURSE. Seller's Actives Business shall be conducted only in the ordinary and usual course and consistent with prior practices. Without limiting the generality of the foregoing:

(a) Except as provided in Section 1.1(f) above, and except as provided in Section 5.1(b) below, Seller shall not enter into any contracts, agreements or other arrangements in connection with Seller's Actives Business, and except as otherwise expressly provided herein, Seller will not enter into any contract nor effect any transaction with any Related Party relating to Seller's Actives Division or Seller's Actives Business.

(b) Seller shall not enter into any contracts, agreements or other arrangements to sell, distribute or supply goods or services to any customer or any third party relating to Seller's Actives Division except in the ordinary course of Seller's Actives Business at prices and on terms consistent with the prior operating practices of Seller.

(c) Except for sales of inventory and normal disposal of used motor vehicles and equipment in the ordinary course of Seller's Actives Business, Seller shall not sell, assign, transfer, convey, pledge, mortgage, encumber or otherwise dispose of, or cause the sale, assignment, transfer, conveyance, pledge, mortgage, encumbrance or other disposition of any of the Transferred Assets.

(d) All contracts or commitments of Seller for the purchase of raw materials, products, services and supplies relating to Seller's Actives Division shall be entered into only in the ordinary and regular course of Seller's Actives Business to enable the Actives Division to conduct its normal business operations and to maintain its normal inventory of raw materials and finished goods, at prices and on terms consistent with the prior operating practices of the Actives Division. Seller will not enter into any contract or commitment for the purchase of materials, products, services or supplies for Seller's Actives Business except contracts or commitments which comply with the provisions of Section 1.1(f) above.

(e) Seller shall maintain, preserve and protect all of the Transferred Assets in good condition, taken as a whole, except for ordinary wear and tear and damage by fire or other casualty.

(f) The books, records and accounts of Seller's Actives Division shall be maintained in the usual, regular and ordinary course of business on a basis consistent with prior practices and in accordance with generally accepted accounting principles.

(g) Seller shall use all reasonable efforts to preserve Seller's Actives Business, to keep available the services of Seller's present employees, to preserve the goodwill of the suppliers, customers and others having business relations with Seller's Actives Division, and to assist Purchaser in employing the Selected Employees of Seller's Actives Division affective the Closing Date on terms satisfactory to Purchaser.

5.2 NO MATERIAL CHANGES. No action shall be taken by Seller or any Shareholder which shall materially alter the financial structure, practices or operations of Seller's Actives Business.

5.3 COMPENSATION. No increase shall be made in the compensation payable or to become payable to any employee of Seller's Actives Division, and no bonus or profit-share payment or other arrangement (whether current or deferred) shall be made to or with any such employee.

5.4 EMPLOYEE BENEFIT PLANS. Seller shall timely make all contributions and other payments to the Plans relating to the Actives Division which it is obligated to make as of the date hereof. Other than contributions or payments declared or obligated to be paid to the Plans as of the date hereof, no contributions shall be declared for or paid to any Plan.

6. CONDITIONS TO OBLIGATIONS OF PURCHASER.

All obligations of Purchaser under this Agreement are subject to the fulfillment and satisfaction of each of the following conditions on or prior to the Closing, any or all of which may be waived in whole or in part by Purchaser:

6.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in Section 3 of this Agreement, the Schedules hereto and in any certificate, instrument, schedule, agreement or other writing delivered by or on behalf of Seller in connection with the transactions contemplated by this Agreement shall be true and correct as of the date when made and shall be deemed to be made again at and as of the Closing Date and shall be true and correct at and as of such time; provided however, that this Section 6.1 shall be deemed to have been satisfied even if all such representations and warranties are not so

true and correct unless the failure of such representations and warranties to be so true and correct, individually and in the aggregate, has had, or is reasonably likely to have, a material adverse effect on the Actives Business or is reasonably likely to materially burden or impair the ability of Seller to consummate the transactions contemplated by this Agreement.

6.2 COMPLIANCE WITH AGREEMENTS AND CONDITIONS. Seller shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by each such party prior to or on the Closing Date, in all material respects taken as a whole.

6.3 CERTIFICATES OF SELLER. Seller shall have delivered to Purchaser certificates executed by the president or any vice-president of Seller, dated as of the Closing, certifying in such detail as Purchaser may reasonably request as to (a) the fulfillment and satisfaction of the conditions specified in Sections 6.1 and 6.2 above, (b) the absence of any material adverse change in Seller's Actives Business prior to the Closing, and (c) Seller's financial wherewithal and condition (including, certification as to the minimum net asset value of Seller).

6.4 RESOLUTIONS. Purchaser shall have received duly adopted resolutions of the Board of Directors of Seller, certified by the Secretary or Assistant Secretary of Seller, dated the Closing Date, authorizing and approving the execution of this Agreement and all other action necessary to enable Seller to comply with the terms of this Agreement.

6.5 GOVERNMENT CONSENTS. Purchaser shall have received from any and all persons, firms, and other legal entities, or any public or governmental authorities, bodies or agencies or judicial authority having jurisdiction over the transactions contemplated by this Agreement, or any part hereof, such consents, authorizations and approvals as are necessary for the consummation thereof, and all notices required to be given to government authorities shall have been given and all applicable waiting periods shall have expired.

6.6 REQUIRED CONSENTS. Seller shall have delivered to Purchaser all the Required Consents.

6.7 EMPLOYMENT OF KEY EMPLOYEES. The Key Employees set forth on Schedule 6.7, or substitutions therefor agreed by Purchaser, shall have accepted Purchaser's employment offer to begin employment with Purchaser immediately after the Closing Date.

6.8 SETTLEMENT AND CROSS-LICENSE AGREEMENT. The parties shall have executed and entered into the Settlement and Cross-License Agreement.

6.9 TRANSITION SERVICES AGREEMENT. The parties shall have executed and entered into the Transition Services Agreement.

6.10 RELEASE OF LIENS. Seller shall have delivered to Purchaser UCC-3 forms, duly executed by the secured parties, or such other lien releases or discharges, as Purchaser may reasonably request to evidence the release and discharge of any and all liens upon any of the Transferred Assets.

6.11 NO INCONSISTENT REQUIREMENTS. No legal action or investigation shall have been commenced by any public agency or authority and no judicial or administrative order shall have been issued seeking to enjoin or prohibit the transactions contemplated hereby.

7. CONDITIONS TO OBLIGATIONS OF SELLER.

All of the obligations of Seller under this Agreement are subject to the fulfillment and satisfaction of each of the following conditions on or prior to the Closing, any or all of which may be waived in whole or in part by Seller:

7.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in Section 4 of this Agreement and in any certificate, instrument, schedule, agreement or other writing delivered by Purchaser in connection with the transactions contemplated by this Agreement shall be true and correct as of the date when made and shall be deemed to be made again at and as of the Closing Date and shall be true and correct at and as of such time; provided however, that this Section 7.1 shall be deemed to have been satisfied even if all such representations and warranties are not so true and correct unless the failure of such representations and warranties to be so true and correct, individually and in the aggregate, is reasonably likely to materially burden or impair the ability of Purchaser to consummate the transactions contemplated by this Agreement.

7.2 COMPLIANCE WITH AGREEMENTS AND CONDITIONS. Purchaser shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by Purchaser prior to or on the Closing Date, in all material respects taken as a whole.

7.3 CERTIFICATE OF PURCHASER. Purchaser shall have delivered to Seller a certificate, executed by the president or any vice-president of Purchaser, dated the Closing Date, certifying in such detail as Seller may reasonably request to the fulfillment and satisfaction of the conditions specified in Sections 7.1 and 7.2 above.

7.4 RESOLUTIONS. Purchaser shall have delivered to Seller duly adopted resolutions of the Board of Directors of Purchaser, certified by the Secretary or an Assistant Secretary of Purchaser, dated the Closing Date, authorizing and approving the execution of this Agreement by Purchaser and all other action necessary to enable Purchaser to comply with the terms of this Agreement.

7.5 SETTLEMENT AND CROSS-LICENSE AGREEMENT; LIMITED PATENT LICENSE AGREEMENT. The parties shall have executed and entered into (i) the Settlement and Cross-License Agreement and (ii) the Limited Patent License Agreement.

7.6 NO INCONSISTENT REQUIREMENTS. No legal action or investigation shall have been commenced by any public agency or authority and no judicial or administrative order shall have been issued seeking to enjoin or prohibit the transactions contemplated hereby.

8. INDEMNITIES.

8.1 INDEMNIFICATION OF PURCHASER. Seller and Parent, jointly and severally, shall indemnify and hold harmless Purchaser, and its direct and indirect parent corporations and affiliates, their officers and directors (hereafter collectively "INDEMNITEES") from and against and in respect of any and all loss, damage, liability, cost and expense, including reasonable attorneys' fees and amounts paid in settlement pursuant to Section 8.2(b) below ("INDEMNIFIED LOSSES"), suffered or incurred by any Indemnitee by reason of, or arising out of:

(a) any misrepresentation, breach of warranty or breach or nonfulfillment of any agreement of Seller contained in this Agreement or in any certificate, schedule, instrument or document delivered to Purchaser by or on behalf of Seller pursuant to the provisions of this Agreement, including, without limitation, the Schedules hereto;

(b) all obligations and liabilities of Seller other than the Assumed Liabilities, whether direct or indirect, fixed or contingent, known or unknown, including, without limitation, all obligations and liabilities resulting from or arising out of any default, performance or non-performance by Seller prior to the Closing under or with respect to any Assigned Contract; and

(c) any claims, assessments, fines, liabilities,

obligations, damages, costs, and expenses, known or unknown, fixed or contingent, claimed or demanded by third parties or any government agency or body of competent authority, against Indemnitees (or any of them) arising out of or resulting from Seller's operation of its business (including Seller's Actives Business) or the Transferred Assets prior to and including the Closing Date, including, without limitation, any liability or obligation described in Section 8.1(b) above; and

(d) one-half of the amount of any Excess Direct Warranty Costs.

8.2 DEFENSE OF CLAIMS.

(a) If any claim or action by a third party arises after the Closing Date for which Seller or Parent may be liable under the terms of this Agreement, or if any other event shall occur as a result of which any Indemnitee may suffer any Indemnified Loss, then Indemnitees (or any Indemnitee) shall notify Seller in writing of such claims, action or event within thirty (30) days after such claim, action or event arises or occurs and is known to Indemnitees (or any of them), and shall give Seller a reasonable opportunity:

(i) to conduct any proceedings or negotiations in connection therewith and necessary or appropriate to defend Indemnitees;

(ii) to take all other required steps or proceedings to settle or defend any such claim or action; and

(iii) to employ counsel to contest any such claim or action in the name of Indemnitees or otherwise.

The expenses of all proceedings, contests or lawsuits with respect to such claims or actions shall be borne by Seller. If Seller wishes to dispute any claim for Indemnified Loss, Seller shall give written notice to Indemnitees within thirty (30) days after notice from Indemnitees of such claim;

and, if Seller wishes to assume the defense of any such third-party claim or action, and provided that Indemnitees' interest shall not be impaired by such assumption of the defense of such claim or action, then Seller shall give written notice to Indemnitees within thirty (30) days after notice from Indemnitees of such claim or action (unless the claim or action reasonably requires a response in less than thirty (30) days after the notice is given to Seller, in which event they shall notify Indemnitees at least ten (10) days prior to such reasonably required response date), and Seller shall thereafter assume the defense of any such claim or liability, through counsel reasonably satisfactory to Indemnitees; provided that Indemnitees may participate in such defense at their own expense and shall, in any event, have the right to control the defense and settlement of the claim or action.

(b) If Seller does not assume the defense of, or if after so assuming Seller fails to defend, any such claim or action, then Indemnitees may defend against such claim or action in such manner as they may deem appropriate (provided that Seller may participate in such defense at its own expense) and Indemnitees may settle such claim or litigation on such terms as they may deem appropriate, and, subject to the provisions of Section 9 below, Seller shall reimburse Indemnitees for the amount of all expenses, legal and otherwise, reasonably and necessarily incurred by Indemnitees in connection with the defense against and settlement of such claim or action. If no settlement of such claim or litigation is made, Seller shall, subject to the provisions of Section 9 below, satisfy any judgment rendered with respect to such claim or in such action, before Indemnitees are required to do so, and pay all expenses, legal or otherwise, reasonably and necessarily incurred by Indemnitees in the defense of such claim or litigation.

(c) If a judgment is rendered against any of the

Indemnitees in any action covered by the indemnification hereunder, or any lien in respect of such judgment attaches to any of the assets of any of the Indemnitees, Seller shall, subject to the provisions of Section 9 below, immediately upon such entry or attachment pay such judgment in full or discharge such lien unless, at the expense and direction of Seller, an appeal is taken under which the execution of the judgment or satisfaction of the lien is stayed. If and when a final judgment is rendered in any such action, Seller shall forthwith pay such judgment or discharge such lien before any of Indemnitees is compelled to do so.

9. PAYMENT OF INDEMNIFIED LOSSES.

9.1 LIMITATIONS ON LIABILITY.

(a) Indemnitees shall not be entitled to reimbursement or payment from Seller pursuant to the provisions of Section 8.1(a) above unless or until the aggregate amount of the Indemnified Losses shall exceed an amount equal to two percent (2.0%) of the Total Consideration paid by Purchaser to Seller, in which event one-half (1/2) of all Indemnified Losses up to such amount (and, all Indemnified Losses in excess of such amount, subject to the maximum below) may be claimed (provided that, such limitation shall not apply to reimbursement or payments from Seller or Parent pursuant to the provisions of Section 8.1(b), 8.1(c) or 8.1(d)).

(b) The liability of Seller for claims made by Indemnitees under the provisions of Section 8.1(a) above shall be limited to an amount equal to forty percent (40.0%) of the Total Consideration paid by Purchaser to Seller (provided that, such limitation shall not apply to reimbursement or payments from Seller pursuant to the provisions of Sections 8.1(b), 8.1(c) or 8.1(d)).

9.2 SET-OFF AGAINST ADDITIONAL PAYMENTS. Any amounts of Indemnified Losses due to Indemnitees pursuant to Section 8.1 above may, at the election of Purchaser, be satisfied

in whole or in part by way of set-off against all or any portion of the Additional Payment remaining to be paid by Purchaser to Seller.

10. SURVIVAL OF REPRESENTATIONS AND WARRANTIES, INDEMNIFICATIONS AND OTHER PROVISIONS.

10.1 SURVIVAL. The representations and warranties of the parties contained in this Agreement, and the indemnifications of Purchaser by Seller and Parent under Section 8.1(a) of this Agreement, shall survive any investigation heretofore or hereafter made by Purchaser and the consummation of the transactions contemplated herein and shall continue in full force and effect for the period (the "INDEMNITY SURVIVAL PERIOD") beginning on the Closing Date and continuing until the second anniversary of the Closing Date. Provided, however, that the Indemnity Survival Period shall be extended automatically to include any time period necessary to resolve a specific claim for indemnification which was made before expiration of the Indemnity Survival Period but not resolved prior to its expiration; and provided, further, that any such extension shall apply only as to claims asserted and not so resolved within the Indemnity Survival Period.

10.2 LIABILITIES NOT ASSUMED. Notwithstanding the provisions of Section 10.1 above, Seller shall remain liable, during the Indemnity Survival Period and at all times thereafter, for all liabilities and obligations of Seller not assumed pursuant to Section 1.5 above, including, without limitation, the liabilities and obligations specified in Sections 1.6, 8.1(b), 8.1(c) and 8.1(d) above.

10.3 COVENANTS. Notwithstanding the provisions of Section 10.1 above, the covenants of the parties contained in this Agreement, including but

not limited to the provisions of Sections 1.4, 1.5, 1.6, 1.7, 1.9, 1.11(c), 2.2, 2.3, 2.4, 2.5, 2.6, 2.8, 2.9, 2.10, 2.11, 2.12, 2.13 and 2.14 shall survive the expiration of the Indemnity Survival Period and continue in effect, in accordance with their respective terms.

11. TERMINATION.

11.1 TERMINATION FOR CERTAIN CAUSES. This Agreement may be terminated prior to or on the Closing Date by Seller or Purchaser upon written notice to the other party as follows:

(a) By Purchaser, in the event that the conditions to closing contained in Section 6 have not been satisfied by Seller or waived by Purchaser by the Termination Date.

(b) By Seller, in the event that the conditions to closing contained in Section 7 have not been satisfied by Purchaser or waived by Seller by the Termination Date.

(c) By Purchaser, if a material adverse change in the Actives Business of Seller shall have occurred, or any substantial part of the Transferred Assets of Seller are destroyed due to fire or other casualty.

(d) By Purchaser, if the terms, covenants or conditions of this Agreement to be complied with or performed by the Seller at or before the Closing Date shall not have been complied with or performed, or if any representation or warranty of Seller is breached or is not true and correct, and such noncompliance, nonperformance, or breach or misrepresentation shall have a material adverse effect upon the Actives Business or the Transferred Assets.

(e) By Seller if the terms, covenants or conditions of this Agreement to be complied with or performed by Purchaser at or before the Closing Date shall not have been complied with or performed, or if any representation or warranty of Purchaser hereunder is breached or is not true and correct, and such noncompliance, non-performance or breach or

misrepresentation shall materially reduce the value or amount of the Total Consideration payable hereunder.

(f) By any party to this Agreement, if any action, suit or proceeding shall have been instituted against such party to restrain or prohibit this Agreement or the consummation of the transactions contemplated herein, or to seek damages from such party by reason of this Agreement or the consummation of transactions contemplated herein, and such action, suit or proceeding shall be pending as of a date ten (10) days before the scheduled Closing Date or any court of competent jurisdiction shall have entered a temporary, preliminary or permanent restraining order in respect of same.

12. MISCELLANEOUS.

12.1 NOTICES.

(a) All notices, demands or other communications required or permitted to be given or made hereunder shall be in writing and delivered personally or sent by pre-paid, first class, certified or registered air mail, return receipt requested, or by facsimile transmission to the intended recipient thereof at its address, or facsimile number set out below. Any such notice, demand or communication shall be deemed to have been duly given immediately (if given or made by confirmed facsimile) or three days after mailing (if given or made by letter addressed to a location within the country in which it is posted), and in proving same it shall be sufficient to show that the envelope containing the same was duly addressed, stamped and posted, or that receipt of a facsimile was confirmed by the recipient. The addresses and facsimile numbers of the parties for purposes of this Agreement are:

(i) If to Purchaser:

Mr. Wallace G. Haislip
Chief Financial Officer
Scientific-Atlanta, Inc.
5030 Sugarloaf Parkway
Lawrenceville, GA 30042
Facsimile No. (770) 236-4892

With a copy to:

William E. Eason, Jr.
General Counsel
Scientific-Atlanta, Inc.
5030 Sugarloaf Parkway
Lawrenceville, GA 30042
Facsimile No. (770) 236-4751

(ii) If to Seller:

Mr. Larry Margolis
Senior Vice President
and Chief Financial Officer
ARRIS Group, Inc.
11450 Technology Circle
Duluth, GA 30097
Facsimile No. (678) 473-8129

With a copy to:

W. Brinkley Dickerson, Jr.
Troutman Sanders LLP
Suite 5200
600 Peachtree Street N.E.
Atlanta, Georgia 30308
Facsimile No. (404) 962-6743

(b) Any party may change the address to which notices, requests, demands or other communications to such parties shall be delivered or mailed by giving notice thereof to the other parties hereto in the manner provided herein.

12.2 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

12.3 ENTIRE AGREEMENT. This Agreement supersedes all prior discussions and agreements between the parties with respect to the subject matter hereof, and this Agreement contains the sole and entire agreement among the parties with respect to the matters covered hereby. This Agreement shall not be altered or amended except by an instrument in writing signed by or on behalf of the party entitled to the benefit of the provision against which enforcement is sought.

12.4 GOVERNING LAW. The validity and effect of this Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Georgia, without regard to conflicts rules.

12.5 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors and assigns.

12.6 PARTIAL INVALIDITY AND SEVERABILITY. All rights and restrictions contained herein may be exercised and shall be applicable and binding only to the extent that they do not violate any applicable laws and are intended to be limited to the extent necessary to render this Agreement legal, valid and enforceable. If any term of this Agreement, or part thereof, not essential to the commercial purpose of this Agreement shall be held to be illegal, invalid or unenforceable by a court of competent jurisdiction, it is

the intention of the parties that the remaining terms hereof, or part thereof shall constitute their agreement with respect to the subject matter hereof and all such remaining terms, or parts thereof, shall remain in full force and effect. To the extent legally permissible, any illegal, invalid or unenforceable provision of this Agreement shall be replaced by a valid provision which will implement the commercial purpose of the illegal, invalid or unenforceable provision.

12.7 WAIVER. Any term or condition of this Agreement may be waived at any time by the party which is entitled to the benefit thereof, but only if such waiver is evidenced by a writing signed by such party. No failure on the part of any party hereto to exercise, and no delay in exercising any right, power or remedy created hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or remedy by any such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. No waiver by any party hereto to any breach of or default in any term or condition of this Agreement shall constitute a waiver of or assent to any succeeding breach of or default in the same or any other term or condition hereof.

12.8 HEADINGS. The headings of particular provisions of this Agreement are inserted for convenience only and shall not be construed as a part of this Agreement or serve as a limitation or expansion on the scope of any term or provision of this Agreement.

12.9 NUMBER AND GENDER. Where the context requires, the use of the singular form herein shall include the plural, the use of the plural shall include the singular, and the use of any gender shall include any and all genders.

12.10 TIME OF PERFORMANCE. Time is of the essence.

12.11 DEFINITION OF KNOWLEDGE. The words "KNOWN", "TO THE KNOWLEDGE OF," "TO THE BEST KNOWLEDGE OF," "AWARE" or words of similar import employed in this Agreement with reference to any individual or entity shall be conclusively presumed to mean that the person or entity has made reasonable and diligent efforts under the circumstances to become knowledgeable; and, with respect to Seller, shall mean the knowledge of the individuals listed on Schedule 12.11.

13. INDEX OF DEFINITIONS.

The definitions for the following defined terms used in this Agreement can be found as follows:

Defined Term	Section
Accruals	1.5(a)(ii)
Actives Business	Recitals
Actives Division	Recitals
Additional Payment	1.4(b)(ii)
Additional Payment Date	1.4(b)(ii)
Additional Purchase Orders	2.22
Adjustment	1.12(a)
Adjustment Date	1.12(a)
Amended Fixed Assets Register	1.1(a)
ARRIS Intl	Preamble
ARRIS Mexico	Preamble
Assigned Contracts	1.1(e)
Assumed Liabilities	1.5(a)

Closing	1.10
Closing Date	1.10
Closing Payment	1.4(b)(i)
Contract Manufacturer and OEM Agreements	2.14(a)
Direct Warranty Costs	1.5(a)(iii)(B)
Disputed Amount	1.12(c)(i)
Early Contract Terminations	2.14(c)
ERISA	2.10(a)
Excess Direct Warranty Costs	2.13(b)
Excluded Actives Assets	1.2(b)
Excluded Assets	1.2
Excluded Businesses	1.2(a)
Excluded Contracts	1.3
Excluded Distribution & Sales Agreements	2.21
FASB Loss Contingency	3.14(b)
Fixed Assets	1.1(a)
Fixed Assets Register	1.1(a)(i)
Fixed Asset Threshold Amount	1.12(a)(i)
Headend-to-Home Access Loop Analog HFC Products	2.6(a)(i)
Indemnified Losses	3.1
Indemnitees	8.1
Indemnity Survival Period	10.1
Intellectual Property	3.13(a)
Interim Financial Statements	3.7
Internal Revenue Code	1.9

Inventories	1.1(b)
IP License Agreements	3.13(c)
IP Patents	3.13(e)
IP Trademarks	3.13(f)
July 31 Balance Sheet	3.7
Key Employees	2.9(b)
Knowledge	12.11
LIBOR	1.12(d)
License In Agreements	3.13(b)
License Out Agreements	3.13(c)
Notice Period	2.21
Physical Count Inventory Listing	1.1(b)
Plan	3.18(a)
Plans	3.18(a)
P.O. Register	1.1(f)
Post-Closing Purchase Price Adjustment	1.12(a)
Pre-Closing Warranty Obligations	1.5(a)
Prepaids	1.1(g)
Purchase Orders	1.1(f)
Purchaser	Preamble
Reference Date	3.22
Related Parties	3.21
Required Consents	3.5
Sales Order Backlog	1.1(e)
Sales Orders	1.1(e)
Selected Employees	2.9(a)
Seller	Preamble
Settlement Amount	1.12(e)(ii)
Settlement and Cross-License Agreement	2.15
Severance Period	2.9
Solectron Component Inventory	1.3
Statement	1.12(a)
Target Net Book Value of Fixed Assets	1.12(a)(i)(A)

Taxes	3.16
Termination Costs	2.9(c)
Termination Date	1.10
Total Consideration	1.4(a)
Total Net Book Value of Fixed Assets Delivered	1.12(a)(i)
Total Standard Cost of Inventory Delivered	1.12(a)(ii)
Transferred Assets	1.1
Transferred Employee	2.9(b)
Transition Services Agreement	2.17
WARN Act	2.9(c)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

PURCHASER:

SCIENTIFIC-ATLANTA, INC.

By: /s/ James F. McDonald

Name: James F. McDonald

Title: CEO

SELLER:

ARRIS INTERNATIONAL, INC.

By: /s/ Lawrence A. Margolis

Name: Lawrence A. Margolis

Title: Executive VP & CFO

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

By: /s/ Lawrence A. Margolis

Name: Lawrence A. Margolis

Title: Executive VP & CFO

EXHIBIT 10.19

[ARRIS LOGO]

August 5, 2001

Mr. James D. Lakin
[Address]

Dear Jim,

Below please find supplemental terms to your Employment Agreement ("Agreement") with Arris Group, Inc. ("Company") dated August 5, 2001:

1. Your LTIP units and sign on option grant have been issued at a $10.20 exercise price per share as of the August 5 closing date.

2. You will be granted 63,738 shares of Restricted Stock of Company. These shares will vest 50% on August 5, 2002, and 50% on August 5, 2003. Should you die prior to the vesting dates, the shares will immediately vest.

3. Company will reimburse you for the actual costs incurred by you to join the Country Club of your choice up to a maximum of $50,000. Further, Company will reimburse you for all dues and assessments paid by you with respect to the membership in such club for as long as you are employed by Company. These costs will be taxable income to you.

4. You will participate in the supplemental pension plan of Company. You will be credited with 57 months of service for your past service with Arris Interactive, L.L.C.

5. You will be eligible to use the services (tax return preparation, financial planning, etc.) of AMG, or other such service provider appointed by Company, provided to Executives of Company, at the expense of Company.

6. You will be eligible to be granted stock options of the Company annually with respect to year 2001 and following with other executives of the Company in the grant range of comparable executives.

7. You will be entitled to 100% reimbursement for your annual Physical.

Please indicate your acceptance of these terms by signing in the applicable space below.

/s/ Robert J. Stanzione

Robert J. Stanzione
President and CEO

Accepted: /s/ James D. Lakin

James D. Lakin

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of August 5, 2001, is by and between Arris Group Inc, a Delaware corporation (the "Company"), and James Lakin ("Executive").

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 President Broadband 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, By-laws 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 $280,000 ("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 and Compensation Committee, 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) 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) after a material breach by Company:

(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.

(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.

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 (including cash bonus paid under the short term incentive plan by Arris Interactive, LLC before Executive was eligible for a bonus from the Company); (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 and (4) subject to Section 10 hereof, all of Executive's outstanding stock options and restricted stock grants under the Company's stock option and other benefit plans shall immediately vest on the effective date of such 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 Nortel or 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 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 executive offices in the Atlanta, Georgia area 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;

(vi) Any material breach by the Company of any provision of this Agreement; and

(vii) 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 any 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, manufacture development or sale of 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 induce 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 chairman. 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 prepaid 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: Arris Group, Inc.
11450 Technology Circle
Duluth, Georgia 30097
Attention: Lawrence A. Margolis

If to Executive: James D. Lakin
Address as appearing in the
company's records

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.

(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.

Arris Group, Inc.

By: /s/ Robert J. Stanzione

Name: Robert J. Stanzione

Title: President and CEO

EXECUTIVE

/s/ James D. Lakin

By: James D. Lakin

EXHIBIT 10.20

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of August 5, 2001, is by and between Arris Group Inc, a Delaware corporation (the "Company"), and David B. Potts ("Executive").

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 Senior Vice President and his duties will be those executive duties as are designated by the Chief Financial Officer or 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, By-laws 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 $250,000 ("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 and Compensation Committee, 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, which will include service at Arris Interactive LLC.

(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) 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) after a material breach by Company:

(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.

(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.

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 annual average cash bonus paid to executive for the two fiscal years immediately preceding the termination (including cash bonus paid under the short term incentive plan by Arris Interactive, LLC before Executive was eligible for a bonus from the Company); (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 and (4) subject to Section 10 hereof, all of Executives outstanding stock options and restricted stock grants under the Company's stock option and other benefit plans shall immediately vest on the effective date of such 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 Nortel Networks or 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 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 executive offices in the Atlanta, Georgia area 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;

(vi) Any material breach by the Company of any provision of this Agreement; and

(vii) 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 any 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, manufacture development or sale of 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 induce 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 chairman. 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 prepaid 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 30097
Attention: Lawrence A. Margolis

If to Executive: David B. Potts
4150 Wellington Lake Crt.
Duluth, GA 30097

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.

(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

Name: L.A. Margolis
Title: EVP & CFO

EXECUTIVE

/s/ David B. Potts

By: David B. Potts

EXHIBIT 21

SUBSIDIARIES OF ARRIS GROUP, INC.
AS OF DECEMBER 31, 2002

Arris Group, Inc. is the holding company for Arris International, Inc. and, as of December 31, 2002, owned approximately 85% of the Class A membership interest in Arris Interactive L.L.C. (the remaining Class A membership interest was 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
ANTEC Latin America, Inc. Sucursal Argentina	Argentina
Texscan Corporation	Nevada
ANTEC Europe Limited	United Kingdom
Antec International Corporation	Barbados
Texscan de Mexico, S.A., de C.V.	Mexico
Electronic Connector Corporation of Illinois	Illinois
Communicaciones Broadband S.A. de C.V.	Mexico
Power Guard, Inc.	Illinois
Electronic 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
ANTEC Pacific, Inc.	Illinois
ANTEC Spain, Inc.	Illinois
Keptel, Inc.	Delaware
Keptel de Mexico S.A. de C.V.	Mexico
Arris International Japan Kabushiki Katsha	Japan
ARRIS International Telecommunicaciones	Chile

EXHIBIT 23

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 4, 2003 (except for Note 19, as to which the date is March 24, 2003) 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, 2002:

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. 3389704 on Form S-8 (ANTEC/Keptel Exchange Options)

Registration Statement No. 333-11921 on Form S-8 (ESP Stock Plan)

Registration Statement No. 333-61524 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)

Registration Statement No. 333-85544 on Form S-8 (ANTEC Corporation 2000 Stock Incentive Plan; ANTEC Corporation 2000 Mid-Level Stock Option Plan; ANTEC Corporation 1997 Stock Incentive Plan; ANTEC Corporation Amended and Restated Employee Stock Incentive Plan (1993); ANTEC Corporation Directors Stock Option Plan (1993); TSX Corporation 1996 Second Amended and Restated Long-Term Incentive Compensation Plan; TSX Corporation 1993 Amended and Restated Directors Stock Option Plan; and the TSX Corporation 1994 W.H. Lambert Stock Option Agreement)

Registration Statement No. 333-88498 on Form S-3, as amended (ARRIS Group, Inc. 21,000,000 shares of Common Stock)

/s/ ERNST & YOUNG LLP

Atlanta, Georgia
March 26, 2003

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director 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 25th day of March 2003.

/s/ Alex B. Best	/s/ Matthew B. Kearney
/s/ Harry L. Bosco	/s/ John R. Petty
/s/ Ian Craig	/s/ Larry Romrell
/s/ James L. Faust	