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

FORM 10-Q

For the quarter ended March 31, 2014

of

ARRIS GROUP, INC.

A Delaware Corporation
IRS Employer Identification No. 46-1965727
SEC File Number 000-31254

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

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

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

ARRIS is required to submit electronically and post on its corporate web site Interactive Data Files required to be submitted and posted pursuant to Rule 405 of regulation S-T.

As of April 30, 2014, 143,749,515 shares of the registrant's Common Stock, $0.01 par value, were outstanding.

ARRIS GROUP, INC.
FORM 10-Q
For the Three Months Ended March 31, 2014

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PART I. FINANCIAL INFORMATION
Item 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ARRIS GROUP, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data) (unaudited)

	March 31, 2014	December 31, 2013 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 440,707	$ 442,438
Short-term investments, at fair value	80,818	67,360
Total cash, cash equivalents and short-term investments	521,525	509,798
Restricted cash	1,076	1,079
Accounts receivable (net of allowances for doubtful accounts of $2,320 in 2014 and $1,887 in 2013)	724,430	637,059
Other receivables	11,694	8,366
Inventories (net of reserves of $41,365 in 2014 and $42,408 in 2013)	286,058	330,129
Prepaid income taxes	51,758	13,034
Prepaids	15,986	61,482
Current deferred income tax assets	80,427	77,167
Other current assets	58,628	39,930
Total current assets	1,751,582	1,678,044
Property, plant and equipment (net of accumulated depreciation of $215,002 in 2014 and $194,830 in 2013)	388,653	396,152
Goodwill	940,149	940,402
Intangible assets (net of accumulated amortization of $491,144 in 2014 and $427,143 in 2013)	1,114,231	1,176,192
Investments	72,372	71,176
Noncurrent deferred income tax assets	21,862	7,678
Other assets	56,180	52,363
	$ 4,345,029	$ 4,322,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 596,191	$ 662,919
Accrued compensation, benefits and related taxes	93,251	116,262
Accrued warranty	53,940	48,755
Deferred revenue	126,451	69,071
Current portion of long-term debt	53,268	53,254
Current income taxes liability	13,508	3,068
Other accrued liabilities	143,018	141,698
Total current liabilities	1,079,627	1,095,027
Long-term debt, net of current portion	1,677,712	1,691,034
Accrued pension	58,733	58,657
Noncurrent income tax liability	21,913	21,048
Noncurrent deferred income tax liabilities	83,903	74,791
Other noncurrent liabilities	62,675	62,463
Total liabilities	2,984,563	3,003,020
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; 143.2 million and 142.1 million shares issued and outstanding in 2014 and 2013, respectively	1,794	1,766
Capital in excess of par value	1,689,907	1,688,782
Treasury stock at cost, 34.2 million shares in 2014 and 2013	(306,330)	(306,330)
Accumulated deficit	(19,769)	(60,569)
Unrealized gain on marketable securities (net of accumulated tax expense of $52 in 2014 and $154 in 2013)	27	306
Unfunded pension liability (net of accumulated tax effect of $981 in 2014 and 2013)	(2,416)	(2,416)
Unrealized loss on derivative instruments (net of accumulated tax benefit of $1,511 in 2014 and $1,467 in 2013)	(2,660)	(2,541)
Cumulative translation adjustments	(87)	(11)
Total stockholders' equity	1,360,466	1,318,987
	$ 4,345,029	$ 4,322,007

(1) Certain amounts for December 31, 2013 have been recast to reflect results for business acquisitions. (See Note 3 *Business Acquisitions* for additional details.)

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	**2013**
Net sales	1,225,017	353,650
Cost of sales	878,243	245,124
Gross margin	346,774	108,526
Operating expenses:		
Selling, general, and administrative expenses	99,132	40,126
Research and development expenses	134,153	44,082
Integration, acquisition, restructuring and other costs	11,502	7,199
Amortization of intangible assets	64,001	7,603
Total operating expenses	308,788	99,010
Operating income	37,986	9,516
Other expense (income):		
Interest expense	16,598	4,631
Loss (gain) on investments	1,674	(564)
(Gain) loss on foreign currency	(679)	821
Interest income	(583)	(838)
Other expense, net	2,172	19,416
Income (loss) before income taxes	18,804	(13,950)
Income tax (benefit) expense	(21,996)	700
Net income (loss)	$ 40,800	$ (14,650)
Net income (loss) per common share:		
Basic	$ 0.29	$ (0.13)
Diluted	$ 0.28	$ (0.13)
Weighted average common shares:		
Basic	142,854	115,150
Diluted	147,152	115,150

See accompanying notes to the consolidated financial statements.

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ARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands) (unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income (loss)	$ 40,800	$ (14,650)
Unrealized (loss) gain on marketable securities, net of tax benefit (expense) of $102 in 2014 and $(34) in 2013, respectively	(279)	48
Unrealized (loss) gain on derivative instruments, net of tax expense of $44 in 2014	(119)	-
Cumulative translation adjustments	(76)	-
Comprehensive income (loss), net of tax	$ 40,326	$ (14,602)

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Operating activities:		
Net income (loss)	$ 40,800	$ (14,650)
Depreciation	19,994	6,509
Amortization of intangible assets	64,001	7,603
Stock compensation expense	11,033	6,744
Deferred income tax benefit	(8,385)	(5,995)
Amortization of deferred finance fees and debt discount	2,331	160
Loss (gain) on investments	1,674	(564)
Revenue reduction related to Comcast's investment in ARRIS	–	13,182
Mark-to-market fair value adjustment related to Comcast's investment in ARRIS	–	19,348
Loss (gain) on disposal of fixed assets	412	(4)
Excess income tax benefits from stock-based compensation plans	(10,457)	(4,659)
Non-cash interest expense	–	3,244
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	(87,371)	(17,655)
Other receivables	(7,254)	(3,889)
Inventories	44,071	7,318
Accounts payable and accrued liabilities	(41,871)	28,014
Prepaids and other, net	5,870	5,351
Net cash provided by operating activities	34,848	50,057
Investing activities:		
Purchases of property, plant and equipment	(12,924)	(6,289)
Proceeds from sales of property, plant and equipment	17	53
Purchases of investments	(29,095)	–
Sales of investments	11,175	244,711
Net cash (used in) provided by investing activities	(30,827)	238,475
Financing activities:		
Payment of debt obligations	(13,750)	–
Proceeds from issuance of common stock	3,780	10,649
Excess income tax benefits from stock-based compensation plans	10,457	4,659
Repurchase of shares to satisfy employee minimum tax withholdings	(6,239)	(11,992)
Net cash (used in) provided by financing activities	(5,752)	3,316
Net (decrease) increase in cash and cash equivalents	(1,731)	291,848
Cash and cash equivalents at beginning of period	442,438	131,703
Cash and cash equivalents at end of period	$ 440,707	$ 423,551

See accompanying notes to the consolidated financial statements.

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

Note 1. Organization and Basis of Presentation

ARRIS Group, Inc. (together with its consolidated subsidiaries, except as the context otherwise indicates, "ARRIS" or the "Company") is a global media entertainment and data communications solutions provider, headquartered in Suwanee, Georgia. The Company operates in two business segments, Customer Premises Equipment and Network & Cloud (See Note 14 *Segment Information* for additional details), specializing in enabling multichannel video programming distributors, including cable, telephone, and digital broadcast satellite operators, and media programmers to deliver rich media, voice, and IP data services to end consumer subscribers. ARRIS is a leading developer, manufacturer and supplier of interactive set-top boxes, end-to-end digital video and Internet Protocol Television distribution systems, broadband access infrastructure platforms, and associated data and voice Customer Premises Equipment. The Company's solutions are complemented by a broad array of services and systems integration that bring localized expertise to every touchpoint in the delivery process. This lends a customized approach to serving each of ARRIS' primary markets.

On April 17, 2013, the Company completed its acquisition of Motorola Home from General Instrument Holdings, Inc., a subsidiary of Google, Inc. (See Note 3 *Business Acquisitions* for additional details.)

The consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of the consolidated financial statements for the periods shown. Interim results of operations are not necessarily indicative of results to be expected from a twelve-month period. These financial statements should be read in conjunction with the Company's most recently audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the United States Securities and Exchange Commission ("SEC").

Note 2. Impact of Recently Adopted Accounting Standards

Adoption of New Accounting Standards - In July 2013, the FASB issued an accounting standard update which provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. This update was adopted by ARRIS beginning in the first quarter of 2014. The adoption of this guidance did not have a material impact on our consolidated financial position and results of operations.

Accounting pronouncements issued but not in effect until after March 31, 2014 are not expected to have a significant impact on our consolidated financial position or results of operations.

Note 3. Business Acquisitions

Acquisition of Motorola Home

On April 17, 2013, ARRIS completed its acquisition of Motorola Home from General Instrument Holdings, Inc. ("Seller"), a subsidiary of Google, Inc. Consideration for the acquisition consisted of approximately $2,208.1 million in cash, inclusive of working capital adjustments, and 10.6 million shares of ARRIS' common stock (the "Acquisition").

The Acquisition enhanced the Company's scale and product breadth in the telecom industry, significantly diversified the Company's customer base and expanded dramatically the Company's international presence. Notably, the acquisition brought to ARRIS, Motorola Home's product scale and scope in end-to-end video processing and delivery, including a full range of QAM and IP set-top box products, as well as IP Gateway CPE equipment for data and voice services for broadband service providers. The Acquisition also enhanced the depth and scale of the Company's research and development capabilities, particularly in the video arena.

During the first quarter of 2014, the Company completed its acquisition accounting and made the following adjustments to the provisional amounts that were previously recorded:

- An increase in net operating loss ("NOL") carryforward deferred tax assets of approximately $38 million with a full valuation allowance due to uncertainty regarding the ultimate utilization resulting in no change in goodwill. The adjustment resulted from the finalization of the Company's detailed analysis of NOLs to be assumed in the acquisition.

- A decrease in deferred tax assets of approximately $4.8 million related to the finalization of acquired tax basis in Motorola Home intangibles with a corresponding increase to goodwill.

The Company recorded these amounts as measurement period adjustments because the information was known as of the acquisition date but the interaction of the re-attribution rules required further study which was completed in the first quarter of 2014.

Acquisition of SeaWell Networks, Inc.

On April 17, 2014, a wholly owned subsidiary of the Company acquired all of the issued and outstanding shares of SeaWell Networks, Inc. (“SeaWell”), a corporation organized under the laws of Canada, which is located in Mississauga, Ontario. Consideration for the acquisition consists of approximately $5.7 million.

This acquisition is expected to further enhance the Company’s IP video delivery capabilities, by integrating SeaWell’s adaptive bit rate (“ABR”) streaming technologies and talent into its Network & Cloud business.

The Company is expecting to recognize, but may not be limited to, customer and technology related intangible assets as a result of the acquisition.

The net assets and results of operations of SeaWell will be included in the Company’s consolidated financial statements from April 17, 2014. The Company is required to account for the transaction under the Business Combinations accounting guidance, which generally requires the acquirer to fair value all the assets acquired and liabilities assumed. ARRIS expects to recognize goodwill as a result of the acquisition that will be measured as the difference between the fair value of the consideration transferred and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with accounting guidance. The primary factor resulting in goodwill is the expected synergies from the business combination.

The Company is in the process of measuring the assets acquired and liabilities assumed, but as of May 9, 2014, the initial accounting for the business combination has not been completed in order to determine the value of assets acquired and liabilities assumed. ARRIS had not yet received valuations from independent valuation specialists for the intangible assets acquired. Additionally, the Company had not yet completed a review and valuation of other assets acquired and liabilities assumed, including income taxes and certain other assets and liabilities, in order to determine corresponding goodwill. The required disclosures will be included in the Company’s second quarter 2014 consolidated financial statements.

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Note 4. Goodwill and Intangible Assets

Goodwill

Goodwill relates to the excess of consideration transferred over the fair value of net assets resulting from an acquisition. Our goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset is more likely than not impaired. Our annual goodwill impairment test is performed in the fourth quarter, with a testing date of October 1.

As of March 31, 2014, the Company has recorded goodwill of $940.1 million which includes the impact of measurement period adjustments for the Motorola Home acquisition. The Company has recast goodwill as of December 31, 2013 to approximately reflect the goodwill arising from the Acquisition.

The changes in the carrying amount of goodwill for the year to date period ended March 31, 2014 are as follows (in thousands):

	CPE	Network Infrastructure	Cloud Services	Total
Goodwill	688,658	497,741	132,659	1,319,058
Accumulated impairment losses	–	(257,053)	(121,603)	(378,656)
Balance as of December 31, 2013	$ 688,658	$ 240,688	$ 11,056	$ 940,402
Other	–	(253)	–	(253)
Goodwill	688,658	497,488	132,659	1,318,805
Accumulated impairment losses	–	(257,053)	(121,603)	(378,656)
Balance as of March 31, 2014	$688,658	$240,435	$11,056	$940,149

Intangibles

The Company's intangible assets have an amortization period of six months to ten years. The gross carrying amount and accumulated amortization of the Company's intangible assets as of March 31, 2014 and December 31, 2013 are as follows (in thousands):

	March 31, 2014				December 31, 2013			
	Gross Amount	Accumulated Amortization	Net Book Value	Weighted Average Remaining Life (Years)	Gross Amount	Accumulated Amortization	Net Book Value	Weighted Average Remaining Life (Years)
Customer relationships	$ 903,409	$291,345	$ 612,064	6.7	$ 903,409	$266,323	$ 637,086	7.0
Developed technology, patents & licenses	565,366	146,164	419,202	4.8	563,326	120,679	442,647	5.0
Trademarks / trade names	20,900	10,893	10,007	1.3	20,900	8,549	12,351	1.5
Order backlog	44,600	42,742	1,858	–	44,600	31,592	13,008	0.3
In-process R&D	71,100	–	71,100	–	71,100	–	71,100	–
Total	$1,605,375	$ 491,144	$1,114,231		$1,603,335	$ 427,143	$1,176,192	

Amortization expense is reported in the consolidated statements of operations within operating expenses under the caption "Amortization of intangible assets." The estimated total amortization expense for finite-lived intangibles for each of the next five fiscal years is as follows (in thousands):

2014 (for the remaining nine months)	$ 160,593
2015	204,271
2016	173,542
2017	156,608
2018	117,653
2019	99,276
Thereafter	131,188

Amounts reflected in the above table exclude $71.1 million of amortization that would be incurred upon successful completion of in-process research and development projects.

Note 5. Investments

ARRIS' investments as of March 31, 2014 and December 31, 2013 consisted of the following (in thousands):

	As of March 31, 2014	As of December 31, 2013
Current Assets:		
Available-for-sale securities	$ 80,818	$ 67,360
Noncurrent Assets:		
Available-for-sale securities	3,729	7,004
Equity method investments	27,557	23,803
Cost method investments	15,469	15,250
Other investments	25,617	25,119
	72,372	71,176
Total	$ 153,190	$ 138,536

Available-for-sale securities - ARRIS' investments in debt and marketable equity securities are categorized as available-for-sale and are carried at fair value. The Company currently does not hold any held-to-maturity securities. Realized gains and losses on available-for-sale securities are included in net income. Unrealized gains and losses on available-for-sale securities are included in our Consolidated Balance Sheets as a component of accumulated other comprehensive income (loss). The total gains included in the accumulated other comprehensive income related to available-for-sale securities were $27 thousand and $306 thousand, net of tax, as of March 31, 2014 and December 31, 2013, respectively. Realized and unrealized gains and losses in total and by individual investment as of March 31, 2014 and December 31, 2013 were not material. The amortized cost basis of the Company's available-for-sale securities approximates fair value.

The contractual maturities of the Company's available-for-sale securities as of March 31, 2014 are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties. The amortized cost basis of the Company's investments approximates fair value (in thousands):

	March 31, 2014
Within one year	$80,818
After one year through five years	–
After five years through ten years	–
After ten years	3,729
Total	$84,547

Equity method investments – In connection with the Acquisition, ARRIS acquired certain investments in limited liability companies and partnerships that are accounted for using the equity method as the Company has significant influence over operating and financial policies of the investee companies. These investments are recorded at $27.6 million and $23.8 million as of March 31, 2014 and December 31, 2013, respectively. The carrying amount of equity method investments is adjusted for the Company's proportionate share of net earnings or losses adjusted for any basis differences of the investees, or dividends received. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of such investments may not be recoverable. An equity method investment is written down to fair value if there is evidence of a loss in value which is other than temporary.

The following table summarizes the ownership structure and ownership percentage of the non-consolidated investments as of March 31, 2014, which are accounted for using the equity method.

Name of Investee	Ownership Structure	% Ownership
MPEG LA	Limited Liability Company	8.4%
Music Choice	Limited Liability Partnership	18.2%
Conditional Access Licensing	Limited Liability Company	49.0%
Combined Conditional Access Development ("CCAD")	Limited Liability Company	50.0%

The Company and Comcast are parties to investments in two limited liability corporations. The investees were determined to be variable interest entities of which ARRIS is not the primary beneficiary, as ARRIS does not have the power to direct the activities of the investee that most significantly impact its economic performance. The limited liability corporations are a licensing and a research and development company. The Company's ownership percentages in the licensing and the research and development corporation are 49% and 50%, respectively, which are accounted for as equity method investments. The purpose of the limited liability corporations are to license, develop, deploy, support, and to gain market acceptance for certain technologies that reside in a cable plant or in a cable device. Subject to agreement on annual statements of work, the Company is providing to one of the ventures, engineering services per year approximating 20% to 30% of the approved venture budget, which is expected to be in the range of approximately $6 million to $8 million per year. The Company is also required to make annual contributions for the purpose of funding development projects identified by the venture. During the first quarter of 2014, the Company made funding contributions to the investment of $7.9 million.

	Carrying Amount	Maximum Exposure to Loss
Conditional Access Licensing	$6,537	$ 6,537
Combined Conditional Access Development	9,735	18,000

The Company's future total annual funding contributions to CCAD are expected to be in the range of approximately $16 million to $18 million, and represent the Company's annual maximum exposure to loss.

Cost method investments - ARRIS holds cost method investments in private companies. These investments are recorded at $15.5 million and $15.3 million as of March 31, 2014 and December 31, 2013, respectively. Due to the fact the investments are in private companies, the Company is exempt from estimating the fair value on an interim and annual basis. It is impractical to estimate the fair value since the quoted market price is not available. Furthermore, the cost of obtaining an independent valuation appears excessive considering the materiality of the investments to the Company. However, ARRIS is required to estimate the fair value if there has been an identifiable event or change in circumstance that may have a significant adverse effect on the fair value of the investment.

Other investments – At March 31, 2014 and December 31, 2013, ARRIS held $25.6 million and $25.1 million, respectively, in certain life insurance contracts. This investment is classified as non-current investments in the Consolidated Balance Sheets. The Company determined the fair value to be the amount that could be realized under the insurance contract as of each reporting period. The changes in the fair value of these contracts are included in net income.

Other-Than-Temporary Investment Impairments - ARRIS concluded that no other-than-temporary impairment losses existed as of March 31, 2014 and December 31, 2013. In making this determination, ARRIS evaluates its investments for any other-than-temporary impairment on a quarterly basis considering all available evidence, including changes in general market conditions, specific industry and individual entity data, the financial condition and the near-term prospects of the entity issuing the security, and the Company's ability and intent to hold the investment until recovery.

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

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Note 6. Fair Value Measurement

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance establishes a fair value hierarchy that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities. In order to increase consistency and comparability in fair value measurements, the FASB has established a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. An asset or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of its fair value. The three levels of input defined by the authoritative guidance are as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The following table presents the Company's investment assets (excluding equity and cost method investments) measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014			
Assets at fair value	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ –	$ 5,236	$ –	$ 5,236
Commercial paper	–	2,997	–	2,997
Corporate bonds	–	42,964	–	42,964
Short-term bond fund	29,621	—	–	29,621
Cash surrender value of company owned life insurance	–	25,617	–	25,617
Corporate obligations	–	20	–	20
Money markets	213	–	–	213
Mutual funds	196	–	–	196
Other investments	–	3,300	–	3,300
Interest rate derivatives – asset derivatives	–	3,148	–	3,148
Total assets measured at fair value	$ 30,030	$ 83,282	$ –	$113,312
Liabilities at fair value				
Interest rate derivatives – liability derivatives		$ (7,275)	–	$ (7,275)

	December 31, 2013			
Assets at fair value	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ –	$ 3,814	$ –	$ 3,814
Commercial paper	–	2,994	–	2,994
Corporate bonds	–	30,987	–	30,987
Short-term bond fund	29,565	—	–	29,565
Cash surrender value of company owned life insurance	–	25,119	–	25,119
Corporate bonds	–	3,604	–	3,604
Corporate obligations	–	18	–	18
Money markets	212	–	–	212
Mutual funds	184	–	–	184
Other investments	–	2,986	–	2,986
Interest rate derivatives – asset derivatives	–	3,011	–	3,011
Total assets measured at fair value	$29,961	$ 72,533	$ –	$102,494
Liabilities at fair value				
Interest rate derivatives – liability derivatives		$ (7,018)	–	$ (7,018)

In addition to the amounts disclosed in the above table, the fair value of the Company’s Israeli severance pay assets, which were almost fully comprised of Level 2 assets, were $3.6 million as of March 31, 2014 and December 31, 2013.

All of the Company’s short-term and long-term investments at March 31, 2014 are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, market prices for similar securities, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include the Company’s investment in money market funds, mutual funds and municipal bonds. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on other observable inputs include the Company’s cash surrender value of company owned life insurance, corporate obligations and bonds, commercial paper and certificates of deposit. Such instruments are classified within Level 2 of the fair value hierarchy.

In determining the fair value of certain Level 1 and Level 2 instruments, ARRIS has performed steps to verify the accuracy of the valuations provided by ARRIS’ brokerage firms. ARRIS has reviewed the most recent Statement on Standards for Attestation Engagements No. 16 (SSAE report) for each brokerage firm holding investments for ARRIS. The SSAE report for each did not identify any control weakness in the brokerages’ policies and procedures, in particular as they relate to the pricing and valuation of financial instruments. ARRIS has determined the third party pricing source used by each firm to be a reliable recognized source of financial valuations. In addition ARRIS has performed further testing on a large sample of its corporate obligations and commercial paper investments. These tests did not show any material discrepancies in the valuations provided by the brokerage firms. It is the Company’s intent to continue to verify valuations on a quarterly basis, using one or more reliable recognized third party pricing providers. See Note 5 and Note 7 for further information on the Company’s investments and derivative instruments, respectively.

In addition to the financial instruments included in the above table, certain nonfinancial assets and liabilities are to be measured at fair value on a nonrecurring basis in accordance with applicable authoritative guidance. This includes items such as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. In general, nonfinancial assets including goodwill, other intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when any impairment is recognized. As of March 31, 2014, the Company had not recorded any impairment related to such assets and had no other material nonfinancial assets or liabilities requiring adjustments or write-downs to their current fair value.

The face value of debt as of March 31, 2014 approximated the fair value.

Note 7. Derivative Instruments and Hedging Activities

Risk Management Policies – ARRIS is exposed to financial market risk, primarily related to foreign currency and interest rates. These exposures are actively monitored by management. To manage the volatility relating to certain of these exposures, the Company periodically enters into a variety of derivative financial instruments. Management’s objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency and interest rates. ARRIS’ policies and practices are to use derivative financial instruments only to the extent necessary to manage exposures. ARRIS does not hold or issue derivative financial instruments for trading or speculative purposes.

Accounting Policy for Derivative Instruments – The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives also may be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

ARRIS recognizes all derivative financial instruments as assets or liabilities in the Consolidated Balance Sheets at fair value. In April 2013, ARRIS entered into senior secured credit facilities having variable interest rates with Bank of America, N.A. and various other institutions, which are comprised of (i) a "Term Loan A Facility" of $1.1 billion, (ii) a "Term Loan B Facility" of $825 million and (iii) a "Revolving Credit Facility" of $250 million. In July 2013, ARRIS entered into six $100 million interest rate swap arrangements, which effectively converted $600 million of the Company's variable-rate debt based on one-month LIBOR to an aggregate fixed rate of approximately 3.40%. This fixed rate could vary up by 50 basis points or down by 25 basis points based on future changes to the Company's net leverage ratio. Each of these swaps matures on December 29, 2017. ARRIS has designated these swaps as cash flow hedges, and the objective of these hedges is to manage the variability of cash flows in the interest payments related to the portion of the variable-rate debt designated as being hedged.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2013, such derivatives were used to hedge the variable cash flows associated with debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2014, the Company did not have expenses related to hedge ineffectiveness in earnings.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that an additional $7.3 million may be reclassified as an increase to interest expense.

The table below presents the pre-tax impact of the Company's derivative financial instruments had on the Accumulated Other Comprehensive Income and Statement of Operations for the three months ended March 31, 2014 (in thousands):

	Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate derivatives	$ (1,973)	Interest expense	$ (1,853)	$ -

Credit-risk-related Contingent Features

ARRIS has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness. As of March 31, 2014, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $4.2 million. As of March 31, 2014, the Company has not posted any collateral related to these agreements nor has it required any of its counterparties to post collateral related to these or any other agreements.

Non-designated Hedges

Additionally, the Company does not currently use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

Balance Sheet Recognition and Fair Value Measurements - The following table indicates the location on the Consolidated Balance Sheets in which the Company's derivative assets and liabilities have been recognized, the fair value hierarchy level applicable to each derivative type and the related fair values of those derivatives.

ARRIS has master netting arrangements with substantially all of its counterparties giving ARRIS the right of offset for its derivative positions. However, ARRIS has not elected to offset the fair value positions of the derivative contracts recorded in the Consolidated Balance Sheets. Although the derivative contracts that the Company has entered into are subject to master netting arrangements, there are no possible offsets as only a single derivative contract has been entered into with each of ARRIS' counterparties.

The fair values of ARRIS' derivative instruments recorded in the Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

	As of March 31, 2014		As of December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate derivatives – asset derivatives	Other assets	$ 3,148	Other assets	$ 3,011
Interest rate derivatives – liability derivatives	Other accrued liabilities	$ 7,275	Other accrued liabilities	$ 7,018

The assets and liabilities for the interest rate derivatives were considered as Level 2 under the fair value hierarchy.

The change in the fair values of ARRIS' derivative instruments recorded in the Consolidated Statements of Operations during the three months ended March 31, 2014 and 2013 were as follows (in thousands):

		Three Months Ended March 31,	
	Statement of Operations Location	2014	2013
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Loss on foreign currency	$ –	$ 44
Derivatives designated as hedging instruments:			
Interest rates derivatives	Interest expense	$1,853	$ –

Note 8. Pension Benefits

Components of Net Periodic Pension Cost (in thousands):

	Three Months Ended March 31,	
	2014	2013
Service cost	$ –	$ 61
Interest cost	446	387
Expected return on plan assets	(219)	(219)
Amortization of net loss	76	154
Net periodic pension cost	$ 303	$ 383

In connection with the Acquisition, the Company assumed a pension liability related to a defined benefit plan in Taiwan, which had a balance of $27.6 million as of March 31, 2014.

Employer Contributions

No minimum funding contributions are required in 2014 under the Company's defined benefit plan. The Company has established two rabbi trusts to fund the Company's pension obligations under the non-qualified plan of the Chief Executive Officer and certain executive officers. The balance of these rabbi trust assets as of March 31, 2014 was approximately $19.7 million and is included in Investments on the Consolidated Balance Sheets.

Note 9. Guarantees

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

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

Information regarding the changes in ARRIS' aggregate product warranty liabilities for the three months ended March 31, 2014 was as follows (in thousands):

Balance at December 31, 2013	$ 81,500
Accruals related to warranties (including changes in assumptions)	9,637
Settlements made (in cash or in kind)	(10,800)
Balance at March 31, 2014	$ 80,337

Note 10. Restructuring Charges

The following table represents a summary of and changes to the restructuring accrual, which is primarily composed of accrued severance and other employee costs, contractual obligations that related to excess leased facilities and equipment and write off of property, plant and equipment (in thousands):

	Employee severance & termination benefits	Contractual obligations and other	Total
Balance at December 31, 2013	$ 2,674	$ 673	$ 3,347
Restructuring charges	(404)	25	(379)
Cash payments	(1,882)	(149)	(2,031)
Balance at March 31, 2014	$ 388	$ 549	$ 937

Employee severance and termination benefits – In the second quarter of 2013, ARRIS completed its acquisition of Motorola Home. ARRIS initiated restructuring plans as a result of the Acquisition that focuses on the rationalization of personnel, facilities and systems across multiple segments in the ARRIS organization.

The total estimated cost of the restructuring plan was approximately $30.8 million and was recorded as severance expense during 2013. As of March 31, 2014, the total liability remaining for this restructuring plan was approximately $0.4 million. The remaining liability is expected to be paid by the end of third quarter 2014.

Contractual obligations - Represent contractual obligations that relate primarily to excess leased facilities.

Note 11. Inventories

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

	March 31, 2014	December 31, 2013
Raw material	$ 72,460	$ 60,520
Work in process	9,062	6,010
Finished goods	204,536	263,599
Total inventories, net	$ 286,058	$ 330,129

Note 12. Property, Plant and Equipment

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

	March 31, 2014	December 31, 2013
Land	$ 88,742	$ 88,742
Building and leasehold improvements	136,708	133,668
Machinery and equipment	378,205	368,572
	603,655	590,982
Less: Accumulated depreciation	(215,002)	(194,830)
Property, plant and equipment, net	$ 388,653	$ 396,152

Note 13. Long-Term Indebtedness

Senior Secured Credit Facilities

In April 2013, ARRIS entered into senior secured credit facilities with Bank of America, N.A. and various other institutions, which are comprised of (i) a "Term Loan A Facility" of $1.1 billion, (ii) a "Term Loan B Facility" of $825 million and (iii) a "Revolving Credit Facility" of $250 million. The Term Loan A Facility and the Revolving Credit Facility have terms of five years. The Term Loan B Facility has a term of seven years. Interest rates on borrowings under the senior credit facilities are set forth in the table below. As of March 31, 2014, ARRIS had $1,738.8 million face value outstanding under the Term Loan A and Term Loan B Facilities, no borrowings under the Revolving Credit Facility and letters of credit totaling $2.5 million issued under the Revolving Credit Facility.

	Rate	As of March 31, 2014
Term Loan A	LIBOR + 2.00 %	2.15%
Term Loan B	LIBOR(1) + 2.75 %	3.50%
Revolving Credit Facility(2)	LIBOR + 2.00 %	Not Applicable

(1) Includes LIBOR floor of 0.75%
(2) Includes unused commitment fee of 0.40% and letter of credit fee of 2.00% not reflected in interest rate above.

Borrowings under the senior secured credit facilities are secured by first priority liens on substantially all of the assets of ARRIS and certain of its present and future subsidiaries who are or become parties to, or guarantors under, the credit agreement governing the senior secured credit facilities (the "Credit Agreement"). The Credit Agreement contains usual and customary limitations on indebtedness, liens, restricted payments, acquisitions and asset sales in the form of affirmative, negative and financial covenants, which are customary for financings of this type, including the maintenance of a minimum consolidated interest coverage ratio of not less than 3.5:1 and a maximum consolidated net leverage ratio of 4.0:1 (which decreases to 3.5:1 throughout the next year). As of March 31, 2014, ARRIS was in compliance with all covenants under the Credit Agreement.

The Credit Agreement provides terms for mandatory prepayments and optional prepayments and commitment reductions. The Credit Agreement also includes events of default, which are customary for facilities of this type (with customary grace periods, as applicable), including provisions under which, upon the occurrence of an event of default, all amounts outstanding under the credit facilities may be accelerated.

During the three months ended March 31, 2014, the Company made mandatory prepayments of approximately $13.8 million related to the senior secured credit facilities.

Following is a summary of our contractual debt obligations as of March 31, 2014 (in thousands):

	Payments due by period				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit facilities	$ 55,000	$165,000	$825,000	$693,813	$1,738,813

Note 14. Segment Information

The "management approach" has been used to present the following segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker ("CODM") for evaluating segment performance and deciding how to allocate resources to segments. The Company's chief executive officer has been identified as the CODM.

Our CODM manages the Company under two segments:

- ***Customer Premises Equipment ("CPE")*** – The CPE segment's product solutions include set-top boxes, gateways, and Subscriber Premises equipment that enable service providers to offer Voice, Video and high-speed data services to residential and business subscribers.
- ***Network & Cloud ("N&C")*** – The N&C segment's product lines cover all components required by facility-based Service Providers to construct a state-of-the-art residential and metro distribution network. For Cable providers this includes Hybrid Fiber Coax equipment, edge routers, metro WiFi, video management, storage, and distribution equipment. For Telco providers this includes fiber-based and copper-based broadband transmission equipment. In addition, the portfolio includes an advanced video headend management system for both legacy MPEG/DVB systems as well as full IP Video systems. Finally, the portfolio also includes full support for advanced multi-screen video management, protection, monetization and delivery, and a suite of products for performance management, configuration, and surveillance.

These operating segments were determined based on the nature of the products and services offered. The measures that are used to assess the reportable segment's operating performance are sales and direct contribution. A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources.

Effective with the acquisition of Motorola Home in 2013, the Company made certain changes to its operating segments. In addition, effective January 1, 2014, the Company changed management responsibility for certain product lines. As a result, the segment information presented in these financial statements has been conformed to present the Company's segments on this revised basis for all prior periods presented.

The Company assesses its segment's operating performance based on direct contribution, which is defined as gross margin less direct operating expense. Corporate and other expenses, such as selling and home office G&A, not included in the measure of segment direct contribution are reported in "Other" and are reconciled to income (loss) before income taxes.

The table below presents information about the Company's reportable segments for the three months ended March 31, 2014 and 2013 (in thousands):

	Reportable Segments							
	Network & Cloud		CPE		Other		Consolidated	
For the three months ended March 31,	2014	2013	2014	2013	2014	2013	2014	2013
Sales	$331,570	$180,267	$893,601	$186,565	$ (154)	(13,182)	$1,225,017	$353,650
Direct Contribution	65,364	57,057	191,787	26,008	(143,662)	(58,747)	113,489	24,318
Integration, acquisition, restructuring & other					11,502	7,199	11,502	7,199
Amortization of intangible assets					64,001	7,603	64,001	7,603
Operating income							37,986	9,516
Other expense							19,182	23,466
Income (loss) before income taxes							$ 18,804	$ (13,950)

Note 15. Sales Information

ARRIS sells its products primarily in the United States. The Company's international revenue is generated from Asia Pacific, Canada, Europe and Latin America. Sales to international customers were approximately 25.7% and 31.7% of total sales for the three months ended March 31, 2014 and 2013, respectively. International sales by region for the three months ended March 31, 2014 and 2013 were as follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
Americas, excluding U.S. (1)	$213,972	$ 81,725
Asia Pacific	32,952	10,172
EMEA	67,445	20,370
Total international sales	$ 314,369	$112,267

(1) Excludes U.S. sales of $910.6 million and $241.4 million for the three months ended March 31, 2014 and 2013, respectively.

Note 16. Earnings Per Share

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

	Three Months Ended March 31,	
	2014	2013
Basic:		
Net income (loss)	$ 40,800	$ (14,650)
Weighted average shares outstanding	142,854	115,150
Basic earnings (loss) per share	$ 0.29	$ (0.13)
Diluted:		
Net income (loss)	$ 40,800	$ (14,650)
Weighted average shares outstanding	142,854	115,150
Net effect of dilutive equity awards	4,298	–
Total	147,152	115,150
Diluted earnings (loss) per share	$ 0.28	$ (0.13)

For the three months ended March 31, 2014, 10 thousand of the equity-based awards were excluded from the computation of diluted earnings per share shares because their effect would have been anti-dilutive. For the three months ended March 31, 2013, all outstanding equity-based awards were anti- dilutive. These exclusions are made if the exercise price of these equity-based awards is in excess of the average market price of the common stock for the period, or if the Company has net losses, both of which have an anti-dilutive effect.

During the three months ended March 31, 2014, the Company issued 1.2 million shares of its common stock related to stock option exercises and the vesting of restricted shares, as compared to 3.6 million shares for the twelve months ended December 31, 2013.

The Company has not paid cash dividends on its common stock since its inception.

Note 17. Income Taxes

For the three months ended March 31, 2014 and 2013, the Company recorded income tax benefit of $22.0 million and income tax expense of $0.7 million, respectively. Below is a summary of the components of the tax expense in each period (in thousands, except for percentages):

	Three Months Ended March 31,					
	2014			2013		
	(Loss) Income Before Tax	Income Tax Expense (Benefit)	Effective Tax Rate	Income Before Tax	Income Tax Expense (Benefit)	Effective Tax Rate
Non-discrete items	$ 30,306	$ 10,826	35.7%	$ 25,770	$ 8,216	31.9%
Discrete tax events -						
2012 R&D credit	—	—		—	(4,875)	
Integration and acquisition costs	(11,502)	(4,393)		(7,190)	(2,641)	
Comcast's investment in ARRIS	—	—		(32,530)	—	
Change in state deferred rates	—	(5,744)		—	—	
Change in valuation allowances	—	(18,163)		—	—	
Other	—	(4,522)		—	—	
Total	$ 18,804	$(21,996)	(117.0%)	$(13,950)	$ 700	(5.0%)

- In conjunction with an agreement executed with Google in January 2014, the Company released certain valuation allowances resulting in the Company recognizing a tax benefit of approximately $18.2 million related to additional net operating losses arising from Motorola Home acquisition. There remains considerable uncertainty surrounding the amount of realizable net operating losses that will ultimately be transferred from Google to ARRIS. While the Company recorded its best estimate of the amount of realizable net operating losses it expects to receive during this quarter, it is possible that the actual amount provided will be significantly different. As of March 31, 2014, ARRIS has recorded net operating losses of $545.5 million; however, the Company currently estimates that $493.5 million of that amount will not be realizable and is subject to a valuation allowance. The ultimate realization of the net operating losses is dependent upon Google completing complex tax calculations. It is expected that ARRIS will obtain the amount of available net operating losses and all of the items necessary to properly calculate the Company's ability to utilize the losses after Google files its corporate income tax return.
- The Company recorded a benefit of $5.7 million from changes in state deferred income tax rates.

- Additional benefits of $4.5 million were recognized from return to provision adjustments, valuation allowance releases and releases of uncertain tax liabilities due to audit resolutions.
- For the three month period ended March 31, 2014, the Company recorded significant book expenses of an infrequent and unusual nature of approximately $11.5 million relating to the acquisition of the Home business of Motorola, generating a tax benefit of $4.4 million.
- For the three month period ended March 31, 2014, the Company did not record any benefits attributed to research and development tax credits, as the tax credit was not reenacted.

The earnings from the Company's non-U.S. subsidiaries are considered to be permanently invested outside of the United States. Accordingly, no provision for U.S. federal and state income taxes on those non-U.S. earnings has been made in the accompanying consolidated financial statements. Any future distribution of these non-U.S. earnings may subject the Company to both U.S. federal and state income taxes, after reduction for foreign taxes credited.

Note 18. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated other comprehensive income by component, net of taxes, for the three months ended March 31, 2014 (in thousands):

	Unrealized gain on marketable securities	Unfunded pension liability	Unrealized loss on derivative instruments	Cumulative translation adjustments	Total
Balance as of December 31, 2013	$ 306	$(2,416)	$ (2,541)	$ (11)	$(4,662)
Other comprehensive (loss) income before reclassifications	(279)	-	(119)	(76)	(474)
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	-	-	-
Net current-period other comprehensive income (loss)	(279)	-	(119)	(76)	(474)
Balance as of March 31, 2014	$ 27	$(2,416)	$ (2,660)	$ (87)	$(5,136)

Note 19. Related Party

As noted in Note 3 *Business Acquisitions,* the Company is a party to a research and development venture with Comcast. The Company provides engineering services to the venture through a development services arrangement. Subject to agreement on annual statements of work, the venture is required to purchase from the Company, and ARRIS is required to provide to the venture, engineering services per year approximating between 20% and 30% of the approved venture budget. In addition, we are required to provide certain funding to the venture on an annual basis. Funding provided to the venture in the first quarter 2014 approximated $7.9 million.

As a result of the Acquisition, we acquired an investment in MPEG LA, L.L.C. ("MPEG"), which operates primarily as a patent pool licensing administrator for several patent pool programs. As such, MPEG identifies potential licensees, markets and completes licensing agreements and collects, allocates and distributes license royalties. The Company's ownership percentage in MPEG is 8.4%, and is being accounted for as an equity method investment. The Company paid license fees to MPEG in the amount of $15.4 million in the first quarter 2014.

Note 20. Contingencies

The Company accrues a liability for legal contingencies when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The Company reviews these accruals and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel and other relevant information. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period in which such determinations are made. Unless noted otherwise, the amount of liability is not probable or the amount cannot be reasonably estimated; and, therefore, accruals have not been made.

Due to the nature of the Company's business, it is subject to patent infringement claims, including current suits against it or one or more of its wholly-owned subsidiaries, or one or more of our customers who may seek indemnification from us, alleging infringement by various Company products and services. The Company believes that it has meritorious defenses to the allegation made in its pending cases and intends to vigorously defend these lawsuits; however, it is currently unable to determine the ultimate outcome of these or similar matters. Accordingly, with respect to these proceedings, we are currently unable to reasonably estimate the possible loss or range of possible losses. In addition, the Company is a defendant in various litigation matters generally arising out of the normal course of business. (See Part II, Item 1, "Legal Proceedings" for additional details)

Note 21. Subsequent Event

SeaWell Networks, Inc.

On April 17, 2014, the Company completed its acquisition of SeaWell Networks, Inc. (See Note 3 *Business Acquisitions* for additional details.)

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

On April 17, 2013 we acquired the Motorola Home business from General Instrument Holdings, Inc., a subsidiary of Google, Inc. for $2.4 billion in cash and equity, subject to certain adjustments as provided for in the acquisition agreement (the "Acquisition"). For more detail, see Note 3 *Business Acquisitions* to Notes to our Consolidated Financial Statements. We more than doubled in size as a result of the Acquisition, which had significant effects on virtually every aspect of our business and operations and which make comparisons in this discussion to our historical results difficult.

In addition, we have revised our segment disclosures to reflect changes in operating responsibilities that occurred during the first quarter of 2014. For more detail, see Note 14 *Segment Information* to Notes to our Consolidated Financial Statements. Readers should consider the size and transformative nature of the Acquisition when reviewing this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Business and Financial Highlights

Business Highlights

- Sequential revenue growth (2% from the fourth quarter of 2013)
- Strong order backlog ($996 million at the end of the first quarter of 2014) resulting from:
  - o Growing strength in demand for network expansions and video experience enhancements
  - o Broad acceptance of ARRIS in home solutions and the E6000 CCAP platform
- Anticipate continued growth in the second quarter of 2014
  - o Robust demand for all products

CPE Segment

- Segment sales up 4% as compared to fourth quarter 2013; direct contribution down 1% versus fourth quarter of 2013
  - — Continued strong demand for next generation CPE solutions
  - — Sales driven by digital video and broadband device shipments
  - — First quarter of 2014 direct contribution of 21.5% of sales; quarter on quarter change due to mix of customer product shipments

Network and Cloud Segment

- Sales down 3.5% as compared to fourth quarter of 2013; direct contribution down 15%
  - — Solid quarter with shift in product mix
    - o Outstanding demand for E6000 expected to continue throughout 2014
    - o Reduction in sales of Video Systems, Professional Services, and Technical Support
      - — Project based year-end upgrades and timing of annual service renewals
    - o Consistent sales across remaining portfolio: Access and Transport, Assurance, Consumer Solutions

Financial Highlights

- Sales in the first quarter of 2014 were $1,225.0 million as compared to $353.7 million in the same period in 2013. This increase is primarily the result of the Acquisition. Excluding the revenue impacts of Comcast's investment in ARRIS, sales in the first quarter of 2013 were $366.8 million. (See non-GAAP reconciliation below)
- Gross margin percentage was 28.3% in the first quarter of 2014, which compares to 30.7% in the first quarter of 2013. The year over year decline reflects the inclusion of the Motorola Home products, which in the aggregate have lower overall margins than the historic ARRIS products. Excluding the impact of Comcast's investment in ARRIS, gross margin percentage was 33.2% for the first quarter of 2013. (See non-GAAP reconciliation below)
- Total operating expenses (excluding restructuring charges, acquisition, integration and other costs and amortization of intangible assets) in the first quarter of 2014 were $233.3 million, as compared to $84.2 million in the same period last year.
- Intangible amortization increased in the first quarter of 2014 from $7.6 million in 2013 to $64.0 million in 2014 as a result of the Acquisition.

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- We ended the first quarter of 2014 with $521.5 million of cash, cash equivalents, and short-term marketable security investments. We generated approximately $34.8 million of cash from operating activities in the first quarter of 2014.
- We ended the first quarter of 2014 with outstanding debt of $1,731.0 million, the current portion of which is $53.3 million. We repaid $13.8 million of our Term Loans in the first quarter of 2014.

Non-GAAP Measures

As part of our ongoing review of financial information related to our business, we regularly use non-GAAP measures, in particular non-GAAP earnings per share, as we believe they provide a meaningful insight into our business and trends. We also believe that these non-GAAP measures provide readers of our financial statements with useful information and insight with respect to the results of our business. However, the presentation of non-GAAP information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Below are tables for the three months ended March 31, 2014 and 2013 which detail and reconcile GAAP and non-GAAP earnings per share:

(in thousands, except per share data)	For the Three Months Ended March 31, 2014						
	Sales	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense (Benefit)	Net Income (Loss)
Amounts in accordance with GAAP	$ 1,225,017	$ 346,774	$ 308,788	37,986	$ 19,182	$ (21,996)	$ 40,800
Acquisition accounting impacts related to deferred revenue	206	199	-	199	-	-	199
Stock compensation expense	-	1,275	(9,758)	11,033	-	-	11,033
Amortization of intangible assets	-	-	(64,001)	64,001	-	-	64,001
Acquisition costs, restructuring, and integration costs	-	-	(11,502)	11,502	-	-	11,502
Net tax items	-	-	-	-	-	58,850	(58,850)
Non-GAAP amounts	$ 1,225,223	$ 348,248	$ 223,527	$ 124,721	$ 19,182	$ 36,854	$ 68,685
GAAP net income per share - diluted							$ 0.28
Non-GAAP net income per share - diluted							$ 0.47
Weighted average common shares - basic							142,854
Weighted average common shares - diluted							147,152

(in thousands, except per share data)	For the Three Months Ended March 31, 2013						
	Sales	Gross Margin	Operating Expense	Operating Income	Other (Income) Expense	Income Tax Expense (Benefit)	Net Income (Loss)
Amounts in accordance with GAAP	$ 353,650	$ 108,526	$ 99,010	9,516	$ 23,466	$ 700	$ (14,650)
Reduction in revenue related to Comcast's investment in ARRIS	13,182	13,182	-	13,182	-	-	13,182
Stock compensation expense	-	831	(5,913)	6,744	-	-	6,744
Amortization of intangible assets	-	-	(7,603)	7,603	-	-	7,603
Acquisition costs, restructuring, and integration costs	-	-	(7,199)	7,199	-	-	7,199
Credit facility - ticking fees	-	-	-	-	(388)	-	388
Mark-to-market FV adjustment related to Comcast's investment in ARRIS	-	-	-	-	(19,348)	-	19,348
Non-cash interest expense	-	-		-	(3,244)	-	3,244
Adjustments of income tax valuation allowances and other discrete tax items	-	-	-	-	-	7,516	(7,516)
Tax related to items above	-	-	-	-	-	5,735	(5,735)
Non-GAAP amounts	$ 366,832	$ 122,539	$ 78,295	$ 44,244	$ 486	$ 13,951	$ 29,807
GAAP net loss per share - diluted							$ (0.13) (1)
Non-GAAP net income per share - diluted							$ 0.25
Weighted average common shares - basic							115,150
Weighted average common shares - diluted							119,022

(1) Basic shares used as losses were reported for those periods and the inclusion of dilutive shares would be anti-dilutive

In managing and reviewing our business performance, we exclude a number of items required by GAAP. Management believes that excluding these items is useful in understanding the trends and managing our operations. We provide these supplemental non-GAAP measures in order to assist the investment community to see ARRIS through the "eyes of management," and therefore enhance understanding of ARRIS' operating performance. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures reflect adjustments based on the following items, as well as the related income tax effects:

Reduction in Revenue Related to Comcast Investment in ARRIS: In connection with our acquisition of Motorola Home, Comcast was given an opportunity to invest in ARRIS. The accounting guidance requires that we record the implied fair value of benefit received by Comcast as a reduction in revenue. Until the closing of the deal, changes in the value of the investment will be marked to market and flow through other expense (income). We have excluded the effect of the implied fair value in calculating our non-GAAP financial measures. We believe it is useful to understand the effects of these items on our total revenues and other expense (income).

Acquisition Accounting Impacts Related to Deferred Revenue : In connection with the accounting related to our acquisitions, business combination rules require us to account for the fair values of deferred revenue arrangements for which acceptance has not been obtained, and post contract support in our purchase accounting. The non-GAAP adjustment to our sales and cost of sales is intended to include the full amounts of such revenues as if these purchase accounting adjustments had not been applied. We believe the adjustment to these revenues is useful as a measure of the ongoing performance of our business. We historically have experienced high renewal rates related to our support agreements, and our objective is to increase the renewal rates on acquired post contract support agreements. However, we cannot be certain that our customers will renew their contracts.

Stock-Based Compensation Expense: We have excluded the effect of stock-based compensation expenses in calculating our non-GAAP operating expenses and net income (loss) measures. Although stock-based compensation is a key incentive offered to our employees, we continue to evaluate our business performance excluding stock-based compensation expenses. We record non-cash compensation expense related to grants of options and restricted stock. Depending upon the size, timing and the terms of the grants, the non-cash compensation expense may vary significantly but will recur in future periods.

Amortization of Intangible Assets: We have excluded the effect of amortization of intangible assets in calculating our non-GAAP operating expenses and net income (loss) measures. Amortization of intangible assets is non-cash, and is inconsistent in amount and frequency and is significantly affected by the timing and size of our acquisitions. Investors should note that the use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

Integration, Acquisition, Restructuring and Other Costs : We have excluded the effect of acquisition, integration, and other expenses and the effect of restructuring expenses in calculating our non-GAAP operating expenses and net income measures. We will incur significant expenses in connection with our recent acquisition of Motorola Home, which we generally would not otherwise incur in the periods presented as part of our continuing operations. Acquisition and integration expenses consist of transaction costs, costs for transitional employees, other acquired employee related costs, and integration related outside services. Restructuring expenses consist of employee severance, abandoned facilities, and other exit costs. Additionally, we have excluded the effect of a loss on the sale of a product line in calculating our non-GAAP operating expenses and net income measures. We believe it is useful to understand the effects of these items on our total operating expenses.

Credit Facility—Ticking Fees: In connection with our acquisition of Motorola Home, the cash portion of the consideration was in part funded through debt financing commitments. A ticking fee is a fee paid to our banks to compensate for the time lag between the commitment to make the loan and the actual funding. We have excluded the effect of the ticking fee in calculating our non-GAAP financial measures. We believe it is useful to understand the effect of these items in our other (income) expense.

Mark To Market Fair Value Adjustment Related To Comcast Investment in ARRIS: In connection with our acquisition of Motorola Home, Comcast was given an opportunity to invest in ARRIS. The accounting guidance requires we mark to market the changes in the value of the investment and flow through other expense (income). We have excluded the effect of the implied fair value in calculating our non-GAAP financial measures. We believe it is useful to understand the effects of these items on our total other expense (income).

Non-Cash Interest on Convertible Debt: We have excluded the effect of non-cash interest in calculating our non-GAAP operating expenses and net income (loss) measures. We record the accretion of the debt discount related to the equity component non-cash interest expense. We believe it is useful to understand the component of interest expense that will not be paid out in cash.

Net Tax Items: We have excluded the tax effect of the non-GAAP items mentioned above. Additionally, we have excluded the effects of certain tax adjustments related to state valuation allowances, research and development tax credits and provision to return differences.

Comparison of Operations for the Three Months Ended March 31, 2014 and 2013

Net Sales

The table below sets forth our net sales for the three months ended March 31, 2014 and 2013, for each of our segments (in thousands):

	Net Sales			
	Three Months Ended March 31,		Increase (Decrease) 2014 vs. 2013	
	2014	2013	$	%
Business Segment:				
CPE	$ 331,570	$ 180,267	$ 151,303	83.9%
N&C	893,601	186,565	707,036	379.0%
Other	(154)	(13,182)	13,028	98.8%
Total sales	$1,225,017	$ 353,650	$871,367	246.4%

In connection with our acquisition of Motorola Home in April 2013, in January 2013 Comcast agreed to invest in ARRIS. At the time of agreement with Comcast, the ARRIS stock price was $15.35 per share; however, as a result of prior negotiations, Comcast had the ability to invest in ARRIS at the same price as Google, Inc. which was $14.11 per share. The accounting guidance requires that we record the intrinsic value of benefit received by Comcast as a reduction in revenue and gross margin of approximately $13.2 million.

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The table below sets forth our domestic and international sales for the three months ended March 31, 2014 and 2013 (in thousands):

	Net Sales			
	Three Months Ended March 31,		Increase (Decrease) 2014 vs. 2013	
	2014	2013	$	%
Domestic	$ 910,648	$ 241,383	$669,265	277.3%
International				
Americas, excluding U.S.	213,972	81,725	132,247	161.8%
Asia Pacific	32,952	10,172	22,780	223.9%
EMEA	67,445	20,370	47,075	231.1%
Total international	314,369	112,267	202,102	180.0%
Total sales	$1,225,017	$353,650	$ 871,367	246.4%

Customer Premises Equipment Net Sales 2014 vs. 2013

During the three months ended March 31, 2014, sales in the CPE segment increased $151.3 million, or approximately 83.9%, as compared to the same period in 2013. The increase is primarily attributable to the inclusion of sales associated with our acquisition of Motorola Home. The sales increase also reflects the introduction of new products, in particular the XG1 gateway in the second part of 2013.

Network and Cloud Net Sales 2014 vs. 2013

During the three months ended March 31, 2014, sales in the N&C segment increased $707.0 million, or approximately 379.0%, as compared to the same period in 2013. The increase in sales is primarily the result of the inclusion of sales associated with our acquisition of Motorola Home. The increase also reflects sales of our new CMTS platform, the E6000, which was introduced during 2013.

Gross Margin

The table below sets forth our gross margin for the three months ended March 31, 2014 and 2013 (in thousands, except percentages):

	Gross Margin			
	Three Months Ended March 31,		Increase (Decrease) 2014 vs. 2013	
	2014	2013	$	%
Gross margin dollars	$346,774	$108,526	$238,248	219.5%
Gross margin percentage	28.3%	30.7%		(2.4)

During the three months ended March 31, 2014, gross margin dollars increased and gross margin percentage decreased as compared to the same period in 2013. Increase in gross margin dollars is primarily the result of the inclusion of sales associated with our acquisition of Motorola Home. The decrease in gross margin percentage is the result of product mix. The historic gross margin of Motorola Home products is lower than the average of the historic ARRIS business. Also leading to the mix impact is the relative proportion of legacy Motorola Home sales and ARRIS sales; legacy Motorola Home sales are significantly higher.

In the first quarter of 2013, gross margin was adjusted for reduction in revenue and gross margin of $13.2 million related to Comcast’s investment in ARRIS.

Operating Expenses

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

	Operating Expenses			
	Three Months Ended March 31,		Increase (Decrease) 2014 vs. 2013	
	2014	2013	$	%
Selling, general, and administrative	$ 99,132	$40,126	$ 59,006	147.1%
Research and development	134,153	44,082	90,071	204.3%
Integration, acquisition, restructuring & other	11,502	7,199	4,303	59.8%
Amortization of intangible assets	64,001	7,603	56,398	741.8%
Total	$308,788	$99,010	$209,778	211.9%

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

The quarter over quarter increase in SG&A expenses primarily reflect the inclusion of expenses associated with the Motorola Home acquisition. The increase was partially offset as a result of certain information technology and other costs, formerly allocated to SG&A, which have been reclassified effective January 1, 2014 to cost of sales and research and development as a result of the way we review the business. As a percentage of revenue, SG&A expenses declined 3.2%, with an expense-to-revenue ratio of 8.1% in 2014 as compared with 11.3% in 2013.

Research & Development, or R&D, Expenses

Included in our R&D expenses are costs directly associated with our development efforts (people, facilities, materials, etc.) and reasonable allocations of our information technology and corporate facility costs. R&D expenses for the first three months of 2014 increased as compared to the same period in 2013 due to the inclusion of expenses associated with the Motorola Home acquisition, as well as higher allocations of information technology and other costs. As a percentage of revenue, R&D expenses declined 1.5%, with an expense-to-revenue ratio of 11.0% in 2014 as compared with 12.5% in 2013.

Integration, Acquisition, Restructuring and Other Costs

During the three months ended March 31, 2014 and 2013, we recorded restructuring (recovery) charges of approximately $(379) thousand and $9 thousand, respectively. The recovery recorded in 2014 was related to change in estimate of previously recorded expenses and the charges in 2013 were related to facilities.

During the first quarter of 2014, we recorded acquisition-related expenses and integration expenses of $11.5 million. These expenses related to the acquisition of Motorola Home and consisted primarily of integration related outside services and legal fees.

Amortization of Intangibles

Our intangible amortization expense relates to finite-lived intangible assets acquired in business combinations or acquired individually. Intangibles amortization expense for the three months ended March 31, 2014 and 2013 was $64.0 million and $7.6 million, respectively. The increase is primarily due to intangible assets acquired in the Acquisition.

Other Expense (Income)

Interest Expense

Interest expense for the three months ended March 31, 2014 and 2013 was $16.6 million and $4.6 million respectively. Interest expense reflects the amortization of deferred finance fees, the debt discount for the term loans and interest paid on term loans and other debt obligations. For the quarter ended March 31, 2013, interest expense also included the non-cash interest component of our convertible subordinated notes which were fully redeemed during the fourth quarter of 2013.

Interest Income

Interest income during the three months ended March 31, 2014 and 2013 was $0.6 million and $0.8 million, respectively. The income reflects interest earned on cash, cash equivalents, short-term and long-term marketable security investments.

Loss (Gain) on Foreign Currency

During the three months ended March 31, 2014 and 2013, we recorded a foreign currency gain of approximately $(0.7) million and a loss of approximately $0.8 million, respectively. We have US dollar functional currency entities that bill certain international customers in their local currency. Additionally, certain intercompany transactions created in conjunction with the Motorola Home acquisition are denominated in foreign currencies and subject to revaluation. To mitigate the volatility related to fluctuations in the foreign exchange rates, we may enter into various foreign currency contracts. The loss (gain) on foreign currency is driven by the fluctuations in the foreign currency exchanges rates.

Loss (Gain) on Investments

From time to time, we hold certain investments in the common stock of private and publicly-traded companies, a number of non-marketable equity securities, and investments in rabbi trusts associated with our deferred compensation plans. In connection with the Acquisition, we also acquired certain investments in limited liability companies and partnerships that are accounted for using the equity method of accounting. As such our equity portion in current earnings of such companies is included in the loss (gain) on investments.

During the three months ended March 31, 2014 and 2013, we recorded net losses related to these investments of $1.7 million, and net gains of $(0.6) million, respectively.

Other Expense, net

Other expense, net for the three months ended March 31, 2014 and 2013 was $2.2 million and 19.4 million, respectively. In connection with Comcast's agreement in January 2013 to invest in ARRIS upon the acquisition of Motorola Home, accounting guidance requires that, since the agreed-upon purchase price was less than the market price of the date of agreement, the resulting forward arrangement be marked to market for the difference in fair value at the end of the quarter. This resulted in a mark-to-market adjustment of $19.3 million and was recorded as Other Expense for the three months ended March 31, 2013.

Income Tax Expense

For the three months period ended March 31, 2014, we recorded income tax benefit of $22.0 million as compared to a tax expense of $0.7 million in the same period in 2013. The reduction in the income tax expense for the three month period ended March 31, 2014, compared to the three month period ended March 31, 2013, was primarily due to the change in earnings from continuing operations, as a result of the Motorola Home acquisition that occurred on April 17, 2013 and its related significant, infrequent and unusual book charges. Further benefits were recognized related to significant and unusual tax charges for a decrease in valuation allowances associated with net operating loss carryforwards, a change in state deferred tax rates due to the implementation of certain operational changes and a favorable release of uncertain tax positions from the resolution of the U.S. federal income tax audit for 2010.

For the three month period ended March 31, 2014, the Company recorded a pre-tax book loss of approximately $11.5 million relating to integration costs.

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Financial Liquidity and Capital Resources

Overview

Following completion of the Motorola Home acquisition, one of our key strategies remains maintaining and improving our capital structure. The key metrics we focus on are summarized in the table below:

Liquidity & Capital Resources Data

	Three Months Ended March 31,			
	2014		2013	
	(in thousands, except DSO and turns)			
Key Working Capital Items				
Cash provided by operating activities	$	34,848	$	50,057
Cash, cash equivalents, and short-term investments	$	521,525	$	608,389
Long-term U.S. corporate & government agency bonds	$	–	$	22,893
Accounts receivable, net	$	724,430	$	206,236
Days Sales Outstanding (“DSOs”)		51		51
Inventory	$	286,058	$	126,530
Inventory turns		11.4		7.5
Key Financing Items				
Convertible notes at face value	$	–	$	232,050
Term loans at face value	$	1,738,813	$	–
Cash used for debt repayment	$	13,750	$	–
Capital Expenditures	$	12,924	$	6,289

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

- Liquidity – ensure that we have sufficient cash resources or other short-term liquidity to manage day to day operations
- Growth – implement a plan to ensure that we have adequate capital resources, or access thereto, fund internal growth and execute acquisitions.
- Deleverage – reduce our debt obligation.

Accounts Receivable & Inventory

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

Accounts receivable at the end of the first quarter of 2014 increased as compared to 2013, primarily as a result of the inclusion of sales associated with the Motorola Home products, which were not included in 2013. DSOs remained unchanged in 2014 as compared to 2013. Looking forward, it is possible that DSOs may increase dependent upon our customer mix and payment patterns, particularly if international sales increase as customers internationally typically have longer payment terms.

Inventory increased in 2014 as compared to 2013. The increase in inventory was primarily as a result of the Motorola Home acquisition. We acquired approximately $270.4 million of inventory upon closing of the Motorola Home transaction in April 2013. Inventory turns were 11.4 in 2014 as compared to 7.5 in the same period of 2013. The turns increased reflecting the additions of inventory from the Motorola Home acquisition. Motorola Home had high inventory turns on average.

Term Debt Repayments

In the first quarter of 2014, we repaid $13.8 million of our term debt.

Summary of Current Liquidity Position and Potential for Future Capital Raising

We believe our current liquidity position, where we have approximately $521.5 million of cash, cash equivalents, and short-term investments on hand as of March 31, 2014, together with approximately $247.5 million in availability under our new Revolving Credit Facility, together with the prospects for continued generation of cash from operations are adequate for our short- and medium-term business needs. Our cash, cash-equivalents and short-term investments as of March 31, 2014 include approximately $128.0 million held by foreign subsidiaries whose earnings we expect to reinvest indefinitely outside of the United States. We do not expect to need the cash generated by those foreign subsidiaries to fund our domestic operations. However, in the unforeseen event that we repatriate cash from those foreign subsidiaries, in excess of what is owed to the United States parent, we may be required to provide for and pay U.S. taxes on permanently repatriated funds.

We have subsidiaries in countries that maintain restrictions, such as legal reserves, with respect to the amount of dividends that the subsidiaries can distribute. Additionally, some countries impose restrictions or controls over how and when dividends can be paid by these subsidiaries. While we do not currently intend to repatriate earnings from entities in these countries, if we were to be required to distribute earnings from such countries, the timing of the distribution and the funds available to distribute, would be adversely impacted by these restrictions.

We expect to be able to generate sufficient cash on a consolidated basis to make all of the principal and interest payments under our senior secured credit facilities. Should our available funds be insufficient to support these initiatives or our operations, it is possible that we will raise capital through private or public, share or debt offerings.

Senior Secured Credit Facilities

In April 2013, we entered into senior secured credit facilities with Bank of America, N.A. and various other institutions, which are comprised of (i) a "Term Loan A Facility" of $1.1 billion, (ii) a "Term Loan B Facility" of $825 million and (iii) a "Revolving Credit Facility" of $250 million. The Term Loan A Facility and the Revolving Credit Facility have terms of five years. The Term Loan B Facility has a term of seven years. Interest rates on borrowings under the senior credit facilities are set forth in the table below. As of March 31, 2014, we had $1,738.8 million face value outstanding under the Term Loan A and Term Loan B Facilities, no borrowings under the Revolving Credit Facility and letters of credit totaling $2.5 million issued under the Revolving Credit Facility.

	Rate	As of March 31, 2014
Term Loan A	LIBOR + 2.00 %	2.15%
Term Loan B	LIBOR(1) + 2.75 %	3.50%
Revolving Credit Facility(2)	LIBOR + 2.00 %	Not Applicable

(1) Includes LIBOR floor of 0.75%

(2) Includes unused commitment fee of 0.40% and letter of credit fee of 2.00% not reflected in interest rate above.

Borrowings under the senior secured credit facilities are secured by first priority liens on substantially all of our assets and certain of our present and future subsidiaries who are or become parties to, or guarantors under, the credit agreement governing the senior secured credit facilities (the "Credit Agreement"). The Credit Agreement contains usual and customary limitations on indebtedness, liens, restricted payments, acquisitions and asset sales in the form of affirmative, negative and financial covenants, which are customary for financings of this type, including the maintenance of a minimum consolidated interest coverage ratio of not less than 3.5:1 and a maximum consolidated net leverage ratio of 4.0:1 (which decreases to 3.5:1 throughout the next year. As of March 31, 2014, we were in compliance with all covenants under the Credit Agreement.

The Credit Agreement provides terms for mandatory prepayments and optional prepayments and commitment reductions. The Credit Agreement also includes events of default, which are customary for facilities of this type (with customary grace periods, as applicable), including provisions under which, upon the occurrence of an event of default, all amounts outstanding under the credit facilities may be accelerated.

Commitments

Our contractual obligations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change to our contractual obligations during the first three months of 2014.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Sources and Uses of Cash

The following table summarizes the net increases (decreases) in cash and equivalents for the key line items of our Consolidated Statements of Cash Flows for the periods presented (in thousands):

	For the Three Months Ended March 31,	
	2014	2013
Cash provided by (used in)		
Operating activities	$ 34,848	$ 50,057
Investing activities	(30,827)	238,475
Financing activities	(5,752)	3,316
Net (decrease) increase in cash and cash equivalents	$ (1,731)	$ 291,848

Operating Activities:

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

	For the Three Months Ended March 31,	
	2014	2013
Net income (loss)	$ 40,800	$ (14,650)
Adjustments to reconcile net income to cash provided by operating activities	80,603	45,568
Net income including adjustments	121,403	30,918
Increase in accounts receivable	(87,371)	(17,655)
Decrease in inventory	44,071	7,318
(Decrease) increase in accounts payable and accrued liabilities	(41,871)	28,014
All other – net	(1,384)	1,462
Cash provided by operating activities	$ 34,848	$ 50,057

Net income (loss), including adjustments, as per the table above, increased $90.5 million during the first three months of 2014 as compared to 2013 reflecting higher sales as discussed above.

Accounts receivable increased by $87.4 million during the first three months of 2014. These increases were primarily as a result of higher sales associated with acquisition of Motorola Home and payment patterns of our customers.

Inventory decreased by $44.1 million during the first three months of 2014, reflecting robust demand for certain products in the first quarter of 2014. It is possible that inventory may increase in the second quarter of 2014 to support demand levels.

Accounts payable and accrued liabilities decreased by $41.9 million. The change was due to a decrease in accounts payable due to the timing of payments and the payout of annual bonuses during the quarter which were partially offset by an increase in deferred revenue due to renewal of annual maintenance contracts.

All other accounts, net, includes the changes in other receivables, income taxes payable (recoverable), and prepaids. The other receivables represent amounts due from our contract manufacturers for material used in the assembly of our finished goods. The change in our income taxes recoverable account is a result of the timing of the actual estimated tax payments during the year as compared to the actual tax liability for the year. The net change during the first three months of 2014 was approximately $1.4 million.

Investing Activities:

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

	For the Three Months Ended March 31,	
	2014	2013
Purchases of property, plant and equipment	$ (12,924)	$ (6,289)
Proceeds from sales of property, plant and equipment	17	53
Purchases of investments	(29,095)	–
Sales of investments	11,175	244,711
Cash provided by (used in) investing activities	$ (30,827)	$ 238,475

Purchases of Property, Plant and Equipment – This represents capital expenditures which are mainly for test equipment, laboratory equipment, and computing equipment. It also represents expenditures related to the Motorola Home acquisition.

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

Purchases and Sales of Investments – These represent purchases and sales of securities.

Financing Activities:

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

	For the Three Months Ended March 31,	
	2014	2013
Payment of debt obligations	(13,750)	–
Excess income tax benefits from stock-based compensation plans	10,457	4,659
Repurchase of shares to satisfy employee minimum tax withholdings	(6,239)	(11,992)
Proceeds from issuance of common stock	3,780	10,649
Cash provided by (used in) financing activities	$ (5,752)	$ 3,316

Payment of Debt Obligations – Represents the payment of the term loans under the senior secured credit facilities.

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

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

Proceeds from Issuance of Common Stock – This represents cash proceeds related to the exercise of employee stock options, offset by expenses paid related to issuance of common stock.

Interest Rates

As described above, all indebtedness under our senior secured credit facilities bears interest at variable rates based on LIBOR plus an applicable spread. We entered into interest rate swap arrangements to convert a notional amount of $600.0 million of our variable rate debt based on one-month LIBOR to a fixed rate. This objective of these swaps is to manage the variability of cash flows in the interest payments related to the portion of the variable rate debt designated as being hedged.

Foreign Currency

A significant portion of our products are manufactured or assembled in China, Mexico and Taiwan, and we have research and development centers in China, India, Ireland, Israel, Russia and Sweden. 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. In addition, we have certain predicable expenditures for international operations in local currency. We use a hedging strategy and enter into forward or currency option contracts based on a percentage of expected foreign currency revenues and expenses. The percentage can vary, based on the predictability of the revenues denominated in the foreign currency.

Financial Instruments

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

We execute letters of credit and bank guarantees in favor of certain landlords and vendors to guarantee performance on contracts. Certain financial instruments require cash collateral, and these amounts are reported as restricted cash. As of March 31, 2014 and December 31, 2013, we had approximately $1.1 million outstanding of restricted cash.

Cash, Cash Equivalents, and Short-Term Investments

Our cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) are primarily held in money market funds that pay either taxable or non-taxable interest. We hold short-term investments consisting of debt securities classified as available-for-sale, which are stated at estimated fair value. These debt securities consist primarily of commercial paper, certificates of deposits, and U.S. government agency financial instruments.

We hold cost method investments in private companies. These investments are recorded at $15.5 million and $15.3 million as of March 31, 2014 and December 31, 2013, respectively. See Note 5 of Notes to the Consolidated Financial Statements for disclosures related to the fair value of our investments.

We have two rabbi trusts that are used as funding vehicles for various deferred compensation plans that were available to certain current and former officers and key executives. We also have deferred retirement salary plans, which were limited to certain current or former officers of business acquired in 2007. We hold investments to cover the liability.

ARRIS also funds its nonqualified defined benefit plan for certain executives in a rabbi trust.

Capital Expenditures

Capital expenditures are made at a level designed to support the strategic and operating needs of the business. ARRIS' capital expenditures were $12.9 million in the first three months of 2014 as compared to $6.3 million in the first three months of 2013. Management expects to invest approximately $60.0 million in capital expenditures for the year 2014.

Critical Accounting Policies and Estimates

The accounting and financial reporting policies of ARRIS are in conformity with U.S. generally accepted accounting principles, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has discussed the development and selection of the Company's critical accounting estimates with the audit committee of the Company's Board of Directors and the audit committee has reviewed the Company's related disclosures.

Our critical accounting policies and estimates are disclosed in our Form 10-K for the year ended December 31, 2013, as filed with the SEC. Our critical accounting estimates have not changed in any material respect during the three months ended March 31, 2014.

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 set forth in Item 1A, Part II, “Risk Factors.” These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. In providing forward-looking statements, ARRIS expressly disclaims any obligation to update publicly or otherwise these statements, whether as a result of new information, future events or otherwise except to the extent required by law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLSOURES ABOUT MARKET RISK

There have been no material changes with respect to the information appearing in Part II, Item 7A., “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. CONTROLS AND PROCEDURES

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

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

On April 17, 2013, we completed the acquisition of the Motorola Home business. See Note 3 *Business Acquisitions* of the Notes to the Consolidated Financial Statements for additional information. Total assets of the Motorola Home business represented approximately 89% of our consolidated total assets as of December 31, 2013, and net sales related to the Motorola Home business represented approximately 59% of our consolidated net sales for the fiscal year ended December 31, 2013. From the completion of the acquisition through December 31, 2013, under a transitional services agreement, the Seller continued to provide a substantial portion of the accounting and other reporting functions with respect to the acquired business. Effective January 1, 2014, we assumed direct control of a majority of these functions with respect to the acquired business, although we continued to use the seller’s systems. We expect to transition the accounting and related functions for the acquired business to our systems in the second quarter of 2014, and we will continue to review the impact of any future changes to our internal controls over financial reporting as we migrate from the seller’s systems to our systems.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We have been, and expect in the future to be a party to various legal proceedings, investigations or claims. In accordance with applicable accounting guidance, we record accruals for certain of our outstanding legal proceedings when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. We evaluate, at least on a quarterly basis, developments in our legal proceedings or other claims that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. When a loss contingency is not both probable and reasonably estimable, we do not record a loss accrual.

If the loss (or an additional loss in excess of any prior accrual) is reasonably possible and material, we disclose an estimate of the possible loss or range of loss, if such estimate can be made. The assessment whether a loss is probable or reasonably possible and whether the loss or a range of loss is estimable, involves a series of complex judgments about future events. Even if a loss is reasonably possible, we may not be able to estimate a range of possible loss, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel or unsettled legal theories or a large number of parties. In such cases, there is considerable uncertainty regarding the ultimate resolution of such matters, including the amount of any possible loss. Accordingly, with respect to the proceedings described below, we are currently unable to reasonably estimate the possible loss or range of possible loss. However, because the results in litigation are unpredictable, an adverse resolution of one or more of such matters could have a material adverse effect on our business, financial position, results of operations or cash flows.

Due to the nature of our business, it is subject to patent infringement claims, including current suits against us or one or more of our wholly-owned subsidiaries or one or more of our customers who may seek indemnification from us. We believe that we have meritorious defenses to the allegation made in the pending cases and intend to vigorously defend these lawsuits; however, we are unable currently to determine the ultimate outcome of these or similar matters. In addition, we are a defendant in various litigation matters generally arising out of the normal course of business. Except as described below, ARRIS is not party (nor have indemnification claims been made with respect) to any proceedings that are, or reasonably are expected to be, material to its business, results of operations or financial condition. However, since it is difficult to predict the outcome of legal proceedings, it is possible that the ultimate outcomes could materially and adversely affect our business, financial position, results of operations or cash flows. Accordingly, with respect to these proceedings, we are currently unable to reasonably estimate the possible loss or range of possible loss.

AIP v. MSOs, C.A. 12-cv-01690 et al., District of Delaware. On December 11, 2012, AIP filed several suits against service providers alleging infringement of four U.S. patents. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify one or more of the MSOs and/or pay damages for utilizing certain technology.

Bear Creek Technologies v. MSOs, C.A. 2:11-cv-00103, District of Delaware. In February 2011, Bear Creek sued MSOs, Telcos and other VoIP service providers for infringement of US Patent No. 7,889,722, relating to EMTAs. Certain of our customers have requested that we provide indemnification. The complaint requests unspecified damages for past infringement and injunction against future infringement. To date, no evidence of damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the MSOs and/or pay damages for utilizing certain technology.

C-Cation v. ARRIS et al., C.A. 14-cv-00059, Eastern District of Texas. On February 4, 2014, C-Cation filed suit against TWC, ARRIS, Cisco and Casa alleging infringement of U.S. Patent No. 5,563,883 relating to channel management. The complaint requests unspecified damages for past and future infringement. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to pay damages for utilizing certain technology.

Constellation Technologies v. Time Warner Cable (TWC), 2:13-cv-01079, U.S. District Court, Eastern District of Texas; and ***ARRIS v. Constellation Technologies and Rockstar Consortium***, 14-cv-00114 (UNA), U.S. District Court, District of Delaware. On December 11, 2013, Constellation Technologies sued TWC alleging infringement of six US patents acquired from Nortel through Rockstar Consortium. The complaint alleges unspecified damages for past infringement. On January 30, 2014 ARRIS filed suit against Constellation Technologies and Rockstar Consortium alleging that the Nortel patent portfolio is the subject of a previous license to ARRIS, that the licensing tactics amount to unfair competition, as well as non-infringement and invalidity of eight U.S. patents 5,471,474; 5,761,197; 6,128,298; 6,128,649; 6,130,893; 6,321,253; 7,154,879; and 8,464,299 formerly part of the Nortel portfolio. Several MSOs have asked ARRIS (and other suppliers) to indemnify them. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify one or more of the MSOs and/or pay damages for utilizing certain technology.

Custom Media Technologies v. MSOs, C.A. 13-cv-01425, District of Delaware. On August 15, 2013, Custom Media Technologies LLC filed a claim against several MSOs alleging infringement of US Patent No. 6,269,275. The complaint requests damages for past and future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify one or more MSOs and/or pay damages for utilizing certain technology.

Digital CBT v. AT&T, C.A. 12-cv-06421, Central District of California. On March 22, 2012, Digital CBT filed suit against AT&T alleging infringement of US Patent No. 5,805,173. The complaint requests an injunction and unspecified damages for infringement and injunction against future infringement. On December 13, 2013 the Court ruled in favor of AT&T on non-infringement, a ruling that Digital CBT has appealed. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T and/or pay damages for utilizing certain technology.

Dragon Intellectual Property v. MSOs, C.A. 13-cv-02069; 13-cv-02063, etc., District of Delaware (RGA). Dragon IP filed suit against several MSOs alleging infringement of US Patent No. 5,930,444. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the MSOs and/or pay damages for utilizing certain technology.

EON Corp. IP Holdings v. AT&T, C.A. 11-cv-01555, District of Puerto Rico. On June 14, 2011, EON filed suit against AT&T alleging infringement of six U.S. patents. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T and/or pay damages for utilizing certain technology.

FutureVision.com v. MSOs, C.A. 12-cv-00386, Eastern District of Texas. On June 18, 2012, FutureVision.com filed suit against several service providers alleging infringement of U.S. Patent No. 5,877,755 relating to an interactive broadband multimedia systems. The complaint requests unspecified damages for past and future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify one or more of the MSOs and/or pay damages for utilizing certain technology.

Innovative Wireless v. ARRIS, C.A. 13-cv-01857, District of Delaware (RGA). Innovative Wireless filed suit against ARRIS alleging infringement of three US Patents: 5,912,895; 6,327,264; and 6,587,473. The complaint requests unspecified damages for infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS or its suppliers may be required to pay damages for utilizing certain technology.

Intellectual Ventures I and II v. AT&T, C.A. 12-cv-00193 and 13-cv-01631, District of Delaware. On February 16, 2012, Intellectual Ventures filed a claim against AT&T alleging infringement of several US patents. The complaint requests damages for past and future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T and/or pay damages for utilizing certain technology.

KTech Telecommunications Inc. v. TWC, C.A. 2:11-cv-09373, Central District of California. On November 9, 2011, KTech Telecommunications filed suit against Time Warner Cable alleging infringement of U.S. Patent Nos. 6,785,903, 7,487,533, 7,761,893, and 7,984,469. The complaint requests unspecified damages for past infringement and injunction against future infringement. To date, no evidence of damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Time Warner Cable and/or pay damages for utilizing certain technology.

MediaTube et al v. Bell Canada et al, C.A. T-705-13, Canadian Federal Court. On April 23, 2013, MediaTube Corp. filed a claim against Bell Canada entities alleging infringement of a Canadian patent. The complaint requests damages for past and future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Bell Canada and/or pay damages for utilizing certain technology.

Motorola Mobility v. Apple; Apple v. Motorola Mobility, C.A. 12-cv-20271, Southern District of Florida. Motorola filed suit against Apple alleging infringement of multiple Motorola patents. Apple counterclaimed alleging infringement of several Apple patents, including three patents asserted against General Instrument products. It is premature to assess the likelihood of an unfavorable outcome. With respect to the liability attributable to Motorola Home in this matter, a subsidiary of Google has agreed to indemnify ARRIS.

Motorola Mobility v. Microsoft, C.A. 11-cv-01408, Western District of Washington. Motorola filed suit against Microsoft alleging infringement of multiple Motorola patents. Microsoft counterclaimed alleging infringement of several Microsoft patents, including two patents asserted against General Instrument products. It is premature to assess the likelihood of an unfavorable outcome. With respect to the liability attributable to Motorola Home in this matter, a subsidiary of Google has agreed to indemnify ARRIS.

Preservation Technologies v. AT&T,C.A. 11-cv-01860, Central District of California. On December 2, 2011, Preservation Tech. filed suit against several service providers alleging infringement of six U.S. patents. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T and/or pay damages for utilizing certain technology.

Sprint Communications v. MSOs, C.A. 11-cv-2686, District of Kansas. On December 19, 2011, Sprint filed suit against several MSOs alleging infringement of several patents alleged to cover various aspects of voice services. The complaint requests unspecified damages for past infringement and injunction against future infringement. To date, no evidence of damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify the MSOs and/or pay damages for utilizing certain technology.

Steelhead Licensing v. Comcast, C.A. 13-cv-02076, District of Delaware (RGA). Stealhead filed suit against Comcast alleging infringement of US Patent No. 8,082,318. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Comcast and/or pay damages for utilizing certain technology.

TransVideo Electronics v. TWC, C.A. 12-cv-01740, District of Delaware (RGA). TransVideo filed suit against TWC alleging infringement of US Patent Nos. 5,594,936 and 5,991,801. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify TWC and/or pay damages for utilizing certain technology.

Two Way Media v. Bell Canada et al, C.A. T-809-14, Canadian Federal Court. On April 2, 2014, Two Way Media filed a claim against Bell Canada entities alleging infringement of a Canadian patent. The complaint requests damages for past and future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify Bell Canada and/or pay damages for utilizing certain technology.

United Access Technologies v. AT&T,C.A. 11-cv-00338, District of Delaware. On April 15, 2011, United Access Technologies filed suit against AT&T alleging infringement of three U.S. patents. The complaint requests unspecified damages for past and future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T and/or pay damages for utilizing certain technology.

US Ethernet Innovations v. AT&T, C.A. 10-cv-05254, Northern District of California. On November 19, 2010, US Ethernet Innovations filed suit against a multitude of parties alleging infringement of four U.S. patents, for which we believe ARRIS is indemnified by another supplier. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T.

Wireless Handover OY v. AT&T, C.A. 13-cv-00507, Northern District of Texas. On January 31, 2013, Wireless Handover filed suit against AT&T alleging infringement of U.S. Patent No. 7,953,407. The complaint requests unspecified damages for infringement and injunction against future infringement. To date, no evidence of infringement or damages has been introduced. It is premature to assess the likelihood of an unfavorable outcome. In the event of an unfavorable outcome, ARRIS may be required to indemnify AT&T.

In the acquisition agreement entered into in connection with the acquisition of the Motorola Home business, a subsidiary of Google (which Google recently has agreed to sell to Lenovo) agreed to indemnify, defend and hold harmless ARRIS and various related parties with respect to, among other things, any losses suffered by ARRIS as a result of a court order involving, or the settlement of, certain agreed-upon litigation, including the five lawsuits described above that reference this indemnification obligation. There are various limitations upon this obligation, the most significant of which is that ARRIS was responsible for 50% of the first $50.0 million (i.e., $25.0 million) of losses attributable to past infringements as well as 50% of the first $50.0 million (i.e., $25.0 million) of future royalty payments and the costs of devising and implementing redesigns intended to avoid infringement. As a result of the settlement of Motorola Mobility's litigation with TiVo in the third quarter of 2013, these particular obligations for contribution by ARRIS have been exhausted and ARRIS has made the payments for which it is responsible.

From time to time third parties demand that we or our customers enter into a license agreement with respect to patents owned, or allegedly owned, by the third parties. Such demands cause us to dedicate time to study the patents and enter into discussions with the third parties regarding the merits and value, if any, of the patents. These discussions, may materialize into license agreements or patent claims asserted against us or our customers. If asserted against our customers, our customers may request indemnification from us. It is not possible to determine the impact of any such demands and the related discussions on ARRIS' business, results of operations or financial condition.

Item 1A. Risk Factors

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

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

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

Several of our customers have accumulated significant levels of debt. These high debt levels, coupled with the continued turbulence in the capital markets, may impact their access to capital in the future. Even if the financial health of our customers remains intact, these customers may not purchase new equipment at levels we have seen in the past or expect in the future. While there has been improvement in the U.S. and global economy over the past year, we cannot predict the impact, if any, of any softening of the national of global economy or of specific customer financial challenges on our customer's expansion and maintenance expenditures.

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

The markets in which we participate are dynamic, highly competitive and require companies to react quickly and capitalize on change. We must retain skilled and experienced personnel, as well as deploy substantial resources to meet the changing demands of the industry and must be nimble to be able to capitalize on change. We compete with international, national and regional manufacturers, distributors and wholesalers including some companies that are larger than we are. We list our major competitors in Part I, Item 1, "Business" of our Annual Report on Form 10-K for the year ended December 31, 2013.

In some instances, notably our software products, our customers themselves may be our competition as they may develop their own software. The rapid technological changes occurring in broadband may lead to the entry of new competitors, including those with substantially greater resources than our own. Because the markets in which we compete are characterized by rapid growth and, in some cases, low barriers to entry, smaller niche market companies and start-up ventures also may become principal competitors in the future. Actions by existing competitors and the entry of new competitors may have an adverse effect on our sales and profitability. 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, several of our larger competitors may be in a better position to withstand any significant, sustained reduction in capital spending by customers. They often have broader product lines and market focus and therefore are not as susceptible to downturns in a particular market. In addition, several of our competitors have been in operation longer than we have been, and therefore they have more established relationships with domestic and foreign broadband service users. We may not be able to compete successfully in the future, and competition may negatively impact our business.

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

The broadband communication systems industry has historically experienced, and continues to experience, the consolidation of many industry participants. For example, Comcast, our largest customer in 2013, recently announced its proposed acquisition of Time Warner Cable, another of our top five customers. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, thereby possibly resulting in an immediate or future elimination of sales opportunities for us or our competitors. Even if sales are not reduced, consolidation can also result in pressure from customers for lower prices, reflecting the increase in the total volume of products purchased or the elimination of a price differential between the acquiring customer and the company acquired. Consolidations also could result in delays in purchasing decisions by the merged businesses. The purchasing decisions of the merged companies could have a material adverse effect on our business.

The broadband communications industry on which our business is focused is significantly impacted by technological change and open architecture solutions.

The broadband communication systems industry has gone through dramatic technological change resulting in service providers rapidly migrating their business from a one-way television service to a two-way communications network enabling multiple services, such as high-speed Internet access, residential telephony services, business telephony services and Internet access, digital television, video on demand and advertising services. New services, such as home security, power monitoring and control, HD television, 3-D television that are or may be offered by service providers, are also based on, and will be characterized by, rapidly evolving technology. The development of increasing transmission speed, density and bandwidth for Internet traffic has also enabled the provision of high quality, feature length video over the Internet. This so called over-the-top IP video service enables content providers such as Netflix and Hulu and portals like Google to provide video services on-demand, by-passing traditional video service providers. As these service providers enhance their quality and scalability, traditional broadband service providers are moving to match them and provide even more competitive services over their existing networks, as well as over-the-top IP video for delivery not only to televisions but to computers, tablets, and telephones in order to remain competitive. Our business is dependent on our ability to develop products that enable current and new customers to exploit these rapid technological changes. We believe the continued growth of over-the-top IP video represents a shift in the traditional video delivery paradigm, and we cannot predict the effect it will have on our business.

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

The completion of the Motorola Home acquisition will continue to have a significant impact on our operations and financial statements going forward.

In April 2013, we completed our acquisition of the Motorola Home business, which was significantly larger than our business prior to the Acquisition. For the year ended December 31, 2012, Motorola Home had net sales of approximately $3.3 billion and total assets of approximately $2.5 billion, compared with our net sales of approximately $1.4 billion and total assets of $1.4 billion for the year ended December 31, 2012. In addition, we significantly increased our long-term debt in connection with the Acquisition. Given the significant increase in the size of our business as a result of the acquisition and the increase in our long-term debt, our historical results are not indicative of our combined operations going forward.

The anticipated benefits from acquiring the Motorola Home business may not be realized.

We acquired the Motorola Home business with the expectation that the transaction would result in various benefits, including, among other things, enhancing our current and future product offerings, strengthening our ability to capitalize on and manage changing industry trends and broadening our customer base.

The acquisition involves the combination of two companies that previously operated independently. The difficulties of combining Motorola Home's operations with ours include:

- combining the best practices of two companies, including research and development and sales functions;
- the necessity of coordinating geographically separated organizations, systems and facilities;
- integrating personnel with diverse business backgrounds and organizational cultures;
- reducing the costs associated with each company's operations; and
- preserving important relationships of both ARRIS and Motorola Home and resolving potential conflicts that may arise.

The process of combining operations could cause an interruption of, or loss of momentum in, our business and the possible loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the acquisition and the integration of the two companies' operations could have an adverse effect on the business, results of operations, financial condition or prospects of the combined company after the acquisition. In addition, we may experience unexpected difficulties and/or delays in combining Motorola Home systems with ours (which we expect to complete in 2014), including the subsequent testing related to applicable internal controls, or the discovery of material weaknesses with such internal controls, in a timely fashion which could have an adverse effect on our operations.

In addition, our ability to achieve the anticipated benefits of the acquisition is subject to a number of uncertainties discussed elsewhere, including:

- our ability to take advantage of expected growth opportunities;
- general market and economic conditions;
- general competitive factors in the industry and marketplace; and
- higher than expected costs required to achieve the anticipated benefits of the acquisition.

No assurance can be given that these benefits will be achieved or, if achieved, the timing of their achievement. Failure to achieve these anticipated benefits could result in increased costs and decreases in expected revenues and/or net income following the acquisition.

Our use of the "Motorola" brand name is limited.

In connection with our acquisition of Motorola Home, we were granted the right, as extended, subject to certain conditions, to continue to use the Motorola brand name on certain products for a period of two years after the acquisition. We sell those products in geographic regions and through distribution channels, especially retail, under the Motorola brand where the "ARRIS" brand is not as recognized.

Shelf space in retail outlets can also be impacted by how recognizable a brand is by customers. If we are unable to successfully rebrand those products, our sales in those regions and channels may decrease. Further, the loss of the use of the "Motorola" brand may result in a lower amount of shelf space, or space in less desirable areas, which may also impact our sales.

While we have greater overall customer diversification following the Motorola Home acquisition, our business remains concentrated in a few key customers. The loss of one of these customers or a significant reduction in sales to one of these customers would have a material adverse effect on our business.

For the three months ended March 31, 2014, sales to our four largest customers (including their affiliates, as applicable) accounted for approximately 16.6% , 13.0%, 11.2% and 11.0%, respectively. While we have seen greater overall customer diversification as a result of the Motorola Home acquisition, sales to several customers have also significantly increased. The loss of one of our large customers, or a significant reduction in the products or services provided to any of them would have a material adverse impact on our business. For many of these customers, we also are one of their largest suppliers. As a result, if from time-to-time customers elect to purchase products from our competitors in order to diversify their supplier base and to dual-source key products or to curtail purchasing due to budgetary or market conditions, such decisions could have material consequences to our business. In addition, because of the magnitude of our sales to these customers the terms and timing of our sales are heavily negotiated, and even minor changes can have a significant impact upon our business.

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

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

Our indebtedness significantly increased in connection with our Motorola Home acquisition, which could limit our operations and opportunities, make it more difficult for us to pay or refinance our debts and/or may cause us to issue additional equity in the future, which would increase the dilution of our stockholders or reduce earnings.

As of March 31, 2014, we had approximately $1.7 billion in total indebtedness. In addition, we have a $247.5 million available under our revolving line of credit to support our working capital needs. Our debt service obligations with respect to this increased indebtedness could have an adverse impact on our earnings and cash flows for as long as the indebtedness is outstanding.

This significant indebtedness could also have important consequences to stockholders. For example, it could:

- make it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions because any decrease in revenues could cause us to not have sufficient cash flows from operations to make our scheduled debt payments;

- limit our flexibility to pursue other strategic opportunities or react to changes in our business and the industry in which we operate and, consequently, place us at a competitive disadvantage to competitors with less debt;
- require a substantial portion of our cash flows from operations to be used for debt service payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes; and
- result in higher interest expense in the event of increases in interest rates since the majority of our debt is subject to variable rates.

Based upon current levels of operations, we expect to be able to generate sufficient cash on a consolidated basis to make all of the principal and interest payments when such payments are due under our senior secured credit facilities; but there can be no assurance that we will be able to repay or refinance such borrowings and obligations.

We may consider it appropriate to reduce the amount of indebtedness currently outstanding. This may be accomplished in several ways, including issuing additional shares of common stock or securities convertible into shares of common stock, reducing discretionary uses of cash or a combination of these and other measures. Issuances of additional shares of common stock or securities convertible into shares of common stock would have the effect of diluting the ownership percentage that stockholders will hold in the company and might reduce our reported earnings per share.

We have substantial goodwill and amortizable intangible assets.

Our financial statements reflect substantial goodwill and intangible assets, approximately $940.1 million and $1,114.2 million, respectively, as of March 31, 2014, that was recognized in connection with acquisitions including the Motorola Home acquisition.

We annually (and more frequently if changes in circumstances indicate that the asset may be impaired) review the carrying amount of our goodwill in order to determine whether it has been impaired for accounting purposes. In general, if the fair value of the corresponding reporting unit's goodwill is less that the carrying value of the goodwill, we record an impairment. The determination of fair value is dependent upon a number of factors, including assumptions about future cash flows and growth rates that are based on our current and long-term business plans. With respect to the amortizable intangible assets, we test recoverability when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Examples of such circumstances include, but are not limited to, operating or cash flow losses from the use of such assets or changes in our intended uses of such assets. If we determine that an asset or asset group is not recoverable, then we would record an impairment charge if the carrying value of the asset or asset group exceeds its fair value. Fair value is based on estimated discounted future cash flows expected to be generated by the asset or asset group. The assumptions underlying cash flow projections would represent management's best estimates at the time of the impairment review.

While no goodwill or intangible asset impairments were recorded in 2012 and 2013, as the ongoing expected cash flows and carrying amounts of our remaining goodwill and intangible assets are assessed, changes in the economic conditions, changes to our business strategy, changes in operating performance or other indicators of impairment could cause us to realize impairment charges in the future. For additional information, see the discussion under "Critical Accounting Policies" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

We may have difficulty in forecasting our sales.

Because a significant portion of the purchases by our customers are discretionary, accurately forecasting sales is difficult. In addition, in recent years our customers have submitted their purchase orders less evenly over the course of each quarter and year and with shorter lead times than they have historically. This, coupled with the significant increase in the size of our operations as a result of the Motorola Home acquisition, has made it even more difficult for us to forecast sales and other financial measures, which can result in us maintaining inventory levels that are too high or too low for our ultimate needs.

Products currently under development may fail to realize anticipated benefits.

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

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

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

Defects within our products could have a material impact on our results.

Many of our products are complex technology that include both hardware and software components. It is not unusual for software, especially in earlier versions, to contain bugs that can unexpectedly interfere with expected operations. While we employ rigorous testing prior to the shipment of our products, defects, including those resulting from components we purchase, may still occur from time to time. Product defects could impact our reputation with our customers which may result in fewer sales. In addition, depending on the number of products affected, the cost of fixing or replacing such products could have a material impact on our operating results.

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

Competition for qualified personnel is intense, and we may not be successful in attracting and retaining key personnel, which could impact our ability to maintain and grow our operations. Our future success will depend, to a significant extent, on the ability of our management to operate effectively. In the past, competitors and others have attempted to recruit our employees and 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. 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 ability to ship could be impacted by country laws and/or union labor disruptions.

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

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

In addition, we own manufacturing facilities located in Tijuana, Mexico and Taipei, Taiwan. These operations are exposed to certain risks as a result of its location, including:

- changes in international trade laws including those affecting our import and export activities;
- changes in labor laws and regulations affecting our ability to hire and retain employees;
- fluctuations of foreign currency and exchange controls;
- potential political instability and changes in government;
- potential regulatory changes; and
- general economic conditions

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

Regional instability in Israel may adversely affect business conditions, including the operations of our contract manufacturers, and may disrupt our operations and negatively affect our operating results.

A portion of our research and development operations and a portion of our contract manufacturing occur in Israel. We also have customer service, marketing and general and administrative employees at our Israeli facility. Accordingly, we are directly impacted by the political, economic and military conditions affecting Israel, and any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could significantly harm our business. In addition, in the past, Israel and companies doing business with Israel have been the subject of economic boycott. Israel has also been and continues to be subject to civil unrest and terrorist activity, with varying levels of severity. Security and political conditions may have an adverse impact on our business in the future. Hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and make it more difficult for us to retain or recruit qualified personnel in Israel.

In addition, most of our employees in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and several have been called for active military duty in connection with intermittent hostilities over the years. Should hostilities in the region escalate again, some of our employees would likely be called to active military duty, possibly resulting in interruptions in our sales and development efforts and other impacts on our business and operations, which we cannot currently assess.

We face risks relating to currency fluctuations and currency exchange.

On an ongoing basis we are exposed to various changes in foreign currency rates because significant sales are denominated in foreign currencies. Additionally, certain intercompany transactions created in conjunction with the Motorola Home acquisition are denominated in foreign currencies and subject to revaluation. These changes can impact our results of operations, cash flows and financial position. We manage these risks through regular operating and financing activities and periodically use derivative financial instruments such as foreign exchange forward and option contracts. There can be no assurance that our risk management strategies will be effective. Argentina is currently experiencing significant currency devaluation. We cannot predict the impact of such devaluation on our business in Argentina.

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

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

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

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

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

The acquisition of Motorola Home may not be accretive to our earnings and may cause dilution to our earnings per share, which may negatively affect the market price of our common stock.

We currently anticipate that the acquisition will be accretive to our earnings per share in the first full year following the completion of the acquisition and thereafter. This expectation is based on preliminary estimates that may materially change. We may encounter additional integration-related costs, may fail to realize all of the benefits anticipated in the acquisition or be subject to other factors that adversely affect preliminary estimates. Any of these factors could cause delay or significantly reduce the expected accretive effect of the acquisition and contribute to a decrease in the price of our common stock.

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

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

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

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

Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation or exposing us to liability.

We receive, process, store and transmit, often electronically, the confidential data of our clients and others. Unauthorized access to our computer systems or stored data could result in the theft or improper disclosure of confidential information, the deletion or modification of records or could cause interruptions in our operations. These cyber-security risks increase when we transmit information from one location to another, including transmissions over the Internet or other electronic networks. Despite implemented security measures, our facilities, systems and procedures, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, software viruses, misplaced or lost data, programming and/or human errors or other similar events which may disrupt our delivery of services or expose the confidential information of our clients and others. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information of our clients or others, whether by us or a third party, could (i) subject us to civil and criminal penalties, (ii) have a negative impact on our reputation, or (iii) expose us to liability to our clients, third parties or government authorities. Any of these developments could have a material adverse effect on our business, results of operations and financial condition. We have not experienced any such incidents that have had material consequences to date.

New regulations related to conflict minerals may adversely affect us.

We are subject to recently adopted SEC disclosure obligations relating to its use of so-called "conflict minerals"—columbite-tantalite, cassiterite (tin), wolframite (tungsten) and gold. These minerals are present in a significant number of our products. The first reports under the disclosure obligations are due to be filed with the SEC not later than May 2014 and cover the Company's activities during 2013.

Although we expect to be able to file the required report on time, in preparing to do so we are dependent upon the implementation of new systems and processes and information supplied by suppliers of products that contain, or potentially contain, conflict minerals. To the extent that the information that we receive from our suppliers is inaccurate or inadequate or our processes in obtaining that information do not fulfill the SEC's requirements, we could face reputational risks. Further, if we are unable to certify that our products are conflict mineral free, we may face challenges with our customers, which could place us at a competitive disadvantage. The Company is currently in the process of assessing compliance and does not believe there will be any material financial or business impact on the Company as a result.

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

We do not anticipate paying cash dividends on our common stock in the foreseeable future. In addition, our ability to pay dividends is limited by the terms of our senior secured credit facilities. Payment of dividends in the future will depend on, among other things, business conditions, our results of operations, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that our board of directors may deem relevant.

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

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

Item 6. EXHIBITS

Exhibit No.	*Description of Exhibit*
31.1	Section 302 Certification of Chief Executive Officer, filed herewith
31.2	Section 302 Certification of Chief Financial Officer, filed herewith
32.1	Section 906 Certification of Chief Executive Officer, filed herewith
32.2	Section 906 Certification of Chief Financial Officer, filed herewith
101.INS	XBRL Instant Document, filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document, filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document, filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document, filed herewith
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document, filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document, filed herewith

SIGNATURES

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

ARRIS GROUP, INC.

/s/ David B. Potts

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

Dated: May 12, 2014

Exhibit 31.1

Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002

I, Robert J. Stanzione, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/s/ RJ Stanzione

Robert J. Stanzione
Chief Executive Officer, Chairman

Exhibit 31.2

Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002

I, David B. Potts, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/s/ David B. Potts

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

Exhibit 32.1

Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)

The undersigned, as the chief executive officer of ARRIS Group, Inc., certifies that to the best of his knowledge the Quarterly Report on Form 10-Q for the period ended March 31, 2014, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of ARRIS Group, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose.

Dated this 12th day of May, 2014

/s/ RJ Stanzione

Robert J. Stanzione
Chief Executive Officer, Chairman

Exhibit 32.2

Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)

The undersigned, as the chief financial officer of ARRIS Group, Inc., certifies that to the best of his knowledge the Quarterly Report on Form 10-Q for the period ended March 31, 2014, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of ARRIS Group, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose.

Dated this 12th day of May, 2014

/s/ David B. Potts

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