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

# FORM 10-Q

**For the quarter ended September 30, 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 October 31, 2014, 144,777,301 shares of the registrant's Common Stock, $0.01 par value, were outstanding.

**ARRIS GROUP, INC.**
**FORM 10-Q**
**For the Three and Nine Months Ended September 30, 2014**

## INDEX

**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)**

| | September 30, 2014 | December 31, 2013 (1) |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 526,999 | $ 442,438 |
| Short-term investments, at fair value | 66,817 | 67,360 |
| Total cash, cash equivalents and short-term investments | 593,816 | 509,798 |
| Restricted cash | 1,022 | 1,079 |
| Accounts receivable (net of allowances for doubtful accounts of $6,390 in 2014 and $1,887 in 2013) | 703,566 | 637,059 |
| Other receivables | 18,227 | 8,366 |
| Inventories (net of reserves of $57,481 in 2014 and $42,408 in 2013) | 368,628 | 330,129 |
| Prepaid income taxes | 4,431 | 13,034 |
| Prepaids | 34,311 | 61,482 |
| Current deferred income taxes | 64,948 | 77,167 |
| Other current assets | 59,439 | 39,930 |
| Total Current Assets | 1,848,388 | 1,678,044 |
| Property, plant and equipment (net of accumulated depreciation of $253,555 in 2014 and $194,830 in 2013) | 371,496 | 396,152 |
| Goodwill | 938,265 | 940,402 |
| Intangible assets (net of accumulated amortization of $606,903 in 2014 and $427,143 in 2013) | 1,000,441 | 1,176,192 |
| Investments | 74,985 | 71,176 |
| Noncurrent deferred income taxes | 12,567 | 7,678 |
| Other assets | 59,102 | 52,363 |
| | $4,305,244 | $4,322,007 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 622,867 | $ 662,919 |
| Accrued compensation, benefits and related taxes | 130,116 | 116,262 |
| Accrued warranty | 51,277 | 48,755 |
| Deferred revenue | 102,717 | 69,071 |
| Current portion of long-term debt | 67,062 | 53,254 |
| Current income taxes liability | 15,344 | 3,068 |
| Other accrued liabilities | 132,551 | 141,698 |
| Total Current Liabilities | 1,121,934 | 1,095,027 |
| Long-term debt, net of current portion | 1,487,585 | 1,691,034 |
| Accrued pension | 59,667 | 58,657 |
| Noncurrent income tax liability | 31,141 | 21,048 |
| Noncurrent deferred income taxes | 42,926 | 74,791 |
| Other noncurrent liabilities | 71,882 | 62,463 |
| Total Liabilities | 2,815,135 | 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; 144.8 million and 142.1 million shares outstanding in 2014 and 2013, respectively | 1,792 | 1,766 |
| Capital in excess of par value | 1,725,383 | 1,688,782 |
| Treasury stock at cost, 34.2 million shares in 2014 and 2013 | (306,330) | (306,330) |
| Retained earnings (deficit) | 73,881 | (60,569) |
| Unrealized (loss) gain on marketable securities (net of accumulated tax effect of $(44) in 2014 and $154 in 2013) | (77) | 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 effect of $1,131 in 2014 | | |

| | | |
|---|---|---|
| and $1,467 in 2013) | (1,959) | (2,541) |
| Cumulative translation adjustments | (165) | (11) |
| Total Stockholders' Equity | 1,490,109 | 1,318,987 |
| | $4,305,244 | $4,322,007 |

(1) Certain amounts for December 31, 2013 have been recast to reflect results for business acquisitions.

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 (1) | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 (1) |
|---|---|---|---|---|
| Net sales | $ 1,405,445 | $ 1,067,824 | $ 4,059,534 | $ 2,421,835 |
| Cost of sales | 969,711 | 750,929 | 2,857,613 | 1,765,458 |
| Gross margin | 435,734 | 316,895 | 1,201,921 | 656,377 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 103,497 | 99,666 | 314,991 | 227,691 |
| Research and development expenses | 142,802 | 128,716 | 421,077 | 296,354 |
| Amortization of intangible assets | 57,100 | 65,053 | 179,835 | 128,571 |
| Integration, acquisition, restructuring and other costs | 10,226 | 12,278 | 34,246 | 71,126 |
| Total operating expenses | 313,625 | 305,713 | 950,149 | 723,742 |
| Operating income (loss) | 122,109 | 11,182 | 251,772 | (67,365) |
| Other expense (income): | | | | |
| Interest expense | 14,217 | 25,188 | 49,041 | 48,431 |
| Loss (gain) on investments | 6,368 | (251) | 11,278 | (1,544) |
| Interest income | (653) | (832) | (1,937) | (2,310) |
| Loss (gain) on foreign currency | 3,107 | (3,752) | 3,760 | (2,725) |
| Other expense (income), net | (63) | 1,676 | 6,530 | 13,356 |
| Income (loss) before income taxes | 99,133 | (10,847) | 183,100 | (122,573) |
| Income tax expense (benefit) | 44,507 | (28,016) | 48,649 | (76,630) |
| Net income (loss) | $ 54,626 | $ 17,169 | $ 134,451 | $ (45,943) |
| Net income (loss) per common share: | | | | |
| Basic | $ 0.38 | $ 0.12 | $ 0.93 | $ (0.35) |
| Diluted | $ 0.37 | $ 0.12 | $ 0.91 | $ (0.35) |
| Weighted average common shares: | | | | |
| Basic | 144,967 | 138,478 | 144,085 | 129,502 |
| Diluted | 148,753 | 140,605 | 147,996 | 129,502 |

(1) Certain amounts for the three and nine months ended September 30, 2013 have been recast to reflect results for business acquisitions.

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013[(1)]** | **2014** | **2013[(1)]** |
| Net income (loss) | $ 54,626 | $ 17,169 | $ 134,451 | $ (45,943) |
| Unrealized (loss) gain on marketable securities, net of (expense) benefit of $131 and $(30) for the three months ended September 30, 2014 and 2013, and $221 and $73 for the nine months ended September 30, 2014 and 2013, respectively | (227) | 104 | (383) | (121) |
| Unrealized gain (loss) on derivative instruments, net of (expense) benefit of $(1,468) and $2,450 for the three months ended September 30, 2014 and 2013, and $(336) and $2,450 for the nine months ended September 30, 2014 and 2013, respectively | 2,544 | (4,277) | 582 | (4,277) |
| Cumulative translation adjustment | (285) | (331) | (154) | 156 |
| Comprehensive income (loss), net of tax | $ 56,658 | $ 12,665 | $ 134,496 | $ (50,185) |

(1) Certain amounts for the three and nine months ended September 30, 2013 have been recast to reflect results for business acquisitions.

See accompanying notes to the condensed consolidated financial statements.

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

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 (1) |
|---|---|---|
| Operating activities: | | |
| Net income (loss) | $ 134,451 | $ (45,943) |
| Depreciation | 60,213 | 42,567 |
| Amortization of intangible assets | 179,835 | 128,571 |
| Stock compensation expense | 39,812 | 24,653 |
| Deferred income tax benefit | (19,503) | (54,551) |
| Amortization of deferred finance fees and debt discount | 9,376 | 4,999 |
| Provision for doubtful accounts | 5,285 | 5 |
| Loss (gain) on investments | 11,278 | (1,544) |
| Revenue reduction related to Comcast's investment in ARRIS | – | 13,182 |
| Mark-to-market fair value adjustment related to Comcast's investment in ARRIS | – | 13,189 |
| Loss (gain) on disposal and write down of fixed assets | 3,128 | 375 |
| Non-cash restructuring and related charges | – | 6,761 |
| Excess income tax benefits from stock-based compensation plans | (14,651) | (6,417) |
| Non-cash interest expense | – | 9,926 |
| Changes in operating assets and liabilities, net of effect of acquisitions and dispositions: | | |
| Accounts receivable | (70,627) | 17,793 |
| Other receivables | (10,465) | 1,095 |
| Inventories | (38,499) | 60,345 |
| Accounts payable and accrued liabilities | 2,592 | 155,264 |
| Prepaids and other, net | 44,866 | 9,928 |
| Net cash provided by operating activities | 337,091 | 380,198 |
| Investing activities: | | |
| Purchases of property, plant and equipment | (41,759) | (53,383) |
| Purchases of investments | (40,901) | (104,546) |
| Sales of investments | 29,319 | 393,234 |
| Acquisitions, net of cash acquired | 84 | (2,208,114) |
| Sales of property, plant and equipment | 19 | 90 |
| Net cash used in investing activities | (53,238) | (1,972,719) |
| Financing activities: | | |
| Excess income tax benefits from stock-based compensation plans | 14,651 | 6,416 |
| Repurchase of shares to satisfy employee minimum tax withholdings | (29,605) | (12,522) |
| Proceeds from issuance of common stock | 11,565 | 166,951 |
| Proceeds from issuance of debt | – | 1,925,000 |
| Payment of debt obligations | (195,903) | (31,625) |
| Cash paid for debt discount | – | (9,853) |
| Early redemption of convertible notes | – | (79) |
| Deferred financing costs paid | – | (42,356) |
| Net cash (used in) provided by financing activities | (199,292) | 2,001,932 |
| Net increase in cash and cash equivalents | 84,561 | 409,411 |
| Cash and cash equivalents at beginning of period | 442,438 | 131,703 |
| Cash and cash equivalents at end of period | $ 526,999 | $ 541,114 |

(1) Certain amounts for the nine months ended September 30, 2013 have been recast to reflect results for business acquisitions.

See accompanying notes to the condensed consolidated financial statements.

**ARRIS GROUP, INC.**
**NOTES TO THE CONDENSED 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.

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").

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.)

In connection with the acquisition of Motorola Home, the consolidated financial statements as of September 30, 2013 and for the three and nine months then ended have been recast to include retrospective acquisition accounting and other adjustments. The following tables present the effect on the Company's affected financial statement line items for the period ended September 30, 2013 and three and nine months ended September 30, 2013 (in thousands):

| | As Originally Reported | As Adjusted | Increase (Decrease) |
|---|---|---|---|
| Balance Sheet: | | | |
| Inventories, net | $ 350,919 | $ 343,896 | $ (7,023) |
| Current deferred income tax assets | 85,373 | 75,875 | (9,498) |
| Other current assets | 60,171 | 60,111 | (60) |
| Property, plant and equipment | 410,047 | 398,353 | (11,694) |
| Goodwill | 926,826 | 943,258 | 16,432 |
| Intangible assets | 1,239,178 | 1,241,258 | 2,080 |
| Investments | 79,894 | 96,711 | 16,817 |
| Noncurrent deferred income tax assets | 12,680 | 6,535 | (6,145) |
| Accrued warranty | 48,619 | 46,536 | (2,083) |
| Current income taxes liability | 5,827 | 7,012 | 1,185 |
| Other accrued liabilities | 147,195 | 148,282 | 1,087 |
| Accrued pension | 61,349 | 65,395 | 4,046 |
| Noncurrent deferred income tax liabilities | 76,005 | 74,242 | (1,763) |
| Accumulated deficit | (56,189) | (57,752) | (1,563) |

| For the three months ended September 30, 2013 | As Originally Reported | As Adjusted | Increase (Decrease) |
|---|---|---|---|
| Statements of Operations: | | | |
| Depreciation expense | $ 19,705 | $20,048 | $ 343 |
| Amortization expense | 64,606 | 65,053 | 447 |

| For the nine months ended September 30, 2013 | As Originally Reported | As Adjusted | Increase (Decrease) |
|---|---|---|---|
| Statements of Operations: | | | |
| Depreciation expense | $ 41,824 | $ 42,567 | $ 743 |
| Amortization expense | 127,751 | 128,571 | 820 |

**Note 2. Recent Accounting Pronouncements**

*Adoption of New Accounting Standards* — In July 2013, the Financial Accounting Standards Board ("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 its consolidated financial position and results of operations.

*Accounting Standards Issued But Not Yet Effective* – In April 2014, the FASB issued accounting standards update that change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results and when the component or group of components meets the criteria to be classified as held for sale, is disposed of by sale or is disposed of by other than by sale. This update is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014, with earlier adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In May 2014, FASB issued an Accounting Standards Update, *Revenue from Contracts with Customers*. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with earlier adoption not permitted. It can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently assessing the potential impact of this update on its consolidated financial statements.

In June 2014, the FASB issued an update to its accounting guidance related to share-based compensation. The guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition, and therefore shall not be reflected in determining the fair value of the award at the grant date. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The guidance will be effective for annual and interim periods beginning after December 15, 2015 and is not expected to have any material effect on the Company's consolidated financial position and 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., 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 the accounting for the aforementioned business combination.

*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. Initial consideration for the acquisition was $5.9 million (net of assumed cash) and additional contingent consideration of up to $3.0 million could be paid based upon achievement of certain financial targets, over 30 months from the date of acquisition.

Goodwill in the amount of $4.4 million was preliminarily recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company also identified certain customer, marketing and technology related intangible assets which have been preliminarily valued at $2.0 million, with estimated useful lives ranging from 5 to 10 years.

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

The Consolidated Financial Statements include the operating results of the business combination from the date of acquisition. The effects of the acquisitions, individually and in the aggregate, were not material to the Company's financial results.

## 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 September 30, 2014, the Company has recorded goodwill of $938.3 million. The Company has recast goodwill as of December 31, 2013 to appropriately reflect the goodwill arising from the Acquisition.

The changes in the carrying amount of goodwill for the year to date period ended September 30, 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 |
| Goodwill acquired in SeaWell acquisition | – | 4,448 | – | 4,448 |
| Adjustments | (4,061) | (2,103) | (421) | (6,585) |
| Goodwill | 684,597 | 500,086 | 132,238 | 1,316,921 |
| Accumulated impairment losses | – | (257,053) | (121,603) | (378,656) |
| Balance as of September 30, 2014 | $684,597 | $ 243,033 | $ 10,635 | $ 938,265 |

*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 September 30, 2014 and December 31, 2013 are as follows (in thousands):

| | **September 30, 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 | $ 904,035 | $ 341,416 | $ 562,619 | 6.3 | $ 903,409 | $ 266,323 | $ 637,086 | 7.0 |
| Developed technology, patents & licenses | 634,230 | 205,290 | 428,940 | 4.4 | 563,326 | 120,679 | 442,647 | 5.0 |
| Trademark, trade and domain names | 21,079 | 15,597 | 5,482 | 1.1 | 20,900 | 8,549 | 12,351 | 1.5 |
| Order backlog | 44,600 | 44,600 | – | – | 44,600 | 31,592 | 13,008 | 0.3 |
| In-process R&D | 3,400 | – | 3,400 | – | 71,100 | – | 71,100 | – |
| Total | $1,607,344 | $ 606,903 | $1,000,441 | | $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 three months) | $ 57,027 |
| 2015 | 220,731 |
| 2016 | 190,003 |
| 2017 | 173,068 |
| 2018 | 122,376 |
| 2019 | 100,061 |
| Thereafter | 133,775 |

Amounts reflected in the above table exclude $3.4 million of amortization that would be incurred upon successful completion of in-process research and development projects.

## Note 5. Investments

ARRIS' investments as of September 30, 2014 and December 31, 2013 consisted of the following (in thousands):

| | As of September 30, 2014 | As of December 31, 2013 |
|---|---|---|
| Current Assets: | | |
| Available-for-sale securities | $ 66,817 | $ 67,360 |
| Noncurrent Assets: | | |
| Available-for-sale securities | 9,109 | 7,004 |
| Equity method investments | 29,237 | 23,803 |
| Cost method investments | 10,342 | 15,250 |
| Other investments | 26,297 | 25,119 |
| | 74,985 | 71,176 |
| Total | $ 141,802 | $ 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 the Consolidated Balance Sheets as a component of accumulated other comprehensive income (loss). The total (losses) gains included in the accumulated other comprehensive income related to available-for-sale securities were $(77) thousand and $306 thousand, net of tax, as of September 30, 2014 and December 31, 2013, respectively. Realized and unrealized gains and losses in total and by individual investment as of September 30, 2014 and December 31, 2013 were not material. The amortized cost basis of the Company's investments approximates fair value.

The contractual maturities of the Company's available-for-sale securities as of September 30, 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):

| | September 30, 2014 |
|---|---|
| Within one year | $ 66,817 |
| After one year through five years | 5,330 |
| After five years through ten years | – |
| After ten years | 3,779 |
| Total | 75,926 |

*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 $29.2 million and $23.8 million as of September 30, 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.

*Cost method investments* – ARRIS holds cost method investments in private companies. These investments are recorded at $10.3 million and $15.3 million as of September 30, 2014 and December 31, 2013, respectively. Due to the fact the investments are in private companies, ARRIS is exempt from estimating the fair value on an interim and annual basis. It is not practical 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 September 30, 2014 and December 31, 2013, ARRIS held $26.3 million and $25.1 million, respectively, in certain life insurance contracts. This investment is classified as non-current investments in the Consolidated Balance Sheet. 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.

*Investment Other-Than-Temporary Impairments* – During the third quarter of 2014, the Company performed an evaluation of its investments for any other-than-temporary impairment, by reviewing the current revenues, bookings and long-term plans of the private companies. ARRIS concluded that two private companies had indicators of impairment that resulted in other-than-temporary impairment charges of $4.0 million during the quarter ended September 30, 2014. For the nine months ended September 30, 2014, ARRIS recognized other-than-temporary impairment charges of $7.0 million. ARRIS concluded that no other-than-temporary impairment losses existed at 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.

**Note 6. Fair Value Measurement**

Fair value is defined as the amount 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 exit price). 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) and derivatives measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 (in thousands):

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Certificates of deposit | $ – | $ 3,920 | $ – | $ 3,920 |
| Commercial paper | – | 999 | – | 999 |
| Corporate bonds | – | 37,548 | – | 37,548 |
| Short-term bond fund | 29,679 | — | – | 29,679 |
| Cash surrender value of company owned life insurance | – | 26,270 | – | 26,270 |
| Corporate obligations | – | 21 | – | 21 |
| Money markets | 213 | – | – | 213 |
| Mutual funds | 208 | – | – | 208 |
| Other investments | – | 3,336 | – | 3,336 |
| Interest rate derivatives – asset derivatives | – | 3,766 | – | 3,766 |
| Interest rate derivatives – liability derivatives | – | (6,856) | – | (6,856) |
| Foreign currency contracts – asset position | – | 1,789 | – | 1,789 |
| Foreign currency contracts – liability position | – | (184) | – | (184) |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Certificates of deposit | $ – | $ 3,814 | $ – | $ 3,814 |
| Commercial paper | – | 2,994 | – | 2,994 |
| Corporate bonds | – | 34,591 | – | 34,591 |
| Short-term bond fund | 29,565 | — | – | 29,565 |
| Cash surrender value of company owned life insurance | – | 25,119 | – | 25,119 |
| 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 |
| Interest rate derivatives – liability derivatives | – | (7,018) | – | (7,018) |

All of the Company's short-term and long-term investments at September 30, 2014 and December 31, 2013 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, government agency bonds 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.

The Company believes the face value of the debt as of September 30, 2014 approximated the fair value based on recent market conditions, prevailing interest rates, and other Company specific factors. The Company has classified the debt as a Level 2 item within the fair value hierarchy.

**Note 7. Derivative Instruments and Hedging Activities**

ARRIS is exposed to risks associated with changes in interest rates and foreign currency exchange rates and utilizes a variety of measures to monitor and manage these risks, including the use of derivative financial instruments. The Company 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 3.15% as of September 30, 2014. This fixed rate could vary up by 75 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.

The Company also has U.S. dollar functional currency entities that bill certain international customers in their local currency and foreign functional currency entities that procure in U.S. dollars. 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, ARRIS has entered into various foreign currency contracts. As of September 30, 2014, the Company had option collars with notional amounts totaling 30 million euros which mature through 2015, a forward with a notional amount of 5 million euros which matures in 2015, and a forward with a notional amount of 10 million pounds sterling which matures in the fourth quarter of 2014.

**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 and nine months ended September 30, 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 $6.9 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 and nine months ended September 30, 2014 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | $ 2,107 | $ (7,979) | $ (4,730) | $ (7,979) |
| Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Interest expense | Interest expense | Interest expense | Interest expense |
| Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | (1,905) | (1,253) | (5,647) | (1,253) |

**Credit-risk-related Contingent Features**

ARRIS has agreements with each of its interest rate derivative counterparties that contain a provision where the Company could be declared in default on its interest rate derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness. As of September 30, 2014, the fair value of interest rate derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $3.1 million. As of September 30, 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**

The Company's objectives in using foreign currency derivatives are to add stability to foreign currency gains and losses recorded as other expense (income) and to manage its exposure to foreign currency movements. To accomplish this objective, the Company uses foreign currency option and foreign currency forward contracts as part of its foreign currency risk management strategy. The Company's foreign currency derivative instruments are not designated as hedges, and accordingly, all changes in the fair value of the instruments are recognized as a loss (gain) on foreign currency in the Consolidated Statements of Operations. The maximum time frame for ARRIS' derivatives is currently less than 12 months.

The Company does not currently use derivatives for trading or speculative purposes.

*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.

The fair values of ARRIS' derivative instruments recorded in the Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 were as follows (in thousands):

| | **As of September 30, 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 | $ 3,766 | Other assets | $ 3,011 |
| Interest rate derivatives – liability derivatives | Other accrued liabilities | $ 6,856 | Other accrued liabilities | $ 7,018 |
| *Derivatives not designated as hedging instruments:* | | | | |
| Foreign exchange contracts – asset derivatives | Other current assets | $ 1,789 | Other current assets | $ – |
| Foreign exchange contracts – liability derivatives | Other accrued liabilities | $ 184 | Other accrued liabilities | $ – |

The assets and liabilities for the interest rate derivatives and foreign exchange contracts 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 and nine months ended September 30, 2014 and 2013 were as follows (in thousands):

| | | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|---|
| | Statement of Operations Location | 2014 | 2013 | 2014 | 2013 |
| *Derivatives Not Designated as Hedging Instruments:* | | | | | |
| Foreign exchange contracts | Loss (gain) on foreign currency | $(1,699) | $ – | $(1,699) | $ 428 |
| *Derivatives Designated as Hedging Instruments:* | | | | | |
| Interest rates derivatives | Interest expense | $ 1,905 | $1,253 | $ 5,647 | $1,253 |

## Note 8. Pension Benefits

Components of Net Periodic Pension Cost (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Service cost | $ – | $ 310 | $ – | $ 637 |
| Interest cost | 446 | 562 | 1,337 | 1,479 |
| Expected gain on plan assets | (219) | (259) | (656) | (730) |
| Amortization of net loss | 76 | 355 | 229 | 829 |
| Net periodic pension cost | $ 303 | $ 968 | $ 910 | $ 2,215 |

*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 September 30, 2014 was approximately $20.1 million and is included in Investments on the Consolidated Balance Sheets.

## Note 9. Guarantees

*Warranty*

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

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 nine months ended September 30, 2014 was as follows (in thousands):

| | |
|---|---|
| Balance at December 31, 2013 | $ 81,500 |
| Accruals related to warranties (including changes in estimates) | 25,741 |
| Settlements made (in cash or in kind) | (27,827) |
| Balance at September 30, 2014 | $ 79,414 |

## 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 and contractual obligations that related to excess leased facilities (in thousands):

| | Employee severance & termination benefits | Contractual obligations and other | Total |
|---|---|---|---|
| Balance at December 31, 2013 | $ 2,674 | $ 673 | $ 3,347 |
| Restructuring charges | 2,610 | 32 | 2,642 |
| Cash payments | (2,900) | (396) | (3,296) |
| Balance at September 30, 2014 | $ 2,384 | $ 309 | $ 2,693 |

*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 September 30, 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 first quarter of 2015.

In addition, in the third quarter of 2014, the Company implemented a restructuring initiative to rationalize facilities in which it expects to incur approximately $4.9 million through first quarter of 2015. The Company recorded cumulative restructuring charges of $3.0 million related to severance and employee termination benefits for 150 employees during the third quarter of 2014. This initiative affected all segments. As of September 30, 2014, the total liability remaining for this plan was approximately $2.0 million.

*Contractual obligations and other* - 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):

| | **September 30, 2014** | **December 31, 2013** |
|---|---|---|
| Raw material | $ 53,628 | $ 60,520 |
| Work in process | 10,196 | 6,010 |
| Finished goods | 304,804 | 263,599 |
| Total inventories, net | $ 368,628 | $ 330,129 |

## Note 12. Property, Plant and Equipment

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

| | **September 30, 2014** | **December 31, 2013** |
|---|---|---|
| Land | $ 87,951 | $ 88,742 |
| Building and leasehold improvements | 137,581 | 133,668 |
| Machinery and equipment | 399,519 | 368,572 |
| | 625,051 | 590,982 |
| Less: Accumulated depreciation | (253,555) | (194,830) |
| Total property, plant and equipment, net | $ 371,496 | $ 396,152 |

During the quarter ended June 30, 2014, the Company entered into a binding letter of intent with a potential buyer for the sale of land and building for $2.9 million which is lower than its carrying amount of $4.8 million. The asset has been reclassified as held for sale and was measured at the lower of its carrying amount or fair value less cost to sell. Total asset held for sale at September 30, 2014 was $2.7 million, which is reported in the Consolidated Balance Sheets as a component of "Other current assets." The Company has recorded an impairment charge of $2.1 million to reduce the asset's carrying amount to its estimated fair value less cost to sell during the nine months ended September 30, 2014, which is reported in the Consolidated Statements of Operations under the caption "Other expense (income), net." The sale is expected to close during the fourth quarter of 2014.

**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 September 30, 2014, ARRIS had $1,561.3 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 $2.6 million issued under the Revolving Credit Facility.

| | Rate | As of September 30, 2014 |
|---|---|---|
| Term Loan A | LIBOR + 1.75 % | 1.90% |
| Term Loan B | LIBOR(1) + 2.50 % | 3.25% |
| Revolving Credit Facility(2) | LIBOR + 1.75 % | Not Applicable |

(1) Includes LIBOR floor of 0.75%
(2) Includes unused commitment fee of 0.35% and letter of credit fee of 1.75% 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 3.75:1 (with an additional scheduled decrease to 3.5:1). As of September 30, 2014, ARRIS was in compliance with all covenants under the Credit Agreement.

The Credit Agreement provides for certain step downs in the interest rates paid on the Term Loan A, Term Loan B and Revolving Credit Facility upon achievement of tiered lowered leverage ratios. As a result of ARRIS' lowered leverage ratio at the end of the second quarter, the interest rate paid on the Term Loan A, Term Loan B and Revolving Credit Facility decreased by 25 basis points. Since inception, the Company has realized a total 50 basis points decrease in the interest rate paid on the Term Loan A and Revolving Credit Facility and 25 basis points decrease in the interest paid rate on the Term Loan B. There are no further interest rate decreases available to ARRIS in the current 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 and nine months ended September 30, 2014, the Company made mandatory repayments of approximately $13.8 million and $41.2 million, respectively, and optional prepayments of $150.0 million related to the senior secured credit facilities.

Following is a summary of our contractual debt obligations at face value as of September 30, 2014 (in thousands):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | Total |
| Credit facilities | $ 68,750 | $206,250 | $742,500 | $ 543,813 | $1,561,313 |

**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 and 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 represents information about the Company's reporting segments for the three and nine months ended September 30, 2014 and 2013 (in thousands):

| | Reportable Segments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | N&C | | CPE | | Other | | Consolidated | |
| For the three months ended September 30, | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Sales | $ 460,837 | $325,471 | $ 945,386 | $ 743,890 | $ (778) | $ (1,537) | $1,405,445 | $1,067,824 |
| Direct Contribution | 134,217 | 61,763 | 208,163 | 158,035 | (152,945) | (131,285) | 189,435 | 88,513 |
| Amortization of intangible assets | | | | | 57,100 | 65,053 | 57,100 | 65,053 |
| Integration, acquisition, restructuring & other | | | | | 10,226 | 12,278 | 10,226 | 12,278 |
| Operating income | | | | | | | 122,109 | 11,182 |
| Other expense | | | | | | | 22,976 | 22,029 |
| Income (loss) before income taxes | | | | | | | $ 99,133 | $ (10,847) |

| For the nine months ended September 30, | Reportable Segments: N&C 2014 | N&C 2013 | CPE 2014 | CPE 2013 | Other 2014 | Other 2013 | Consolidated 2014 | Consolidated 2013 |
|---|---|---|---|---|---|---|---|---|
| Sales | $1,202,105 | $849,382 | $2,861,912 | $1,589,785 | $ (4,483) | $ (17,332) | $4,059,534 | $2,421,835 |
| Direct Contribution | 304,133 | 187,354 | 624,732 | 315,305 | (463,012) | (370,327) | 465,853 | 132,332 |
| Amortization of intangible assets | | | | | 179,835 | 128,571 | 179,835 | 128,571 |
| Integration, acquisition, restructuring & other | | | | | 34,246 | 71,126 | 34,246 | 71,126 |
| Operating income (loss) | | | | | | | 251,772 | (67,365) |
| Other expense | | | | | | | 68,672 | 55,208 |
| Income (loss) before income taxes | | | | | | | $ 183,100 | $ (122,573) |

**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. For the three months ended September 30, 2014 and 2013, sales to international customers were approximately 26.8% and 31.5%, respectively, of total sales. For the nine months ended September 30, 2014 and 2013, sales to international customers were 24.7% and 32.7%, respectively, of total sales.

International sales by region for the three and nine months ended September 30, 2014 and 2013 were as follows (in thousands):

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Americas, excluding U.S. (1) | $246,922 | $217,843 | $ 661,005 | $501,052 |
| Asia Pacific | 38,584 | 48,869 | 113,674 | 108,102 |
| EMEA | 90,759 | 69,673 | 226,885 | 181,598 |
| Total international sales | $376,265 | $336,385 | $1,001,564 | $790,752 |

(1) Excludes U.S. sales of $1,029.2 million and $3,058.0 million for the three and nine months ended September 30, 2014, respectively. Excludes U.S. sales of $731.4 million and $1,631.1 million for the three and nine months ended September 30, 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 September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Basic: | | | | |
| Net income (loss) | $ 54,626 | $ 17,169 | $134,451 | $ (45,943) |
| Weighted average shares outstanding | 144,967 | 138,478 | 144,085 | 129,502 |
| Basic earnings (loss) per share | $ 0.38 | $ 0.12 | $ 0.93 | $ (0.35) |
| Diluted: | | | | |
| Net income (loss) | $ 54,626 | $ 17,169 | $134,451 | $ (45,943) |
| Weighted average shares outstanding | 144,967 | 138,478 | 144,085 | 129,502 |
| Net effect of dilutive equity awards | 3,786 | 2,127 | 3,911 | – |
| Total | 148,753 | 140,605 | 147,996 | 129,502 |
| Diluted earnings (loss) per share | $ 0.37 | $ 0.12 | $ 0.91 | $ (0.35) |

For the three months ended and nine months ended September 30, 2014, approximately zero and 4.5 thousand of the equity-based awards, respectively, were excluded from the computation of diluted earnings per share shares because their effect would have been anti-dilutive. During the same periods in 2013, approximately 2.8 million and 1.4 million of the equity-based awards, respectively, were excluded from the dilutive securities above. 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 nine months ended September 30, 2014, the Company issued 2.7 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.

In 2013, in connection with the Motorola Home acquisition, Google was issued approximately 10.6 million shares of ARRIS' common stock as part of the purchase consideration. Furthermore, Comcast was given an opportunity to invest in ARRIS, and the Company entered into a separate agreement accounted for as a contingent equity forward with a subsidiary of Comcast providing for the purchase by it from the Company of approximately 10.6 million shares of common stock for $150 million.

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

## Note 17. Income Taxes

For the three months ended September 30, 2014 and 2013, the Company recorded income tax expense (benefit) of $44.5 million and $(28.0) million, respectively. For the nine months ended September 30, 2014 and 2013, the Company recorded income tax expense (benefit) of $48.7 million and $(76.6) million, respectively.

Below is a summary of the components of the tax expense (benefit) for the three and nine month periods ended September 30, 2014 and 2013 (in thousands, except for percentages):

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Income (Loss) Before Tax | Income Tax Expense (Benefit) | Effective Tax Rate | Income (Loss) Before Tax | Income Tax Expense (Benefit) | Effective Tax Rate |
| Non-discrete items | $109,703 | $39,136 | 35.7% | $ 8,691 | $(14,547) | (167.4)% |
| Discrete tax events - | | | | | | |
| 2012 R&D Credit | – | – | | – | – | |
| Loss on asset held for sale | – | – | | – | – | |
| Book write down in cost method investment | $ (4,000) | $ (1,440) | | – | – | |
| Acquisition costs | $ (6,570) | $ (2,367) | | $(12,277) | $ (3,818) | |
| Return to provision adjustments | – | $ 4,550 | | – | $ (2,052) | |
| Valuation allowances, uncertain tax positions | – | $ 7,234 | | – | $ (7,599) | |
| Comcast's investment in ARRIS | – | – | | – | – | |
| Change in state deferred rates | – | $ 1,403 | | – | – | |
| Gain/(loss) from certain foreign entities acquired | – | – | | $ (7,261) | – | |
| Intangible reattribution | – | $ (4,009) | | – | – | |
| Total | $ 99,133 | $44,507 | 44.9% | $(10,847) | $(28,016) | 258.3% |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Income (Loss) Before Tax | Income Tax Expense (Benefit) | Effective Tax Rate | Income (Loss) Before Tax | Income Tax Expense (Benefit) | Effective Tax Rate |
| Non-discrete items | $222,815 | $ 79,577 | 35.7% | $ (13,521) | $(38,736) | 286.5% |
| Discrete tax events - | | | | | | |
| 2012 R&D Credit | – | – | | – | – | |
| Loss on asset held for sale | $ (2,125) | $ (760) | | – | – | |
| Book write down in cost method investments | $ (7,000) | $ (2,502) | | – | – | |
| Acquisition costs | $ (30,590) | $(10,936) | | $ (71,126) | $(23,568) | |
| Comcast's investment in ARRIS | – | – | | $ (26,371) | – | |
| Change in state deferred rates | – | $ (3,836) | | – | – | |
| Net operating losses acquired | – | $(18,163) | | – | – | |
| Gain/(loss) from certain foreign | – | – | | $ (11,555) | – | |
| Return to provision adjustments | – | $ 6,186 | | – | $ (8,552) | |
| Valuation allowances, uncertain tax positions | – | $ 2,582 | | – | $ (5,774) | |
| Intangible reattribution | – | $ (4,009) | | – | – | |
| Other | – | $ 510 | | – | – | |
| Total | $183,100 | $ 48,649 | 26.6% | $(122,573) | $(76,630) | 62.5% |

- The change in the income tax expense (benefit) for the three and nine month periods ended September 30, 2014 compared to the three and nine months period ended September 30, 2013, was 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. The unusual book charges were mostly attributable to restructuring, integration and other acquisition-related costs. For the nine month period ending September 30, 2014, the Company recorded book expenses of an infrequent and unusual nature of approximately $30.6 million relating to the acquisition of the Home business of Motorola, generating a tax benefit of $10.9 million.
- For the nine month periods ended September 30, 2014 and 2013, our estimated effective tax rates were 26.6% and 62.5%, respectively. The rate of 26.6% is based on the Company's pre-tax book income of approximately $183.1 million and a tax expense of approximately $48.7 million, for the nine months period ending September 30, 2014. The change in the estimated effective tax rate for the nine month period ended September 30, 2014, compared to the nine month period ended September 30, 2013 was due to an increase in earnings from continuing operations, and the impact of certain tax discrete tax events described in the discussion below.
- In conjunction with an agreement executed with Google in January 2014, as of March 31, 2014 the Company recorded net operating losses of $545.5 million arising from the Motorola Home acquisition, of which the Company estimated $493.5 million of the amount would not be realizable and was subject to a valuation allowance. As a result, in the first quarter of 2014 the Company released $18.2 million of valuation allowances related to these acquired net operating losses. The ultimate realization of the remaining net operating losses was dependent upon Google completing and filing their income tax returns and the Company completing analysis and finalizing planning relating to the usage of net operating losses.

  Google completed and filed their income tax return during the third quarter of 2014, and the Company has determined that $556.8 million of net operating losses are now available to the Company, of which the Company has recorded net operating losses of $51.9 million as of September 30, 2014. Our ability to fully utilize these net operating losses, however, is limited for various reasons, such as under the "Separate Return Loss Year" ("SRLY") rules which may limit the Company's ability to utilize carryforward attributes should income attributable to specific subgroup members be insufficient to allow for full utilization. In addition, annual limitations apply under Internal Revenue Code Section 382 with respect to the Company's ability to utilize its net operating loss carryforwards against future U.S. taxable income.

As of September 30, 2014, the Company was analyzing several potential planning alternatives, regarding the limitations discussed above, to determine the ultimate net operating loss carryforward benefit to be realized from the Motorola Home acquisition. Accordingly, the Company expects to complete this analysis in the fourth quarter of 2014. The analysis will determine how much of the remaining $504.9 million of net operating loss, if any, will be realizable, which could result in a significant favorable adjustment to deferred tax assets in the fourth quarter of 2014, if successful.

- As of June 30, 2014, the Company recorded a benefit of $5.2 million from changes in state deferred income tax rates, relating to the integration of the Motorola Home business. For the three month period ended September 30, 2014, this benefit was reduced by $1.4 million, for a total benefit of $3.8 million for the nine month period ended September 30, 2014.
- For the nine month period ended September 30, 2014, the Company recorded $9.1 million of book losses on investments and available for sale assets, which generated income tax benefits of $3.3 million.
- For the nine month period ended September 30, 2014, the Company recorded expense of $6.2 million related to changes in estimates finalized upon the filing of the 2013 income tax returns. During this period, the Company also recorded a benefit of $1.8 million relating to changes in valuation allowances. During the third quarter of 2014, as a result of completing certain analysis associated with the preparation and filing of the 2013 U.S. Federal Income Tax Return, the Company identified and corrected an immaterial error in the accounting for income taxes related to the prior year ended December 31, 2013. The correction related to the Company's subsequent consideration of certain tax consequences related to a legal entity and tax restructuring completed in the fourth quarter of 2013. The impact of adjusting these amounts had a non-cash effect, increasing income tax expense and noncurrent income tax liabilities by $9.8 million. In accordance with ASC Topic 250, *Accounting Changes and Error Corrections*, the Company evaluated the impact on its financial statements for the year ended December 31, 2013 and the expected full year results for the year ending December 31, 2014 and concluded that the results of operations for these periods were not materially misstated. In reaching its conclusion the Company considered both quantitative and qualitative factors. The quantitative factors included calculating the impact of the error on the affected financial statements and assessing materiality. The qualitative factors included, but were not limited, to the absences of impact on debt covenants, management compensation and segment reporting. Based on its evaluation, the Company concluded that it is not probable that the judgment of a reasonable person relying on the financial statements would have been changed or influenced by the correction. In addition to the charge of $9.8 million, there were also benefits from audit settlements and expirations of statute, which impacted uncertain tax liabilities. The total discrete tax impact of uncertain tax positions during the nine month period ended September 30, 2014, inclusive of the $9.8 million charge, was an additional tax expense of $4.4 million.
- For the nine month period ended September 30, 2014, the Company did not record any benefits attributed to research and development tax credits, as the tax credit has yet to be 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 nine months ended September 30, 2014 (in thousands):

| | Unrealized gain (loss) 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 | (383) | - | 4,162 | (154) | 3,625 |
| Amounts reclassified from accumulated other comprehensive income (loss) | - | - | (3,580) | - | (3,580) |
| Net current-period other comprehensive income (loss) | (383) | - | 582 | (154) | 45 |
| Balance as of September 30, 2014 | $ (77) | $ (2,416) | $ (1,959) | $ (165) | $(4,617) |

**Note 19. 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)

## 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*

- 32% year-over-year revenue growth as a result of increased demand across much of the company's product portfolio
- Increased international sales, representing 27% of third quarter sales
- Strong earnings and cash generation

CPE Segment

- Sales up 27% year-over-year with direct contribution dollars up 32% for the same time period. Sequential revenue and direct contribution dollars declined by 7%.
  - — Overall performance driven by strong cable and telco set-tops and DSL demand
  - — Broadband device and accessory unit volumes improved 13% year-over-year. Unit volumes down slightly (3%) as compared to second quarter of 2014 record levels. Continued to experience strong demand for advanced VDSL & DOCSIS 3.0 WiFi gateways
  - — Announced upcoming trial with Comcast of a new RDK software solution on ARRIS broadband gateways. The trial is planned for fourth quarter of 2014 with general availability expected in first quarter of 2015.
  - — Introduced new broadband and telephony devices targeting latest DOCSIS & Wi-Fi technologies
  - — Video CPE (set-tops and video gateways) unit volumes improved 27% year-over-year and were consistent with second quarter of 2014 shipment levels
  - — Announced latest evolution of set-top designs at IBC2014 trade show
  - — Shipped one millionth video gateway device during third quarter of 2014
  - — Successfully integrated the Playcast Media solution for Portugal Telecom enabling cloud gaming services
  - — Deployed high definition IPTV set top with TTNET (the largest internet service provider in Turkey ) enabling new & enhanced services

N&C Segment

- Sales up 42% year-over-year with direct contribution dollars up 117% for the same time period. Sequential revenue up by 13% and direct contribution dollars increased by 28%.
  - — Outstanding quarter as the industry momentum to expand bandwidth and video processing continues, and new services such as Network DVR take hold
  - — Record level shipments of E6000 CCAP platform as operators re-fresh technology and expand capacity

— Leading the industry in DOCSIS3.1 technology maturity – SCTE demo show casing early interoperability with CPE silicon development platforms
— Strong demand for DOCSIS3.1-compatible CORWave™ 3 Headend Optics platform
— Continued strength in Video Systems portfolio including CherryPicker video processing platform and Network DVR products
— Growing momentum and opportunity pipeline for ARRIS Professional Services

*Financial Highlights*

- Sales in the third quarter and nine months ended September 30, 2014 were $1,405.4 million and $4,059.5 million, respectively, as compared to $1,067.8 million and $2,421.8 million in the same periods in 2013, reflecting the acquisition of Motorola Home and strong demand.
- Gross margin percentage was 31.0% in the third quarter of 2014, which compares to 29.7% in the third quarter of 2013.
- Total operating expenses (excluding amortization of intangible assets, integration, acquisition, restructuring and other costs) in the third quarter of 2014 were $246.3 million, as compared to $228.4 million in the same period last year. As expected, operating expenses decreased from $256.5 million in the second quarter of 2014.
- We ended the third quarter of 2014 with $599.1 million of cash, cash equivalents, short-term and long-term marketable security investments. The Company generated $337.1 million of cash from operating activities through the first nine months of 2014, which compares to $380.2 million generated during the same period in 2013.
- We ended the third quarter 2014 with long-term debt of $1,561.3 million, at face value, the current portion of which is $68.8 million. We repaid $191.3 million of our Term Loans in the first nine months of 2014, including a $150 million optional prepayment.
- We ended the third quarter 2014 with an order backlog of $594.1 million and had a book-to-bill ratio of 0.86 in the quarter.

### 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 and nine months ended September 30, 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 September 30, 2014**

| | Sales | Gross Margin | Operating Expense | Operating Income | Other (Income) Expense | Income Tax Expense (Benefit) | Net Income (Loss) |
|---|---|---|---|---|---|---|---|
| Amounts in accordance with GAAP | $1,405,445 | $ 435,734 | $ 313,625 | $ 122,109 | $ 22,976 | $ 44,507 | $ 54,626 |
| Acquisition accounting impacts related to deferred revenue | 780 | 47 | - | 47 | - | - | 47 |
| Stock compensation expense | - | 1,824 | (11,671) | 13,495 | - | - | 13,495 |
| Amortization of intangible assets | - | - | (57,100) | 57,100 | - | - | 57,100 |
| Integration, acquisition, restructuring and other costs | - | - | (10,226) | 10,226 | - | - | 10,226 |
| Impairment of investments | - | - | - | - | (4,000) | - | 4,000 |
| Net tax items | - | - | - | - | - | 19,375 | (19,375) |
| Non-GAAP amounts | $1,406,225 | $ 437,605 | $ 234,628 | $ 202,977 | $ 18,976 | $ 63,882 | $ 120,119 |
| GAAP net income per share - diluted | | | | | | | $ 0.37 |
| Non-GAAP net income per share - diluted | | | | | | | $ 0.81 |
| Weighted average common shares - basic | | | | | | | 144,967 |
| Weighted average common shares - diluted | | | | | | | 148,753 |

**For the Nine Months Ended September 30, 2014**

| | Sales | Gross Margin | Operating Expense | Operating Income | Other (Income) Expense | Income Tax Expense (Benefit) | Net Income (Loss) |
|---|---|---|---|---|---|---|---|
| Amounts in accordance with GAAP | $4,059,534 | $ 1,201,921 | $ 950,149 | $ 251,772 | $ 68,672 | $ 48,649 | $ 134,451 |
| Acquisition accounting impacts related to deferred revenue | 4,475 | 3,048 | - | 3,048 | - | - | 3,048 |
| Stock compensation expense | - | 4,934 | (34,878) | 39,812 | - | - | 39,812 |
| Amortization of intangible assets | - | - | (179,835) | 179,835 | - | - | 179,835 |
| Integration, acquisition, restructuring and other costs | - | - | (34,246) | 34,246 | - | - | 34,246 |
| Impairment of investments | - | - | - | - | (7,000) | - | 7,000 |
| Asset held for sale impairment | - | - | - | - | (2,125) | - | 2,125 |
| Net tax items | - | - | - | - | - | 107,428 | (107,428) |
| Non-GAAP amounts | $4,064,009 | $ 1,209,903 | $ 701,190 | $ 508,713 | $ 59,547 | $ 156,077 | $ 293,089 |
| GAAP net income per share - diluted | | | | | | | $ 0.91 |
| Non-GAAP net income per share - diluted | | | | | | | $ 1.98 |
| Weighted average common shares - basic | | | | | | | 144,085 |
| Weighted average common shares - diluted | | | | | | | 147,996 |

**For the Three Months Ended September 30, 2013**

| | Sales | Gross Margin | Operating Expense | Operating Income | Other (Income) Expense | Income Tax Expense (Benefit) | Net Income (Loss) |
|---|---|---|---|---|---|---|---|
| Amounts in accordance with GAAP | $1,067,824 | $ 316,895 | $ 305,713 | $ 11,182 | $ 22,029 | $ (28,016) | $ 17,169 |
| Acquisition accounting impacts related to deferred revenue | 1,556 | 1,006 | - | 1,006 | - | - | 1,006 |
| Stock compensation expense | - | 1,248 | (9,481) | 10,729 | - | - | 10,729 |
| Amortization of intangible assets | - | - | (65,053) | 65,053 | - | - | 65,053 |
| Integration, acquisition, restructuring and other costs | - | - | (12,278) | 12,278 | - | - | 12,278 |
| Non-cash interest expense | - | - | - | - | (3,374) | - | 3,374 |
| Net tax items | - | - | - | - | - | 54,998 | (54,998) |
| Non-GAAP amounts | $1,069,380 | $ 319,149 | $ 218,901 | $ 100,248 | $ 18,655 | $ 26,982 | $ 54,611 |
| GAAP net income per share - diluted | | | | | | | $ 0.12 |
| Non-GAAP net income per share - diluted | | | | | | | $ 0.39 |
| Weighted average common shares - basic | | | | | | | 138,478 |
| Weighted average common shares - diluted | | | | | | | 140,605 |

**For the Nine Months Ended September 30, 2013**

| | Sales | Gross Margin | Operating Expense | Operating Income | Other (Income) Expense | Income Tax Expense (Benefit) | Net Income (Loss) |
|---|---|---|---|---|---|---|---|
| Amounts in accordance with GAAP | $2,421,835 | $ 656,377 | $ 723,742 | $ (67,365) | $ 55,208 | $ (76,630) | $ (45,943) |
| Reduction in revenue related to Comcast's investment in ARRIS | 13,182 | 13,182 | - | 13,182 | - | - | 13,182 |
| Acquisition accounting impacts related to fair value of inventory | - | 57,600 | - | 57,600 | - | - | 57,600 |
| Acquisition accounting impacts related to deferred revenue | 3,973 | 2,478 | - | 2,478 | - | - | 2,478 |
| Product Rationalization | - | 13,582 | - | 13,582 | - | - | 13,582 |
| Stock compensation expense | - | 2,945 | (21,708) | 24,653 | - | - | 24,653 |
| Amortization of intangible assets | - | - | (128,571) | 128,571 | - | - | 128,571 |
| Integration, acquisition, restructuring and other costs | - | - | (71,126) | 71,126 | - | - | 71,126 |
| Credit facility - ticking fees | - | - | | - | (865) | - | 865 |
| Mark-to-market FV adjustment related to Comcast's investment in ARRIS | - | - | - | - | (13,189) | - | 13,189 |
| Non-cash interest expense | - | - | | - | (9,926) | - | 9,926 |
| Net tax items | - | - | - | - | - | 143,034 | (143,034) |
| Non-GAAP amounts | $2,438,990 | $ 746,164 | $ 502,337 | $ 243,827 | $ 31,228 | $ 66,404 | $ 146,195 |
| GAAP net loss per share - diluted (1) | | | | | | | $ (0.35) |
| Non-GAAP net income per share - diluted | | | | | | | $ 1.11 |
| Weighted average common shares - basic | | | | | | | 129,502 |
| Weighted average common shares - diluted | | | | | | | 132,169 |

(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 were marked to market and flowed 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.

Acquisition Accounting Impacts Related to Inventory Valuation: In connection with our acquisition of Motorola Home, business combinations rules require the inventory be recorded at fair value on the opening balance sheet. This is different from historical cost. Essentially we were required to write the inventory up to end customer price less a reasonable margin as a distributor. This resulted in an increase in the value of inventory and resulted in higher cost of goods sold as it was sold.

Product Rationalization: In conjunction with the integration of Motorola Home, we identified certain product lines which overlap. In the second quarter of 2013, we made the decision to eliminate certain products. As a result, we recorded expenses related to the elimination of inventory and certain vendor liabilities. We believe it is useful to understand the effects of this item on our total cost of goods sold.

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 integration, acquisition, restructuring and other costs 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 related 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. 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 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.

Impairment of Investment: We have excluded the effect of an other-than-temporary impairment of a cost method investment in calculating our non-GAAP financial measures. We believe it is useful to understand the effect of this non-cash item in our other expense (income).

Asset Held for Sale Impairment: In the second quarter of 2014, we entered into a contract to facilitate the sale of a building at less than its carrying value. The asset has been reclassified as held for sale and was measured at the lower of its carrying amount or fair value less cost to sell. We have recorded an impairment charge to reduce the assets carrying amount to its estimated fair value less costs to sell in the period the held for sale criteria were met. We have excluded the effect of the asset held for sale impairment in calculating our non-GAAP financial measures. We believe it is useful to understand the effect of this non-cash item in our other expense (income).

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 tax and legal restructuring, state valuation allowances, research and development tax credits and provision to return differences.

**Comparison of Operations for the Three and Nine Months Ended September 30, 2014 and 2013**

***Net Sales***

The table below sets forth our net sales for the three and nine months ended September 30, 2014 and 2013, for each of our segments (in thousands):

| | Net Sales | | | | Increase (Decrease) Between 2014 and 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2014 | 2013 | 2014 | 2013 | $ | % | $ | % |
| *Business Segment:* | | | | | | | | |
| CPE | $ 945,386 | $ 743,890 | $2,861,912 | $1,589,785 | $ 201,496 | 27.1% | $ 1,272,127 | 80.0% |
| N&C | 460,837 | 325,471 | 1,202,105 | 849,382 | 135,366 | 41.6% | 352,723 | 41.5% |
| Other | (778) | (1,537) | (4,483) | (17,332) | 759 | 49.3% | 12,849 | 74.1% |
| Total sales | $1,405,445 | $1,067,824 | $4,059,534 | $2,421,835 | $ 337,621 | 31.6% | $ 1,637,699 | 67.6% |

The table below sets forth our domestic and international sales for the three and nine months ended September 30, 2014 and 2013 (in thousands):

| | Net Sales | | | | Increase (Decrease) Between 2014 and 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2014 | 2013 | 2014 | 2013 | $ | % | $ | % |
| Domestic | $1,029,180 | $ 731,439 | $3,057,970 | $1,631,083 | $ 297,741 | 40.7% | $ 1,426,887 | 87.5% |
| International | | | | | | | | |
| Americas, excluding U.S. | 246,922 | 217,843 | 661,005 | 501,052 | 29,079 | 13.3% | 159,953 | 31.9% |
| Asia Pacific | 38,584 | 48,869 | 113,674 | 108,102 | (10,285) | (21.0)% | 5,572 | 5.2% |
| EMEA | 90,759 | 69,673 | 226,885 | 181,598 | 21,086 | 30.3% | 45,287 | 24.9% |
| Total International | 376,265 | 336,385 | 1,001,564 | 790,752 | 39,880 | 11.9% | 210,812 | 26.7% |
| Total sales | $1,405,445 | $1,067,824 | $4,059,534 | $2,421,835 | $ 337,621 | 31.6% | $ 1,637,699 | 67.6% |

*Customer Premises Equipment Net Sales 2014 vs. 2013*

During the three months ended September 30, 2014 sales in our CPE segment increased by approximately 27.1% as compared to the same period in 2013. The increase was driven by strong cable and telco set-tops and DSL demand.

During the nine months ended September 30, 2014 sales in our CPE segment increased by approximately 80.0%, as compared to the same period in 2013. The sales increase reflects the inclusion of sales associated with our acquisition of Motorola Home as well as the introduction of new products, in particular the XG1 and Verizon Media Server (VMS) video gateways and a variety of new advanced broadband gateway devices in the second part of 2013.

*Network and Cloud Net Sales 2014 vs. 2013*

During the three months ended September 30, 2014, sales in N&C segment increased by approximately 41.6% as compared to the same period in 2013. The increase reflects strong sales across most product lines, led by our new CMTS platform, the E6000 CCAP, and video solutions.

During the nine months ended September 30, 2014, sales in N&C segment increased by approximately 41.5%, as compared to the same period in 2013. The increase reflects the inclusion of sales associated with our acquisition of Motorola Home, as well as sales of the E6000, which was introduced during 2013.

***Gross Margin***

The table below sets forth our gross margin for the three and nine months ended September 30, 2014 and 2013 (in thousands, except percentages):

| | Gross Margin | | | | Increase (Decrease) Between 2014 and 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2014 | 2013 | 2014 | 2013 | $ | % | $ | % |
| Gross margin dollars | $435,734 | $316,895 | $1,201,921 | $656,377 | $ 118,839 | 37.5% | $ 545,544 | 83.1% |
| Gross margin percentage | 31.0% | 29.7% | 29.6% | 27.1% | | 1.3 | | 2.5 |

During the three months ended September 30, 2014, gross margin dollars and gross margin percentage increased as compared to the same period in 2013. The increase in gross margin dollar is the result of higher sales. The increase in gross margin percentage is the result of product mix, reflecting a higher percentage of N&C products which carry a higher gross margin percent.

During the nine months ended September 30, 2014, gross margin dollars and gross margin percentage increased as compared to the same period in 2013. The increase in gross margin dollars is primarily the result of the inclusion of sales associated with our acquisition of Motorola Home. The increase in gross margin is the result of product mix. In addition, the gross margin for the nine months ended September 30, 2013 includes a $57.6 million impact associated with writing up the historic cost of the Motorola Home inventory to fair value at the date of acquisition (subsequently increasing cost of goods sold) as well as $13.6 million of costs associated with the rationalization of certain products after the acquisition date.

***Operating Expenses***

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

| | Operating Expenses | | | | Increase (Decrease) Between 2014 and 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2014 | 2013 | 2014 | 2013 | $ | % | $ | % |
| Selling, general and administrative | $ 103,497 | $ 99,666 | $ 314,991 | $ 227,691 | $ 3,831 | 3.8% | $ 87,300 | 38.3% |
| Research & development | 142,802 | 128,716 | 421,077 | 296,354 | 14,086 | 10.9% | 124,723 | 42.1% |
| Amortization of intangible assets | 57,100 | 65,053 | 179,835 | 128,571 | (7,953) | (12.2)% | 51,264 | 39.9% |
| Integration, acquisition, restructuring & other | 10,226 | 12,278 | 34,246 | 71,125 | (2,052) | (16.7)% | (36,879) | (51.9)% |
| Total | $ 313,625 | $ 305,713 | $ 950,149 | $ 723,741 | $ 7,912 | 2.6% | $ 226,408 | 31.3% |

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

During the three months ended September 30, 2014, SG&A expenses increased by approximately 3.8% as compared to the same period in 2013.

The year over year increase in SG&A expenses primarily reflects 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.

*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 three months ended September 30, 2014 increased by approximately 10.9% as compared to the same period in 2013.

R&D expenses for the nine months ended September 30, 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.

*Amortization of Intangible Assets*

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 September 30, 2014 and 2013 was $57.1 million and $65.1 million, respectively. For the nine months ended September 30, 2014 and 2013, intangible amortization expense was $179.8 million and $128.6 million, respectively.

*Integration, Acquisition, Restructuring and Other Costs*

During the three months ending September 30, 2014 and 2013, we recorded acquisition-related expenses and integration expenses of $7.2 million and $6.2 million, respectively. Acquisition and integration related expenses declined $5.3 million compared to the prior quarter. During the nine months of 2014 and 2013, we recorded acquisition-related expenses and integration expenses of $31.6 million and $32.8 million, respectively. These expenses primarily related to the acquisition of Motorola Home and consisted primarily of integration related outside services and legal fees.

During the three months ended September 30, 2014 and 2013, we recorded restructuring charges of approximately $3.0 million and $6.1 million, respectively. Restructuring charges during the three months ended September 30, 2014 related primarily to facility rationalization initiatives, resulting in severance and employee termination benefits for 150 employees. During the nine months ended September 30, 2014 and 2013, we recorded restructuring (recovery) charges of approximately $2.6 million and $38.3 million, respectively. The charge recorded in 2014 was related to severance and employee termination benefits and the charges in 2013 were related to severance, employee termination benefits and facilities.

### *Direct Contribution*

The table below sets forth our direct contribution for the three and nine months ended September 30, 2014 and 2013, for each of our segments (in thousands):

| | Direct Contribution | | | | Increase (Decrease) Between 2014 and 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2014 | 2013 | 2014 | 2013 | $ | % | $ | % |
| *Business Segment:* | | | | | | | | |
| CPE | $ 208,163 | $ 158,035 | $ 624,732 | $ 315,305 | $ 50,128 | 31.7% | $ 309,427 | 98.1% |
| N&C | 134,217 | 61,763 | 304,133 | 187,354 | 72,454 | 117.3% | 116,779 | 62.3% |
| Other | (152,945) | (131,285) | (463,012) | (370,327) | (21,660) | (16.5)% | (92,685) | (25.0)% |
| Total | $ 189,435 | $ 88,513 | $ 465,853 | $ 132,332 | $ 100,922 | 114.0% | $ 333,521 | 252.0% |

*Customer Premises Equipment Direct Contribution 2014 vs. 2013*

During the three months ended September 30, 2014 direct contribution in our CPE segment increased by approximately 31.7% as compared to the same period in 2013. The direct contribution is favorably impacted by product mix and higher sales.

During the nine months ended September 30, 2014 direct contribution in our CPE segment increased by approximately 98.1% as compared to the same period in 2013. The increase is primarily attributable to the inclusion of direct contribution associated with our acquisition of Motorola Home. Further, the direct contribution is favorably impacted by product mix, given, that in the aggregate the contribution margin of former Motorola Home products is greater than that of former ARRIS products.

*Network and Cloud Direct Contribution 2014 vs. 2013*

During the three months ended September 30, 2014, direct contribution in our N&C segment increased by approximately 117.3% as compared to the same period in 2013. The increase is primarily attributable to the increase in E6000 CCAP and video solutions.

During the nine months ended September 30, 2014, direct contribution in our N&C segment increased by approximately 62.3% as compared to the same period in 2013. The increase is primarily attributable to the inclusion of direct contribution associated with our acquisition of Motorola Home.

***Other Expense (Income)***

*Interest Expense*

Interest expense for the three months ended September 30, 2014 and 2013 was $14.2 million and $25.2 million respectively. For the nine months ended September 30, 2014 and 2013, interest expense was $49.0 million and $48.4 million respectively. During the nine months ended September 30, 2014, optional debt pre-payments were made resulting in the accelerated write-off of deferred financing fees and debt discount of $2.7 million. In addition, 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. The three and nine months ended September 30, 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 September 30, 2014 and 2013 was $0.7 million and $0.8 million, respectively. During the nine months ended September 30, 2014 and 2013, interest income was $1.9 million and $2.3 million, respectively. The income reflects interest earned on cash, cash equivalents, short-term and long-term investments.

*Loss on Foreign Currency*

During the three and nine months ended September 30, 2014, we recorded a foreign currency loss of approximately $3.1 million and $3.8 million, respectively. During the three and nine months ended September 30, 2013, we recorded a foreign currency gain of approximately $3.8 million and $2.7 million, respectively. We have US dollar functional currency entities that bill certain international customers in their local currency and foreign functional currency entities that procure in U.S. dollars. Additionally, certain intercompany transactions are denominated in foreign currencies and subject to revaluation. To mitigate the volatility related to fluctuations in the foreign exchange rates, we have entered into various foreign currency contracts. The gain or loss on foreign currency is driven by the fluctuations in the foreign currency exchange rates.

*Loss (Gain) on Investments*

During the three months ended September 30, 2014 and 2013, we recorded a net loss (gain) on investments, including impairment charges in 2014, of $6.4 million, and $(0.3) million, respectively. During the nine months ended September 30, 2014 and 2013, we recorded a net loss (gain) on investments, including impairment charges in 2014, related to these investments of $11.3 million, and $(1.5) million, respectively.

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 third quarter of 2014, the Company performed an evaluation of its investments and concluded that two private companies had indicators of impairment, and that their fair value had declined. This resulted in other-than-temporary impairment charges of $4.0 million during the quarter ended September 30, 2014. No impairment charges were recorded in 2013.

*Other Expense (Income), net*

Other expense (income), net for the three months ended September 30, 2014 and 2013 was $(0.1) million and $1.7 million, respectively. For the nine months ended September 30, 2014 and 2013, other expense was $6.5 million and $13.4 million, respectively.

For the nine months ended September 30, 2014, we recorded a $2.1 million write-down in the carrying value of land and building reclassified as held for sale as a result of obtaining a letter of intent for its sale and is included in other expense (income), net.

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 on the date of agreement, the resulting forward arrangement be marked to market for the difference in fair value. This resulted in a mark-to-market adjustment of $13.2 million in the nine months ended September 30, 2013 and is recorded as Other expense (income), net.

*Income Tax Expense*

For the three and nine month periods ended September 30, 2014, we recorded income tax expense of $44.5 million and $48.7 million, respectively as compared to a tax benefit of $28.0 million and $76.6 million, respectively in the same periods in 2013. The change in the income tax expense (benefit) for the three and nine month periods ended September 30, 2014 compared to the three and nine months period ended September 30, 2013, was 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. In addition, there were significant and unusual tax charges relating to an estimated increase in acquired net operating losses from the Motorola Home acquisition, less associated valuation allowances, a favorable change in state deferred tax rates due to supply chain related integration planning, an unfavorable accrual of uncertain tax positions relating to dual consolidated losses, a favorable impact of intangibles reattributed and an unfavorable impact from return to provision adjustments.

For the nine month period ended September 30, 2014, the Company recorded a pre-tax book loss of approximately $30.6 million relating to acquisition costs incurred on the Motorola Home acquisition, on which a tax benefit of $10.9 million was recorded. The company also recorded pre-tax book losses of $9.1 million on investments and available for sale assets, generating a tax benefit of $3.3 million during the nine month period ended September 30, 2014. Also during the nine month period ended September 30, 2014, the Company recorded a tax benefit of approximately $18.2 million relating to an estimated increase in acquired net operating losses from the Motorola Home acquisition, a tax expense of approximately $4.4 million on additional liabilities for uncertain tax positions, a $3.8 million benefit on changes in state deferred income tax rates, a $1.8 million benefit on changes to valuation allowances, a benefit of $4.0 million for reattributed intangibles, and an unfavorable charge of $6.2 million for provision to return adjustments. The Company has not yet recorded a favorable impact from research and development credits, as the credit has not yet been reenacted for the 2014 tax year.

During the third quarter of 2014, the Company identified and corrected an immaterial error in the accounting for income taxes related to the prior year ended December 31, 2013. The correction related to the Company's subsequent consideration of certain tax consequences related to a legal entity and tax restructuring completed in the fourth quarter of 2013. The impact of adjusting these amounts had a non-cash effect, increasing income tax expense and noncurrent income tax liabilities by $9.8 million. In accordance with ASC Topic 250, *Accounting Changes and Error Corrections*, the Company evaluated the impact on its financial statements for the year ended December 31, 2013 and the expected full year results for the year ending December 31, 2014 and concluded that the results of operations for these periods were not materially misstated. In reaching its conclusion the Company considered both quantitative and qualitative factors. The quantitative factors included calculating the impact of the error on the effected financial statements and assessing materiality. The qualitative factors included, but were not limited to the absences of impact on debt covenants, management compensation and segment reporting. Based on its evaluation, the Company concluded that it is not probable that the judgment of a reasonable person relying on the financial statements would have been changed or influenced by the correction.

**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*

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (in thousands, except DSO and turns) | |
| *Key Working Capital Items* | | |
| Cash provided by operating activities | $ 337,091 | $ 380,198 |
| Cash, cash equivalents, and short-term investments | $ 593,816 | $ 666,501 |
| Long-term U.S. corporate & government agency bonds | $ 5,331 | $ 28,477 |
| Accounts receivable, net | $ 703,566 | $ 627,844 |
| Days Sales Outstanding (“DSOs”) | 47 | 55[(1)] |
| Inventory | $ 368,628 | $ 350,919 |
| Inventory turns | 11.6 | 9.0[(1)] |
| *Key Financing Items* | | |
| Convertible notes at face value | $ – | $ 231,972 |
| Term loans at face value | $ 1,561,313 | $ 1,893,375 |
| Cash used for debt repayment | $ 195,903 | $ 31,625 |
| *Capital Expenditures* | $ 41,759 | $ 53,383 |

(1) Using annualized activity from the third quarter 2013, the first full quarter as a combined company following the Acquisition.

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 increased during the first nine months of 2014 as compared to 2013, primarily as a result of higher sales. 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. Inventory turns during the first nine months of 2014 were 11.6 as compared to 9.0 in the same period of 2013.

*Term Debt Repayments*

In the first nine months of 2014, we repaid $195.9 million of debt, of which $41.2 million is of our term debt, including a $150 million of optional prepayment and $4.7 million of debt assumed and settled in conjunction with the closing of the Seawell acquisition in April 2014.

In the first nine months of 2013, we repaid $31.6 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 $593.8 million of cash, cash equivalents, and short-term investments and $5.3 million of long-term marketable securities on hand as of September 30, 2014, together with approximately $247.4 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 September 30, 2014 include approximately $167.9 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 September 30, 2014, we had $1,561.3 million face value outstanding under the Term Loan A and Term Loan B Facilities and no amounts drawn under the Revolving Credit Facility and letters of credit totaling $2.6 million issued under the Revolving Credit Facility.

| | Rate | As of September 30, 2014 |
|---|---|---|
| Term Loan A | LIBOR + 1.75 % | 1.90% |
| Term Loan B | LIBOR(1) + 2.50 % | 3.25% |
| Revolving Credit Facility(2) | LIBOR + 1.75 % | Not Applicable |

(1) Includes LIBOR floor of 0.75%
(2) Includes unused commitment fee of 0.35% and letter of credit fee of 1.75% 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 3.75:1 (with an additional scheduled decreases to 3.5:1). As of September 30, 2014, we were in compliance with all covenants under the Credit Agreement.

The Credit Agreement provides for certain step downs in the interest rates paid on the Term Loan A, Term Loan B and Revolving Credit Facility upon achievement of tiered lowered leverage ratios. As a result of our lowered leverage ratio at the end of the second quarter, the interest rate paid on the Term Loan A, Term Loan B and Revolving Credit Facility decreased by 25 basis points. Since inception, we have realized a total 50 basis points decrease in the interest rate paid on the Term Loan A and Revolving Credit Facility and 25 basis points decrease in the interest paid rate on the Term Loan B. There are no further interest rate decreases available to us in the current Credit Agreement.

The Credit Agreement provides terms for mandatory repayments 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 nine 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.

*Cash Flow*

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| *Cash provided by* | | |
| Operating activities | $ 337,091 | $ 380,198 |
| Investing activities | (53,238) | (1,972,719) |
| Financing activities | (199,292) | 2,001,932 |
| Net increase in cash and cash equivalents | $ 84,561 | $ 409,411 |

Operating Activities:

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net income (loss) | $ 134,451 | $ (45,943) |
| Adjustments to reconcile net income to cash provided by operating activities | 274,773 | 181,716 |
| Net income including adjustments | 409,224 | 135,773 |
| (Increase) decrease in accounts receivable | (70,627) | 17,793 |
| (Increase) decrease in inventory | (38,499) | 60,345 |
| Increase in accounts payable and accrued liabilities | 2,592 | 155,264 |
| All other – net | 34,401 | 11,023 |
| Cash provided by operating activities | $ 337,091 | $ 380,198 |

Net income including adjustments, increased $273.5 million during the first nine months of 2014 as compared to 2013.

Accounts receivable increased by $70.6 million during the first nine months of 2014. This increase was primarily a result of higher sales and payment patterns of our customers.

Inventory increased by $38.5 million during the first nine months of 2014, reflecting robust demand for certain products. The decrease in 2013 reflects the turnaround effect of inventory markup of $57.6 million to fair value in purchase accounting as a result of the Acquisition and the disposal of certain inventory as a result of product rationalization.

Accounts payable and accrued liabilities increased by $2.6 million during the first nine months of 2014. The increase of $155.3 million during the first nine months of 2013 was largely related the increase in accounts payable due to the acquisition of Motorola Home.

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 nine months of 2014 was approximately $34.4 million.

Investing Activities:

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Purchases of property, plant and equipment | $ (41,759) | $ (53,383) |
| Sale of property, plant and equipment | 19 | 90 |
| Purchases of investments | (40,901) | (104,546) |
| Sales of investments | 29,319 | 393,234 |
| Acquisitions, net of cash acquired | 84 | (2,208,114) |
| Cash used in investing activities | $ (53,238) | $ (1,972,719) |

*Purchases of Property, Plant and Equipment* – This represents capital expenditures which are mainly for test equipment, laboratory equipment, and computing equipment.

*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*–This represents purchases and sales of securities

*Acquisitions, Net of Cash Acquired* – This represents cash investments we have made in our acquisitions.

Financing Activities:

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Proceeds from issuance of debt | $ – | $ 1,925,000 |
| Cash paid for debt discount | – | (9,853) |
| Payment of debt obligations | (195,903) | (31,625) |
| Early redemption of convertible notes | – | (79) |
| Deferred financing costs paid | – | (42,356) |
| Excess income tax benefits from stock-based compensation plans | 14,651 | 6,416 |
| Repurchase of shares to satisfy minimum tax withholdings | (29,605) | (12,522) |
| Proceeds from issuance of common stock | 11,565 | 166,951 |
| Cash (used in) provided by financing activities | $ (199,292) | $ 2,001,932 |

*Proceeds From Issuance of Debt* – As part of the Motorola Home acquisition, we entered into senior secured credit facilities which include Term Loan A facility of $1.1 billion with a term of five years and Term Loan B facility of $0.8 billion with a term of seven years.

*Cash Paid for Debt Discount* - This represents amounts paid to lenders in the form of upfront fees which have been treated as a reduction in the proceeds received by the Company and are considered a component of the discount on the Term Loans A and B.

*Payment of Debt Obligations* – This represents the payment of the term loans under the senior secured credit facilities plus the payment of debt assumed and settled in conjunction with the closing of the SeaWell acquisition in April 2014.

*Early Redemption of Convertible Notes* – As a result of the holding company reorganization undertaken in connection with the Motorola Home acquisition, holders of the senior notes had the right to require us to repurchase the convertible senior notes for 100% of the principal amount plus accrued and unpaid interest or to convert the convertible senior notes for the consideration. This represents the portion of the convertible senior notes that were tendered pursuant to the repurchase right and surrendered pursuant to the conversion right.

*Deferred Financing Costs Paid* – This represents the finance fees related to the issuance of the senior secured credit facilities. These costs will be amortized over the life of the term loans and revolving credit facility or written-off on an accelerated basis if optional prepayments are made on the debt.

*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 Minimum 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. It also represents cash proceeds from shares issued to Comcast in relation to the Acquisition.

*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. The 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 Argentina, China, India, Ireland, Israel 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 that are billed in their local currency and certain international operations that procure in U.S. dollars. 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, customers and vendors to guarantee performance on contracts. Certain financial instruments require cash collateral, and these amounts are reported as restricted cash. As of September 30, 2014 and December 31, 2013, we had approximately $1.0 million and $1.1 million outstanding, respectively, 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 demand deposit and money market deposit accounts that pay 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 $10.3 million and $15.3 million as of September 30, 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 a 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 $41.8 million in the first nine months of 2014 as compared to $53.4 million in the first nine months of 2013. Management expects to invest approximately $55 million in capital expenditures for the fiscal 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 nine months ended September 30, 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 DISCLOSURES 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 completed transition of 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.

# 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. This case has been stayed pending Inter Partes Review at the United States Patent and Trademark Office. The Patent Trial and Appeals Board recently ruled all claims of the patent are invalid. 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. This case has been stayed pending reexamination of the patent by the United States Patent and Trademark Office. All claims of the patent have been rejected in the re-exam and that rejection is currently under appeal by the patent owner. 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.

***Broadband iTV v. Time Warner Cable (TWC) et al.,*** C.A. 1:14-cv-00169, District of Hawaii. On April 9, 2014, Broadband iTV filed suit against TWC alleging infringement of U.S. Patent No. 7,631,336 relating to media sharing. The complaint requests unspecified damages for past infringement and an injunction. An Inter Partes Review has been filed on this patent with the United States Patent and Trademark Office and is awaiting action. 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.

***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. ARRIS has filed a Petition for Inter Partes Review at the United States Patent and Trademark Office and is awaiting action on the Petition. 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. 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 entire Nortel patent portfolio is the subject of a previous license to ARRIS, that Rockstar's licensing tactics amount to unfair competition, as well as asking for a declaration of non-infringement 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.

***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. A Petition for Inter Partes Review of the asserted patent has been filed with the United States Patent and Trademark Office. 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. 13-cv-00855, District of Delaware. On May 16, 2013, 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. FutureVision.com subsequently filed suit on July 2, 2014 against several additional service providers. 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 Solutions v. ARRIS,*** C.A. 13-cv-01857, District of Delaware (RGA). On November 6, 2013, 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.

***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. 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 products in this matter, a subsidiary of Google has agreed to indemnify ARRIS.

***Spherix v. Verizon,*** C.A. 14-cv-0721, Eastern District of Virginia. On June 11, 2014, Spherix filed suit against Verizon alleging infringement of four patents alleged to cover various Verizon products or 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.

***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. With respect to the liability attributable to Motorola Home products in this matter, a subsidiary of Google has agreed to indemnify ARRIS.

***Steelhead Licensing v. Comcast,*** C.A. 13-cv-02076, District of Delaware (RGA). On December 20, 2013, Steelhead 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). On December 20, 2013, 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 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 two 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 broadband communications 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 recently announced its proposed acquisition of Time Warner Cable and AT&T has announced its proposed acquisition of DIRECTV. 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.

***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.

***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 and 4K (or HD) 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.

Our continued integration of the 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 the first half of 2015), 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 nine months ended September 30, 2014, sales to our four largest customers (including their affiliates, as applicable) accounted for approximately 18.5%, 14.3%, 10.1% and 10.0%, respectively, of our total revenue. 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 September 30, 2014, we had approximately $1.6 billion in total indebtedness. In addition, we have a $247.4 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 $938.3 million and $1,000.4 million, respectively, as of September 30, 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 on Form 10-K for the year ended December 31, 2013.

***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.

We offer warranties of various lengths to our customers on many of our products and have established warranty reserves based on, among other things, our historic experience, failure rates and cost to repair. In the event of a significant non-recurring product failure, the amount of the warranty reserve may not be sufficient. From time to time we may also make repairs on defects that occur outside of the provided warranty period. Such costs would not be covered by the established reserves and, depending on the volume of any such repairs, may have a material adverse effect on our results from operations or financial condition.

***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.

***We are subject to the economic, political and social instability risks associated with doing business in certain foreign countries.***

For the third quarter of 2014, approximately 26.8% of our sales were made outside of the United States. In addition, a significant portion of our products are manufactured or assembled in China, Mexico and Taiwan. As a result, we are exposed to risk of international operations, including:

- the imposition of government controls;
- compliance with United States and foreign laws concerning trade and employment practices;
- difficulties in obtaining or complying with export license requirements;
- labor unrest, including strikes, and difficulties in staffing;
- security concerns;
- economic boycott for doing business in certain countries;
- inflexible employee contracts or labor laws in the event of business downturns;
- coordinating communications among and managing international operations;
- fluctuations in currency exchange rates;
- currency controls;
- changes in tax and trade laws that increase our local costs;
- exposure to heightened corruption risks; and
- reduced protection for intellectual property rights.

Political instability and military and terrorist activities, including the continued unrest between the Ukraine and Russia and in Israel, may have significant impacts on our customers' spending in these regions and can further enhance many of the risks identified above. In addition, a portion of our research and development operations and a portion of our contract manufacturing occur in Israel and we also have customer service, marketing and general and administrative employees at our Israeli facility. Most of our employees in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces. In the past, several of these employees have been called for active military duty and, if hostilities increase again, we expect some will be called to active military duty.

Any of these risks could impact our sales, interfere with the operation of our facilities and result in reduced production, increased costs, or both, which could have an adverse effect on our financial results.

***We face risks relating to currency fluctuations and currency exchange.***

On an ongoing basis we are exposed to various changes in foreign currency rates because significant sales are denominated in foreign currencies. 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.

***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. We are required to file a report with the SEC annually covering our use of these materials and their source.

In preparing these reports, we are dependent upon 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 in the future 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.

***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: November 7, 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: November 7, 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: November 7, 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 September 30, 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 7th day of November, 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 September 30, 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 7th day of November, 2014

/s/ David B. Potts

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